

**FOI Request – Neil Davies (February 2018) Universities Superannuation Scheme (USS)  
UUK Survey September 2017**

Response from Brasenose College

**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

*My institution wants less risk to be taken, acknowledging the implications this might have for benefits and/or costs*

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

The College is concerned by the USS trustee's proposal to significantly weaken the valuation assumptions. The College notes the Pension Regulator's assessment that the covenant strength is probably "tending to strong" not "strong", and the comment that the proposed valuation assumptions would be at the edge of what it would find acceptable if the covenant were strong.

The College is concerned that there is too much risk that an increasing share of employer contributions will need to be allocated to reduction of the deficit now and in the future, with less money therefore available for providing pensions for our academic staff.

In addition, the College is concerned that, if the sector were to face significant financial challenges in the next 10 or 20 years some institutions may no longer be able to maintain USS contributions if the scheme remains unchanged. As a result, the College faces a risk that, along with the other HEIs that are in better financial positions, it may need to make more contributions to the total deficit to compensate for those weaker institutions.

The College therefore supports a move to a less risky model. The College recognises that this is most likely to be achieved by a move to a permanent Defined Contributions scheme for future accruals, but the College would also support any other changes that would similarly reduce future risk.

**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

*My institution's position would depend on the outcome of the 2017 valuation.*

*It is difficult to accommodate changes such as payment of additional contributions or changing future benefits at very short notice. Any such changes should be dealt with as part of the normal valuation cycle.*

**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)).

*Support – 18% is the maximum my institution is willing to pay*

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

the College believes that the employer contributions should remain capped at 18%, as it does not wish to provide more funds towards current and future deficits and is concerned that increases in contribution rates would put more pressure on weaker institutions and therefore on the USS scheme.

*If a marginal increase was deemed necessary the College would only be able to agree to such an increase if it was directly related to paying off or reducing risk in respect of the past service deficit (for example by reducing recovery plan length and/or increasing prudence in the recovery plan assumptions).*

*The College notes, however, the potential impact on "Test 1" if regular contributions are increased.*

**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

No

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

*The College's view, from the experience to changes to date made to the Scheme, is that there wouldn't be a material increase in opt-outs if there was a marginal increase to the member contribution rate. However, a large increase to the member contribution rate could result in an increased number of opt-outs from either existing or new staff.*

*Ultimately, it is difficult to comment on how employees would react in practice and more flexibility for employees over the rate they choose to pay into the USS would be welcome.*

*The College is conscious that the financial pressure on staff as a result of increased contributions will often be primarily felt by the younger generations of employees.*

**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

*Moving to DC*

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

*Even though the valuation assumptions have been significantly weakened the level of DB benefits would have to be materially reduced to meet the employers' target contribution rate of 18% of pay and there would still be volatility in the cost of DB benefits with the possibility of further reductions being needed at future valuations.*

*In addition, the College is not convinced that a low level DB benefit (which could be reduced even further at future valuations) would be valued more highly than a DC-only scheme by the majority of its employees. The employee relations issues relating to repeated changes in benefits should not be underestimated and the College believes that moving to a DC-only solution offers the best chance of delivering future stability to employees in terms of the pension package on offer.*

*A DC-only structure can also be designed to be more flexible both from an employee and employer perspective and would help reduce the College's concern regarding underwriting the risk of future benefit accrual for other institutions.*

**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 (currently £55,550)
- Reducing the accrual rate (currently 75ths)
- A combination of both
- No preference

*Reducing the salary threshold (currently £55,550) – as detailed in question 7 the College prefers moving to a DC-only solution but if DB is to be maintained reducing the salary threshold is more akin to moving to a DC-only solution.*

**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 College believes that the move to a DC-only solution should be permanent and that members should be given greater flexibility in terms of their contributions.*

*The College believes that ancillary benefits (such as death in service and ill-health benefits) are likely to be highly valued by employees and would support members being given more options as to the benefit they wish to receive (i.e. core benefit for all, but possibility of employees paying more contributions to receive greater benefit which could be DB related).*

*The College does not yet have a view on what the minimum employer contribution should be and would like more detail on the impact of moving to a DC-only solution in terms of:*

- *level of DC contribution that could be afforded assuming employers pay 18% and given the valuation assumptions currently proposed by the USS trustee and a more prudent set of valuation assumptions*
- *impact on risk in both short and long term (for example how does the 3 year VAR change?)*
- *impact on reliance placed on sector's employers in the long term (for example the trustee's proposed funding approach targets reducing reliance from £23bn to £10bn in 20 years' time should its assumptions be realised – how does this change if a DC-only solution is adopted, for a given set of assumptions?)*

*The College notes, and agrees with UUK's actuarial adviser that, all else equal, were the Scheme to move to a DC-only solution we do not believe a more prudent approach is needed for past service benefits.*

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

The College is concerned that communication about the impact of proposed options should be clearly articulated to members. A change to a DC scheme would be a major shift in approach and the possible impact on pensions needs to be modelled and explained well. Employers and employees will need support on this.

**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

*Given the USS trustee's increasing reliance on employer covenant the College believes that a wider review of the scheme structure (addressing mutuality and exclusivity) is long overdue.*

*The cross-subsidies and inequalities between institutions participating in the USS cannot continue to be ignored especially given the financial significance of the figures involved and the rate at which the scheme has grown.*

*The College believes that given the diversity of employers participating in the scheme the possibility of sectionalisation needs to be investigated.*

March 2018