Covering letter and consultation response approved by Urgent Decisions Group (UDG) of the UoY Council on 20.09.23.

Date: 22 September 2023
Submitted to: pensions@universitiesuk.ac.uk
By: adam.dawkins@york.ac.uk (University Secretary)

University of York Institutional Response to USS 2023 valuation technical provisions consultation

To UUK (USS Employers) colleagues

Please find enclosed the University of York's response to the USS 2023 valuation technical provisions consultation.

Below, we have created a summary of our key points, which reflects both our appreciation for the positive valuation results and benefit restoration, and progress made by seeing USS, UUK and UCU working together so closely.

However, it also highlights the areas of concern that we believe require action to secure the future stability and sustainability of the scheme.

Contribution rates and benefit restoration

We welcome the good news from the 2023 valuation, and support restoring benefits to pre-April 2022 levels and lower contribution rates (split 14.5% employers and 6.1% members).

We know higher interest rates, however difficult in other ways, are positive for defined benefit pensions schemes like USS. But whilst changing macro-economic factors have been instrumental in securing this more positive situation for the 2023 valuation, they have also driven a cost of living crisis.

We are therefore keen to see that contribution rates are reduced as soon as possible, even before April 2024 when changes would normally come into force. We suggest reductions start from 1 January 2024, or even earlier, so that our staff see this difference in their take-home salary as soon as possible.

Ensuring sustainability

We have concerns about how approaches to risk affect our scheme and the sustainability of the valuation methodology.

We do not wish the USS to adopt a low risk investment strategy. This is why we propose a post-2023 valuation review on long-term sustainability, without introducing undue prudency to our investment strategy.

Whilst we may envisage a world of future valuations where the scheme remains in strong health, we also want assurance against the volatility that has plagued USS valuations in the past decade.

To this end, we are keen for conditional indexation to be agreed and introduced to bolster long-term stability. We would like to see a detailed timetable of such an approach, and an early starting point, including an understanding of legislative requirements, to offer reassurance that such a review will progress at pace. Until conditional indexation is implemented we would support the “corridor” approach to introduce more stability, although we recognise this may cause minor increases in contributions.

Guarding against over-cautious regulation
We also know the Pensions Regulator will continue to play a critical role. Even with the 2023 valuation bringing better outcomes, tighter regulation may reverse these improvements in the future.

It is vital that we keep pressure on the Pensions Regulator to consider the distinctive attributes of the sector when setting parameters for future valuations.

We believe the uniqueness of higher education simply must be taken into account: USS is a multi-employer scheme, in a sector that has been resilient over centuries, and one which plays such an instrumental role in innovation and skills for the nation. This surely justifies a distinctive regulatory approach for its main pension scheme.

The USS Trustee, employers and unions must therefore continue to collectively press the UK Government and the Pensions Regulator not to impose tighter, over-cautious regulation in the future. The gains we are seeing from the 2023 valuation must not be lost if markets revert to less favourable conditions – we should be doing all that we can to guard against future instability.

Governance review
We call for swifter progress in reviewing the governance of the scheme. Transparency is key for long-term stability and trust.

Work on governance should be given equal priority to other actions following the 2023 valuation. Ensuring that the scheme is appropriately governed will be an important aspect of underpinning the sustainability of the scheme, and increased transparency in how it is governed will improve the confidence and trust of all current and future members.

We urge that all parties come together to progress against this commitment, as to date this has not been good enough.

Addressing flexibility and employee needs
Although a member contribution rate of 6.1% will go a long way to ensuring affordability, it does not address the flexibility issue.

We undertook an extensive engagement exercise about USS with our employees between 2020-21, receiving feedback that the one-size-fits-all benefit structure did not meet employees needs or expectations.

Lower-cost options must be considered, especially to address high dropout rates, and to acknowledge that the scheme is not suitable for all, such as early-year academics or international academics who may not be intending to spend their career in the UK. All of this contributes to the lack of intergenerational fairness and potentially equality issues, which should be highlighted through USS undertaking an equality impact assessment; it is not sufficient that individual HEIs undertake these. We are disappointed such little progress has been made.

We therefore agree with UUK that this workstream remains important and would like to see this considered more fully, and at greater pace, following the conclusion of the 2023 valuation.

Scheme expenses
Whilst we have shared detailed feedback on various technical aspects in our consultation response, we particularly also wish to draw attention to the proposed, and very significant, increase in the level of scheme expenses. This is clearly unacceptable. We ask that the USS Trustee provide more detail and the reason for this increase, as well as reassurance on what measures are being pursued to control costs.

Debt monitoring framework
We understand the need for covenant support measures to ensure ongoing support from employers and are pleased that the Employer Covenant assessment of the sector remains strong. However the current debt monitoring framework was created at a time of market extremes and when the financial circumstances of the Scheme were far more challenging than they are now. Our view is that without a change, the framework will become anachronistic. The onerous nature of these commitments on employers, combined with the punitive sanctions possible for non-compliance, will serve to lessen, rather than enhance, the Employer Covenant by adversely affecting institutions strategic agency. In particular, the choices available to the Governing bodies of the employers are diminished by the measures. We request that the Trustee considers whether, without impacting on contributions rates, the onerous metrics contained in the debt monitoring framework could be partially eased and that the consequences for triggering the metrics could be made more transparent and less punitive.

Consultation
Thank you for the opportunity to respond to this consultation. We will certainly also be encouraging our employees to comment on proposed changes to USS benefits during the 25 September - 24 November 2023 member consultation period.

And lastly, we commend the recent collaboration between USS, UUK and UCU. It is vital that we build on this and seize the opportunity presented by the 2023 valuation to ensure longer-term sustainability and a secure future for our pension scheme.

Yours sincerely

On behalf of:

Professor Charlie Jeffery
Vice-Chancellor & President

Dr Alice Maynard
Chair of University of York Council

RESPONSE FORM

A CONSULTATION
ON THE USS TRUSTEE'S PROPOSED ASSUMPTIONS FOR THE SCHEME'S TECHNICAL PROVISIONS IN RELATION TO THE 2023 VALUATION

CLOSING DATE: 22 SEPTEMBER 2023

REPLY TO: PENSIONS@UNIVERSITIESUK.AC.UK

MAKING YOUR RESPONSE TO THE CONSULTATION ON THE USS TRUSTEE'S PROPOSED ASSUMPTIONS FOR THE SCHEME'S TECHNICAL PROVISIONS

The USS Trustee is undertaking a valuation of USS as at 31 March 2023, and on 19 July 2023 the Trustee published its consultation on the scheme's technical provisions and on the draft Statement of Funding Principles (SFP).

Firstly, USS sponsoring employers are invited to give feedback on the technical provisions and the underlying assumptions which are proposed to be adopted by the USS Trustee, and the SFP.

As a reminder, the USS trustee has invited feedback on its eight core consultation elements:

1. Proposed discount rates, both for the purposes of valuing Technical Provisions and determining future service contributions.
2. Remaining proposed assumptions set out in the Statement of Funding Principles (covering inflation, mortality, and the other demographic assumptions).
3. Any other aspect of the assumptions and methodology underlying the Technical Provisions.
4. Any other matter included in the Statement of Funding Principles. Whether employers are willing to agree to debt monitoring and *pari passu* arrangements and the long-term rule change required to support a strong covenant.

In addition, comments are welcomed on:

5. The Trustee's overall assessment of employer covenant, including assumptions made about the level of financial support employers are collectively able and willing to give the Scheme and their Affordable Risk Capacity.
6. The assumed Valuation Investment Strategy (VIS) and strategic mix of return-seeking assets and matching assets.
   (Note that more extensive engagement with employers on the investment strategy will take place in the later stages of the valuation process.)
7. The balance and trade-offs between investment risk, the degree of prudence and stability (of benefits, contributions, and funding levels), both at this valuation and looking ahead.
8. Any other aspect of this consultation.

Secondly, Universities UK (UUK) has set out a broader plan for the development, and reform, of USS and invites USS sponsoring employers' views on the plan.

The consultation questions for USS sponsoring employers are shown below.

A. Do you have any specific comments on the individual assumptions for the scheme's technical provisions (and future service contribution rate) put forward by the USS Trustee, or indeed on their collective effect?

   [It would be helpful to refer here to the eight specific questions proposed by the USS Trustee, and which can be found above (and are taken from page six of the USS consultation document).]

B. On the broader strategy, do you support the nine overall objectives set out in section 2 of the UUK briefing, and which do you consider the most / least important?

   [The nine objectives are stability, reduction in contributions, improvement to future benefits, commitment to covenant support, utilisation of surplus, conditional indexation, governance review, changes to long-term investment strategy, and lower cost / flexibility options.]

C. Given the valuation outcome proposed in these TPs, do you support the approach set out in the joint statements to improve benefits to pre-April 2022 levels from April 2024 (and do you agree that there is sufficient evidence of stability / affordability to do so)?

D. More generally, are you content to provide a supportive mandate to UUK's JNC negotiators to finalise the responses to the valuation in alignment with the joint statement?

We welcome responses to this consultation from each and every one of the scheme's participating employers.

We encourage employers to consult with their own decision-making bodies as considered appropriate, so that the responses provided can be considered to be the view of the employer. We ask that employers confirm whether the organisation's decision-making body has been consulted.

This template form is optional and can be used for the response from your institution (or alternatively please use the above structure in forming your responses where possible).

Please send the response from your institution to pensions@universitiesuk.ac.uk as soon as possible and no later than 5pm on Friday 22 September 2023.

THE USS TRUSTEE'S EIGHT QUESTIONS

Please set out your comments and views on the USS Trustee's eight questions as set out on page two (and on page six of the USS consultation document)

Overall, we are pleased with the positive results from the 2023 actuarial valuation and are supportive of the assumptions proposed.

However, we are concerned about the valuation methodology of having regard to the self-sufficiency basis when setting the technical provisions basis and believe that this creates uncertainty and volatility in the approach. We have stated in previous consultations that the valuation methodology, and hence the overall scheme, should be on a more sustainable basis for the future.

As this particular element of the method does not affect the outcome of the 2023 valuation (due to the positive market conditions), we would request that this is reviewed after the 2023 valuation is signed off and in conjunction with considerations about future stability and design of the scheme (i.e. Conditional Indexation).

The approach to valuing the technical provisions is what we would consider appropriate and clear. However, although detailed explanations are given about the mechanisms, it is not clear nor immediately understandable how the limit set on the funding risks (i.e. the 'Affordable Risk Capacity' or AffRC) that form part of the Integrated Risk Management Framework (IRMF) affect the assumptions adopted.

We do understand that this methodology was reviewed and consulted on for the 2020 valuation and retaining this for the 2023 valuation facilitates the shorter timetable. Given the favourable market conditions at 31 March 2023, the operation of the IRMF and AffRC does not appear to be influencing the decisions made on the derivation of the assumptions (hence our support of the assumptions proposed). However, for future valuations, we would like to see the valuation methodology simplified so that the IRMF support the overall funding and investment strategy of the scheme rather than directly influencing the assumptions as was seen at the 2020 valuation. Arguably, a measure of risk that looks at the level of assets USS should hold if it could not rely on employer support (i.e. the self-sufficiency measure), should not drive the level of prudence adopted in the context of an open scheme with a strong covenant.

We have set out comments on each of the eight consultation questions asked by the Trustee:

1. ***Proposed discount rates, both for the purposes of valuing Technical Provisions and determining future service contributions.***

   Our view is that the investment strategy should be set appropriately (taking into account employer covenant and appetite for risk) and the discount rates derived from that investment strategy. We would therefore expect to see stability in the outperformance assumption allowed for in the pre and post retirement discount rates between valuations absent a change in either investment strategy and employer covenant strength i.e. we would expect a similar level of prudence to be adopted between valuations.

   We are comfortable with a dual discount rate based on the investment strategy and applying margin for prudence and a confidence level of 70% for the discount rate feels reasonable.

Again, we would expect stability over the prudence metrics between valuation dates and would not expect to see big swings as can be seen between 2020 and 2023. We believe the prudence adopted at this valuation is more appropriate (and more in line with that adopted at the 2017/18 valuations) than that used for the 2020 valuation which was skewed by the interaction of the risk metrics at a time when financial markets were distressed.

2. ***Remaining proposed assumptions set out in the Statement of Funding Principles (covering inflation, mortality, and the other demographic assumptions).***

The approach taken to setting the other assumptions and the assumptions and methodology underlying the Technical Provisions appears reasonable. We support an approach of having prudence in the discount rate and life expectancy assumptions as required by the regulation but for the remaining assumptions to be set on a best estimate basis. We are aware that the latest mortality tables (Continuous Mortality Investigation 2022) are now available and that they indicate higher mortality rates than in previous versions. We would like to understand whether the Trustee intends to update the valuation calculations for the latest mortality information available.

3. ***Any other aspect of the assumptions and methodology underlying the Technical Provisions.***

Please refer to our comments on the use of the risk metrics in influencing the derivation of the assumptions (i.e. the level of prudence included in the discount rate when markets are less favourable).

4. ***Any other matter included in the Statement of Funding Principles.***

The allowance for scheme administration expenses has been proposed to be increased from 0.4% to 0.5% of payroll. We do not believe this increase is justified or appropriate. The total pension management running costs of the scheme set out in the USS Report and Accounts as at 31 March 2023 are £42m. An expense allowance of 0.4% on a payroll of £10,320m is £41m but with 0.5% would be £52m. If the increase in the allowance is to anticipate an increase in actual costs, this is unacceptable and measures should be put in place as a matter of urgency to control costs. Our understanding was that USS were looking to make efficiencies and as such we do not expect to see material increases in expected costs. (Although the expense assumption is an allowance rather than an actual cost, a 25% increase in that allowance indicates an expectation for future increases in observed costs.) We would therefore like to see this assumption returned to 0.4% with a commitment from USS to control administration costs.

Whilst we know that this does not have a material bearing on the outcome of the valuation, this is an area that members are very concerned with and will be looking to us to understand.

5. ***The Trustee's overall assessment of employer covenant, including assumptions made about the level of financial support employers are collectively able and willing to give the Scheme and their Affordable Risk Capacity.***

We are pleased that the covenant assessment of the sector remains strong and support this conclusion. We also understand the need for covenant support measures to ensure ongoing support from employers so assumptions can be set with appropriate levels of prudence. Whilst we are comfortable with the assumptions made about the level of financial support employers are willing to give, we would request that the use of these risk measures in the derivation of the prudence in the discount rates is considered for future valuations (as per our initial comments) and crucially, that the debt monitoring support measures (metrics A to E) are considered, reviewed and adjusted as soon as possible and are then considered on an ongoing basis.

The current debt monitoring framework was created at a time of market extremes and when the financial circumstances of the Scheme were far more challenging than they are now. Our view is that without adaptation as circumstances change, the framework will become anachronistic. The onerous nature of these commitments on employers could serve to lessen, rather than enhance, the covenant by adversely affecting institutions. In particular, the choices available to the governing bodies of the employers are diminished by the measures and how they are applied. We would request that the Trustee considers whether, without impacting on contributions rates, the onerous metrics contained in the debt monitoring framework could be partially eased and that the consequences for triggering the metrics could be made more transparent and less punitive. We believe this would benefit employers by allocating them greater flexibility in delivering their strategies and as a result, enhance the employer covenant upon which the Trustee places reliance further.

6. ***The assumed Valuation Investment Strategy (VIS) and strategic mix of return-seeking assets and matching assets. (Note that more extensive engagement with employers on the investment strategy will take place in the later stages of the valuation process.)***

Our view is that the VIS is reasonable. We would find it helpful if future reports set out a comparison of the overall expected return at this valuation versus the 2020 valuation. We note that there will be a separate consultation on investment strategy but any proposed changes should not invalidate the proposed technical provision assumptions or proposed contributions.

7. ***The balance and trade-offs between investment risk, the degree of prudence and stability (of benefits, contributions, and funding levels), both at this valuation and looking ahead.***

Our key aspiration is stability of contributions and benefits but at the levels proposed by this valuation (i.e. pre April 2022 benefits and contributions of 14.5% and 6.1%) to avoid the difficult situation experienced by the sector over the last few years recurring. However, we do not think this stability should be achieved by reducing investment risk given the nature of the scheme (i.e. open with a strong covenant). We think this should be achieved by taking a different approach to the valuation – i.e. maintaining the surplus as a cushion but not allowing the risk metrics to influence/increase prudency in the discount rate when markets are less favourable.

8. ***Any other aspect of this consultation.***

The consultation documentation from USS is easier to read and digest compared to previous versions and it is appreciated that outcomes are considered alongside commentary on the method and assumptions. However, the technical content is still extremely detailed and difficult to understand in places. In particular, it is not always clear how things are taken into account and how they affect the outcomes. The sheer complexity of the valuation approach makes it hard even for finance and actuarial professionals to understand and in our view, leaves the approach open to criticism.

One area that would help with the understanding of the derivation of the assumptions proposed would be to see the liabilities calculated on a “best estimate” basis. This would clearly demonstrate the level of prudency included in the assumptions.

Overall though, we reiterate our request to see a simplification in the valuation methodology to review/ remove the use of the risk metrics in influencing the prudency in the discount rates.

ASSUMPTIONS FOR THE TECHNICAL PROVISIONS

A. Do you have any specific comments on the individual assumptions for the scheme's technical provisions (and future service contribution rate) put forward by the USS Trustee, or indeed on their collective effect?

[It would be helpful to refer here to the eight specific questions proposed by the USS Trustee, and which can be found on page six of the USS consultation document.]

Please see our response to the first question.

2023 VALUATION OBJECTIVES

B. On the broader strategy, do you support the nine overall objectives set out in section 2 of the UUK briefing, and which do you consider the most / least important?

[The nine objectives are stability, reduction in contributions, improvement to future benefits, commitment to covenant support, utilisation of surplus, conditional indexation, governance review, changes to long-term investment strategy, and lower cost / flexibility options.]

In the short term, we consider restoring benefits to their pre April 2022 levels and reducing contributions to be of the utmost importance.

In thinking about the journey plan following the 2023 valuation, we consider stability at future valuations to be vitally important.

(a) Stability

The conflict at every USS valuation over the last decade has proved debilitating and disruptive. The journey plan following the sign off of the 2023 valuation should mark a break in how things have been done in the past to gain some much needed stability.

Does increasing stability have to mean higher contributions?

UUK's journey plan considers three ideas to improve stability:

1. Adding more prudence to the discount rate to lower the investment return assumption needed, lowering the surplus and increasing future service contributions to keep the funding on track longer term.

2. Agreeing to pay higher contributions than needed so there is less impact if conditions change in the future (or using a "corridor" approach where the contribution rate stays at a particular rate, e.g. 22% as long as future valuations are within 2 or 3% say of this rate).

3. Changing the investment strategy so assets move more in line with liabilities which will increase the contributions payable.

We do not agree that stability should be achieved by adding more prudence to the assumptions or changing the investment strategy given the nature of the scheme (open with a strong covenant), i.e. options 1 and 3. We would be interested in hearing more about the corridor approach but our view is that the surplus should be used to provide additional resilience to the scheme to ensure future stability combined with a change in approach.

(a) a change in the valuation approach to increase stability

Hindsight has shown us that less prudent assumptions could/should have been adopted at the 2020 valuation. This could have allowed some semblance of stability and possibly avoided the benefit changes, or at least the severity of the benefit changes and the impact this had on the sector. However, the 2020 valuation was described by the Pensions Regulator as being at the limit of regulatory compliance.

So, rather than focusing on the current valuation approach, we should be thinking about a change in that approach. As well as thinking about the method used in future valuations in terms of the influence of the risk metrics, it is essential that pressure is kept up on the Pensions Regulator to reconsider how the uniqueness of the higher education sector is taken into account in setting parameters for future valuations. In addition, the USS Trustee, employers and unions should collectively press the UK Government and the Pensions Regulator not to impose tighter, over-cautious regulation in the future.

(b) Reduction in contributions

We welcome the reduced contribution rates quoted (20.6% split 14.5% employers and 6.1% members) for a return to the pre-April 2022 benefits from 1 April 2024.

Given the financial challenges presented by the cost of living crisis for both employers and employees combined with the significant overpayment that is occurring at present (31.4% being paid versus 20.6% required), we would request that the contribution rate for both employers and members is reduced from 1 January 2024 (or even earlier).

(c) Improvements to future benefits

We are supportive of a return to pre-April 2022 benefits from 1 April 2024.

An area that has not been covered at all in the consultation material from USS, UUK's notes or Aon's advice is the split of contributions to the Investment Builder between employer and member where member contributions are below 8%. The pension benefit for members earning above the salary threshold is a contribution to the Investment Builder of 20% of earnings above the salary threshold. This is currently split 8% from the member and 12% from the employer. If member contributions are reduced to 6.1%, does that mean that employer contributions to the Investment Builder are effectively increasing to 13.9%? If so, this represents a benefit improvement for those earning above the salary threshold compared to pre-April 2022 levels. Careful communication will be needed to explain this to members as part of the member consultation.

(d) Commitment to covenant support

We understand the need to main covenant support measures. However, to reiterate the point made in answer to question 5 of USS's eight questions, we request that the debt monitoring support measures (metrics A to E) are considered, reviewed and adjusted as soon as possible and are then considered on an ongoing basis. For completeness we have set out the rationale for this request again here:

The current debt monitoring framework was created at a time of market extremes and when the financial circumstances of the Scheme were far more challenging than they are now. Our view is that without adaption as circumstances change, the framework will become anachronistic. The onerous nature of these commitments on employers could serve to lessen, rather than enhance, the covenant by adversely affecting institutions. In particular, the choices available to the Governing bodies of the employers are diminished by the measures and how they are applied. We would request that the Trustee considers whether, without impacting on contributions rates, the onerous metrics contained in the debt monitoring framework could be partially eased and that the consequences for triggering the metrics could be made more transparent and less punitive. We believe this would benefit employers by allocating them greater flexibility in delivering their strategies and as a result, enhance the employer covenant upon which the Trustee places reliance further.

(e) Utilisation of surplus including member augmentation

Our view is that the surplus revealed at the 2023 valuation should be retained to provide additional financial resilience, i.e. a cushion, in the case of adverse movements in markets to protect against the need for higher contributions or benefit changes at future valuations. We do not agree that the surplus should be used to further reduce contributions beyond the proposed level, improve benefits (further than a return to pre April 2022 levels) or augment benefits for the period 2022 to 2024.

Member augmentation between 2022 and 2024

The joint statement says there was a commitment to "explore the options and costs of augmenting benefits in recognition of the lower benefits accrued between April 2022 and April 2024, within the 2023 valuation timetable". In the journey plan document, UUK consider this a separate issue to the primary decision making on changes to benefits and contributions going forwards. However, given the commitment to consider augmentation *within the 2023 valuation timetable*, we think it is of vital importance that this is considered alongside the changes to benefits and contributions going forwards.

In line with the comments made in Aon's comments paper, our view is that augmentation should only be considered by utilisation of the overpayment of contributions since 31 March 2023, not from the funding surplus at the valuation. But it is essential that we are given more information about how an augmentation could be achieved as well as the potential cost (including the implications such adding to the risk that the funding position worsens in the future).

Considering how an augmentation might work is going to be extremely challenging. We recognise that it would be nearly impossible to just augment benefits to assume the benefit changes never happened – there are the funds that have gone into the Investment Builder that would need to be removed as well as considering those who left, retired, died or transferred-out during the period. Consideration would therefore need to be given to the type of augmentation, e.g. additional Retirement Income Builder benefits, a payment into the Investment Builder, a cash payment etc. As such, it might be more appropriate for the overpayment to be calculated and a commitment given to members that the funds will be used to augment benefits in some way which may not directly correlate to the benefits that might have been built up between 2022 and 2024 (to be sorted after the valuation). (Obviously if contributions reduced from 1 January 2024, this would reduce the overpayment amount available.)

(f) Conditional Indexation

We are keen that there is longer term assurance of stability within the scheme and understand that conditional indexation may be able to go some way to provide this. We would want to see work commence on this shortly and engagement on any legislation requirements are started at an early stage. We appreciate this would be a long term piece of work but we are of the view that it is important that the work starts quickly, and we would wish to see a timetable with key milestones to give comfort that the work is progressing in a timely manner. We would support the corridor approach as an interim step whilst conditional indexation is established.

(g) Governance review

As commented on in the May 2021 consultation on the outcome of the 2020 valuation there is a troubling opacity to USS governance. We understood that a governance review was originally planned following the 2020 valuation and we would be keen to understand why this has not progressed. We would expect this to include a review of the Board, the process for appointment of its key personnel and aspects of engagement with stakeholders and decision making (such as the level of prudence applied). We would also like to see greater transparency as to the governance structures of USS and how the key member and employer stakeholders are appropriately represented on these governance groups beneath the USS Board.

The review should consider management of conflicts, particularly with the USS being both a Trustee and a Corporate with an interest in its ongoing business. The Pensions Regulator is paying increasing attention to the move towards sole trustees of pension schemes and some of the principles that they consider and apply should be included in the thinking around the governance of the USS.

We would encourage key stakeholders to make much swifter progress with a review of the governance of the scheme. This should be given equal priority to other actions following the 2023 valuation, as ensuring that the scheme is properly governed will be an important aspect of underpinning the long-term stability of the scheme, and increased transparency in how it is governed will improve the confidence of all stakeholders.

(h) Changes to long term investment strategy

As part of the 2022 consultation on the SIP, we commented that, “The University is keen that the adopted investment strategy should ensure that the scheme is sufficiently funded to meet benefit obligations of the scheme without recourse to additional funds from employees and employers”. As noted under (a), we do not agree that stability should be achieved by changing the investment strategy given the nature of the scheme (open with a strong covenant). We believe the surplus should be used to provide additional resilience to the scheme to ensure future stability combined with a change in approach rather than using the surplus to enable a de-risked investment strategy (that would increase the technical provisions). As mentioned already, we consider it essential that pressure is kept up on the Pensions Regulator to reconsider how the uniqueness of the higher education sector is taken into account in setting parameters for future valuations. We are very concerned about the forthcoming new funding code and the limitations it could place on USS’s ability to set an investment strategy appropriate to the nature of the scheme and, in particular, the Pensions Regulator’s interpretation of the Code. Investment strategy should be set appropriately for the Scheme. If the new legislation is not flexible enough for open schemes to allow an appropriate investment without restrictive de-risking requirements then this should be challenged.

(i) Lower cost / flexibility options

Although a member contribution rate of 6.1% will go a long way to ensuring the affordability of pension benefits for our employees, it does not address the flexibility issue. We undertook an extensive engagement exercise about USS with our employees between 2020-21 and received feedback that the one-size-fits-all benefit structure provided by USS did not meet employees needs or expectations.

We agree with UUK that this workstream remains important and would like to see this considered further, and with greater pace, following the conclusion of the 2023 valuation.

We understand that focus up to date has been on providing a lower cost option that delivered a defined benefit element only. We feel this is important to explore further but we would also encourage exploration of flexible options for those looking for a different type of benefit to that offered at the moment, for example a Defined Contribution only option or a more portable benefit option which meets the requirements of an internationally mobile workforce.

APPROACH SET OUT IN THE JOINT STATEMENTS

C. Given the valuation outcome proposed in these TPs, do you support the approach set out in the joint statements to improve benefits to pre-April 2022 levels from April 2024 (and do you agree that there is sufficient evidence of stability / affordability to do so)?

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We agree that based on the provisional results the pre-April 2022 benefits are affordable and should be introduced from April 2024, or sooner if practicable.

UUK MANDATE

D. More generally, are you content to provide a supportive mandate to UUK's JNC negotiators to finalise the responses to the valuation in alignment with the joint statement?

We support this approach and would like UUK's JNC negotiators to push for a 1 January 2024 or earlier reduction in contributions for both employers and members. If benefits could be improved before April 2024, we would also be supportive of this.

PLEASE CONFIRM IF YOUR ORGANISATION'S DECISION-MAKING BODY HAS BEEN CONSULTED:

Yes. Urgent Decisions Group (UDG) of the University Council approved the response, subject to modifications which were implemented, on 20 September 2023.

RESPONSE SUBMITTED BY:

NAME **DR ADAM DAWKINS**

POSITION **UNIVERSITY SECRETARY**

ON BEHALF OF:

INSTITUTION: UNIVERSITY OF YORK

Please send your completed form to:
pensions@universitiesuk.ac.uk as soon as possible and no later than 5pm on 22 September 2023

Thank you for taking the time to respond to this consultation.

USSEmployers

W www.ussemployers.org.uk

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