

**Universities Superannuation Scheme (USS)
UUK Survey September 2017**

Response from Pembroke College, Oxford

Identifiers

1. (a) Name of respondent

John Church

(b) Position of respondent

Bursar

(c) Email address of respondent

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(d) Name of USS employer

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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, but it should be noted that the majority of the members of the College's Governing Body personally are members of USS which raises a question of conflict of interest. Also, as a practical point, the first Governing Body meeting scheduled since the consultation was announced will not take place until Wednesday 11th October which we understand to be the date of the meeting of the USS trustees. The issue of the conflicts of interests has been addressed by seeking guidance from those members of the Governing Body who have no such conflict of interest. All members of the Governing Body received a copy of this draft response.

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. If the proposed assumptions are at the limit of what the USS trustee and/or the UK Pensions Regulator would be willing to accept (given the basis

of a strong covenant) this would imply very limited stability with the possibility of increases to costs and/or reductions to benefits being needed at the next valuation.

Indeed, the proposal to significantly weaken the assumptions increases the need for the trustees to consider actions that could be taken in between valuations if experience turns out to be worse than expected (as related to question 4 of this survey).

The College's view is that continuing to offer defined benefit accrual (even at reduced levels) whilst adopting valuation assumptions at the limit of what is potentially acceptable is not the basis of a long-term solution.

The College also believes that the level of risk being proposed is not appropriate for all institutions and allowing weaker institutions to rely on the strength of other employers in a manner which makes their pension benefits appear affordable must be addressed.

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)).

Moderately opposed – whilst 18% is the target maximum the College would like to pay, it would be willing to pay a little more but only to address the deficit relating to past service. See also response to 5(b) below.

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

The College is not willing to increase the regular contribution above 18% to support a future benefit package which is ultimately unaffordable.

However, if a small increase were 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?

In addition to the information already requested in question 9 of this survey (i.e. to provide more detail on the impact of moving to a DC-only solution) the College would like to see retirement income projections for members under a DC-only approach as the College needs to ensure that any benefit replacement is still attractive/desirable for staff generally and for recruitment and retention.

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.