

Mr A Jarvis and Mr P Harding  
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Your Ref  
Our Ref       BG/JMR  
Date           9 October 2018

**By email only**

Dear Alistair and Phil

Thank you for your engagement on the issues relating to the USS valuation. I write to inform you of the recent discussions at the USS board in this regard, and in response to Phil's and Renee Predergast's recent joint communication. (This same letter has been sent to UCU leadership.)

At the meeting on 5 October, the USS board noted the JEP report, and the initial responses of the stakeholders and the JNC. In particular, the board noted that as the JEP report was commissioned by stakeholders, it is for them to determine if and how the specific issues raised by the JEP should be introduced to the formal governance structures of the Scheme. Both stakeholders are currently consulting with their constituencies on the JEP's proposals, and we expect that they will update the trustee when these processes have concluded.

To facilitate the ongoing stakeholder reflections on these issues, the USS board notes:

- (i) that the proposals made by the JEP would require a willingness on behalf of stakeholders to take substantially more risk in the funding arrangements than had been recommended to the trustee through the substantial and lengthy discussions on funding risk that had led to the trustee's revised conclusions under the 2017 valuation;
- (ii) that the trustee is limited in the scope of issues that can be considered at this stage of the 2017 valuation, and constrained by procedural requirements and time limitations on re-opening previous decisions (due both to being significantly beyond the statutory time period set for this process to complete, and the need to meet expectations set by the Pensions Regulator); and
- (iii) should UUK agree to re-open discussions on the JEP proposals that relate to investment strategies and risk acceptance, a new consultation on these issues would be required, that would focus on the willingness to accept the various elements of the JEP proposals, and the ability to support and mitigate the increased risk.

In these circumstances, if UUK notifies the trustee before 14 November 2018 that it wished to:

- address any of the proposals made in the JEP report;
- restate their risk appetite and tolerance; or
- revisit the technical provisions underlying the 2017 valuation,

whilst we will continue with the 2017 valuation on the current basis and conclude that valuation by February 2018 (after consulting on the Schedule of Contributions and Recovery Plan), we will also commence in parallel a new valuation process dated at the most recent year end, 31 March 2018. This would allow for the most recent data, and any developments in perspectives on risk and related contingency to be addressed, as envisaged by the JEP report.

With the support of all stakeholders, the trustee would look to move quickly to consider any new views on risk appetite and associated mitigations that might be proposed and that subject to the stakeholders and the JNC reaching agreement on the issues, we would endeavour to ensure that the process could conclude in advance of the higher contribution increases envisaged under the 2017 valuation. The statutory deadline for filing a valuation dated March 2018 with tPR is 30 June 2019.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bill Galvin'.

Bill Galvin  
Group Chief Executive Officer

cc. Sir Andrew Cubie (by email)