

**The following note was issued to heads of participating USS institutions on 17 March 2020**

Colleagues,

**Update on the current economic impacts on USS**

Key points:

- Funding levels for the USS DB scheme remain volatile. Long term effects will take time to understand; this uncertainty means an increased dependency on the potential support of our employers to underpin the assumptions previously made in funding promised benefits.
- Funding monitoring thresholds have triggered; the USS Trustee Board must formally review the scheme's funding position.
- We await regulatory guidance on how to approach current conditions for valuation purposes.
- Operational challenges for the sector and uncertainty on the extent of short-term disruption mean timelines for valuation-related activities will remain under review.

These are challenging times, and the immediate and critical priorities of protecting members of our communities and maintaining viable institutions are uppermost in all our minds.

I am nevertheless writing to inform you that - as anticipated in [my last letter of 9 March](#) - we have now breached one of the funding measures in our [monitoring and action framework](#), and so must consider if and how to respond. In this case, the metric is the ratio of the self-sufficiency deficit in the Scheme to the present value of 10% of employer payroll contributions for 30 years. If that ratio exceeds 85% for five consecutive business days then that is a trigger point at which we must inform the regulator and consider any appropriate actions.

As at 12 March 2020, the valuation monitoring figures showed assets at £68.2bn, Technical Provisions liabilities (on a 'gilts+' basis) at £80.3bn, and the Self-Sufficiency liabilities at £105.6bn. This was the fifth day at which the deficit on a 'self-sufficiency' basis (a low-risk funding measure) exceeded one measure of covenant support that might be available in extremis. (For further details on this measure, please refer to the monitoring and action framework and [Section 4.1 of our discussion document](#).)

We recognise that there will be significant and understandable concerns among our sponsoring employers and membership in general, particularly as we approach 31 March 2020 - the point at which we agreed with you to strike the 2020 valuation. We have also provided [an update to members on our website](#).

While we are considering next steps, however, we want to reassure you that USS is and remains a long-term investor and we take a long-term approach to funding the Scheme. In running an investment strategy that seeks to out-perform liabilities and adds value, a level of volatility is expected. In such circumstances, the primary challenge is to understand the longer-term implications for our funding position of temporary or permanent changes to the prospects for economic growth and investment returns. That is the purpose of a scheme valuation.

Our current view is that the impact of Covid-19 will be very significant over the near-term. The impact is more likely to be less material as we look further out. In our assessment, some of the market reactions in recent weeks make good sense (corporate earnings will surely fall significantly versus previous expectations) and will have enduring effects; we are less convinced that there will be as deep a permanent reduction in other measures (inflation and interest rates) as might currently be implied by some market indicators. However, it is impossible to be confident at this point on the long or short-term impacts; the Trustee is focussed on the challenges of managing the funding position for the long term, but with an eye on the short term. These issues will be reviewed at a Trustee Board meeting on 26<sup>th</sup> March.

We will not rush to judgement on how to deal with the current circumstances. We will remain vigilant and continue to monitor market indicators; we will continue to monitor the way in which the sector's potential support for the scheme in the long and short-term might be affected; and we will keep you, our sponsoring employers, informed of the Trustee Board's considerations.

We will have the ability to take account of 'post-valuation experience' (positive or negative) before we conclude the 2020 valuation, and we will consider how this can be factored into the valuation timeline before the Schedule of Contributions and Recovery Plan are finalised.

We are also reviewing the impact on the [published valuation schedule](#) from what will likely be prolonged operational disruptions in institutions and for USS. For those of you who were understandably unable to take part in last week's valuation webinars, you can watch a film of the presentation we gave [here](#).

Along with other DB schemes, we await guidance from our regulator, with whom we are in regular contact. We expect early guidance on how to approach matters relating to current conditions in the month of April.

Aside from investment and funding related matters, we have been ensuring we have robust contingency arrangements in place so that we can continue to operate effectively as a pension service. Although we do not expect the Covid-19 outbreak to impact on the payment of pensions, it will mean service levels for normal activity may need to be adjusted. We can assure you that we have a business continuity plan in place and have been making appropriate preparations. We will update your teams on a regular basis as the situation develops.

We stand ready to serve our sponsoring employers and members as best we can during these very challenging times. We hope that all our members and colleagues in sponsoring institutions stay as safe as possible and wish you the very best for the weeks and months ahead.

**Bill Galvin, Group Chief Executive**