# Consultation with Universities UK (UUK) commences

The USS trustee started its consultation on 1 September on its proposed assumptions for the 2017 valuation with Universities UK (UUK).

Background information for members including explanatory videos and questions and answers can be found within this section using the 'Useful links' on the right.

It is important to note that the consultation USS is holding on the proposed technical provisions for the 2017 valuation is with Universities UK, which represents the scheme's sponsoring employers. More than 350 employers have been sent the consultation document by UUK so they can consider it and inform the final response to USS. In order to manage the consultation process effectively, any members wishing to secure a copy of the full consultation document, having read the key summary we have provided below, are advised to contact their employer.

USS is committed to supporting members through the valuation process and will provide more detail on the technical provisions once the consultation with UUK has been completed.

The trustee reviews all assumptions every three years to place a value on the pensions promised to date and to assess what payroll contributions are required in future to fund the pensions currently offered.

Based on the proposed assumptions, the trustee believes there is a deficit of just over £5bn – similar to the figure assessed in March 2014. However, the cost of funding future pensions promises has increased by 35%. The proposed assumptions result in an increase of 6%-7% of pay, from the 26% of pay paid by employers and members now, for the current package of benefits offered.

The increase proposed is a significant challenge for our stakeholders, UUK and University and College Union (UCU) to address.

The trustee is responsible for setting the required contribution rate after consulting UUK, as the formal representative of all USS employers, on its proposed approach. Decisions on future benefit levels and how the total required contributions are shared between employers and members are made by the Joint Negotiating Committee – made up of an equal number of UUK and UCU representatives, with an independent chair.

The consultation runs until 29 September with a conclusion on the assumptions to be used expected in late October.

Decisions on any changes to future benefits or contributions levels will follow later in the valuation process and no changes can be made without a full consultation with all affected employees by their employers.

## How the assumptions impact the results

The most significant assumption is the expected rate of return on the scheme's assets. The trustee is required by law to form a prudent view, taking into account the specific factors of the scheme, such as where the money is invested, and how much risk the employers supporting the scheme are able to bear.

Since the last valuation, expectations for future returns have fallen significantly. This affects

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everyone saving for retirement whether in USS or another form of private pensions. If contributions made to the scheme are likely to grow at a slower rate than previously thought, then more money is required to fund a given pension promise. That is the main reason why the required contribution rate has increased.

The simplest indicator that future returns are likely to be lower is the drop in the expected return on index linked gilts of around 1.5% per annum since March 2014.

The proposed approach is explained in more detail below and is equivalent to an average annual rate of return to value future benefit payments of CPI plus 0.9%. The assumptions contain a margin for prudence that the trustee believes will be sufficient to cover more than two thirds of all future scenarios.

The valuation results are very sensitive to this assumption. A variation of 0.1% per annum on the assumed return impacts the deficit by £1.2bn: a higher assumed return lowers the resulting deficit.

## Trustee assessment of planned investments

USS has progressively diversified its portfolio over many years to ensure that the level of investment risk inherent in the scheme remains within affordable levels for the employers and members. The current investments are broadly half in equities, one third in bonds and the balance in infrastructure, property and other assets.

The strategy has returned substantially more than a portfolio of bonds or gilts over the last five years, generating £10bn more for the scheme than if invested purely in gilts for the last five years, for example.

Over the next 20 years, as USS grows in size by an expected £30 billion in assets, the trustee will continue its strategy to reduce the equity allocation proportionate to the growth in the scheme to ensure that the risks inherent in funding the scheme remain within affordable limits of all the employers.

The trustee’s views on a reasonably prudent level of expected return from the assets it plans to hold over the next 20 years and beyond are noted below.

**Years 1-10:** Assumed annual return of CPI less 0.53%: reflecting very high current asset values and expectations for a prolonged period of low long term interest rates.

**Years 11-20:** Assumed annual return of CPI plus 2.8% falling linearly to CPI + 1.7% by year 21 as the scheme’s asset allocation changes; reflecting a period of expected higher interest rates and the proposed gradual reduction in allocation to equity-like investments.

**Years 21+:** Assumed annual returns of CPI plus 1.7%: a prudent view of long term investment returns on the revised portfolio.

Overall, this is equivalent to an average annual rate of return to value future benefit payments of CPI plus 0.9%.

## Deficit recovery plan

In the consultation, the trustee proposes to keep employer contributions towards the deficit at the current 2.1% of pay. The length of the recovery period will be consulted upon later in the valuation process once decisions on future benefits have been made by the stakeholders.

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