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CC/LC

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Dear UUK Pensions team,

Response to UUK consultation on the Joint Expert Panel recommendations

I am writing to confirm the response of the University of Liverpool to the consultation on the Joint Expert Panel's (JEP) report, which has been discussed and agreed with the University's Senior Management Team and Members of Council.

1. In response to Q1, our view is that as the remit for the JEP phase 1 was to focus on any revisions to the 2017 valuation to give space to consider a longer-term position and, that agreement on proposals has been reached by experts on both sides, accepting the JEP's recommendations is the only plausible way forward. Without this, the alternative implementation of the USS rule 76.4 (minus the 1% match) will cost the University £2.3m in April 2019, £7m in October 2019 and £10.8m in April 2020. The University is very hopeful, therefore, that the USS Trustee and the Pensions Regulator (tPR) will see the recommendations in a positive light and will be encouraged to view Phase 2 of the JEP's work similarly, to enable a long term solution to the current difficulties facing the scheme and the sector. The University sees a second phase of the JEP as essential to our acceptance of these JEP proposals.

2. In terms of Q2 and what further information we would need to provide a final view, although not necessary for a final view, it would be useful to be provided with information on the possibility of the contributions going outside of certain ranges in relation to the three test framework used by USS. The risk of future increases is a real worry to us and we are therefore seeking information on how the current JEP proposal will prevent increases being needed in the future as 20.1% employer contributions is at the upper limit of sustainability.

3. It is noted that if all of the JEP's recommendations are accepted the employer contribution would be 20.1% of salary. In response to Q3, because of the ongoing uncertainty around USS contributions, in its recent financial planning exercise, the University has planned to be able to deal with an increase in employer contributions to 20% from April 2019. We are therefore able to agree to this recommendation. The additional 0.1% on top of what we have budgeted, will cost around £155k which will still have an impact but we are satisfied that plans can be put in place to manage the additional cost.

Although not specifically requested in the UUK consultation, the University has a number of further points to make:

4. The current proposal from USS to address the valuation (Rule 76.4) is that Member contributions will increase from 8% of salary to 8.8% from 1 April 2019, from 1 October 2019 to 10.4% and on 1 April 2020 to 11.7%. The JEP suggest that, if their recommendations are accepted, employee contributions will rise to 9.1% and this figure will stay in place until the next valuation. Although this is higher than the initial increase proposed by USS (8.8%) it is much lower than the additional increases planned under rule 76.4 and offers stability for 3 years. The University, with the help of Mercer, has held briefing sessions on the USS increases. Overall, attendees at these sessions appeared to be accepting of an increase in contributions, on the basis of retaining benefits. The University remains concerned, however, about the likelihood and the impact on staff of possible rises in contributions at the next valuation and beyond. We would not wish to see new members of staff opting out of joining USS because of its unaffordability.

5. We have some additional comments to make on the JEP recommendations in the table on page 10:

    a. Points 2, 3 & 4 are technical arrangements which we believe are appropriate.

    b. In relation to point 2, this University has previously given its support to retaining deficit recovery contributions at 2.1% and we would therefore support this again. USS's earlier proposal to maintain deficit contributions at this level but to be able to trigger a change if the self-sufficiency position worsened was rejected by the University. The JEP has suggested that this be considered again in respect of the next valuation (Phase 2). We would prefer the trigger consideration to not form part of phase 2 or any phase at all, rather we suggest that the Trustee increases the deficit recovery period in its submission to the Pensions Regulator (tPR) so that our current level of contributions for deficit repayments remains unchanged. By stating that the trigger considerations will go into Phase 2, we feel this delays consideration of the issue and we will again be faced with a potential unknown financial challenge from 2020. However, we recognise that the JEP's proposal is aimed at trying to find a way forward through a very difficult situation and we acknowledge that USS have to get the valuation signed off by tPR. As such, we would be prepared to accept that what is 'triggered' is an interim valuation and not a position which involves short notice of the need to make extra payments.

    c. The smoothing proposal in point 3 refers to having a longer period to provide for the cost of meeting future DB. We agree this is appropriate because contribution levels to meet this cost are expected to go down as gilts are expected to rise [JEP report p.107 (AON) & p.110 (First Actuarial) refers].

    d. Point 4 refers to using more up to date data. We agree with this, but in the past, tPR has had an issue using post valuation date data, but we think that this is one of those areas the USS Trustee should robustly discuss with the tPR.

    e. Re point 1 of the proposals – this is an area of concern:

        - The results of the last employer consultation saw employers supporting the principles underpinning USS's Test 1 i.e. the level of risk expected by the Trustee should not exceed what employers could, in extreme circumstances, be able to pay by means of 'extremis' contributions. The implementation of rule 76.4 would appear to us to be exactly that; 'in extremis' extra contributions being called upon. We are not sure, therefore, where this now leaves Test 1?
        - The risk environment remains unchanged and so, the need to gradually de-risk USS remains at the forefront of our mind. If we are unable to do this, continual worry about the finances of the Institution having greater demands placed on it, remains. In relation to employee attitudes to risk, the point made in the full report in various places (pp. 31, 42, 48) that members of the scheme might usefully be consulted on attitudes to risk since they share the liability of increased contributions with employers is well made. Employees should be consulted on

attitudes to risk as this may help build more trust and confidence in the scheme. Our own view from the recent Mercer events is that staff are at the limits of their risk appetite.

- If we are agreeing to accept a different level of risk now, this has to be our position through the 2020 valuation too. It will simply not be credible to revert to a more cautious approach for the 2020 valuation unless there are very dramatic market changes at that point.
- As the sector has a strong covenant, advice from our Director of Finance is that increasing the reliance on the covenant by £3bn in 20 years' time should be fine. We are concerned, however, that following on from the HM Treasury announcement on central assumptions for the unfunded public service pension schemes, the indicative results of the 2016 valuation suggest that the Government will require employer contributions to rise by 6- 7% and this will have a significant impact on us, other institutions with medical schools and on the covenant.

6. We do recognise the financial consequences of accepting the proposals for the University and our staff, but also for the wider sector, especially institutions who may not have the same financial sustainability as us. Many of the issues are sector based not institution based. We do not have an answer to this and we acknowledge that whilst USS is a group employer scheme, the only real way UUK can consult is with individual employers, but it feels that this approach does not result in the wider picture of impact being considered, so would ask UUK how this might be addressed?

7. We are concerned that the Regulator's view on prudence may impact on acceptance of the proposals. It is important that USS emphasises in their conversations with tPR, the qualities of the scheme (multi-employer, unique, large and with stature).

8. We appreciate that there will be much further engagement with UCU but communication and engagement with staff is also essential and would ask UUK what the proposals are to ensure this happens?

9. Since the proposal now on the table is for the benefits to remain the same for the moment, it would be good if UUK could ask USS for projections on the real terms (with CPI inflation) value of the scheme's assets in 20 years' time, modelling different approaches to de-risking, perhaps with de-risking over years 11-20, over years 1-20 and with no de-risking of assets at all.

   It would also be desirable to press USS on the point noted by the JEP (p. 37): "The use of the 67th percentile in 2017 is not consistent with the approach taken in 2014 and the rationale has not been fully explained by the Trustee."

10. Finally, whilst the JEP proposals were jointly agreed we are concerned that we still need to wait for the results of UCU's Special Sector Conference on 7th November and, how realistic it will be for USS to apply the JEP recommendations in the 2017 valuation which is already considerably overdue.

Yours sincerely

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