3 October 2022

USS briefing: Indicative contribution requirements for the pre- and post- 1 April 2022 benefit structures as at 30 June 2022 (on the Trustee's monitoring basis)

Introduction

This note provides indicative contribution requirements for the pre and post 1 April 2022 benefit structures operated by the Scheme reflecting financial conditions as at 30 June 2022 using the Trustee's monitoring approach. The Trustee has provided indicative contribution requirements for these benefit structures as at 31 March 2022.

A brief summary of the benefit structure is provided in Table 1.

Table 1: Benefit structures pre and post 1 April 2022

Assumed benefit Structure	Salary Threshold	Accrual rate	Benefit/Pension increases to reflect CPI
Post-April 2022	£40k	1/85	CPI capped at 2.5%
Pre-April 2022	£60k	1/75	Soft Cap

Note: Soft cap provides full CPI increase up to 5% plus half of CPI between 5% and 15%.

1. Covenant support impact, methodology and assumptions

The range of contributions provided in this paper reflects the financial conditions at 30 June 2022, but have not been through the same process as for a valuation or the recent Accelerated Year-End Review (AYR) when the Trustee will have taken and considered considerably more advice from the Scheme Actuary and other advisors. No greater reliance should be placed on these contribution requirements than that placed on the monitoring figures that are provided under the Trustee's Financial Management Plan. As such they should be viewed as an indication of the direction of travel.

The Trustee previously determined that, for the covenant support package agreed as part of the benefit changes introduced with effect from 1 April 2022, the Post '22 benefit accrual could justify using more optimistic pre-retirement discount rates than for the Pre '22 benefits. In particular, an increase in the pre-retirement discount rate from Gilts+2.5% to Gilts+2.75% (an addition of 25 bps). At subsequent dates when the Trustee has quoted the contribution requirement for the Pre '22 benefits, the same differential in the pre-retirement discount rate of 25bps has been used compared to that for the Post '22 benefits.

The same differential in the pre-retirement discount rate has been used for calculating the required contributions at 30 June 2022.

In the monitoring, the assumption for CPI is established using the difference between the nominal gilt and index-linked gilt curves less an adjustment for the Inflation Risk Premium (IRP) and the expected difference between RPI and CPI. The adjustment for the IRP used at 30 June 2022 in the monitoring is the same as that used at 31 March 2022 as part of the AYR, which involved detailed consideration of the IRP.

Between 31 March 2022 and 30 June 2022 both the nominal and index-linked curves have moved upwards, however the degree of movement in the index-linked curve was much greater than that of the nominal curve. Arguably, this indicates a change in the IRP. To illustrate the potential effect of this change, we have also provided contribution requirements assuming no IRP at 30 June 2022. Assuming no IRP also impacts the pre and post-retirement discount rates which are higher than with an IRP. Details of the discount rates used to calculate the contribution requirements are set out in Table 2.

Table 2: Discount rates at 31 March 2022 and 30 June 2022

	31 March 2022 AYR	**30 June 2022 Monitoring**	**30 June 2022 Sensitivity (No IRP)**
Post- April 2022 benefits			
Pre-retirement	Gilts+2.45%	Gilts+1.95%	Gilts+2.20%
Post-retirement	Gilts+0.55%	Gilts+0.63%	Gilts+0.80%
Pre-April 2022 benefits			
Pre-retirement	Gilts+2.20%	Gilts+1.70%	Gilts+1.95%
Post-retirement	Gilts+0.55%	Gilts+0.63%	Gilts+0.80%

The required contributions and deficits detailed in Table 3 have been derived from using the methodology as for the Trustee's monitoring approach for the 2020 valuation. All other assumptions in determining the liabilities and future service costs are as used to produce the results as at 31 March 2022.

The figures in this paper are based on the membership data used for the 2020 valuation rolled forward to the calculation date. The 31 March asset value is based on the Report and Accounts for the year ending 31 March 2022, at 30 June it is the value provided by USSIM, the Scheme's investment manager.

2. Contribution requirements

Table 3 below gives both the future contribution requirement and the deficit. The figures include allowance for DC above the salary threshold at a rate of 20%. Further, the future service contribution requirements in all cases include 0.4% of pay in respect of expenses and 0.1% in respect of the subsidy to DC investment charges. However, in order to make the contribution requirements comparable the contribution requirement to cover maintaining the soft cap on benefits accruing post-1 April 2022 until April 2025 has been excluded, as such the contribution requirement for the post-1 April 2022 benefits (Benefit structure 1) is quoted as 24.0% whereas in the AYR the contribution requirement is shown as 24.8%. The difference of 0.8% being the contribution requirement to maintain the soft cap for the temporary period.

Table 3: Contribution requirements for Pre and Post-April benefits

	31 March 2022 AYR	30 June 2022 Monitoring	30 June 2022 Sensitivity
Post- April 2022 benefits			
Future service contribution requirement	24.0%*	20.5%	21.8%
Deficit	£2.1bn	-£1.8bn	£2.5bn
Pre-April 2022 benefits			
Future service contribution requirement	36.6%	27.4%	29.6%
Deficit	£3.6bn	-£0.6bn	£3.8bn

Note:* This is 24.8% less 0.8% as described above. Similarly, the June post-22 future service contribution requirement above is 0.7% less than that shown in the monitoring for post 1 April 2022 benefits.

The range of contribution requirements at 30 June is narrower than that at 31 March, principally because the reduction in the long term future inflation assumption over the period leads to the 2.5% cap having a smaller effect at 30 June. We would expect that the proportionate change in contributions for intermediate benefit changes at 30 June to be similar to those at 31 March.

In the AYR at 31 March 2022 the Trustee quoted a deficit for the post-April 2022 benefit structure of £2.1bn and a range of deficit recovery contributions of 0.2% to 6.3%. A similar range would be equally applicable to the deficits in Table 3.

For ease of direct comparison, the future service costs assume the pension increases apply with immediate effect, that is there is no deferral of the introduction of the cap, where applicable.

Furthermore, no allowance for the additional outperformance has been made in calculating the future contribution requirement.

3 October 2022

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