**COUNCIL**

**USS Review Working Group**

Meeting room 6, Wellington Square, 11.00 am – 1.15 pm

**Minutes of the meeting of 30 August 2018**

Present: Professor Richard Hobbs (Chair), Mr Charles Alexander (by phone), Sir Andrew Dilnot, Mr Jaya John John (by phone), Professor Cecile Fabre, Professor Sam Howison, Professor Jane Humphries, Mr Giles Kerr

In attendance: Ms Jan Killick, Mr Russell Powles (Aon), Mr Stephen Rouse, Professor Anne Trefethen and (for item 10 only) Ms M Lambe (UUK), Mr B Mulkern (UUK), Ms M Duffield (USS), Mr J Rowney (USS).

Apologies: Professor Gordon Clark, Professor Danny Dorling, Mr Julian Duxfield, Professor Fabian Essler

1. **Apologies for absence and welcome**

Professor Gordon Clark, Professor Danny Dorling, Mr Julian Duxfield and Professor Fabian Essler had sent their apologies.

1. **Conflicts of interest**

Professor Humphries noted that she had taken a new non-pensionable post at another institution that participated in USS.

There were no other new conflicts of interest declared.

1. **Minutes of the previous meeting**

Subject to attaching the Group’s response to UUK on the USS Trustee’s proposal under Rule 76.4, the minutes were agreed.

1. **Matters arising from the minutes**

All matters arising from the minutes had been completed or were covered as separate agenda items, except under item 12 the discussion on remuneration comparisons required Mr Duxfield’s presence.

**Action: JD**

Prof Hobbs reported on agenda item 8 (Legal advice) that the Registrar and the University’s General Counsel had agreed to seek verbal advice from pension specialists at an external firm of solicitors. Mr Duxfield and Mr Mackie had had a telephone consultation that covered all the agreed options under review that might be covered by the USS exclusivity clause. As expected the view was that the USS exclusivity clause was tightly drafted and offering another pension arrangement or contributing to another pension scheme would breach the terms. Other than the use of a top-up within USS (on a defined contribution basis) or supplementing staff salaries with a view to individuals saving for their pension via a personal pension other options were not viable.

As the Group had had advice both internally and externally that came to the same conclusion on the effect of the USS exclusivity rule and that the advice reflected the Group’s interpretation of the rules it was agreed that written advice would not be sought, unless there was sufficient demand outside of the Group for it.

Sir Andrew noted that providing individuals with cash allowed them to freedom about how to save for retirement. If individuals were to be encouraged to save via a personal pension or similar it would not be possible for the University to offer a suitable product and the University could not offer financial advice. This was a complex area where individuals would need to understand the freedoms now available with pension saving, including flexibility about taking cash, drawdown and the opportunities of tax benefits of pension saving, albeit constrained by tax rules with limits of the Annual Allowance and the Lifetime Allowance.

Professor Hobbs noted that alternative defined benefit pension that many sought could not provided because of the USS exclusivity rules and that defined benefit did not give flexibility. Professor Humphries pointed out that any offer of additional cash compensation was of less significance to those nearer retirement and this illustrated that the perceived value of cash or pension would vary by age and by individual circumstances.

1. **Employer consultation on cost sharing contribution changes**

The group noted that the employer consultation would run for 60 days from 3 September to 2 November. There had already been comments via the Pensions Forum on the proposed changes. USS members would be directed to give feedback on the consultation via the online consultation portal that would be available from 3 September. The responses to the consultation could be accessed both by employers and USS. Ms Killick said that at the previous employer consultation the University reviewed the consultation feedback and reported to the USS trustee.

1. **Modelling examples of defined contribution type top up**

Mr Powles reminded Mr Kerr that although there were no proposals to change future benefits currently on the table, the group had agreed it would be helpful to illustrate the effect of a defined contribution (DC) top up in a couple of scenarios (with lowered salary thresholds) to better understand the sensitivity of the outcome to certain variables. It was agreed that Mr Powles should prepare an example with a salary of £72,000 and also if possible one covering career progression.

**Action: RP**

The modelling had assumed that the DC pot and the three times lump sum at retirement would be converted into a pension amount. The figures were presented in real terms, stripping out the effect of inflation. The assumed level of investment return impacted the DC pension reflecting the value of the DC pension pot and was sensitive to the assumed investment return. Mr Powles highlighted that the top-up costs were less for the younger member example as the contribution to the DC pot above the threshold (20% in total) was of more value to a younger member.

Sir Andrew commented that both scenarios had made the critical assumptions that the individual remained at the University until retirement and that this may be valid for some employees, it was unrealistic for many.

The limitations of the modelling were noted eg the rate for converting the DC pot into pension assumed the same level of benefits including spouse’s pension and annual pension increases. With the benefits of the pension freedoms it was no longer necessary to buy annuities and those with DC pots had more choice and could benefit from selecting options at retirement. The modelling showed that an average would be difficult to agree and there would be a great dispersion of outcomes, with factors such as gender, health and employment patterns having an influence. Professor Howison noted that any top-up type arrangement would need to establish the broad principles to implementation and the frequency of any re-assessement.

1. **Effect of cost sharing rule on contributions**

Subject to correcting the table, the group noted the paper.

1. **Legal advice**

The update was covered under matters arising.

1. **Communication update**

Mr Rouse reported that since the last meeting two emails had been sent to members covering USS, with over 5,500 out of more than 9,000 opening the most recent email. There were over 800 hits on the webpage with the worked examples, with a dwell time of 5 minutes (typical dwell times for webpages are less than one minute.

73 people had booked a place on the open forum on 18 September and over 90 had booked on the first session covering the proposed changes. Reminders would be issued nearer the time.

**Action: SR**

The group noted that the online forum had provided the opportunity for some debate on USS matters.

1. **Update from UUK and USS**

Ms M Lambe, Mr B Mulkern, Ms M Duffield, Mr J Rowney joined the meeting.

Mr Mulkern reported that UUK had sought clarity from USS on the applicability of the covenant advice that supported the view that 24.9% in 2020 was viable, particularly for the smaller employers (bearing in mind that USS had over 350 participating employers).

Sir Andrew asked if this level of contributions was required indefinitely and Mr Rowney explained that the required contributions should fall after 6 years as the deficit contributions should cease and USS expected investment returns to improve as interest rate reversion took effect.

Ms Lambe said that she thought that the Joint Expert Panel (JEP) had an effective chair and that the panel was asking appropriate questions. Asked if the JEP findings would be binding she explained that neither UUK nor UCU had guaranteed to endorse the findings, but both parties had agreed the terms of reference and both were expected to give an immediate response to the findings, with UCU balloting its members on the outcome.

Mr Rowney commented on covenant that the Pensions Regulator’s view remained that the employers’ covenant remained “tending” to strong, rather than strong. It also considered that the scheme valuation was at the top end of the spectrum for DB valuations in terms of risk. He confirmed that the Pensions Regulator had various powers in relation to valuations; these included imposing a schedule of contributions (but it had not to date used that power), ordering another valuation, and replacing the trustee board. He reminded the group that the deadline for the 2017 valuation had already past and the action needed to be taken now, rather than await any responses from the relevant parties following the findings from the JEP.

Prof Fabre asked about the impact on the valuation of the most recent longevity data published by the Office for National Statistics. USS had given information to the JEP on the financial effect of its longevity assumptions. Mr Rowney explained that USS members had the highest decile life expectancy in the UK compared with the general population and life expectancy was still improving. He pointed out that other countries (notably Japan and Denmark) had better life expectancy.

Prof Howison asked about the meaning of risk in the context of the valuation. Mr Rowney said that it was how the liabilities of the scheme moved relative to the expected return on assets and the assets held should not diverge from the liabilities more that the sector could support on a self-sufficiency basis. Liabilities for self-sufficiency were calculated using returns on gilts plus 0.75%.

Mr Rowney explained how rule 76 operated. It was not possible for an institution to have a split in contributions, other than 35%:65% employee: employer as this was defined in the rules.

Ms Lambe covered the issue of mutuality and the impact it had on three cohorts of employers: those who could afford the current level of provision, those who required a solution outside the outside the deemed level of affordable contributions and smaller employers who would like to exit USS, but weren’t able due to the section 75 debt issues. Any flexibility in alternative pension provision would require rule changes and so must be agreed by the Joint Negotiating Committee.

Ms Duffield thought it most unlikely that the Government would be keen to support the scheme.

Asked about Sheffield UCU’s analysis of future costs, Mr Rowney explained that the analysis assumed the same asset allocation and expected investment returns as currently, calculated on a best estimate basis. This ignored the risk and volatility over a 20 year period that would be at an acceptable level in the sector. To manage risk there was a need to change investment strategy (asset allocation) and that would impact the expected investment returns. Ms Lambe noted that best estimate did not meet the legally permitted requirements.

[Post meeting note: it is understood that the Sheffield UCU analysis had been carried out on a prudent (not best estimate) basis.]

Ms M Lambe, Mr B Mulkern, Ms M Duffield, Mr J Rowney left the meeting.

The group agreed that the presentations helpful and informative.

Prof Hobbs reflected that it was clear the University would need to work with other employers to find a long term solution to USS funding issues, and it could not be achieved in isolation with the governance and regulatory constraints.

1. **Any other business**

There was no other business.

1. **Next meeting**

The next monthly meeting: Tuesday 25 September 2018, 10.00 am – 11.30 am, Rooms 1 and 2, Wellington Square.

The meeting closed at 1.25pm