21 October 2022

USS

Indicative costs of enhancing benefits accrued from 1 April 2022 to 31 March 2024 *(based on financial conditions as at 31 March 2022 and 30 June 2022)*

Introduction

The information in this note was provided to the Joint Negotiating Committee (JNC) in response to a request to the Trustee for an indication of the cost (potentially met from "surplus" in the Scheme, or additional contributions) to increase the benefits accrued between 1 April 2022 and 31 March 2024.

The response provides the cost of increasing the benefits accrued over the two years as follows:

I. to provide pension increases in line with benefits accruing between 1 October 2011 and 31 March 2022 (i.e., the "soft cap" which provides full CPI up to 5% and half of CPI above 5% up to 15%); and

II. the accrual from 85^{ths} to 75^{ths}

It is assumed that all other elements of the benefits remain unchanged for each of the increases in technical provisions and, in particular, the Salary Threshold remains unchanged (i.e., £40,000 as at 1 April 2022).

The costs of these benefit increases have been calculated as the increase in the technical provisions that would need to be held.

Previously, the Trustee has provided various indicative costs as at 31 March 2022 and 30 June 2022 and these costs supplement those previously provided. This paper, therefore, should be read in conjunction with our two previous papers namely: "UCU request for indicative costs for different benefit structures" and "JNC request for indicative contribution costs for different benefit structures as at 30 June 2022" both of which are available on the USS website.

Indicative costs of increasing benefits accrued between 1 April 2022 and 31 March 2024

The indicative cost of providing the increases to the pension accruing over the period 1 April 2022 and 31 March 2024 are provided in Table 1.

Table 1: Indicative cost of increases benefits accrued between 1 April 2022 and 31 March 2024

	31 March 2022 AYR	30 June 2022 Monitoring	30 June 2022 Sensitivity (no IRP)
Increasing inflation protection up to soft cap	£1.0bn	£0.4bn	£0.5bn
Increasing accrual rate from 85^{ths} to 75^{ths}	£0.7bn	£0.5bn	£0.5bn

The cost of increasing the level of inflation protection is based on the long-term assumption for the difference between providing pension increases on a 'Soft' cap basis and one where the cap is set at 2.5% pa used in the 2020 valuation monitoring process.

The indicative costs shown in Table 1 are on the same basis applying to previous costings. That is, the change to pension increases is costed in isolation but the accrual amendment is assumed to be in addition to the pension increase.

Assumptions

Table 2 sets out the discount rates at 31 March 2022 and 30 June 2022 used for the each benefit costing. For the reasons explained in the paper issued in August 2022 (which updated the numbers as at 30 June 2022), a sensitivity basis is also shown that has no allowance for an inflation risk premium.

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)
Allowance for 'soft' cap pension increases			
Pre-retirement	Gilts+2.35%	Gilts+1.85%	Gilts+2.10%
Post-retirement	Gilts+0.55%	Gilts+0.63%	Gilts+0.80%
Amending accrual from 85^{ths} to 75^{ths}			
Pre-retirement	Gilts+2.30%	Gilts+1.80%	Gilts+2.05%
Post-retirement	Gilts+0.55%	Gilts+0.63%	Gilts+0.80%

The indicative costs detailed in section 2 have been derived using the methodology for the Trustee's monitoring approach for the 2020 valuation. All other assumptions in determining the liabilities are those used to produce the results as at 31 March 2022.

The indicative costs provided in this paper reflects the financial conditions on the dates shown. The figures for June have not been through the same process as for a valuation, or that applied to the Annual Year-End Report (AYR) at 31 March 2022 when the Trustee took and considered additional advice from the Scheme Actuary and other advisors[1]. No greater reliance should be placed on these costs 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 cost and could be subject to significant variation if fuller formal valuation processes were applied.

The figures in this paper continue to be based on the membership data used for the 2020 valuation rolled forward to the calculation date.

[1]The process to develop the AYR is significantly less thorough compared to a full scheme valuation.

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