

The following note was issued to heads of participating institutions on Tuesday 29 March 2022

Colleagues,

The Trustee Board has considered [UUK's response](#) to our recent consultation on the contribution arrangements for the 2020 valuation, and I can now confirm the new benefit and contribution arrangements set out in my [last note](#) will come into effect from 1 April 2022.

Copies of the formal documentation are available [here](#).

We are now fully focused on engaging members with the detail of the new pension arrangements, and we have communicated with all affected employees (including active and flexibly retired members, eligible employees and with recognised member representatives).

Encouragingly, more than 9,000 members attended four webinars held over two days in March. Initial feedback from the audience suggests that their understanding of the changes has improved significantly as a result.

Similar numbers have registered for webinars being held this week that will focus specifically on how the USS Investment Builder section works and the decisions members who will be new to defined contribution (DC) arrangements may choose to make. These sessions will reinforce the value that a high performing DC section can offer in tandem with the security provided by the USS Retirement Income Builder (the defined benefit, or DB, section).

These efforts complement our ongoing engagement with members on the valuable benefits that USS provides. We will continue to focus on reinforcing the 'the basics', including the critical support for members' dependents with death in service and incapacity cover.

Parallel to this work, we are engaging intensively on scheme funding monitoring arrangements and on updating our Statement of Investment Principles. We are also committed to supporting the key stakeholder-led workstreams on which UUK has been updating employers on (investigating additional lower cost options, reviewing scheme governance, and exploring conditional benefit structures).

Financial Management Plan (FMP) monitoring

As set out in [a recent blog](#), the FMP monitoring sets out the key indicators we will monitor in order for the Trustee Board to assess the ongoing adequacy of the funding plan just agreed through the 2020 valuation.

We will be engaging with both UUK and UCU in the coming weeks before the framework is finalised. We will then start to publish monitoring reports on a quarterly basis.

Our interim FMP monitoring to [the end of February](#) shows a continuation of the indicative trend of improvement seen over December to January (covered in our recent blog). The value of the scheme's assets as at 28 February 2022 stood at £88.8bn, with an implied Technical Provisions deficit of around £2bn.

The indicative required contribution rate has fallen – due primarily to the lower future service cost arising from the 2.5% cap on annual inflation protection from 1 April 2026 onwards under the Joint Negotiating Committee's (JNC) changes.

Absent the JNC's benefit changes (and the additional covenant support measures provided by employers), the implied future service cost would be north of 40% of payroll, and the deficit would be circa £6bn.

It is a positive development that two of the three interim FMP monitoring metrics (covenant and indicative contribution rates) are under less pressure than they have been in the recent past. The third measure (the amount of reliance being placed on employers) remains amber. Further, Metric A under the Integrated Risk Management Framework used at the 2020 valuation would also be amber using the February discount rates. This implies a valuation based on the underlying assumptions used for monitoring would place more reliance on employers' finances in the long term. That is, we would be relying on the covenant to a greater extent in the long-term than we were comfortable with at the valuation date. This suggests that a close eye needs to be kept on the adequacy of the funding target.

If a similar position was established at a future valuation, then there may be capacity to reduce contributions or increase benefits (or a combination of both). However, financial markets have continued to exhibit significant volatility, not least due to the tragic events in Ukraine. At a time of such [significant uncertainty](#), it is far from clear what might be read into the current market signals. We will continue to monitor and to communicate with you.

Our immediate response to Russia's invasion, from an investment perspective, is set out [here](#). Our thoughts and prayers are with everybody affected by the war.

We have also just published the statutory [annual actuarial report](#), as at 31 March 2021 (on the basis of the new pension arrangements). This is broadly consistent with the figures provided in our briefing note on [the likely outcome of a 2021 valuation](#).

Statement of Investment Principles (SIP)

I want to thank you again for your informed, considered and varied comments following our briefings on the proposed Valuation Investment Strategy. The Trustee has reviewed carefully the feedback received, and I will be writing to you separately to launch a formal consultation on the SIP for the 2020 valuation.

The SIP consultation is one that is carried out directly with employers, rather than with UUK, and we anticipate requesting your responses by close of business on Tuesday 3 May.

Debt monitoring

Thanks to the important and valuable commitments employers have made to the scheme's covenant through the 2020 valuation, USS continues to be among the relatively few private DB schemes in the UK still open to new members *and* future accrual.

Our 2022 Debt Monitoring data collection exercise, which forms part of that covenant support package, is now live and due to be completed by 30 April. We [wrote](#) to your finance teams yesterday with the details and a link to the associated form. Much of the income, expenditure, cash flow, debt, and asset information we are asking for is included in the data that many employers (but not all) already submit to HESA and OfS.

I want to thank you all in advance for your ongoing engagement with this important programme.

Looking ahead

We continue to focus on the ways USS can evolve and maintain its position as one of the best private pension offerings in the country.

The past year has seen us unveil an innovative guidance, advice and flexibilities offer to members. We continue to build on that with free guidance calls for over-50s, a rolling guidance webinar series for members at different points on their respective journeys to retirement, bespoke online decision support and signposting to financial advice services, and access to an annuity bureau and a drawdown product that members would be unable to access on the open market. Enhancements have been made to the online My USS member portal, and we have piloted a digital-only Annual Member Statement, which followed the implementation of a shorter, speed-read version. New modellers are being developed.

We have also completed some important work on the scheme's response to climate change. We repositioned how we benchmark key funds in order to align them with our Net Zero ambition. Our latest [Task Force on Climate-related Financial Disclosures](#) (TCFD) report will be published alongside this year's Report and Accounts. The TCFD is an industry-led group which helps investors understand their financial exposure to climate risk. We have voluntarily reported in line with the TCFD recommendations since 2018, but this year will be our first report under the new statutory requirements announced by the Government in November 2020.

We also look forward to working with our UUK and employers, and UCU as appropriate, on three key workstreams: developing a lower cost option, exploring alternative benefit structures (such as conditional indexation), and reviewing scheme governance.

These are important programmes of work, both for our stakeholders and the Trustee, and we will continue to provide you with regular updates as they progress.

Bill Galvin

Group Chief Executive Officer