

The following note was sent to heads of participating institutions on Wednesday 3 March 2021

Colleagues,

We are today publishing a comprehensive update from the USS Trustee, setting out the key issues, timeline and next steps for the 2020 valuation.

While some aspects of the valuation are becoming clearer – as set out in summary, below – there are still some very significant challenges ahead.

The Scheme Actuary's 'Rule 76.1' report and the Trustee's contribution determination have now been issued to the Joint Negotiating Committee (JNC). The JNC now needs to decide how the increase in the overall contribution rate is to be met: by recommending changes to the structure of the Scheme's contributions and/or benefits. We stand ready to support UUK and UCU's discussions as appropriate.

A list of all the materials we have published today in support of this moment is given at the end of this note. We appreciate you will need time to digest these pieces before discussing them, so we plan to hold an interactive webinar **w/c 22 March** to provide you with an opportunity to hear from us directly and to answer any questions. Registration details will follow shortly.

The latest in our ongoing series of [webinars for members](#) – who we will also be writing to today – will be held on Wednesday 10 March.

The covenant

Before the pandemic, our view was that the right commitments from employers could support a strong covenant rating for the 2020 valuation. Our position has not changed. COVID-19's impact on the sector's financial resilience has been a real-life test of our original assessment, and our external advisors have reaffirmed our view that the sector still has the ability to support a strong covenant. This means the commitments employers wish to offer are an important factor in our determination of the valuation.

The contributions

We have set out for consideration three specific scenarios, with the required contribution rate in each case depending on the covenant support measures employers feel able to support.

The central case (Scenario 2) is based on an illustrative package of covenant support measures provided to us by UUK. This achieves an overall contribution rate of **49.6%**. This is the basis on which we have submitted the Scheme Actuary's Rule 76.1 report and the Trustee's contribution determination to the Joint Negotiating Committee (JNC), as required by Rule 76.4 of the Scheme rules.

We have also shown that a rate of **42.1%** can be achieved, if employers are able to agree to the stronger covenant support measures involved under Scenario 3. Equally, if employers are unable to support *any* package of covenant support measures, the required contribution rate would be **56.2%**.

Any one of these outcomes would clearly be a very significant increase from the current rate of 30.7%, and the rate of 34.7% that will apply from 1 October 2021 under the Schedule of Contributions already in place for the 2018 valuation.

Affordability was among the issues considered by the Joint Expert Panel (JEP) in its second report. We are also concerned that one in six people joining the Scheme are opting out. One of [the JEP's formal recommendations](#) was for UCU and UUK to investigate different approaches to contributions as part of a move away from a one-size-fits-all approach. We remain ready to support the stakeholders and the JNC as they further consider these issues.

We have, at UUK's request, illustrated high-level examples of what benefits could be provided for the current overall contribution rate of 30.7%. These are based on the existing hybrid benefit structure and the scenarios mentioned above. We are clear, however, that benefit and contribution arrangements are primarily for the JNC. We also note that UUK plans to consult employers on covenant support measures, benefit options *and* contribution levels in the coming weeks.

The Pensions Regulator

As you will be aware from our recent updates, we have recently held a series of detailed and robust discussions with TPR to explain our position on the Rule 76.1 report and its three scenarios. Across nine meetings, held over late December to early February, we discussed areas of our proposals that TPR felt wouldn't be prudent enough to comply with Part 3 of the Pensions Act 2004.

We believe we have given appropriate weight and consideration to TPR's position in our conclusions, having also carefully considered the advice of the Scheme Actuary, and our covenant advisors, and UUK's formal response to the TP consultation, alongside other representations. Nevertheless, Scenarios 2 and 3 in the 76.1 report (as detailed in our Trustee Update) represent the limit of what we understand TPR would regard as compliant – subject to the relevant covenant support measures being agreed and fully implemented. [You can read TPR's comments here](#).

Prudence

The Trustee needs to be sure members can be confident that the pensions promised will be delivered. This means the Trustee has to have a high level of confidence in its funding assumptions and is why prudence is important in the valuation. We have covered this in more detail in a separate briefing note.

Our [Financial Management Plan reports](#) indicate how the outlook for future investment returns has deteriorated over the past year. [As we set out in a separate briefing note](#), this is an extension of the challenges we faced in finalising the 2018 valuation. Although asset prices have recovered, economic prospects have not, and so we now believe investments will generate less returns in future than we did at 31 March 2020. This offsets the recent recovery in the value of the Scheme's existing assets, and means our members' pensions remain at risk of being under-funded.

The next steps

Ultimately, the outcome of this valuation will be influenced by UUK and employers (through covenant support measures) and by UCU and UUK together, through the JNC. Our key role, as Trustee, is to administer the Scheme in line with the Scheme Rules and legislation and to secure the pensions promised to our members. We stand ready to support the JNC's discussions as appropriate, and to continue to explore the avenues available with our stakeholders and TPR to deliver the most positive outcome for the Scheme overall.

I believe everyone involved with USS wants to find a way forward, consistent with our legal and regulatory duties, that provides valuable and secure pensions, and that puts the Scheme on a sustainable footing. I hope we can all commit to working together to that end.

Dame Kate Barker, *Chair of the Trustee Board*

Trustee Update and associated documents

Main report: Update on the 2020 valuation

Appendix A: Update to covenant assessment

Appendix B: Higher Education Institutions' available risk capacity valuation

Appendix C: A summary of the Trustee's position on UUK's response to the Technical Provisions consultation

Appendix D: Integrated Risk Management Framework

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The Pensions Regulator: Letter to Dame Kate Barker addressing the Rule 76.1 report

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USS briefing: Prudence in the 2020 Valuation

USS briefing: Reconciling the outcome of the 2018 valuation with the 2020 valuation

USS briefing: Why we decided to proceed with the 2020 valuation

USS briefing: The Joint Expert Panel's recommendations