USSEmployers

A SHORT GUIDE TO THE JOINT EXPERT PANEL'S RECOMMENDATIONS

OCTOBER 2018

www.ussemployers.org.uk

pensions-update@universitiesuk.ac.uk

@USSEmployers

Overview

The Joint Expert Panel published its first report on the USS 2017 valuation on 13 September 2018.

The report makes a series of recommendations, which if agreed to by all stakeholders, could be adopted in order to conclude the 2017 valuation.

The next step is for employers, members, the USS Trustee and The Pensions Regulator to agree a way forward.

Contents

What is the JEP?

The Joint Expert Panel was set up by Universities UK (UUK) and the University and College Union (UCU) following the recent industrial dispute over the Universities Superannuation Scheme (USS). The Panel comprises senior figures from the pensions sector as well as academic experts from within higher education, and is chaired by Joanne Segars OBE. [1]

What does the first report look at?

The first report undertook a retrospective review of the 2017 valuation, including an assessment of the methodology, assumptions and process underpinning it. Arising from this, the Panel explored the scope for possible adjustments to the methodology which would allow the valuation to be concluded. [2]

What did the report conclude?

The Panel developed five principles[3] against which adjustments to the 2017 valuation could be considered:

1

A re-evaluation of the employers' willingness and ability to bear risk – this would mean re-assessing the reliance on sponsor covenant.

Reverting to the measure of liabilities consulted on during September 2017 (which assumes no implementation of de-risking for years 1 to 10), and increasing target reliance to £13bn from £10bn, could reduce contributions by 1.9%.[4]

2

Adopting a greater consistency of approach between the 2014 and 2017 valuations – this would mean changing the approach to deficit recovery contributions.

A consistent approach to the calculation of deficit contributions would make an allowance for outperformance of investment returns. Sharing outperformance could bring the deficit recovery payments back down to 2.1% from 6%.[5]

3 Achieving greater fairness and equality between generations of Scheme members – this would mean smoothing future service contributions.

It is anticipated that future service contribution rates could fall during the next six years, with the average future service contribution rate being 1.5% below the rate proposed for April 2020 by the USS Trustee.

The Panel believes it would be reasonable for the Trustee to take account of this expected fall in the schedule of contributions, by smoothing contribution rates over six years. This would ensure the future service rate is kept constant for a period, rather than rising and falling, which the JEP has stated would be intergenerationally fairer.[6]

4 Ensuring the valuation uses the most recently available information – this would mean taking account of recent market improvements, and the latest data on mortality.

Use of CMI 2017 mortality data could reduce the deficit by £0.2bn–£0.3bn and reduce contributions by around 0.12% for current benefits.[7]

The deficit is estimated to have reduced from £7.5bn to £4bn on the USS Trustee's current method at 31 March 2018, due to favourable market movements post valuation.[8]

5 Taking the uniqueness of the Scheme and the higher education sector more fully into account.

The Panel believes the combined effect of these changes would satisfy the employers' overall appetite for risk as well as members' desire to maintain broadly comparable benefits, and would provide a constructive negotiating space for the stakeholders to reach a consensus on the way forward.[9]

It is the view of the Panel that the changes proposed are consistent with the Trustee's fiduciary duties and the objectives of The Pensions Regulator, and that while they will not address all of the issues facing the scheme, it is hoped they will provide an opportunity for stakeholders to resolve the current dispute, and create the space for consideration of some of the longer-term issues facing the scheme.[10]

Adjustments in each of these areas would have a material impact on the valuation and resulting contribution increases. The level of benefits is a matter for the stakeholders to negotiate.[11]

However, it is the Panel's belief, based on independent actuarial analysis, that the full implementation of these adjustments could mean total required contributions estimated at 29.2%.

	Total	Employer	Member
CURRENT CONTRIBUTIONS FOR BUILDING UP BENEFITS IN USS	26%	18% EMPLOYER	8% MEMBER
PROPOSED CONTRIBUTIONS UNDER COST SHARING (APRIL 2020)	36.6%	24.9% EMPLOYER	11.7% MEMBER
CONTRIBUTIONS REQUIRED IF JEP RECOMMENDATIONS ARE ADOPTED INTO 2017 VALUATION (LESS 1% MATCH)	29.2%	20.1% EMPLOYER	9.1% MEMBER

% OF SALARY

Communications

The Panel also found that 'the excessive complexity of the valuation raised a number of issues relating to the clarity of communication with employers and Scheme members'[12], and recommended that 'improved quality and content' of communications could help rebuild confidence in the scheme and the valuation process.[13]

What happens next (for employers)?

Universities UK has begun consulting with over 350 USS employers to explore their views about the JEP recommendations, to assist in agreeing steps to complete the 2017 valuation. Consultation responses will allow Universities UK (UUK) to represent the most informed view of employers to the USS Trustee, UCU and other stakeholders.

There are four stakeholders who have a key role and/or responsibility in relation to the recommendations and any potential outcome: UUK on behalf of the employers, UCU on behalf of the members, the USS Trustee and The Pensions Regulator (TPR).

USS
The USS Trustee is responsible for the management and administration of the scheme, and has a fiduciary duty to act in the interest of all scheme beneficiaries (pensioners, deferred pensioners and active members)

UUK
Representing USS' participating employers

UCU
Representing USS scheme members

TPR
Public body that protects workplace pensions in the UK, by working with employers and those running pensions to ensure that people can save safely for their retirement

Any decision at the Joint Negotiating Committee (JNC), will need to satisfy both the USS Trustee and TPR that it underpins the pension obligations that have already been accrued. UUK is taking steps to engage with each stakeholder group.

The path to delivering the JEP recommendations is likely to be complex and challenging, and the panel acknowledges the challenges of concluding a valuation so long after the valuation date. Nonetheless, the Panel believes it would be in the public interest if all the stakeholders, including TPR, could find a way forward to implementing their recommendations.

Glossary

SPONSOR COVENANT

The USS employers' legal obligation and financial ability to support the scheme, both now and in the future.

DEFICIT RECOVERY CONTRIBUTIONS

The extra contributions required to ensure that the scheme is fully funded. In other words, the scheme has enough money to continue to pay members' benefits.

SMOOTHING

The Scheme Actuary calculates the cost of building up a year's worth of pension as a percentage of pensionable salary ('the future service cost'). Because of the methodology the Scheme Actuary has used, this future service cost is expected to rise initially and then fall in later years.

The JEP has recommended smoothing the increases and decreases over a period of six years. Smoothing aims to ensure that the future service rate is kept constant for a period, rather than rising and falling, which the JEP has stated would be intergenerationally fairer.

FIDUCIARY

A legal obligation to act in the best interests of another. The trustee has a fiduciary duty to protect the members' benefits.

JOINT NEGOTIATING COMMITTEE

The JNC decides how increases in costs to the scheme should be met after the Trustee has established the contribution rate required for the current level of benefits. The JNC's options are to increase contributions or change future benefits or a combination of both. The JNC can also feed in its views to the Trustee on a number of other areas in the scheme, including the level of risk to take when calculating the contribution rate required.

It is made up of five representatives from UCU, five representatives from UUK, and an independent chair.

References

[1] Taken from the Joint Expert Panel's press release on 13 September 2018

[2] Ibid.

[3] The five principles are outlined on p.11 of the Joint Expert Panel's report, 13 September 2018

[4] The report of the Joint Expert Panel: September 2018, p.60

[5] Ibid.

[6] Ibid. p.58

[7] Ibid. p.59

[8] Ibid.

[9] Taken from the Joint Expert Panel's press release on 13 September 2018

[10] The report of the Joint Expert Panel: September 2018, p.11

[11] Taken from the Joint Expert Panel's press release on 13 September 2018

[12] The report of the Joint Expert Panel: September 2018, p.9

[13] Ibid. p.49

USSEmployers

www.ussemployers.org.uk

pensions-update@universitiesuk.ac.uk

@USSEmployers