

#19

**COMPLETE**

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Page 2: Identifiers

**Q1** Please provide the following information:

|  |   |
|--|---|
| Institution                            | <b>St Catharine's College Cambridge</b> |
| Name of respondent                     | <b>Simon Summers</b>                    |
| Position of respondent                 | <b>Bursar</b>                           |
| Email address of respondent (optional) | <b>senior.bursar@caths.cam.ac.uk</b>    |

**Q2** Please confirm whether 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.

**No,**

Comments:

Once again Colleges have received a consultation out of Term when processes for approval by the College as a body are not in place. This response represents the opinion of the College Bursar regarding what the College is expected to conclude when the matter is debated next Term

Page 3: Risk and reliance

## USS 2017 valuation

**Q3** 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 wants less risk to be taken, acknowledging the implications this might have for benefits and/or costs**

Do you have any additional views or concerns regarding the level of risk being proposed? :

We note and strongly support the University of Cambridge's specific comments in this section of their response. In particular the current arrangements result in subsidies between the stronger and weaker balance sheets in the HE sector which distort competition, and may be encouraging over-enthusiastic lending to some parts of the sector. In particular secured lending undermines the position of the Scheme as an unsecured creditor. There is an argument in favour of the Trustee Company systematically scrutinising Employers' published financial statements and having the right to draw attention in public to actions that significantly weaken an Employers' covenant. The PRs recent letter seems to require Employers to move on from the assumption that the Sector's long term creditworthiness is beyond doubt and can only serve to both legitimise and reinforce the concerns of the stronger covenants about the degree of cross-subsidisation. We are very strong advocates of sectionalisation of the Scheme, certainly for future service and if possible also for the past service deficit

**Q4** 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)? Please note that any action would be in addition to measures taken to meet the funding shortfall identified at the 2017 valuation.

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

Further comments:

Answer - • My institution's position would depend on the outcome of the 2017 valuation; the new set of contributions and benefits from 2018-21 must provide for this possible action between valuations to be an extremely unlikely event

## USS 2017 valuation

**Q8** 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? Please note that there are other measures that could be taken, such as reducing DC contributions above the salary threshold or reconsidering provision of ancillary benefits, however these measures are not sufficient to make up the funding shortfall

**No preference**

**Q9** 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.

We particularly support the following parts of the University of Cambridge's response:

- Protection benefits should be a key consideration (i.e. death in service, ill health, incapacity) as these are highly valued by most employees
- Greater flexibility both in terms of level of contributions paid by employees and how employees are able to access their benefits
- Greater flexibility for employers to decide how pensions fit in with other benefits in a total reward environment

## Page 6: Final comments

**Q10** What additional support can UUK or the USS Trustee offer to support your institution in the valuation process?

- Share information at the earliest opportunity to allow the Employers to consider and respond
- Continue to engage with the Employers on developments in terms of the valuation and potential changes to benefits
- Consider related issues in more detail (i.e. sectionalisation and exclusivity)

**Q11** 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: 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

### Further comments

**Assumptions-** We note that the proposed assumptions for the Technical Provisions are materially weaker than those adopted for the 2014 valuation and are at the least prudent end of the range likely to be acceptable to the Regulator in respect of the HE sector as a whole, even if the PR is persuaded to upgrade its provisional assessment of the sector's credit risk.

**Risk-** Put simply, the College wishes to significantly reduce current levels of risk beginning in the 2018-21 period

**Other-** The College expects to see concrete proposals to sectionalise USS in the coming few months.

-The College, like the University, would like to understand what lessons can be learned from not hedging interest rate and inflation risks in previous years, noting that falls in real yields have been a significant contributor to the increase in deficit on a like for like basis

## USS 2017 valuation

**Q5** 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. Please note that the term "regular" contributions means those contributions payable by employers on an ongoing basis to maintain both the scheme's future service benefits and contributions to any deficit recovery plan contributions relating to the DB section. It also includes the employer's contribution to scheme running costs.

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

**Q6** Does your institution believe that increasing member contributions beyond the current 8% of salary is likely to lead to more scheme members at your institution opting out?

**Yes**

## Page 5: Pension benefits

**Q7** 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)?

**Moving to ,  
DC**

We would welcome any further comments to support your answer above.:

Certainly as an absolute minimum there seems no way of avoiding a substantial move in the mix of DB and DC towards much greater provision of DC with immediate effect. We agree in principle with the UUK view that retaining the possibility of a reversal in that movement at some future point has merit, but this seems to be a long way away and we would not wish to create any expectations among employees of a reversal in one of the next few triennial reviews. There is a point where the DB component could look derisory to longer serving and more senior staff (eg the quoted £15k figure?) but where it might still be a major benefit to a large number (12%) of less well paid people. It is of concern that professional advisers anticipate a rise in the past service deficit from 2017-2020 under plausible assumptions about future market movements and contribution rates. It will be completely unacceptable to put in place in 2018 a combination of contributions and benefits for 2018-21 for which that is anything more than a very remote probability.