Dear Pensions at UUK

I am writing to confirm **Newcastle University**'s response to this consultation. The principles of our response have been approved by Council, our governing body, after considering recommendations from our Finance Committee and Executive Board. We have also discussed with UCU and Unite, the recognised trade unions impacted by the USS scheme. We intend to make this response public on our intranet.

We welcome the report of the Joint Expert Panel report as a sensible and well considered review of the USS valuation process. We support the two phases proposed by the Panel to get to a speedy conclusion to the 2017 valuation and to undertake a longer term review of the basis for valuation of the scheme – which we will recognise may well have a wider impact on defined benefit scheme valuations.

We have seen the initial response by the USS Trustee on how this might be handled by undertaking a further valuation as at 31st March 2018. Although we would prefer this to be handled as part of closure of the 2017 valuation, and expect this to be the consensus response from our employees to the current statutory consultation by the USS Trustee, we would not be unhappy with this approach if it would increase the prospects of being acceptable to The Pensions Regulator. We would however urge strongly that this revised valuation is undertaken as quickly as possible to avoid the significant increases in contributions in October 2019 proposed by the USS Trustee and to avoid our financial results having to recognise a large debit in 2018-19 followed by an almost equally large credit in 2019-20.

In response to the specific questions raised in the consultation:

1. Would we support the JEP recommendation regarding the 2017 valuation in overall terms, subject to the acceptance of such a position from the USS Trustee (and TPR as appropriate)?

We support all the recommendations made by the JEP regarding the 2017 valuation. Commenting on each briefly:

A re-evaluation of the employers' attitude to risk, which would result in a re-evaluation of the reliance on the sponsor covenant.

We strongly support the original assessment by PWC and EY Parthenon that the employers' covenant is strong with a time horizon of 20 years and welcome the JEP's endorsement of this conclusion. Based on that assessment, we believe there is a strong case for a return to the September 2017 technical provisions and the assumptions on the delay in de-risking to maintain comparability with the basis used for 2014 valuation, which was agreed by all stakeholders including The Pensions Regulator. We recognise that this increases the target reliance used by the USS Trustee but, as we stated in our response last autumn, we believe this is acceptable, albeit at the upper end of the range of acceptability.

Adopting a greater consistency of approach between the 2014 and 2017 valuations, which affects the scale and timing of deficit recovery contributions.

Based on the strength of the employers' covenant, we believe there is a strong case for maintaining the approach used in 2014, which was agreed by all stakeholders including The Pensions Regulator.
Ensuring fairness and equality between generations of scheme members by smoothing future service contributions.

There is a degree of nervousness about this proposal as we would recognise that we are borrowing from the future. However we recognise the fairness principles laid out in the report and believe that the restriction to six years mitigates the potential future risk.

Ensuring the valuation uses the most recently available information which means taking account of recent market improvements, new investment considerations and the latest data on mortality, for example.

We believe there is a strong case for updating the assumptions to reflect recent trends and consider that the JEP had made a sensible series of recommendations in this regard.

2) What further information would we need to provide a final view for question 1?

We would be interested to know whether the Joint Expert Panel would have reached a different conclusion had it seen the work by Dr Sam Marsh prior to finalisation of its report.

Given the wide experience and skills of the members of the Joint Expert Panel and the obvious rigour of their review, we are happy to support the recommendations as stated.

As noted above, we would prefer this to be handled as part of closure of the 2017 valuation rather than as a fresh valuation as at 31st March 2018. However, should it be agreed to progress as proposed by the USS Trustee, we would welcome confirmation that this can be completed in time to impact on the proposed increase in contributions in October 2019 and for both valuations to be reflected in our 2018-19 financial results.

3) Would we accept employer contributions at the indicative level of 20.1%?

Yes.

Although it will not be without consequences for our future capital planning and staffing levels, we believe that this is an acceptable position if we can achieve a speedy conclusion to the 2017 valuation and allow safe space for a more considered review of the valuation methodology in time for the 2020 valuation.

Professor Chris Day
Vice Chancellor and President

24 October 2018