Survey questions

Identifiers

1. (a) Name of respondent
(b) Position of respondent
(c) Email address of respondent
(d) Name of USS employer

2. **Please confirm that the content of this questionnaire (and related documents) has been discussed such that the views expressed can be considered to be the authorised view of the institution.**

Yes

The questions in this section should be considered alongside the USS Technical Provisions consultation and the Aon commentary. Issues that employers should consider in relation to risk are also summarised in section 1, paragraphs 7 to 15, in the UUK paper.

3. **(a) Does your institution support the level of risk (i.e. level of reliance being placed on the employer covenant) being proposed by the USS trustee for this valuation?**

• My institution believes it would be appropriate to take more risk
• My institution accepts the level of risk being proposed by the trustee
• **My institution wants less risk to be taken, acknowledging the implications this might have for benefits and/or costs**

(b) Do you have any additional views or concerns regarding the level of risk being proposed?

The University is concerned about the level of risk being taken, in particular, in the level of short term reliance. We note the Scheme Actuary's advice that this package of assumptions is close to the upper end of the range which he would consider reasonable for funding the current level of benefits (USS document page 30). Aon's document notes the weakening of the assumptions (i.e. more optimistic assumptions) and considers that any further weakening of the assumptions will not be supported by the Pension Regulator. On page 4 of the Aon report the actuary expresses the view that the USS scheme would be "considered in the weakest 5% of schemes using data published by the Pension Regulator."

The increase in reliance from c£14bn in 2014 to £23bn in 2017 is a cause for concern. It is accepted that the reliance measured as the gap between the value of the schemes assets and a self–sufficiency portfolio is volatile. The scenarios described in table 13 of the USS document (page 28) do not appear sufficiently remote that the University could be confident that the Scheme Trustee, and possibly the Pension Regulator, would need to act to reduce risk again in the next few years. The implications of this may be to increase cost to the University above 18%. This would impact the University's operations and strategy.

4. **If the USS trustee decides to take action between valuations because short-term reliance on the employers has become too great, what action do you believe should be taken (potentially temporarily)?**

• Additional contributions to the scheme to alleviate risk (not towards benefits)
• Changes to future service benefits

• **My institution’s position would depend on the outcome of the 2017 valuation**

Cost

The questions on this page relate to section 1, paragraphs 16 to 21, in the UUK paper.

5. **(a) Over recent months UUK has compiled a view from institutions that 18% is the maximum level of regular contributions that employers are willing to pay towards USS benefits. We need to affirm this view for the 2017 actuarial valuation. Please indicate your institution's view on the statement that regular employer contributions should be no more than 18% of salary.**

• **Support – 18% is the maximum my institution is willing to pay**
• Moderately oppose – my institution might be willing to pay more than 18% in specific circumstances (please specify these circumstances in question 5(b) below).
• Strongly oppose – my institution would be willing to pay more than 18% to reduce impact on benefits (please specify the maximum your institution would be willing to pay in question 5(b))

(b) Please add any additional comments in support of your response to this question.

The documents make clear that any increase in regular employer contributions reduces the contingent contributions that could be called on by the Trustee. This would reduce the level of risk that the scheme would be able to run. Were the additional amounts to be used to increase scheme benefits then additional payments above 18% would achieve a progressively smaller increase in benefit whilst increasing the risk in the scheme.

Payments above 18% would impact the University in the delivery of its strategy. The increase in operating costs would be likely to lead to a reduction of costs elsewhere which is not desirable.

6. **(a) Does your institution believe that increasing member contributions beyond the current 8% of salary is likely to lead to more scheme members opting out?**

• Yes
• No

(b) We would welcome any further comments to support your answer above.

In the majority of cases we consider it undesirable for employees to opt out of a pension scheme.

Benefits

The questions on this page relate to section 1, paragraphs 22 to 63, in the UUK paper.
7. **(a) Does your institution prefer maintaining a level of DB accrual for future service at this valuation or moving to a DC-only solution (either temporarily or permanently)?**

• **Maintaining some DB**
• Moving to DC

(b) We would welcome any further comments to support your answer above.

The response to 3b indicates the University's concern about the level of risk within the scheme. It also recognises that there is a wide range of possible outcomes. Table 8 (USS document page 22) indicates a range of outcomes on a technical provisions basis between a deficit of £12.7bn and a surplus of £8.3bn. A defined benefit scheme is valued more than a defined contribution scheme by most employees. If the scheme's funding position were stronger, a larger (than £15,000) DB threshold could be possible.

Given the earlier comments on the level of risk taken, the University may prefer a threshold lower than £15,000 to reduce the level of risk being taken. Conceivably the DB threshold could be set at £0 making it a DC scheme on a temporary basis with the option to re-introduce a DB threshold should the funding situation improve.

8. **If a level of reduced DB accrual is maintained in the future, do you have any initial thoughts on which of the following approaches would have your institution's preference?**

- **Reducing the salary threshold**
- Reducing the accrual rate
- A combination of both
- No preference

9. **If the outcome for employers at this valuation is a mandate to seek a DC-only solution to future service benefits, do you have any comments you wish to be taken into account as to how best to achieve a DC offer optimised and tailored to the needs of USS institutions?**

For example, you may wish to comment on whether the move to DC should be permanent, what the minimum employer contribution should be, whether there should be greater flexibility in terms of member contributions and which ancillary benefits should be offered.

The University would welcome the greater flexibility that would be possible in a DC scheme. The potential for a zero contribution scheme would ensure that everyone could afford to be a member of the scheme. Matched contributions from the employees could increase the cost of the scheme up to a maximum of 18% employer contributions. Good ancillary benefits should be maintained and the option to flex benefits would be welcome (e.g. increase life cover).

Final remarks

10. **What additional support can UUK or the USS trustee offer to support your institution in the valuation process?**

Further analysis on the short term risks and an indication of the types of action that might be implemented would assist the University in quantifying the risk and planning for any mitigating actions**.**

Support for employee communications would be very helpful.

11. **Please add any further comments your institution has on the USS valuation, for example you may wish to comment further on the following pertinent to your**

exposure to USS.

For example, you may wish to comment on:
• The proposed valuation assumptions
• Any areas of concern related to cost or risk
• Any further comments on future benefit design (including core benefits, as well as ancillary benefits) or the consequences of benefit change
• Any wider views on scheme structure, including mutuality and exclusivity
• Issues relating to section 75 debt

As the responses have described, the University is concerned that given the deterioration in the schemes position the proposed assumptions take a less cautious view of the future.
In the event of a short term deterioration the University would not be willing to give a charge over its property. If a solution was sought through additional costs then the cost sharing agreement should apply. A further reduction in benefits seems the most appropriate, though unwelcome, response. The University would support the USS Executives view that “a more rapid pre agreed short term response” should be considered. We would want to maintain the current level of ancillary benefits in any future changes to the scheme.