

Universities UK statement on risk | 22 March 2018

Context

USS 2017 valuation has attracted public commentary from a number of USS employers and scheme members calling into question the underlying assumptions of the valuation and the role of Universities UK in providing evidence to inform the valuation.

To address these concerns and with the aim of restoring public confidence Universities UK has undertaken to convene an independent expert group to review the 2017 valuation process and consider the range of available evidence. We are seeking to develop the panel in partnership with the University and College Union (UCU).

The 2017 valuation was undertaken by the USS trustee. It was informed by a wide range of evidence, including from Universities UK as the representative of the c.350 USS employers, and was independently validated by professional actuaries.

Universities UK has also been asked repeatedly to explain how we gathered and interpreted evidence to support the valuation, especially relating to employer views on risk.

In setting out our role in the valuation we make no effort to respond to any particular detailed critique of the valuation or to pre-empt the work of the independent panel. However, in the interests of transparency we feel it is necessary to make a full statement of our engagement in the valuation and the evidence base from which our recommendations were formed.

Overview of the valuation process

The USS trustee decides on the valuation assumptions. They have a legal duty under trust law to protect the interests of members. The trustee board is balanced in representation between Universities UK and UCU nominees and independent board members.

The USS trustee in reaching its view on the valuation assumptions consulted with Universities UK as formal USS employer representative in September 2017 on a proposed set of assumptions upon which to calculate the scheme's liabilities as at the actuarial valuation date, 31 March 2017.

The initial assumptions proposed by the USS trustee in September 2017 required taking more risk than at the previous valuation. The USS deficit at March 2017 would have been £8.5 billion, had the 2014 assumptions been carried forward on a like for like basis. The revised assumptions that the USS trustee consulted on in September 2017 would have significantly reduced the deficit to £5.1 billion.

The USS trustee already takes considerably more risk than almost all other trustees do because the scheme is supported by 350 strong and long-standing employers. The independent Pensions Regulator and the USS trustee's covenant advisors, PwC, expressed concern about the level of risk proposed in the September 2017 technical provisions.

In order to discharge its role as employer representative for USS Universities UK undertook a survey of employers in September 2017. 116 employers responded, representing 92% of active scheme members.

On the question of risk a small majority of employers (53%) had a preference to accept the level of risk proposed, with half of that group qualifying that the proposals were at the very limit of what they would find acceptable. A significant minority (42%) of survey respondents wanted less risk to be taken. A small minority (5%) were willing to accept more risk than that put forward by the trustee in its September 2017 technical provisions response. Employers were weighted equally in collating responses. All responses were considered and are included in the percentages above. We were mindful that some responses were not officially authorised by the institution and reflected this in our thinking. In forming our overall response, we also considered the different sizes of USS employers.

In light of the public commentary on the 2017 survey, a few employers have raised concerns that they did not have the opportunity to discuss the response with governing bodies and have asked Universities UK to formally change or discount their responses to the consultation document.

Those changes have been noted, but we do not believe that they would have made a material difference to our response to USS.

This is because in developing our response, Universities UK did not only draw on the survey as a source of evidence. We also drew on a wide range of evidence sources including:

1. USS employer events, led by Universities UK and a Universities UK survey in September 2016 on the long-term, strategic priorities for pensions in the higher education sector, which culminated in the publication of a strategic report [Suitability and sustainability: pensions in the higher education sector](#).
2. USS employer events led by USS in February 2017 on the covenant, methodology and inputs for the 2017 valuation as well as employer responses to a USS consultation on these issues in March 2017.
3. USS employer events led by Universities UK in May 2017 on the valuation methodology and risk.
4. A Universities UK survey which followed the publication of the USS technical provisions consultation in September 2017.
5. Advice received from Universities UK's actuarial advisor, Aon Hewitt.

6. The views of the Employers Pensions Forum USS Group and the Universities UK Board.

Our response to USS was shared with employers by email on 13 October 2017. It did not indicate that less risk should be taken. It indicated that “UUK’s view is that the proposed assumptions are at the very top end (in terms of risk) of what would be acceptable”. We also noted that “It would be remiss not to recognise the large number of employers who are uncomfortable with the maximum level of risk proposed by the trustee, and UUK also acknowledges the significant concerns raised by the Pensions Regulator and the trustee on short term reliance”. We asked USS to “consider carefully whether the proposed investment strategy (including the degree of interest rate hedging) is optimal for the level for risk being run and the targeted level of returns”.

Based on its interpretation of the Universities UK feedback, among other factors, the USS trustee revised its approach to incorporate a level of investment de-risking over the first ten years of the funding plan, where none had been proposed initially. The USS statement on actions taken in light of the consultation is [here](#).

This de-risking would provide greater protection should another adverse event occur, but also slightly reduces expected future investment returns. This results in an increase in the scheme deficit and cost of future service benefits. The deficit now stands at £6.1 billion based on the trustee’s latest, and finalised, position.

USS has recently published additional information addressing concerns expressed about the 2017 valuation, available [here](#).

Oxbridge colleges

The Colleges of Oxford and Cambridge Universities are separate participating employers within USS, and they have a right – quite separate to the University – to express their views to Universities UK, as do the many other separate employers that participate in USS. 19 Oxbridge colleges responded to the UUK survey from the 116 total responses. It is for each individual employer to decide how its views are represented to Universities UK.

Next steps

Universities UK will cooperate fully with the deliberations of the independent expert panel on valuation and will make relevant documentation available as required.