USS

USS briefing: Additional stability analysis allowing for proposed benefit uplift

This briefing note provides additional stochastic analysis relating to the likelihood of required Total Contribution Rates in the future making allowance for the proposed benefit uplift[1] to those accrued from 1 April 2022 to 31 March 2024.

This builds on analysis contained in the Technical Provisions (TP) consultation document; the Supporting Information pack; and the Additional Stability Analysis as requested by UUK and published on 17 August.

The proposed benefit uplift as at 1 April 2024 is an addition to Income Builder benefits of £215 p.a. plus the associated lump sum for members who accrued benefits during the period 1 April 2022 to 31 March 2024. Pensioners who accrued benefits during that period receive an increase to their pensions in payment of £241 p.a.

Further, all benefits accrued during the period 1 April 2022 to 31 March 2024 will be granted increases in line with the 'soft cap' and will no longer be subject to CPI capped at 2.5% a year. The soft cap provides full CPI increases up to 5% plus half the increase in CPI above 5% up to 15%.

The key benefit assumptions underpinning the original TP Consultation stability analysis as at 31/03/2023 were:

- 2.5% CPI cap applied to accrued benefits from 1st Apr 2022 to 31st Mar 2023;
- Assume an immediate switch to the pre-2022 benefit structure for newly accruing benefits from 1st Apr 2023;
- Assume an immediate switch to a 20.6% or 26% contribution rate from 1st Apr 2023 (rate depending on the specific piece of analysis).

Therefore, an element of the proposed augmentation was already allowed for in the existing modelling via the allowance for an immediate switch to the pre-'22 benefit structure and for a lower total contribution rate from 1st Apr 2023 (bullets 2 and 3 above).

In order to fully allow for the proposed benefit uplift, we have therefore made the following further amendments to the modelling parameters:

- Replace the 2.5% CPI cap on accrued benefits from 1st Apr 2022 with the soft cap;
- Scale up the non-pensioners tranche of liabilities accrued between 1st Apr 2022 and 31st March 2023 to allow for the relevant component of the increase as outlined above.

The remaining analytical methodology and assumptions are the same as those used in the original analysis as outlined in detail in section 3 of the TP Supporting Information Pack.

The results below outline the likelihood of the scheme requiring a contribution rate of at least **20.6%** or **25.2%** in 3 and 6 years' time, having paid a total contribution rate of **20.6%** from 31 March 2023. We show the results before and after allowing for benefit uplift.

Further, it is assumed the remainder of the surplus is retained within the scheme.

As noted in the main TP Consultation document, the purpose of these projections is to explore how stability of the required contribution rate may vary in future, under different scenarios.

[1] Joint UCU/UUK statement

They are based on various simplifications and should, therefore, be viewed as indicative rather than being part of the development of the proposed contribution rate at this valuation.

As in the TP Consultation document, to show the impact of investment strategy on the projections, we show results based on the current Valuation Investment Strategy (VIS) and two simple and illustrative alternative investment strategies which are detailed in Table 1.

Table 1: Potential illustrative Investment Strategies

Illustrative Investment Strategies[1]		**More growth, less hedging**	**Current VIS**	**Less growth, more hedging**
Asset allocation[2]	Growth assets exposure	70%	60%	50%
	Credit assets exposure	25%	25%	25%
	Liability hedge ratios (self-sufficiency basis)	30%	40%	50%

Notes
1 See Supporting Information for the return metrics associated with these portfolios.
2 These percentage allocations do not add up to 100% as we show liability matching assets in terms of their hedge ratio.

The TP Consultation Document; Supporting Information; and the Additional Stability Analysis contained:

a) The probability that the required total contribution rate exceeds 20.6% or 25.2% at a 2026 and 2029 valuation, assuming a 20.6% total contribution rate is paid from 31 March 2023; and
b) The probability that the required total contribution rate exceeds 26% at a 2026 and 2029 valuation, assuming a 26% total contribution rate is paid from 31 March 2023

In this document the additional analysis that has been provided is:

- The probability that the required total contribution rate exceeds 20.6% and 25.2% at a 2026 and 2029 valuation, assuming a 20.6% total contribution rate is paid from 31 March 2023, allowing for the proposed benefit uplift as outlined above.

As noted in the TP Consultation document, the modelling applies an asymmetrical approach to the treatment of prevailing surpluses built up from the 2023 valuation date. Specifically, any scenarios in which a surplus is revealed at the 2026 or 2029 valuation, the surplus is assumed to be retained within the scheme (that is, it is not used to reduce future contribution requirements). However, the required contribution rate in scenarios in which a deficit emerges will include an element of deficit recovery contributions.

This means that the prevailing **full** required future service contribution rate is recorded in **all** scenarios (irrespective of whether it could potentially be mitigated it by use of any surplus). In addition, a deficit recovery contribution is recorded in any scenario in which a deficit emerges.

More generally, these projections involve assumptions about the future and do not account for potential actions which may be taken depending on the scenario.

Notwithstanding the simplifications highlighted here and in the main document, the modelling output provides an indication as to the relative outcomes under different courses of action.

The results of the modelling are given in the tables below.

Table 2: Probabilities at Year 3 (2026):

Investment Strategy	Probability of exceeding a required contribution rate of 20.6% in 2026, having paid 20.6% from 31/03/23[1] and assuming full surplus retention		Probability of exceeding a required contribution rate of 25.2% in 2026, having paid 20.6% from 31/03/23[1] and assuming full surplus retention	
	Original Analysis	Updated Analysis (Full Augmentation)	Original Analysis	Updated Analysis (Full Augmentation)
More growth, less hedging	58%	58%	27%	29%
Current VIS	57%	58%	26%	27%
Less growth, more hedging	57%	57%	24%	25%

Notes
1 For simplicity of modelling, it is assumed that the contribution rate in each of these scenarios comes into force from the valuation date.

Table 3: Probabilities at Year 6 (2029)

Investment Strategy	Probability of exceeding a required contribution rate of 20.6% in 2029, having paid 20.6% from 31/03/23[1] and assuming full surplus retention		Probability of exceeding a required contribution rate of 25.2% in 2029, having paid 20.6% from 31/03/23[1] and assuming full surplus retention	
	Original Analysis	Updated Analysis (Full Augmentation)	Original Analysis	Updated Analysis (Full Augmentation)
More growth, less hedging	53%	54%	33%	34%
Current VIS	53%	54%	32%	33%
Less growth, more hedging	52%	53%	30%	32%

Notes
1 For simplicity of modelling, it is assumed that the contribution rate in each of these scenarios comes into force from the valuation date.

A small increase is observed (c.1-2%) regarding the likelihood of requiring a contribution rate above the given threshold for each investment strategy at each point in time. The magnitude is perhaps unsurprising given that an element of the proposed benefit uplift was already accommodated for in the original analysis.

We note here that we would expect these probabilities to fall if any surplus was used to subsidise the future service contribution requirement.

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