<u>Response from the University of Liverpool to Consultation by the USS Trustee on the proposed assumptions for the scheme's Technical Provisions and Statement of Funding Principles relating to the 2018 actuarial valuation</u>

1. **Do you have any specific comments on the proposed assumptions for the 2018 valuation, including views on the proposed upper bookend and lower bookend?**

In respect of Q1 our views are as follows:-

- In previous consultation exercises, the University confirmed its acceptance to the Joint Expert Panel (JEP) report and recommendations which set the lower bookend rate at 29.2%. We can see no sound reason for USS's proposal to set the lower bookend at 29.7%. This is an important point as the employers and UCU have come together in supporting the JEP outcomes and this suggests that USS have paid no regard to the significance of this agreement.

- We would support an upper bookend total contribution rate of 32.2%, which includes deficit contributions at the lower rate of 3.5% over 14 years, rather than the 5% over 11 years suggested by USS. In the letter from the Pensions Regulator (tPR) to the Chair of Trustees, Sir David Eastwood, it was indicated that "the 2014 Valuation's recovery plan length at 17 years was a notable outlier particularly for schemes with a 'strong' or 'tending to strong' covenant." USS brought the term down to 14 years in the 2017 valuation. A 5% over 11 year term for deficit contributions would, therefore, mean greater prudence than in 2017 and at a time when the deficit itself has reduced significantly (from £7.5bn to £3.6bn). In view of these issues and the fact that that the sector does have a strong covenant and a long-term horizon, we can see no reason to reduce the term below 14 years, leading to a deficit contribution rate of 3.5%, in the 2018 valuation.

- With regard to the trigger mechanism, as the scheme is still open to new entrants, we consider self-sufficiency not be appropriate, but technical provisions as the right measure. We support the trigger being activated where the deficit is noticeably outside normal fluctuations of the fund and smoothing over 2 quarters has occurred.

2. **Do you support UUK putting forward a proposal for a contingent contribution (CC) arrangement to the USS Trustee as it requested? If not, would you prefer to pay at the upper bookend level, or what would your preferred response be?**

3. **Do you find the proposal for a CC's arrangement set out in the Aon note (attached to the paper) acceptable, taking all factors into account? If not, what aspects would you wish to change?**

- The University sees questions 2 and 3 as interrelated and so our response to both is conjoined

- On a general point, as we recall, in 2017, UUK rejected the premise of trigger contributions (section 7 of the UUK response to the September 2017 USS TP consultation) and suggested that they would be prepared to take legal advice on this matter on behalf of employers. We appreciate the explanation in the UUK briefing (27 February 2019) as to the reasons why employers may now wish to take CCs (which we see as trigger contributions) into account, but would suggest that the 'change in tack' made in 2017 needs to be addressed

- We do support Aon's proposal on CCs and for this to form the basis of the model to be put forward by UUK to USS (subject to amendment following the closure of the employer consultation). We note the tight timescale involved in concluding the 2018 valuation and appreciate the effort put into this by the UUK Pensions Team in conjunction with its advisers Aon.

- We are disappointed that USS chose not to prepare a proposal on CCs which was the original intention, instead leaving the acceptance of UUK's proposition to chance on the basis that it could be possible that USS do not accept that the UUK proposal meets all of its 11 principles. We hope, therefore, that USS will approach the UUK recommendations in good faith in order to progress the 2018 valuation to a swift conclusion.

- Clearly we are concerned that should there not be an agreement then the upper bookend (UB) will apply and this will impact on the University's financial and resource plans. The UB is more than the scheduled 1st October contribution increase and the University has not planned for a higher contribution rate at that point.

- The University's agreement to CC is on the basis of cost sharing along the existing arrangements for cost sharing introduced with the 2014 valuation. We also see CCs as an interim solution (for this valuation) whilst JEP 2 carries out its further work programme.

- We consider that the acceptance of CCs should be done on the basis that USS takes the JEP proposals into account in full and uses these as its starting point.

- Whilst we acknowledge that if CCs are introduced then this will form part of the USS rule framework, we would expect that the principle of using CCs is reset at each valuation. The rule should not be implemented automatically, rather the use of the rule has to be 'actively' agreed through governance mechanisms.

- We accept the principle of the upper bookend being rebated but request that where increases are necessary, because of a deterioration in the fund (assessed over a reasonable period and allowing for smoothing), six months' notice of the change is given and contributions from the lower to the upper bookend are stepped in 1% increments