UNIVERSITY OF CAMBRIDGE
Registrary's Office

Dr James Knapton
Information Compliance Officer

Mary Webb
By email

Reference: FOI-2018-512

4 September 2018

Dear Ms Webb,

Your request was received on 9 August 2018 and I am dealing with it under the terms of the Freedom of Information Act 2000 ('the Act').

You asked:

> *Please send me:*
> *1. The minutes and all documents associated with the University of Cambridge Pensions Working Group during the period 1 September 2016 to 30 August 2017.*
> *2. All materials from Finance Committee included within the papers numbered FC(17)31, FC(17)32, and FC(17)107.*
> *3. Any responses, and accompanying documentation, that the University made in February and/or March 2017 via the request from Universities UK (UUK) to provide views on the Universities Superannuation Scheme's (USS's) "Methodology and Inputs for the 2017 Valuation: Initial assessment".*

1. The Minutes of the Pensions Working Group from the period are attached. The remainder of the documentation sought is exempt under sections 36(2)(b)(i) and (ii) of the Act. In the reasonable opinion of the Vice-Chancellor (who is the University's 'qualified person' to make such decisions), its disclosure at this point in time would be likely to inhibit the free and frank provision of advice and/or the free and frank exchange of views for the purposes of deliberation.

As this is a qualified exemption, the University has considered whether, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. The general public interest in the University's discussions of financial matters is met by the information published in the Reporter (https://www.reporter.admin.cam.ac.uk/) and by that available, both within and in some cases beyond the University community, on the Governance website (https://www.governance.cam.ac.uk/Pages/default.aspx). The detailed documentation you seek from

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the Pensions Working Group contains commercially sensitive discussions; these reflect the University's internal deliberations and debates as well as its consideration of professional advice on pensions topics. The genuine public interest in these matters (as opposed to any private interest) is met by the information available in the sources mentioned above. The public interest in permitting the University to carry out its internal deliberations on important matters is considered to be a decisive factor in the maintenance of the exemption in this case.

2. This information is exempt under section 41(1) of the Act. The materials in question were received by the University from third party organisations. The University considers that the information was given in circumstances of confidence and furthermore has the necessary quality of confidence to enable the engagement of section 41(1) of the Act. Section 41 confers absolute exemption under the Act and the University has therefore not considered the public interest test in this regard. The University acknowledges that in the common law of confidence there may be circumstances where there is an overriding public interest in the information to the extent that the duty of confidence may be superseded – for example in cases where disclosure is necessary to protect public safety or where there has been wrongdoing – but has concluded that no such prevailing public interest can be attached to this case.

3. This information is attached.

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If you are unhappy with the service you have received in relation to your request and wish to make a complaint or request an internal review of this decision, you should contact us quoting the reference number above. The University would normally expect to receive your request for an internal review within 40 working days of the date of this letter and reserves the right not to review a decision where there has been undue delay in raising a complaint. If you are not content with the outcome of your review, you may apply directly to the Information Commissioner for a decision. Generally, the Information Commissioner cannot make a decision unless you have exhausted the complaints procedure provided by the University. The Information Commissioner may be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF (https://ico.org.uk/).

Yours sincerely,

James Knapton

PENSIONS WORKING GROUP

Notes of a meeting held on Monday 24 October 2016 at 2.30 p.m. in the General Board Office, The Old Schools

Present:

Professor E Ferran (in the Chair)
Mrs E Stone
Ms L Roberts
Mr A Reid
Mr S Summers
Dr J Nicholls
Mrs S Curryer
Mr J Seed

Apologies: Professor D Maskell

Declarations of interest

It was noted that all members of the group are members of USS.

1. Notes of the meeting of 31 May 2016

The notes of the meeting held on 31 May 2016 were approved.

2. Matters arising

There were no matters arising.

3. Triennial valuation of USS at 31 March 2017

The group noted the contents of the various documents which had been circulated in advance of the meeting.

Mrs Stone reported that the 'town hall' meeting arranged by UUK had been helpful and that it had started to look at the wider issue of 'reward' within the HE sector to try and identify the needs of the sector.

It was agreed that Mr Seed should provide a draft response to the USS letter of 29 September 2016 expressing concerns around the longer timeframe for the covenant horizon in advance of the 2017 valuation given the worsening of the general economic outlook since 2014. Once the wording had been agreed the Secretary would respond to UUK.

Action: Mr Seed & Mrs Curryer

Dr Nicholls advised that he felt it was important for the group to concentrate on responding to the USS survey as this would inform USS future thinking. He confirmed that the Employers

Pensions Forum and UUK were doing a good job of highlighting all of the relevant issues but noted that the governance arrangements of USS, especially in connection with the need for rule changes to be agreed by the JNC made it difficult both to make changes and to respond quickly to changing circumstances.

The group went through the survey and agreed the responses to each of the questions. The group agreed that the Secretary should draft the response and circulate it to the group for consideration and comment so she could submit the response in advance of the deadline of 28 October 2016.

The group agreed that Mr Summers could make the University's draft response available to College Bursars. Ms Roberts confirmed that OCR would use the University's response to inform their response and that this was likely to broadly follow the University response.

Action: All

4. Cambridge University Assistants' Contributory Pension Scheme – FR102 valuation

The results of the FRS102 valuation as at 31 July 2016 were noted. Mr Seed reported that the deficit on the accounting basis had increased in the year to 31 July 2016 as a result of the reduction of yields on corporate bonds which was partly due to further quantitative easing under which the Bank of England were purchasing corporate bonds as well as gilts.

Mr Seed noted that the accounting deficit for the CUACPS was now £0.5 billion.

5. USS – authorised pension schemes

The group noted that USS had agreed that the CUACPS would qualify as an authorised scheme meaning that Assistant Staff who were promoted to USS eligible positions could elect to remain in the CUACPS. The group noted that this would require a change to the Ordinance for the CUACPS and so would require the agreement of the CU Pension Trustee Limited. The group agreed that the trustee should be asked to agree the change.

Action: Secretary

6. Total Remuneration

Professor Ferran advised that the HR Committee had agreed the proposal to pay a salary supplement of 12% to employees who opted out of pension provision for tax reasons and that this would now go to University Council for final approval. Mrs Stone advised that she hoped it would be possible to implement the arrangements by the end of this term.

Ms Roberts advised that Cambridge Assessment and OCR had introduced the salary supplement arrangement in October 2016.

Mrs Stone advised that a new Remuneration Group had been established and would meet for the first time next week. She advised that she hoped this would lead to the production of a total reward statement for employees in due course.

7. Update on funding positions for USS and CPS

The group noted the information provided by Mr Seed.

Mr Reid reported that the Audit Committee had asked that the PWG consider various options with respect to USS including the possibility of buying out the University's deficit in USS. It was agreed that this should be considered once the results of the 2017 valuation were known. Mr Reid agreed to report back to the Audit Committee.

Action: Mr Reid

8. Any other business

Professor Ferran pointed out that this would be Dr Nicholls last meeting and thanked him for his input to the group and his work on the Employers Pension Forum (EPF). The group noted that if possible it would like Cambridge to continue to be represented on the EPF. Dr Nicholls agreed to raise this with UUK.

Action: Dr Nicholls

9. Date of next meeting

The date of the next meeting was agreed as Tuesday 29 November 2016 at 3.00p.m. in the General Board Meeting Room

PENSIONS WORKING GROUP

Notes of a meeting held on Thursday 9 March 2017 at 2.00 p.m. in the Council Room, The Old Schools

Present:

Professor E Ferran (in the Chair)
Mrs E Stone
Mrs L Allan
Mr A Reid
Mr S Summers
Ms E Rampton
Mrs S Curryer
Mr J Seed

Apologies: Professor D Maskell

Declarations of interest

It was noted that all members of the group are members of USS.

1. Notes of the meeting of 24 October 2016

The notes of the meeting held on 24 October 2016 were approved.

2. Matters arising

There were no matters arising.

3. Triennial valuation of USS at 31 March 2017 – consultation on methodology and assumptions

Professor Ferran advised the group that a significant volume of material had been circulated some of which gave background information, such as the results of the survey undertaken by UUK in the autumn of 2016, and some of which gave the information the group needed to consider in forming a response to the consultation.

Mrs Curryer noted that following the circulation of the meeting papers further information had been provided by UUK which she had forwarded to Mr Seed to help formulate his advice. She advised that she would liaise with Mr Seed to determine whether any of the additional information should be provided to the group.

Action: Mrs Curryer & Mr Seed

Mr Seed advised that USS had provided a document outlining the trustees' initial thoughts on the methodology and assumptions to be used for the 2017 actuarial valuation and that there were a number of other documents in circulation. He had prepared a paper which tried to highlight the issues and would help the group begin to formulate a response to the consultation and this was tabled. In preparing the paper he had considered the USS consultation document and the commentary provided to UUK by AonHewitt.

Mr Seed reminded the group of the purpose of the valuation and gave a recap on the 2014 valuation. He provide the group with information on the current estimated deficit and future employer contribution rate assuming the same assumptions were used by USS for the 2017 valuation as had been used in 2014.

Mr Seed noted that the work undertaken by PWC and Ernst and Young for USS indicated that the covenant of employers who participate in USS remained strong and indeed USS were suggesting on the basis of this that the covenant remained strong for 30 years compared to the horizon of 20 years suggested in 2014. However, it should be noted that in the survey undertaken by UUK in late 2016 employers had expressed doubts about the extension of the horizon. At this time USS were consulting on

- the methodology to be used in the 2017 valuation
- the covenant of employers
- the financial and demographic assumptions to be used

He noted that there would be a further consultation on the Technical Provisions and the Statutory Funding Objective in the summer of 2017 and the USS valuation plan included a consultation with employees in the final quarter of 2017 on any changes to contributions and/or benefits.

Mr Seed then outlined the information provided by USS in the consultation document.

Mr Reid reported that the Finance Committee had considered the consultation document at their meeting on 8 March 2017 and had requested that the Pensions Working Group formulate a robust response acting as far as possible with Cambridge Colleges and the University of Oxford to ensure consistency to give weight to the responses. The Finance Committee also asked that the response included a note to indicate that the University was disappointed that the timetable for the consultation did not give adequate time for the University to consult more widely in formulating the response.

The group noted that it was difficult to draw out of the consultation document exactly what questions USS wanted responses to but agreed that it would concentrate on the three key issues identified on page 4 of the USS consultation document. Mr Seed agreed to draft a response for the consideration of the group. Mrs Curryer agreed to contact UUK to ask for if the deadline of 17 March 2017 for the response could be extended to early the following week.

Action: All

4. Total Remuneration

The group noted that the proposal to pay a supplement to employees who opted out of pension provision for tax reasons had not yet been approved following a number of questions which had been raised by the General Board and Council. Mrs Stone and Mrs Fowler were obtaining responses from external legal advisers and expected to be in a position to provide a response to the next meeting of the General Board.

5. Update on funding positions for USS and CUAPS

Mr Seed advised that initial work indicated that the funding positions of USS and the CUACPS had improved at the end of February and he would circulate the information once this was available.

Action: Mr Seed

6. Any other business

Mr Reid reported that the Finance Committee had received a paper estimating that if the University wished to withdraw from USS and triggered the section 75 debt the amount due to USS would be of the order of £2.5 billion. The Finance Committee asked that the Pension Working Group consider whether Mr Seed should be instructed to undertake further work on this. The group agreed no further work should be undertaken at this time but agreed to receive a copy of the paper.

Action: Mr Reid

Mrs Curryer reported that the CU Pension Trustee had been contacted by the Pensions Regulator (tPR) following the submission of the valuation results as at 31 July 2015. The trustee had sent a robust response to the queries raised by tPR and was waiting for tPR to respond.

7. Date of next meeting

The date of the next meeting was agreed as Thursday 20 April 2017 at 10.00 a.m. in the Council Room.

PENSIONS WORKING GROUP

Notes of a meeting held on Tuesday 7 August 2017 at 2.00 p.m. in the Denver Room, Greenwich House

Present:

Mr A Odgers (in the Chair)
Mr A Reid
Mr S Summers

Ms A Hudson (for Mrs Stone)
Mrs S Curryer
Mr J Seed

Apologies: Professor E Ferran, Professor D Maskell, Mrs E Stone, Mrs L Allan, Ms E Rampton

Declarations of interest

It was noted that the majority of members of the group are members of USS.

1. Notes of the meeting of 9 March 2017

The notes of the meeting held on 9 March 2017 were approved.

2. Matters arising

There were no matters arising.

3. Triennial valuation of USS at 31 March 2017

Mr Seed introduced the papers prepared by UUK and Aon Hewitt and explained that these were a confidential precursor to the formal consultation on the valuation assumptions which was due to commence on 1 September 2017. He explained that the reports gave details of the latest thinking of the USS trustee and so suggested that the group used the reports to start to consider the University's response to the formal consultation. It was noted by the group that the assumptions suggested in the reports were subject to change following the meeting of the USS trustee on 15 August and ongoing discussions with the Pensions Regulator.

The following key points of the UUK paper were noted:

- The impact of significant falls in gilt yields and reduced return expectations would lead to a significant increase in the cost of future benefit provision.
- USS employers did not wish to see a significant increase in risk being taken to fund USS
- A long term solution was required that provides more stability for employers

- 18% is the maximum regular contribution payable by employers. Any increase in the regular contribution rate would reduce the contingent contributions that could be called upon in stressed circumstances
- The formal consultation on assumptions (with UUK and employers) will start on 1 September 2017
- Formal negotiations within the JNC are expected to take place from September to December 2017
- Changes to members' benefits will require a formal consultation in February/March 2018

Mr Seed then talked through the confidential Aon Hewitt note which sets out details of USS's latest working proposals on the assumptions and approach to be adopted for the 2017 valuation. Mr Seed highlighted the following key points:-

- If the approach adopted for the 2014 valuation was retained and updated to allow for changes in market conditions, the overall contribution rate would increase from 26% to 44.5% of salaries
- It was also noted, from USS's 2017 annual report, that the deficit would be £12.6bn if the 2014 approach was retained
- However, the USS trustee has reviewed and recalibrated the approach, resulting in a less prudent set of assumptions which in turn lead to a reduced deficit of £5.2bn and an overall contribution rate of 32.6%
- The approach to assessing risk has also been changed with a higher discount rate being proposed for calculation of the self sufficiency liabilities (self sufficiency being a low risk liability measure under which investment risk could be largely removed). This reduces the measured risk exposure of the employers by c£4bn. Compared to the approach adopted in 2014
- The current level of risk exposure implied by the proposals is £23bn. The proposed funding plan aims to reduce this to £10bn, in real terms, over 20 years but USS acknowledge that the risk exposure could increase significantly in some scenarios.
- It was noted that, if employers paid more than 18% of salaries, this would reduce the ability to pay contingent contributions and reduce the level of risk that could be taken in the funding plan
- The proposed assumptions are close to the Regulator's lower limit of prudence based on an analysis of the discount rates adopted by other schemes

Mr Seed highlighted the specific assumptions proposed by USS at this stage, where these differ to the approach adopted at the 2014 valuation
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- The discount rate approach has been amended to allow for 'gilt yield reversion' over the next 10 years. This results in a slight increase in the margin over gilts
- There is no allowance for de-risking in the first 10 years. Again, this leads to a slight increase in the discount rate
- The overall impact on the discount rate of the proposed changes is to add 0.26% to the margin over gilts. Mr Seed estimated that this would reduce the liabilities and deficit by c£.5bn
- Mr Seed noted that the other financial assumptions had been revised to best estimate values with any margins for prudence removed.

- The RPI assumption has been reduced by increasing the 'inflation risk premium' (a deduction made to gilt market derived inflation figures).
- The CPI assumption has been reduced firstly by the higher 'inflation risk premium' and secondly by assuming a wider long run gap of 1.0% between RPI and CPI.
- Mr Seed noted that the changes to the other financial assumptions (i.e. excluding the discount rate) reduced the liabilities and deficit by £4bn.

The Group noted that the combined effect of the higher margin over gilts included in the discount rate and the move to best estimate for the other financial assumptions reduced the deficit from £12.6bn to £5.2bn and reduced the overall contribution rate from 44.5% to 32.6%.

The Group also noted that the low risk self sufficiency target had been reduced from a 'gilts plus 0.5%' liability to a 'gilts plus 0.75% liability, leading to a c£4bn reduction in the measured risk exposure. The Group noted that the risk exposure had increased significantly since the 2014 valuation and while it was expected to reduce, there was a material possibility that the risk exposure would increase. It was also noted that, if current benefits are retained, the self sufficiency liabilities will increase by c£3bn pa over the next 3 years.

The Group were concerned at the increase in risk since 2014 and the potential future increase in risk if current benefits are maintained.

Mr Seed then reminded the Group of the responses provided at the initial consultation carried out in March 2017. It was noted that while the University did support some flexibility on the assumptions, the response was clear that risk should be reduced and should not be allowed to increase in real terms. The initial response also noted that any reduction in prudence in the funding assumptions should be limited to the reduction in the self sufficiency target. It was also noted that the University expressed reservations about the (stronger) covenant assessment not least given the uncertainty and pressures introduced by the Brexit vote. The initial response also noted that the University would support a clearly defined framework for pre-agreed changes, rather than immediate changes to benefits.

It was agreed that Mr Seed should draft a 'straw man' response based on the information provided in the UUK and AonHewitt reports which could then be updated to reflect any changes in the formal consultation document.

Action Mr Seed

The group noted that if the contributions to USS were to remain affordable for both employees and employers, changes to the benefits offered by USS were inevitable. Mr Odgers circulated an note which showed that reducing the level of the USS salary threshold had a very limited effect and that this alone would not be sufficient to keep contributions at an affordable level and so if a DB element was to be retained in USS the accrual rate would need to be reduced in conjunction with a reduction in the salary threshold. The group noted that the University had approached this issue slightly differently for Assistant Staff by providing a basic level of pension on a DB basis with DC 'top up'. It was suggested that as part of the response it should be pointed out that there were alternative options for scheme design. The group noted that the University would support a move towards an increased level of DC benefits allied with more member flexibility. This would have a beneficial effect to the University given the reliance placed on the covenant by the 'last man standing' nature of USS plus the additional flexibility would be valued by many employees, especially early stage researchers who may not expect to be in the UK and/or the HE sector for much of their career.

The group noted that following the change to the time table for the USS consultation it would no longer be possible to consult the Pensions Advisory Group (PAG) in the way that had been envisaged as there would be insufficient time available. It was agreed that once received the consultation document would be circulated to the members of the PWG for consideration so that the draft response could be finalised by 8 September 2017. The documents would then be circulated to the PAG for their comments and a final version of the response taking account of these would be agreed during the week commencing 18 September 2017.

4. Employers Pensions Forum report

The content of the repot of the Employers Pension Forum on the future of pensions in the HE sector was noted and welcomed by the group.

5. Total Remuneration

The group noted that the salary supplement for employees who had opted out of pension provision for tax reasons had bene implemented with effect from 1 July 2017. Mrs Curryer reported that about 30 employees had successfully applied for this and were now receiving payments and that there were a small number of employees who were in the notice period required to opt out of USS who would start to receive the supplement once the notice period had expired.

5. Update on funding positions for USS and CUAPS

The group noted the funding positions as at 30 June 2017.

6. Any other business

There was no other business.

7. Date of next meeting

The date of the next meeting was agreed as Wednesday 18 October 2017 at 10.00 a.m. in the General Board Office.

University of Cambridge ("the University")
Universities Superannuation Scheme ("USS")
Initial consultation on the Methodology and Inputs for the 2017 Valuation ("the initial consultation")

Introduction
This paper provides the University's responses to the initial consultation on the methodology and inputs to be used for the actuarial valuation of USS as at 31 March 2017. In providing this response, the University notes that further consultation will take place on the detail of the valuation assumptions later on in the valuation process.

In preparing its response the University has considered the following:-

- Methodology and Inputs for the 2017 Valuation: Initial assessment – Technical discussion document for sponsoring employers dated 17 February 2017
- Methodology and Inputs for the 2017 Valuation – powerpoint presentation dated February 2017
- Aon's initial views discussion document prepared for UUK

The opinions included in this response are those of the Officers of the University as there has not been sufficient time for the response to be considered by the governing bodies.

Due to the quick turnaround required for this initial consultation, the University regrets that it has not been possible to consult internally particularly with its Pensions Advisory Group. However, the University will take into account the views of internal groups during the next stage of the consultation process, which is expected to take place in May 2017 and would ask that consideration is given by USS to allowing adequate time for this wider consultation to take place.

Key issues
The technical discussion document provided sets out the USS trustee's initial assessment of the methodology and key inputs for the 2017 valuation. The key areas relate to:-

- The maximum level of reliance that can be placed on the employers;
- The range of values used for the key valuation assumptions.

The trustee has requested comments on all aspects of the methodology and inputs with a particular focus on the following three areas as set out on Page 4 of the discussion document and repeated below for ease of reference:-

(i) The approach to determining the maximum reliance which can be placed on the employer covenant in future when funding the scheme and in particular the inputs that are used to determine the reliance. The trustee has assessed that contingent contributions paid over a time horizon of 20-40 years from now, of 7% of pensionable pay (being the difference between 25% maximum contribution and the regular contribution of 18%), consistent with the 2014 view is still reasonable.

(ii) The view on future investment returns, and in particular whether employers prefer to rely on the current market view for long term interest rates, or whether they prefer the view that long term interest rates will revert to higher levels than markets currently predict;

(iii) The degree of confidence required that the assumed pension costs will prove a reliable forecast, and how much risk the employers prefer to take out of the maximum risk possible. Specifically, is the risk appetite different for funding benefits earned to date versus the benefits the sector wishes to promise in the future

Responses
The University's responses are set out below. We have concentrated on what we see as the main issues, noting that we will have the opportunity to comment on the more detailed aspects of the valuation later in the process.

1. Covenant
We note that the covenant assessment carried out by PWC and EY shows a strong covenant with an increased time horizon of 30 years compared to 20 years at the 2014 valuation.

1.1 Reliance (time) horizon - the increased time horizon (30 years) could be allowed for in the valuation in the following ways;

- Extending or delaying the 20 year (investment) de-risking period, which would support a higher discount rate or increased allowance for investment outperformance in the Recovery Plan
- Extending the period over which the deficit is removed from the 17 year period used at the 2014 valuation

1.2 Self sufficiency – the University would support the use of a less prudent self sufficiency target based on a discount rate of gilts plus 0.75% (compared to gilts plus 0.5% as used at the 2014 valuation). The University also supports the view that USS could, in extremis, implement a low risk portfolio that would provide a return of at least gilts plus 0.75% with a high degree of certainty which in turn would provide a very high probability of the trustee being able to pay all members' accrued benefits in full.

1.3 Quantification of reliance – to start, we would note that the majority of employers have stated that 18% is at the limit of affordability. As such, if an 'in extremis' situation arises, payment of the contingent contributions may require a reduction in the level of future service benefits to ensure overall affordability (i.e. an overall rate of less than 25%).

We note that the proposed reliance on covenant is quantified as the value of 7% 'contingent contributions' payable over a period of 15 to 25 years with a base case of 20 years. The same approach was adopted in 2014 (i.e. 7% over 20 years). We do not support an increase in the period over which contingent contributions are paid at 7%. However, we note that it would be possible to allow for different contingent contributions over different periods, for example to reflect reducing covenant certainty over longer periods:-

- 7% over 20 years
- 6% over 25 years
- 5% over 30 years

We would also note that the Recovery Plan term and de-risking period should be consistent with the reliance horizon and the period over which contingent contributions are assumed.

1.4 Growth in reliance – the University does not support inclusion of any allowance for growth in the level of reliance on the employer covenant, in real terms, in the future. The University's strong view is that the level of reliance on the employer covenant should not increase in real terms. We would also note that, under the approach used in 2014 (where reliance is quantified as the present value of 7% of payroll over 20 years), the level of reliance has increased significantly since 2014 due to the increase in total pensionable salary roll between 2014 and 2017. As such, this already allows a less prudent approach to be adopted in 2017 compared to 2014.

2. Financial inputs

2.1 Gilt yields - We note the adverse impact on the discount rate and liabilities of the significant fall in gilt yields since 31 March 2014. We also note that, if gilt yields do not revert at least some way towards 2014 levels, the scheme is unaffordable in its current form and significant benefit changes will be required to reduce defined benefit accrual.

2.2 Reversion – we do not support any approach that allows for reversion of gilt yields some or all of the way back to 2014 levels (i.e. not ahead of any actual reversion occurring).

2.3 Discount rate - we would support a higher discount rate to the extent that the lower self sufficiency target can be reflected in a lower technical provisions target. We would also support a higher discount rate to the extent that de-risking can be delayed or extended by taking into account the increased 'strong covenant' time horizon. However, the overall reduction in prudence compared to 2014 should be limited to the decrease in the self sufficiency target (from gilts plus 0.5% to gilts plus 0.75%). We do not support any further reduction in prudence that would arise from allowing for real growth in the reliance on the covenant.

We would also support the use of a dual discount rate approach (or similar) under which a higher pre-retirement discount rate is used for active and deferred liabilities alongside a lower post-retirement discount rate to value pensions once in payment. An advantage of the dual discount rate approach is that if the scheme matures more quickly than expected, the basis naturally becomes more prudent with the discount rate tending towards the lower post retirement rate. As such, it may provide a more robust approach if and when scheme circumstances change. We would also note that the approach can be linked to the self sufficiency assumptions by setting the post retirement discount rate to be equal to the self sufficiency discount rate. However, we do not suggest that a dual discount rate is used to increase the overall level of prudence, but rather to provide a more robust methodology.

Finally on the discount rate, we note that the range of assumptions is, effectively, limited by the Pensions Regulator and that it will be difficult for the trustee to adopt an approach that is not linked to gilt yields.

2.4 Recovery Plan assumptions – we would support an extended Recovery Plan term of up to 30 years to reduce the annual deficit cost. We would also support some allowance for outperformance in the Recovery Plan but would like to understand how much of the deficit is expected to be removed by deficit contributions and how much by assumed (but not guaranteed) future investment outperformance. We would also note that the reliance time horizon should not be allowed to extend beyond the Recovery Period, which will be subject to approval by the Pensions Regulator.

3. Risk

3.1 Covenant assessment - Whilst the University has reservations on the covenant assessment, we acknowledge the professional advice from PWC and EY received by USS. Given this advice we would be willing to accept an approach that uses the increased time horizon on a strong employer covenant to support an extended or delayed period of investment risk reduction to the extent that the increased expected return would support an increase in the discount rate.

3.2 Level of risk taken relative to level offered - the University does not wish to take out the maximum risk possible and would limit the reliance on covenant as noted under paragraphs 1.3 and 1.4 above.

3.3 Past and future benefits - The University would not adopt a different approach in terms of the risk appetite for funding past and future benefits. Here, we would note that future benefits will become past benefits and so should not be funded differently.

3.4 Assumed pension costs - the University's view is that assumed pension costs will remain volatile while future benefits are provided on a predominantly DB basis. If changes are required, the University would support a staged move to full DC provision.

4. Other issues

4.1 Future benefit provision - we note that the latest benefit changes were implemented less than 12 months ago. The University's view is that it is too soon for further changes to be made. However, as noted under paragraph 2.1 above, the scheme is unsustainable in its current form unless market conditions (and funding) improve.

4.2 Framework for change - we suggest that a framework is put in place so that pre-agreed changes are made to benefits over a period of time if the deficit and funding level have not reached agreed levels at agreed dates in the future. This could involve lowering the DC salary threshold in stages from £55,000 to increase the balance of benefits provided on a DC basis. Here, we would note that, under the current benefit structure, future pension provision is split (broadly) 85% CRB, 15% DC under the 2014 assumptions. Noting our comment under 4.1, we suggest changes commence in 2019 (i.e. 3 years after the recent changes) if funding does not improve to pre agreed levels.

4.3 Sectionalisation – the University would support, very strongly, sectionalisation of the scheme for both past and future benefit provision. Combined with pragmatic choices on future pension provision (i.e. level of CRB accrual, level of salary threshold, level of DC contributions) this would provide a flexible and sustainable model that would allow employers to tailor benefits to suit their needs as well as supporting the long term existence of USS as an open scheme.