USS discusses approach for 2020 valuation

Universities Superannuation Scheme has today issued a technical discussion document to its sponsoring employers.

It marks the start of a six-week phase of engagement with employers on the 2020 valuation, which will be based on a ‘snapshot’ of the Scheme’s funding position on 31 March 2020.

The document, which addresses covenant, risk appetite and the investment strategy, sets out an emerging approach to the methodology following a fundamental review launched by the Trustee last summer.

It reflects feedback from stakeholders and the recommendations of the Joint Expert Panel’s (JEP’s) second report.

The approach proposes several potential changes for consideration and comment by employers, including:

- Alternative ways of assessing the strength of Scheme’s covenant and risk capacity of employers;
- Reflecting different perspectives on risk (employers, members and the Trustee);
- Using a pre- and post-retirement ‘dual discount rate’ approach, as recommended by the JEP;
- Determining an investment strategy that is better aligned with risk appetite;
- Replacing ‘Test 1’ (used for previous valuations) with a ‘check’ that funding risk remains within appetite.

The document is specifically addressed to sponsoring employers but will be available to members and other stakeholders on the USS website.

The responses from employers on the key issues of covenant and risk appetite will have a significant influence on the approach to the 2020 valuation and the outcome. Employers are asked to provide Universities UK with their feedback on the questions raised by 17 April.

More information and background on the 2020 valuation can be found here

Bill Galvin, USS Group Chief Executive, said: “We have carried out a fundamental review of our methodology and considered carefully the JEP’s latest recommendations, and feedback from our stakeholders, in developing our approach to the 2020 valuation.

“No decisions have been made but we have set out potential changes to the approach we could take and the key issues as we see them. We look forward to discussing them with employers over the next six weeks and hearing what they have to say.

“The views of employers on the key issues of covenant and risk appetite will be hugely important and will influence the decisions we will need to make in May ahead of the more formal consultation stages.

“We recognise there will be a wide-range of views on the most appropriate approach to take and we will continue to explore these with UCU and UUK.

“We will consider feedback and alternative approaches with an open mind, in the context of the fiduciary duty owed by the Trustee to ensure pension promises made are secure.”

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