UNIVERSITIES SUPERANNUATION SCHEME VALUATION 2023

Consultation on Technical Provisions

University of Exeter Response to the UUK consultation

20 September 2023

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).

A. ASSUMPTIONS FOR THE TECHNICAL PROVISIONS

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?

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

We have commented in Question B, below, that stability of contribution rates and future benefits is the most important objective for both employers and members. While we welcome the scheme's improved finances, we are concerned about reducing prudence. In particular, we are concerned that the proposed discount rates leave a high risk that expected outcomes will not be realised, requiring an increase in contribution rates in 3 or 6 years time (albeit to levels below the current rates). We are concerned that this undermines the primary objective of stability. We would therefore strongly encourage a higher degree of prudence by retaining the current (2020) discount rates to build in cushioning should rates of return on investments fall short of expectations. We note that this would reduce the surplus from £7.4B to £5.7B, which should then be retained in full to provide much needed resilience for the scheme.

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

We are content with the remaining assumptions. We note that the majority of these have not been substantially changed. The minor change to longevity is in line with best practice and the 3% assumption for CPI is consistent with other schemes and also the Bank of England assumptions.

(3) Any other aspect of the assumptions and methodology underlying the Technical Provisions

Subject to our comments above, we are generally content with the other assumptions and methodology underlying the Technical Provisions. The Technical Provisions assumptions, discount rate aside, are relatively similar to the 2020 valuation and whilst we recognise that the scheme is now in surplus it would not be prudent to make any other alterations to the methodology.

(4) Any other matter included in the Statement of Funding Principles

In the interest of transparency and to build understanding, we support USS Employers' view that further discussions take place between the Trustee and employers before a 25% increase in administration charges is accepted and implemented.

(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. 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.

We welcome the assessment that the covenant is strong. The additional covenant support agreed following the 2020 valuation should be continued for the 2023 valuation, but there should be an opportunity for employers to review this with the Trustee at successive valuations should the scheme continue to have a surplus and stability is introduced into the funding longer term. We support USS Employers' proposals that options to improve practical functioning of the debt monitoring arrangements should be considered.

(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.)

In our view there needs to be a wider and more in-depth dialogue between the Trustee and employers on how to use the investment strategy to further reduce volatility and increase stability. We welcome the Trustee's intention to have more extensive engagement with employers on the investment strategy later stages in the valuation process, noting Aon's comment that "a deep dive on investment strategy now would not facilitate an expedited actuarial valuation". We would, however, expect to see this engagement begin soon so that full consideration can be given to the wider range of investment opportunities which are available now which were not available in past years.

(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.

We are concerned that with a combined contribution rate of 20.6% from 2024 there is a higher risk that expected outcomes will not be realised, requiring an increase in contribution rates in 3 or 6 years time (albeit to levels below the current rates). This would undermine the primary objective of stability. To cushion against this, we would prefer that the Technical Provisions include a higher degree of prudence, as set out in our answer to question 1, with any surplus (whatever its size) being retained in full. While recognising that many stakeholders will favour lower contributions rates, it is important that this is discussed openly in the context of rates possibly having to increase in the future. For this reason, we would encourage that the Trustee/JNC consider including in the member consultation an opportunity for members to express a view of whether they favour lower contribution rates (with less stability/more volatility) or higher contribution rates (but still below the 2022 levels) and more stability.

(8) Any other aspect of this consultation

Subject to our comments above regarding the reduced prudency and its potential negative impact on stability, in view of the scheme's more positive financial position and the commitments made in the joint UUK-UCU statements, the University supports the proposed technical provisions and journey plan mapped out in the USS Employers' document.

B 2023 VALUATION OBJECTIVES

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.]

We support UUK's 9 objectives. In our view, stability of contribution rates and future benefits is the most important for both employers and members. We note the commitments made to restore the pre-2022 benefits from April 2024, subject to the outcomes of the valuation confirming this can be done in a demonstrably sustainable manner. While welcoming the reduction in contributions, contributions should not be reduced at the expense of stability. The surplus (whatever its size) should be retained in full to build in resilience and cushioning for the future should expectations not be fully realised. We support the continuance of the employer covenant support and the importance of progressing the covenant review. Similarly it is important that further progress is made on lower cost/flexibility options, even if contributions are reduced from 2024. We welcome the opportunity for further in-depth discussion on the future investment strategy. While welcoming consideration of conditional indexation, we recognise that much more in-depth work on this is required before tangible progress can be made. We therefore regard this as the lowest priority objective at this stage.

C APPROACH SET OUT IN THE JOINT STATEMENTS

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)?

Subject to the comments above, we agree that there is sufficient affordability and stability to re-introduce the pre April 2022 benefit structure from April 2024. We support UUK's view that any surplus, whatever its size (noting that its size will depend on the level of prudence/assumptions in the Technical Provisions) should be retained in full to provide additional financial resilience at future valuations should outcomes fall short of expectations (which will benefit members and employers by reducing the likelihood of contributions and/or benefits needing to be revisited).

D UUK MANDATE

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 generally support the valuation assumptions and would be content agreeing a mandate to UUK to finalise the responses to the valuation.