

University of Sussex

Response to UUK consultation to USS participating employers on USS consultation on 31 March 2018 valuation (2018 valuation) assumptions

University of Sussex official Replies

1 Do you have any specific comments on the proposed assumptions for the 2018 valuation, including views on the proposed upper bookend and lower bookend?

The University of Sussex is disappointed that the recommendations of the Joint Expert Panel were not acceptable to USS. In particular, we note that the scheme has a long life and is supported by employers at the upper end of the UK HE sector which has shown long term robust financial management. The ability to recalibrate across three yearly valuations in a long term scheme such as this offers the trustee considerable scope to revisit the assumptions and funding of the scheme on a regular basis and seeks additional contributions where necessary.

Having said this, the University has also considered the Regulator's letter to the Trustee. With regret, we believe that, in the interests of avoiding an imposition of Rule 76, employers need to demonstrate that our appetite for greater risk is reflected in mitigating measures. The concept of upper and lower bookends in itself is a possible solution to envisaging the issues and providing a framework for practical management of risk in the run-up to the next valuation. We comment in subsequent question on mechanisms for operating the lower bookend with contingent contributions.

Broadly the University of Sussex accepts the valuation assumptions proposed by the trustee and in particular notes the helpful adoption of a number of improvements backed by data, such as updated longevity data.

However, the University maintains its position stated in its response to the 2017 valuation consultation that the approach in assuming no asset outperformance on investments is in stark contradiction to previous practice: it is unrealistic and out of step with practice on other scheme valuations. Given the asset backing of the scheme and long term covenant, 5% deficit recovery contributions remains excessive and unjustified. This creates an unnecessarily high upper bookend. We therefore strongly endorse the middle paragraph on page 3 in Aon's Initial Thoughts document

2 Do you support UUK putting forward a proposal for a CCs arrangement to the USS Trustee as it requested? If not, would you prefer to pay at the upper bookend level, or what would your preferred response be?

The University notes that it is highly unusual for a consultation of this type to require employers to make a proposal – the spirit of consultation is that the trustee should make contributions and recovery plan proposals for comment from employers, not require us to make proposals to the

trustee. This is an unhelpful move and we would wish to avoid this method of proceeding in future.

As noted above it is with regret that the University accepts necessity of Contingent Contributions (CCs). The CCs mechanism is acceptable in principle if it is proportionate and relates to genuine longer term market shifts which are in genuine danger of creating serious underfunding, and if it is a mechanism which is reversed in case of subsequent positive shifts. However, because financial markets are volatile, we believe that a valuation period needs to be sufficiently lengthy to separate market noise from structural signal. Care, therefore, will need to be taken to create a mechanism which avoids unnecessarily triggering CCs, with the attendant risks to employers.

In the interests of reaching a settlement, we support the proposal for making a CCs proposal which should meet the following criteria:

- CCs should be cost shared. Members have clearly indicated that they value higher benefits but must be prepared to contribute to those in the same way as they would under the s76 status quo, the 2017 valuation and indeed the upper bookend.
- Sensitivity: Any triggers should reflect structural changes to the markets rather than short-term volatility and, consequently, should have a low sensitivity.
- Quantum: UUK should not accept CCs which result in a high risk of employers paying higher cash contributions through the CC route than the certainty of the upper bookend.
- Timing: There must be adequate pre-increase time to allow adaptation by employers and members.

3 Do you find the proposal for a CCs arrangement set out in the Aon note (attached to this paper) acceptable, taking all factors into account? If not, what aspects would you wish to change?

Although it would be possible to make amendments to the Aon proposals, given that the need to reach a settlement, we will refrain from suggesting any minor amendments to the proposal. The University supports the proposal made and gives latitude to UUK to negotiate around this scheme within the principles in the Aon paper and the parameters we set out above in the previous section.

The University wishes it to be recognised that uncertainty and a high risk of higher contributions will be damaging to institutions, members and ultimately the scheme and the trustee must be enjoined to come to a reasonable settlement which maintains confidence in the scheme and its benefits.