Our role in protecting members' pensions webinar transcript

Helen McEwan: My name is Helen McEwan. I’m Chief Pensions Officer at USS. Welcome to our second member webinar. We're so delighted that you’ve found the time to join us today and that so many of you have decided to log on.

Today I'm joined by Dame Kate Barker, who was recently appointed as Chair of the USS Board, together with Mel Duffield, who's Director of Engagement for the 2020 Valuation, as well as Aaron Punwani, who is our Chief Actuary and also CEO of Lane Clark Peacock.

You may remember that our first webinar covered an introduction to USS and how the scheme is run on your behalf. Today we're going to focus more on the valuation process. Hopefully, by the end of it, you will have a much greater understanding of the areas that we cover. In particular, the role of the scheme Actuary and how the valuation process is designed to protect the pensions that have been built up for members already.

We'd really love to have your questions about the valuation, so this session is going to follow the same process as last time, where I will ask the presenters a series of questions, which are designed to give you a broad overview of everything going on. Then, hopefully, after that, you'll have lots of other questions that we can respond to for you in a dynamic way.

What I would say, though, is that, if you do have questions that are around you own individual circumstances, if you could go onto our website and go into the ‘Contact Us’ section, then we will contact you directly about your individual circumstances and have a personal answer for you as far as that's concerned. All the general answers and FAQs that come out of this webinar will be on the website. This is being recorded and will be put on the website as soon as we have put it all together.

We will also be asking you to complete a short survey at the end, which would be great in terms of feedback. We've already incorporated the feedback from the first member webinar. We'll also be sending you an email, too, if you don't get a chance to complete the survey at the end, but they're all very quick. We would really value that support, particularly in terms of future webinar topics or anything in particular that you would really like us to make sure that we cover off for you.

Hopefully, that covers all the housekeeping, but I would like to now turn to our presenters and ask them to introduce themselves before we get into the questions that we have for them today. So, Dame Kate, can I start with you, please?

Kate Barker: Good afternoon. I am Dame Kate Barker and I've recently taken over from Sir David Eastwood as Chair of USS. I have somewhat of a background in pensions because I chair another large pension scheme. Like Helen, I'm very grateful to you for agreeing to join us this afternoon. I hope that, in the course of my time as Chair of USS, I have the opportunity to meet members.

Helen McEwan: Thank you, Kate. Mel?

Mel Duffield: Thank you, Helen, and good afternoon, everyone. I hope everyone can see and hear me okay. Yes, I’m Mel. I'm the Director of Engagement on the 2020 Valuation. When I'm not working on the valuation, my day job is Pension Strategy Executive at USS.

I joined USS in early 2015, having worked in the independent research sector, and also in the Government, for the Department for Work and Pensions and the Treasury, primarily working in pensions-related roles but also a brief stint in a higher education policy role, which brought me to USS.

Helen McEwan: Thanks, Mel. I should have said at the beginning, as well, I hope those of you listening to this webinar will bear with us if there are any technical difficulties. We did have a slight delay on Mel’s stream earlier on so please bear with us if we do have technical difficulties, but hopefully you can hear and see us as you should do. Aaron, I'm going to come to you now, please, for a brief introduction.

Aaron Punwani: Thanks, Helen. Hi, everyone. I'm Aaron. I'm the Scheme Actuary to USS. I'm also CEO of LCP, which is a leading firm of advisors to UK occupational pension schemes. I work with USS and a small number of other large pension schemes, on either the trustee or the employer side, which I hope gives me a balanced perspective on all of these issues.

Helen McEwan: Thanks, Aaron. Let's get straight into it, guys. I'm going to come to Mel first of all, so, Mel, what is a valuation, and why are USS doing one at this time?

Mel Duffield: Thanks, Helen. A valuation is when, as the trustee, we look to see whether we've got enough money in the scheme to pay the pensions that have already been promised to our members, at the valuation date.

We committed to hold a valuation now because of a range of factors. When we were closing off the 2018 valuation, we were facing quite challenging and volatile economic and market conditions, so we committed that we would look at this again in early 2020.

We were also very aware that UUK and UCU, as our stakeholders, were quite keen to have a chance to review the contribution increases that were due in October next year. Also that the Joint Expert Panel and that the stakeholders appointed were due to publish a second report that would likely have some recommendations in it in relation to the valuation, and valuation governance.

When we're carrying out a valuation, we do need to consider all the pensions that have been promised to active, deferred, and pensioner members and their beneficiaries. That's around 460,000 of our members in total.

This means us looking out decades into the future and comparing both the assets that we've got within the scheme, so the investments we hold, with our liabilities, so the pension payments that are going to fall due to members.

Legally, we have to hold a valuation at least every three years. The last valuation date was 31st March 2018, so we'd have to hold a valuation at least before 31st March next year. We can't ignore a deficit. The trustee has to demonstrate that it has a plan in place to demonstrate how it will get to full funding.

We also legally have to take a prudent approach, so we need to set the assumptions for the valuation in a way that gives us a sufficiently high level of confidence that our plan for funding will be met. We also have to file that valuation with the Pension's Regulator within 15 months of the effective date, so we've got until 30th June next year to complete this valuation.

There are quite a few milestones along the way that we have to meet. At the moment, we're at one of the key formal stages of consulting with Universities UK on the technical provisions. There are further consultations later down the track, which we'll talk about. That is then followed by a process with the Joint Negotiating Committee, and then potentially an employer consultation with affected members and employers.

Valuations are a really key part of our role in terms of making sure that we are administering and managing the scheme appropriately. We do need to make sure, as I've said, that we've got the funding there to pay members' benefits in future as they fall due. We see that as very much our primary duty when we're carrying out a valuation.

Helen McEwan: That's really clear, Mel. Thank you very much, but I think a question on many of our members' lips will be: "Why are we proceeding with the USS valuation in the current climate?" So, I'm going to come to Dame Kate, please, to answer that one for us.

Kate Barker: I only took over as Chair in September, but I joined the board of USS on 1st April, suitably enough, so it was just immediately after the valuation date. Clearly, at that time, the financial markets had been through a period of extreme volatility due to the start of the pandemic, so I think people might reasonably have said, "Why are you ploughing on now at these very difficult and volatile market conditions, doing a valuation?"

I think the answer to that is that, if you look at the conditions set out in the 2018 valuation, it was very clear that, if we found ourselves outside of certain financial conditions if the deficit had increased – as, indeed, we estimated it had in March 2019 – we couldn't ignore that. Basically, we had to do something.

If we were not going to have a valuation, we would probably have had to ask the employers for more short-term support, which would clearly have been extremely unwelcome at a time when the universities are, in any case, facing tremendous difficulties. So, it seemed sensible to call a valuation.

A valuation allows us all to take a very considered approach, but it's undoubtedly the case that the pandemic has worsened the outlook for investment returns. Nobody can be quite sure how much or how long that will last for, but it is definitely a discouraging backdrop.

Of course, it has pushed risk-free interest rates down further: the rates that are paid on Government bonds, one of the yardsticks we use for safety in the scheme. So, we did think about deferring, but, as I say, the alternatives didn't seem to us particularly welcome.

Actually, as we sit today, looking at the circumstances we have, the way in which financial markets have moved since March doesn't immediately suggest that, had we differed until next year, we would necessarily have found ourselves with a set of more favourable financial conditions.

I think what we would have had , perhaps, is had a slightly clearer picture of how higher education institutions were weathering the pandemic, we hope to have a clearer picture this autumn.

We do understand, of course, that USS pensions are very much valued by our members. Defined benefit schemes are now becoming very rare outside of the government sector. We're one of the very few private defined benefit schemes of scale that's still open. Of course, the reason for that is because defined benefit schemes, as members have lived longer and as real interest rates have fallen, have just become very, very much more expensive. Thank you, Helen.

Helen McEwan: Thank you, Kate. Mel, you've been really close to this valuation, given your role in it, and also over a few years of working with USS. Would you like to add anything further to what Kate has said?

Mel Duffield: Thanks, Helen. Just in relation to the commitment to this valuation and the engagement we've had, we've had a lot of engagement with stakeholders, preparing for this valuation. We've been very involved with the JEP tripartite talks. There have been some 15 or so meetings of those, and we have also set up a valuation methodology discussion forum with the stakeholders. We've had, I think, 11 meetings of that group, and the Pensions Regulator has, helpfully, joined us twice for that meeting, as well.

On top of that, we issued a discussion document back in March to talk to employers in particular and UUK about the approach to the covenant assessment and the methodology that's being proposed for this valuation, and also engaged with UUK in some of their employer working groups on some of the covenant support measures that we'll touch on shortly.

There are some changes in the proposed methodology that I'm sure Aaron will talk about in a bit. One of those is the proposal of dual discount rates, which is something that the JEP recommended that we consider. Also the proposed removal of Test 1, which was quite heavily criticised for being quite mechanistic and being felt to drive the de-risking of the scheme.

I think, if it was a more benign economic backdrop that we were facing here, we would have very much hoped to be delivering better news for the sector and stakeholders at this time, but, as Kate pointed out, the circumstances have worked against us. In this environment, it really is the security of members' benefits that is our primary focus.

Helen McEwan: Excellent, thanks, Mel. I'm going to pick on you again in terms of looking for an update on where we are with the valuation process as it stands at the moment. What can we expect to see happen next?

Mel Duffield: Sure, thanks, Helen. It is quite a long process. We started preparing for this valuation back last September. The valuation date is, of course, 31st March this year, and we have until next June to submit that back to the Pensions Regulator.

We will have opportunities to review as we go along. In particular, there's something called 'post-valuation experience' that trustees in the scheme actually consider later in the process, particularly to think about how the investment markets and performance might have evolved during that valuation period. That's something that tends to feature in recovery plan assumptions.

Right now the stage that we're at is formally consulting with Universities UK on the methodology and assumptions that we use to make our calculations. We do know that affordability is a really key issue here, both for members and our employers. So, we've set out in the consultation some of the things that we think employers could do to potentially get us to the contribution rates towards the lower end of some of the figures that we've shown in that document.

That really is about those covenant support measures that give us the confidence to take a bit more risk – investment risk in particular – that potentially allows us to provide lower contribution rates for members and employers.

We've shown a range of outcomes. There were a number of things that could change between now and November and so we'll get UUK's response to that consultation. They'll tell us, hopefully, about their risk appetite and the risk capacity they think they've got to support the scheme and the benefits that we're underwriting.

We'll also look at the covenant position in the autumn. We've obviously seen student numbers this week and the figures on that. There are other factors – geopolitical factors, as well – that will be playing into our covenant review in November. It's really that ability and commitment of employers that's important to us here and that will be critical to influencing those outcomes.

We'll get to November and, hopefully, have a clear view on the price of the benefits for the current structure. At that stage, the emphasis very much shifts to the JNC and the process between the stakeholders to decide how they want to respond to the cost of the current benefit structure.

If there are changes required, which is possible, either to contributions or benefits, then there will need to be a consultation between employers, members, and affected employees. It's most likely, looking at the timeline now, that that could take place in the spring.

Like most people who work at USS, I'm also a member of the USS pension scheme. We are acutely aware of how unwelcome these contribution increases will be, and the prospect of paying more for pensions.

Our role is to set the price of these benefits and ensure that we do have a high level of confidence that they can be paid in future, and our role is to support the stakeholders in those discussions as they determine how to respond in what are quite difficult circumstances.

Helen McEwan: Kate, given that this will be a really important question and, no doubt, debate, I just wonder if there's anything further you would like to say on that to add to Mel's explanation.

Kate Barker: It's clearly very difficult to imagine a more challenging time for the UK's higher education sector. We sought to set out the position as clearly as possible. We've, in fact, illustrated a very wide range of outcomes. We've talked about a deficit that ranges between £17.9bn and £9.8bn, considerably higher than the deficit identified in 2018.

Illustrative future service costs – the amount for the pensions that are likely to be accrued from now on – we have illustrated a range from 37.6% to 29.4% of payroll. In addition, of course, we have to fund the deficit, so we have a deficit recovery plan. If we add that to the future service costs, we get a range for contributions that ranges from 67.9% to 40.8%.

I think one of the things that you'll all be thinking is Mel talked about how we're aware of how affordability is important for all of you. It's very difficult because we are sharply aware that, even towards the bottom of this range, affordability is likely to be very difficult, not just for employees – for you, the members – but also for the sector, for the sector as a whole.

We did not produce these numbers lightly, but I really want to reinforce Mel's point. The ability of the employers to demonstrate commitment to the scheme will enable us to [consider taking] more risk, going forward, which would in turn bring contributions down towards the bottom of the range - [all things being equal]. But, nevertheless, I think it's unlikely that anybody is going to consider even the lower end of the range as affordable or sustainable.

We know that at least a quarter – and perhaps as much as a third – of members who've opted out of the scheme since the start of last year did so because they couldn't afford it. Of course, some people do it because they're on a fixed-term contract or planning to leave the UK and the scheme isn't relevant to them, but, nevertheless, the fact that we have a lot of UK-based people who just can't afford the scheme has to be a concern.

But, unfortunately, although we are aware of the problems around affordability, aware of the problems particularly for younger people, we can't avoid setting a realistic price. We can't allow this scheme to go on accruing a bigger and bigger deficit and, in fact, turn out to be something that couldn't be afforded. We have to be realistic.

As a trustee, our basic concern has to be that the benefits our members have already been promised can be paid by the employer when they fall due, but, of course, that's our responsibility. What's not our responsibility is to decide what those promises are, or, indeed, how the contributions are split. That is determined by the Joint Negotiating Committee, and ultimately by the rules of the scheme. Thank you, Helen.

Helen McEwan: Thank you so much, Kate. I'd like to move on now to the actual valuation process and the different stakeholders involved in that. There are a number of players in the valuation process, and I would just like to explain to our members a little bit more about what they all do, and why. I'm coming back to you again, Kate, please, to cover off the role of the trustee, please.

Kate Barker: I've already touched on the primary duty of the trustee, which is to ensure that the benefit promises can be met, but we manage and administer the scheme. This means we have a whole set of very specific legal, regulatory, and fiduciary duties and accountabilities. We can't simply make anything up as we go along.

Valuations are an absolutely key part of that role, to enable us to meet those promises. We also have to put a price on making new promises. Something that would clearly be of concern to the trustee is if we were to allow promises to continue to build up which, in the long run, we think would be very difficult or impossible to afford.

We have to be impartial when we're making our decisions. Some of us may or may not be members of the scheme as Mel is, but we have to look at these things in a relatively cold and rational basis. I think that sometimes makes us sound cold, but none of us are. We all really do feel concerns for the sector, and also concerns for our members.

We have to take advice in our role. In particular, we have to take professional advice from the Scheme Actuary, from Aaron, who's going to introduce himself later. Aaron himself, of course, has his set of regulatory and professional standards to meet. He meets those in order to help guide us to take the right decisions to achieve our primary duty, which I won't repeat. Thank you, Helen.

Helen McEwan: Thank you, Kate. Mel, a lot of your role is working with the various stakeholders. I just wonder if you could tell us a little bit about the role of UUK, UCU, and of course the JNC – in the valuation process, please.

Mel Duffield: Sure. Thanks, Helen. Universities UK is an important player in the valuation. By law, we have to formally consult with them, as the representative body for the sponsoring employers. We do that at various points in the process.

Right now we're consulting with them on the methodology and assumptions, used in the technical provisions. Later on in the process, we'll also be consulting with them on the recovery plan and schedule of contributions that will set out what members and employers are required to pay. There are other consultations, as well, with various acronyms attached to them, which I won't bore you all with now.

UUK appoints representatives to the JNC. Then for UCU, although they don't have the same formal role in the scheme roles as UUK, they do have an important role and appoint representatives to the JNC, as well. We've been engaging with UCU and their representatives throughout the valuation process, whether it's through the JEP tripartite talks, the Valuation Methodology Discussion Forum, or, of course, through the JNC.

The Joint Negotiating Committee, just a reminder of its role. It's made up of five representatives, both from Universities UK and UCU. It has an independent chair and it has a set of quite specific responsibilities in relation to the scheme. Particularly in the case of the valuation, its role is to decide how to address any increase or decrease in the contribution rates that are payable by employers, both in respect of a deficit that may arise and also in respect of the cost of providing for benefits in the future.

Helen McEwan: Thanks, Mel. Aaron, it's finally your turn to tell us a little bit about the Pensions Regulator and your role in the valuation, please.

Aaron Punwani: Thanks, Helen. Mel has already mentioned the Pensions Regulator. This is the national regulator that's established by the Government to regulate pension schemes, including USS. One of the main objectives of the regulator is actually the subject of this webinar, which is to protect members' benefits. That's very much reflected in how the regulator oversees actuarial valuations, to make sure schemes are funded appropriately.

It won't surprise anyone to hear that the regulator has been taking a keen interest in the USS valuation as at March 2020. The trustee has been in regular contact with the regulator to keep them updated, and also to discuss key issues with them.

In those interactions, we've been very keen to ensure that the regulator's input takes into account the fact that the scheme is open to new members and open to accrual, and that, because of that, the trustee has the ability and the desire to take a long-term view on funding and investment matters, provided that is based on the appropriate support from the employers. This makes USS very different from the majority of pension schemes in the UK, which are now closed to new members.

The regulator has publicly acknowledged the challenges of carrying out valuations at the current time, due to the pandemic. That's referred to in the regulator's Annual Funding Statement and also in specific guidance related to COVID-19. The steer from the regulator to trustees is to focus particularly on monitoring the financial support available from employers on contingency planning and on integrated risk management. In my view, that's very consistent with the way that the USS trustee is approaching this valuation.

That leads on to my role, which Dame Kate helpfully introduced earlier, but fundamentally my role is to provide advice to help the trustee reach the right decisions in relation to the valuation. That includes particularly advising on financial and demographic assumptions, so things like the returns from assets, but also how long USS members are expected to live.

Also, in the USS context, I work closely alongside the trustees' investment and covenant advisors to help develop the trustees' Integrated Risk Management Framework for the valuation. That integrated approach to risk management is widely seen as best practice across the industry.

Helen McEwan: Kate, would you like to say a few words on the actuarial role?.

Kate Barker: When I went to take on the role at USS, I was sharply aware of what a huge responsibility it is, with not only because it has so many members looking to the trustee to ensure that their pension promises can be met, but also, of course, because the sector itself is of such critical importance to the whole UK economy.

As somebody who's had a bit of a background in working with university, I strongly believe academics are clearly the lifeblood of university. I've been very proud, as I'm sure we all have, to see how universities have played such a big role in the pandemic, in the research.

We can see how much we owe to our academics there, so ensuring that they have secure pensions is really important but there is, unfortunately, a limit to how universities are funded. One of our jobs is to try and help the university side, and also the members, see their way through this valuation, to an outcome that will best meet all the different pressures.

Helen McEwan: Thanks, Kate. Related to that, Aaron, would you mind, please, talking a little bit about around your perspective, given the climate that we're doing this valuation in? If you could give us a little bit of your perspective on the climate, the Pension Regulator's guidance, and also the proposed changes to methodology and assumptions from the last valuation, please.

Aaron Punwani: Yes, of course. I think I might just take that in reverse order, by starting with explaining the changes that the trustee is proposing and then coming back to give my overall perspective on things.

There are four main changes that the trustee is proposing, compared to 2018. They are interrelated, but the topics are methodology, the approach to risk, the assumptions, and investment strategy – investment returns, rather.

Starting with methodology, the headline change is that the trustee is proposing to move to a dual discount rate method, which is in line with the recommendations of the Joint Expert Panel. My view is that better aligns the valuation method with the open nature of the scheme and its maturity level. It comes in tandem with the proposed removal of Test 1, which was a key driver of the 2018 valuation.

That links closely with my second point, which is risk. The proposed change in methodology permits the trustee to take a longer-term view of risk. In particular, it permits the scheme to be at a greater distance, over the long term, from a low-risk or self-sufficient position, provided that distance is justified by the support available from the employers.

This is consistent with having a higher long-term allocation to growth assets that was previously assumed, and also, therefore, has a more stable risk profile and greater regard to intergenerational fairness, which is also a key perspective of the trustee.

Then the third point is assumptions. The key point to mention there is we've had quite a detailed look at the scheme's demographic experience, including mortality, as well as external trends.

That has led the trustee to propose less conservative demographic and mortality assumptions than were proposed at the last valuation.

Then the final point, and this is the tricky one, really, which is investment markets. Market conditions have become less favourable, as Dame Kate explained. The trustee has had to take into account of the significant reduction in long-term interest rates or gilt yields, but the trustee is proposing a higher allowance for credit spreads on corporate bonds than before. Particularly in the strong covenant case, the trustee is proposing a higher allowance for the returns on growth assets, relative to guilt.

Those are the changes, so I'll now answer the question, which is what's my perspective on all of this? I think, just to echo what Mel said earlier, all else being equal, the proposed changes to the methodology, the demographic assumptions, and the high returns relative to gilt yields would ease the contribution requirements. It should have resulted in better news, but, unfortunately, market conditions indicate that the cost of providing pensions has increased. That's what has caused the difficulties here.

Overall, I think, and hopefully my explanation has backed this up, but I think that the trustee is taking a very balanced approach to the valuation and has specifically reflected on the fact that USS is one of the few private defined benefit schemes still open to new members and future accrual, and can, therefore, take a longer-term view.

Helen McEwan: Thanks, Aaron. Kate, would you like to say a few words on that, please?

Kate Barker: I think just very briefly, quite clearly, when the 2018 valuation was concluded and the trustee agreed to go back and look again at methodology, the reason that that was done was not because the trustee thought it would be coming back, looking for these kinds of contributions two years down the line.

As Aaron has set out, changes have been proposed to methodology which would have the effect of easing the burden of the scheme, but the economic developments have just run so hard the other way. We're certainly not alone among pension schemes in the UK in facing a difficult and deteriorating position.

As I said earlier, we're acutely aware of how unwelcome the prospects of paying more will be, but a big picture and a nasty truth which, of course, we all know is that globally the outcome of this pandemic is that, on average, we are all going to be quite a bit poorer for the next two to five years than we thought we were.

Of course, averages are averages. Some people may not suffer very much at all. Some people may feel the heat quite a bit. Unfortunately, some of the people who will feel the heat quite a bit are people who sponsor defined benefit pension schemes that are still open, because the economic conditions make the funding of those schemes inevitably more expensive. We just couldn't get away from that fact when we were putting this valuation together.

Helen McEwan: Thanks, Kate, really helpful, and the rest of the panel for answering those key questions, which, hopefully, will have stirred some questions from the forum. Before we move on to questions, I would just like to say a few words about how USS seeks to protect members' pensions interests more generally.

You may be aware that I run our Liverpool office, the vast majority of which is our Pensions Operations department. We spend all our time trying to make sure that the quality of the service we provide, the integrity of the data that we have for you, and the protection of that data, is absolutely foremost for us. We do take great measures to try and prevent pension scams, although we know how clever these people are, so we do have warnings on our website in terms of how you can protect yourselves.

I think, during COVID, we've worked really hard to try and maintain the quality of the proposition and the service that we provide. We have a dedicated investment manager, one of the biggest responsible investment managers in the UK. We have worked to provide the lifestyling and glide paths that ensure, as you move into retirement, you have a risk appropriate to the levels of income that you might want to take.

We have just launched our new website, which I do hope you will take a look at, which is designed to give you better functionality, navigation, and understanding of pensions, which many people do find complex. Anything we can do to help with that, we work really hard to do.

We're also very heavily regulated by the Pensions Regulator, who’s been mentioned before, the Financial Reporting Council and the Financial Conduct Authority. We are a master trust for the DC part of the scheme, and the standards that are required in terms of fit and proper mean that we have to have the honesty, integrity, knowledge and competence completely appropriate to our roles. Those are high standards that we have to make sure happen.

I hope that gives you some reassurance that we are working hard, both on the valuation but on other aspects of protecting your pensions.,

I would just like to move on to questions now. Mel, we do have a question around the recently issued Annual Member Statement, and the values and investment there, which is, kind of, related to my last point. Would you like to say a few words on that, please?

Mel Duffield: Yes, sure. Thanks, Helen. We're aware that the AMS has landed on members’ doorsteps yesterday. I'm sat quite near my front door, so my AMS is currently sat on my desk. I picked it up and had a look.

Obviously, some of the fund values for the USS Investment Builder have shown that, when you look at 31st March for this year, some of the DC funds had fallen in value in terms of their returns over that 12-month period. As we've discussed in this session, that point in time was obviously being affected quite significantly by the impacts of COVID and how that was being felt by the markets.

Just to explain some of the context in terms of the DC funds. Many of you will, like me, be invested in the Default Lifestyle fund. That is designed so that the investment strategy does shift towards less risky assets closer to retirement.

That's deliberately to try and protect members who may be close to needing to draw on those funds from being affected by some of that market volatility and to mitigate against those impacts.

Members like me, who are more than 10 years from retirement, will generally be primarily invested in growth assets in that fund, so they will see some volatility there on the journey.

I think it's fair to say that markets have recovered quite a bit of the ground lost since March. So, if you have looked at your statement and you're a bit concerned about those numbers in there, it is really easy to go onto 'My USS' if you've got your login details. It takes a few seconds.

On that landing page, you can see the latest value of your USS Investment Builder funds. That will probably show that they have rebounded quite a bit since 31st March date. I'm sure many of you also look at your savings accounts, and maybe look at ISAs and have seen the same pattern there.

You can also check the underlying fund performance on 'My USS'. We've just re-launched that site this week, along with the website, and tried to make it much more user friendly. Of course, in your member statement you've also got numbers on your defined benefits in the Retirement Income Builder section. Those won't have fluctuated year-on-year, because, of course, they are promised to you. They have to be delivered in full, and they're protected in law and backed by the collective strength of the employers.

When you're looking at your statement, it's just worth bearing in mind that the DB figures are generally updated for the end of the year. We only update those figures once a year. The DC fund values you can generally check in on real time and see how your funds are performing, so I'd really encourage you to do that.

Helen McEwan: Thanks, Mel. I have another question for you, which is around how members can get more information on joining. The same person also asked about the value of portfolio information, but you've already covered that. I think people are looking for help in terms of the joining as a relatively new member, which will help them with understanding, if you can help with that.

Mel Duffield: Sure, yes. No, that's a good question. We do have a lot of new members every year, and we have been looking at how well the information and the member support resources are set up so that they do actually track through member journeys and the interactions that they have with the scheme.

New joiners is a key member group for us. Again, if you go onto the website, it has been re-launched this week, and there is a whole joiners' area in there that has got a lot of resources. For example, there are short two-minute videos that explain how the hybrid scheme works, how the DB and DC sections of that interact, and some of the choices and options that members have got.

There are other resources that we'll be launching in due course. I think next month we're going to be ready to launch our new webinar and seminar series with an external partner. One of the themes for that is going to be a specific session that's run for new entrants and new joiners.

We'll look at some other topics as well, so, for example, deferred members, who don't always get the same support; higher earners and tax issues, and some general refreshers on how the scheme works. So, again, hopefully more coming on the joiners front, but do go on and have a look at the website, because there are good resources on there.

Helen McEwan: Great, thank you. I think there's one more for you, Mel, which is around how can one take the accumulated benefits in Investment Builder and the Prudential benefits as tax-free lump sum in retirement?

Mel Duffield: Thanks, Helen. Yes, so that's a really good question. There has been quite a lot of change in this area in the last few years for members. In the 2015 budget, the Government announced a lot of freedoms that meant there were different options around how DC funds could be accessed by members.

Of course, USS launched the hybrid scheme in 2016. So, many members have now got both DB and DC benefits as they approach retirement. Some members that may have been with us for several years may also have started saving prior to that in the Prudential Money Purchase Arrangement that was in place.

There are a lot of options. In terms of the question about the tax-free cash, members can access those DC funds and their Pru MPAVC funds, either directly or whether they've switched into the scheme, as tax-free cash. If they're taking retirement as a single retirement event and drawing all their benefits at once, then how it works is you add up the total value of your benefits, including the DB benefits, and you can take up to 25% of that as tax-free cash, subject to some HMRC limits.

When we've looked at this for our members and we projected members' benefits, it's generally the case that the majority of members retiring in the next few years can actually take all of their DC fund and their Pru MPAVC funds as tax-free cash if that's what they want to do, if that's their preference.

There are some other options for how funds can be accessed. There's something called 'UFPLS', which is a classic piece of government pensions jargon. This is now available directly from USS.

Essentially, what it is is allowing you to take lump sums of your DC cash over time. You could do that before retirement, at retirement, or you could keep some of your money in the USS Investment Builder and draw it over time. Each time you do that, you can take 25% of that withdrawal as tax-free cash, as well. Then there are other options, such as using that money to buy an annuity or to use it to buy a drawdown product.

Again, there's quite a lot of thinking that we've been doing in this space. So, you'll see not only more seminars and guidance being made available, but potentially signposting to some new products and signposting to financial advisors, as well, in the next few months, because we are quite aware that members' choices have become quite a bit more complex in this area. Members do really need our support here.

Helen McEwan: Thanks, Mel. I'm going to give you a break now and move to Aaron. Aaron, there's a question in the chat here around the size of the deficit, and particularly in the light of the COVID situation. Clearly, I guess the question is concerned around the fact that the deficit has moved quite considerably, so some insight from you would be really helpful for the members today, please.

Aaron Punwani: Certainly. I guess there are a number of elements to it. The deficit at this valuation is looking higher than at the last valuation, but also, as Kate has already explained, the trustees are consulting on quite a wide range of [assumptions]. That range very much reflects the matters that the trustees are consulting the employers on, and the responses to that consultation could – certainly will – influence where the trustee ends up within that range.

The key point is the investment market conditions. So, even though the trustee is proposing to allow for higher returns relative to long-term interest rates than before, long-term interest rates themselves have fallen so significantly that it pushes up the cost of providing pensions.

The asset value of the scheme, as at March 2020, is not far off where it was projected to be, but the calculation of the technical provisions [as proposed] has gone up, reflecting that subdued outlook for investment returns.

Helen McEwan: Aaron, related to that, there's a question around why can't the pension benefits for people who, perhaps, earn the most and have the largest amount of pension benefits, why can't they be cut in order to share the pain across the people who, perhaps, can afford it most?

Aaron Punwani: It's a great question and a moral question, perhaps, more than an actuarial one, but I'll just give a couple of perspectives on it. The first thing is the benefits that have already been promised cannot be changed by the trustee. I think, as both

Mel and Dame Kate explained, one of the primary roles of the trustee is to protect the pensions that have already been promised, and to ensure that they are funded securely. So, the trustee can't do anything around benefits already promised.

Then, in terms of future benefits, that really is a matter for the JNC to propose what it would like future benefits to be, and then in discussion with the trustees. Ultimately, I think as Dame Kate explained, the trustee doesn't set the policy for what the pension should be. It's responsible for making sure those promises are then delivered once they've been promised.

Helen McEwan: Kate, I'll come to you on the next one, which is around the fact that there's a suggestion from someone on the chat that it just feels as if it has all been set up so that the DB scheme can be got rid of, for want of a better phrase, and replaced by a DC version. How would you respond to that?

Kate Barker: I'm always slightly surprised when people seem to think that the trustee itself has some kind of view as to what the benefits would be. We've tried to be very clear in this webinar, what our responsibilities are. Our responsibilities are to ensure that the pension promises can be met, and to discuss with the employers how much risk they want into taking that, and also to tell the employers how much money they will have to put in, in order to fund future pensions – pension promises. But it really isn't our role to set out exactly the design of those future benefits. That is a matter for the employers and the employees.

I'm sure we all have our personal views. I may have my personal view about where I hope we'll get to at the end of the valuation, but it is, strictly speaking, not a matter for us.

The trustee is not sitting here with some kind of underhand view that we really want to change the scheme. I certainly didn't take on this job because I had some view as to what I wanted to do with the scheme.

I will be honest: it's really painful to have to issue a document like the last one, like the one we issued a couple of weeks ago, with such very stretching, difficult-to-afford numbers being put out to the sector.

Helen McEwan: Thanks, Kate. This is a long one, so I'm going to read it exactly: 'Given that USS is a multi-employer scheme, comprising universities with long histories and a strong future, that employees cannot realistically leave the scheme, and that USS can impose higher contribution rates on individual universities if it deems this necessary, why is it important to be able to reach self-sufficiency in a relatively, in terms of working life, short period of time?'

Aaron Punwani: Okay. I think that it's a question that's very much at the heart of the consultation, and there's lots of information in the consultation document around distance to self-sufficiency and the risk management framework for the valuation.

I think a couple of points I'd like to make clear is that the trustee is not proposing to fund the scheme on a self-sufficiency basis. If the scheme remains open and if there is sufficient employer support, the framework described in the consultation allows the scheme to remain a significant distance from self-sufficiency, tens of billions away from self-sufficiency in the strong covenant scenario.

What we're using self-sufficiency for is measuring the distance from self-sufficiency, as part of the risk management framework, to compare that with the risk capacity and the risk appetite of the trustee and the employers.

I think that there is potentially a misunderstanding. The trustee is not looking down – not looking to close down – that distance to self-sufficiency. What the trustee is saying is that it is happy to remain a significant distance from self-sufficiency, provided if the scheme remains open and if that distance is backed by the support available from the employers.

Helen McEwan: Thanks, Aaron. Talking of backing, would you like to comment on the question which asked: is the Government a guarantor the scheme?

Aaron Punwani: It's a legal question, so I shouldn't formally answer it, but my understanding, as a non-lawyer –is that the scheme is backed by the higher education sector and not by the Government.

Helen McEwan: Thank you very much. Mel, I've got one for you again. One of our members would like to know more detail about the Investment Builder. Is this a tax-free saving system when one wants to withdraw from the scheme? Otherwise, what are the advantages of contributing to Investment Builder?

Mel Duffield: Thanks, Helen. I'll have to again be cautious of not appearing to provide financial advice, or legal colleagues will be rapping me on the knuckles, but, in terms of the investment that goes into the DC section Investment Builder, it really depends on your circumstances.

If you are earning above the salary threshold and your contributions are automatically going in into Investment Builder, then they're being matched by some employer contributions. Employer contributions of 12% are going in there currently. Also, the charges in the Investment Builder are entirely subsidised for most of the funds in the range. That's not something that's commonplace, certainly in other occupational DC schemes, or in personal pensions either.

They're also generally quite tax efficient as a savings vehicle, so pensions contributions up to certain limits are tax free on the way in. The investment returns are also tax relieved. As I talked about earlier, 25% of your overall pension benefits can be taken as tax-free cash. People generally pay a lower marginal rate of taxation in retirement, so there are quite significant advantages to saving into a pension, tax wise, depending on your personal circumstances.

We've worked hard to make sure that the fund range in Investment Builder is suitable for the members. We spent a lot of time designing it, bearing in mind that most members had some DB legacy benefits but also a very strong DB underpin. So, we have designed the default strategy to reflect that the members of USS have some advantages, perhaps, compared to other schemes, and that the default funds now also directly access private markets investments.

Until recently, members could also choose to put a top-up into the scheme. They can still do that, but, after the last valuation, the 1% matching contribution on additional contributions was withdrawn. But there are still quite a lot of things to think about around USS Investment Builder and the potential benefits that it can offer to members.

It's also a little bit more flexible at retirement. As I talked about, from age 55 you can, generally, start to access your benefits from the DC section, through things like UFPLS, or possibly putting money into drawdown. Quite complex and quite a quick tour around the USS Investment Builder, but hopefully that gives a bit of a gist of some of the potential benefits there.

Helen McEwan: Mel, there's a question here which is linked to the retirement piece and asking: ‘If I'm due to retire within a few months, how reliable is the modeller on the website for that purpose?’ I'll let you answer, and then we could make some comment around the provision of retirement quotes to people.

Mel Duffield: Sure. Thanks, Helen. I would probably turn to some of my operational colleagues to be absolutely on the money here, but generally I think the modeller is helpful for thinking about your different options in the run-up to retirement. If you're really getting close to the point where you are thinking about retiring, then it does make sense to start to think about getting those retirement quotes done. There is a team at USS dedicated to providing those quotes on request.

Helen McEwan: Yes, I was just going to add that point that, if you are close to retirement, I would suggest getting an actual quote from the team at Pensions Operations, who will provide that for you. We are very busy at the moment, but we are returning quotes within five days, so, if you do need one, then we would be very happy to do that.

We are coming to the end of our questions, so I'm going to give a couple of moments just to see if any others are going to appear. Is there any point that, perhaps, the panel feel we haven't covered, or that hasn't been covered during the questions, that they would like to draw our members' attention to? I think the questions have been excellent.

Kate Barker: I think I want to reflect, actually, Helen, on the last point you made about the fact that you're still managing to return retirement quotes in good time.,.

We have managed to move the administration into working offline, and also into dealing with some quite heavy workloads due to changes in the sector and other factors, without having much detriment in service. That's a real testament to the dedication of the staff to getting things right for members. I hope that has come across in this webinar today.

Helen McEwan: Great, thank you very much. The questions that we didn't get to, then, we will, as I say, put them together on FAQs on the website. We'll combine them in general themes so that we answer all the questions that we possibly can.

I think the other thing is just a quick reminder around the fact that we really would love your feedback on the webinar and any other aspects that we didn't manage to answer over this. We are very keen to do that and very keen to respond to, in terms of the next webinars, making sure we focus on subjects that are of interest to you.

We have many subject-matter experts within USS that I would be happy to bring on the webinar and have them answer the things that are closest to your heart as far as that's concerned. Thank you again. Thank you to all the panel, who worked much harder than me over the course of this hour. It is hugely appreciated, and I really do hope that you found it valuable. Thank you.