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

Background

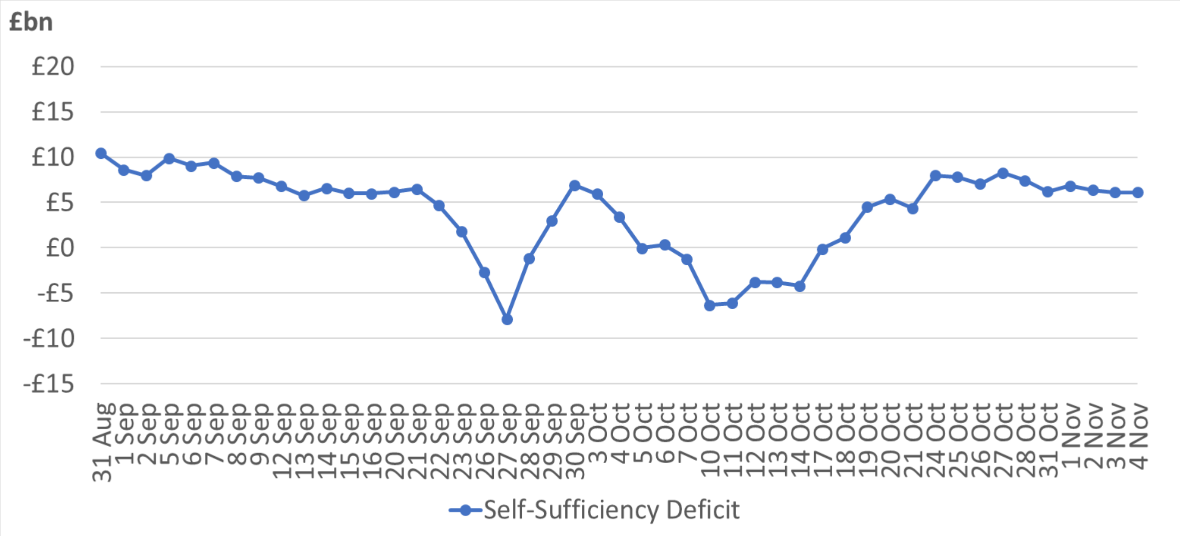
This note sets out the indicative future service contribution requirements for different benefit structures at 30 September 2022.

This is based on the assumptions underlying the Trustee's Financial Management Plan (FMP) monitoring approach.

When considering contribution requirements at 30 September 2022, the following are matters to bear in mind:

- Over the last six months there has been a significant reduction in the value of the Scheme's assets (from £88.9bn at 31 March 2022 to £72.6bn), which has largely been driven by prices in equity and bond markets falling. The value of the Scheme's assets at the end of September is, however, still above that at the valuation date in March 2020 (£66.5bn).
- The Technical Provisions liability has decreased significantly on the monitoring basis since the valuation date due to rising real gilt yields, partly offset by higher inflation expectations.
- Overall, the Technical Provisions deficit on the valuation date has been eliminated on the monitoring basis and is now showing a surplus of £5.6bn.
- The future service contribution requirement has decreased on the monitoring basis due to higher gilt yields and higher expected returns. The 2.5% cap on annual inflationary increases (on benefits earned since 1 April 2022) limits the impact of changes in expected inflation on the future service contribution requirement. Future service contribution requirements at the end of September amount to 18.5% compared to 25.2% at the valuation date.
- Market conditions have remained highly volatile since 31 March 2022 when the assumptions were last looked at in more detail as part of the Accelerated Year-end Review (AYR). As a result, the exact position of the Scheme at the end of September cannot be established with any certainty and the figures in this report (while indicative of the direction of travel) should be viewed with a degree of caution.
- During September, the self-sufficiency deficit, estimated daily, ranged from -£8bn to +£10bn. This volatility continued into October, although, it appears to be settling down following the changes in leadership of the UK government as indicated in Figure 1 overleaf.
- The volatility experienced emphasises the difficulty with undertaking benefit pricing outside of a formal scheme valuation. Although the direction of travel remains positive leading up to the 2023 valuation the numbers set out in this note should not be considered representative of the outcome of the next scheme valuation.

Figure 1: Self-sufficiency deficit since the end of August



Contribution requirements

As indicated above the indicative future service contribution requirement on the monitoring basis for the post 1 April 2022 benefits is 18.5%. The indicative future service contribution requirements for the pre-April 2022 benefits using the same approach to discount rates as adopted for previous estimations, i.e., by reducing the pre-retirement discount rate by 25bps (so as to allow for the increase in measured risk due to the increase in the amount of accrual), is 24.4%.

Whilst the Trustee is comfortable with the direction of travel indicated by the monitoring there is inevitable uncertainty of the quantum until the 2023 valuation has been completed. With this in mind and to help illustrate how the indicative numbers can move, the tables below show the development of the future service contribution requirements for pre and post April 2022 benefits with a sensitivity on contributions at the end of September.

Table 1: Development of contribution requirements since 31 March 2020

Benefits	Contribution Requirements			
	31 March 2020 Valuation	31 March 2022 AYR	30 June 2022 FMP Monitoring	30 September 2022 FMP Monitoring
Post April 2022*	25.2%	24.8%	21.2%	18.5%
Pre April 2022	37.0%	36.6%	27.4%	24.4%

*Includes an allowance for the deferral of the 2.5% cap. This was 0.3% on the valuation date, 0.8% in the AYR and 0.7% on 30 June and 30 September.

Notes:

1. When the contributions requirements on the FMP monitoring basis at the end of June 2022 were provided, due to the concerns in relation to the underlying inflation in the monitoring, a sensitivity was provided assuming no inflation risk premium. This increased the assumption for CPI by approximately 50 bps across the CPI curve. The resultant contributions requirements for post and pre-April 2022 benefits at 30 June 2022 were 22.5% and 29.6%, respectively.

2. Over September and October 2022, the single equivalent gilt yield has ranged from 3.1% to 4.9%. On 30 September it was 3.7%, on 31 October it was 3.5% and at the 4 November, it was 3.7%. Given the volatility of markets around the end of September 2022 a sensitivity on the contribution rate of gilt yields (which are part of the discount rate) being 50bps higher or lower has been applied with all other assumptions being those used in the monitoring. The required contributions allowing for this sensitivity are given in the Table 2 below.

Table 2: Sensitivity to change in discount rate at 30 September 2022

Benefits	Contribution Requirements at 30 September 2022		
	Gilt yield as part of the discount rate		
	FMP Monitoring	FMP Monitoring plus 50bps	FMP Monitoring less 50bps
Post April 2022	18.5%	17.0%	20.4%
Pre April 2022	24.4%	21.4%	28.0%

We are not providing contribution requirements for intermediate benefits between the pre- and post-April 2022 benefits as at the end of September 2022 given the wide underlying range around the numbers and sensitivities being provided, we will consider providing such details at the end of December 2022 depending on the financial conditions at that time.

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