USS Review Working Group
12.30 – 14.00, Tuesday 19 February 2019
Venue: Bannister Room, Pensions Office, 6 Worcester St
(Lunch provided)

Agenda

1. Apologies for absence

2. Conflicts of interest declarations

3. Minutes of previous meeting – 14 January 2019

4. Matters arising from the minutes

5. Extract of Council paper on 2018 valuation assumptions – *to note*

6. Communications plan – *to agree and oral update*

7. 2018 valuation consultation update from USS to UUK – *to discuss*
   USS has asked UUK to propose a contingent contribution arrangement that is acceptable to employers. To allow time to do this the deadline for the response to the consultation on the 2018 valuation assumptions has be moved to 13 March 2019.

8. UUK webinar update – *to discuss.*
   UUK outlined the issues and framework for contingent contributions to employers. It plans to provide more details by 22 February at the earliest.

9. JEP Phase 2 – *to note*

10. Any other business

Date of next meeting – 11.00am to 12.30pm Friday 15 March 2019, Room 6 Wellington Square

Invitees:
Professor Richard Hobbs (Chair)
Dr Martine Abboud
Mr Charles Alexander
Professor Danny Dorling
Mr Julian Duxfield
Professor Fabian Essler
Professor Cecile Fabre
Mr Charles Harman
Professor Sam Howison
Professor Jane Humphries
Mr Jaya John John
Mr Lindsay Pearson

Apologies:
Professor Danny Dorling
Prof Anne Trefethen, Pro-Vice-Chancellor, People and GLAM

In attendance:

Ms Jan Killick
Mr Stephen Rouse
Mr Lucian Hudson
Mr Russell Powles, Aon
Ms Judith Finch, Conference of Colleges

USS Review Working Group
Bannister Room, 6 Worcester St, 10.30 am – 12.00 pm

Minutes of the meeting of 14 January 2019
Present: Professor Richard Hobbs (Chair), Mr Charles Alexander, Mr Charles Harman, Professor Jane Humphries, Mr Jaya John John, Mr Julian Duxfield, Professor Fabian Essler, Mr Lindsay Pearson, Professor Cecile Fabre

In attendance: Ms Jan Killick, Mr Russell Powles (Aon), Mr Stephen Rouse, Professor Anne Trefethen, Ms Judith Finch

1. **Apologies for absence and welcome**

Professor Gordon Clark, Sir Andrew Dilnot, Professor Sam Howison, Mr Giles Kerr, Dr Martine Abboud and Professor Danny Dorling sent their apologies.

2. **Conflicts of interest**
There were no new conflicts of interest declared.

3. Minutes of the previous meeting
The minutes of the meeting on 27 November 2018 were agreed.

4. Matters arising from the minutes
All matters arising from the minutes had been completed or were covered as separate agenda items.

5. Response to 2017 valuation consultation
Ms Killick circulated the final draft of the consultation response prior to the meeting. It was noted that the final version would be put on the University website. Prof Hobbs commented that the response required agreement by email to meet the USS and UUK's deadlines.

Mr Alexander received feedback from certain colleges that it would be helpful to share the Group's draft response to future consultations prior to the deadline. Prof Hobbs asked the Group how they felt about circulating draft responses to a wider audience. Prof Trefethen suggested sharing a document that was close to being a final draft would be preferable as there may be material changes from the initial draft.

Prof Hobbs questioned whether the distribution of the draft documents should be limited or were the Group comfortable issuing to a wider audience. Mr Alexander suggested issuing just to the Bursars, but this would be dependent on the time frame of when a final version would be available. Prof Hobbs proposed that agreement on when the Group were comfortable issuing each consultation response should be reviewed on a case by case basis. The Group agreed to focus on getting future consultation responses drafted quickly in order to share on the website in a timely manner.

6. 2018 valuation consultation document from USS and USS letter to UUK

Prof Hobbs briefly summarised the 2018 valuation consultation and USS letter to UUK. The consultation paper set out USS's initial views on the changes since the 2017 valuation, the implications on the exposure to risk and consideration of the JEP suggested valuation changes. The paper set out two potential contribution structures, the first encompassed changes the USS Trustees were willing to adopt without any increased security and the second, being an improved position, with additional security. The additional security was expected to be in the form of contingent contributions.

Prof Fabre highlighted an article in the Financial Times suggesting the deficit had been halved from the 2017 valuation. Mr Harman had likened the article to "fake news" and suggested it had not considered the specific details of the USS report. Mr Pearson commented that any contingent contributions or additional security such as negative pledges could cause issues for the sector's credit rating. This was due to the impact it would have on the ability to borrow debt on a secured basis and thus not pledging assets to another party. Mr Pearson highlighted that this form contingency could lead to credit rating agencies having a more narrowed view which would impact on what could be borrowed in the future.

Mr John suggested that the analysis from Aon would help clarify UUK's initial views on the proposals and the implications on the level of risk in the scheme. Mr Powles highlighted that the report was limited in its analysis of risk and failed to quantify the potential impact of the proposed JEP changes. Mr Harman suggested that the probability of a university defaulting was expected to have increased and that the overall level of risk within the sector had increased. Mr Alexander added that the Regulator was concerned with the size of the sector and the risks involved and agreed with Mr Powles that universities need to understand what the potential impact of these risks were.

Prof Essler questioned what the salary increase impact reflected in the sensitivity section of the report as this suggested increasing salaries by 1% reduced the liabilities. Mr Powles confirmed that this was the impact of reducing the salary increase assumption to CPI +1% from CPI +2%.

The Group discussed how the contingent contributions would work in practice. Ms Finch suggested that a contingent contribution should not be triggered in the 12 months prior to a new triennial valuation and that this should be reflected in the response on the consultation. Mr Pearson added that the consultation response should also reflect comments on the reduced recovery period compared to the 2017 valuation. The Group agreed that the following should be reflected in the draft consultation response:

The Group:

1. Continued to be accepting of the findings in the initial JEP report and the potential increase in risk as a result of including the proposals in the valuation.
2. Agreed that in considering risk the USS Trustee should not put undue weight on the short term volatility observed in financial markets and instead focus more on long term risk.
3. Was concerned by the significant reduction in the proposed deficit recovery period compared to the 2017 valuation and considered a recovery period in line with the 2017 valuation was reasonable.
4. Believed that if additional security was required then contingent contributions seemed to be the most realistic way of providing this.

In regards to the contingent contributions the Group agreed that they:

1. Should allow for the relative affordability of the universities and that a maximum contribution cap should be applied.
2. Should be long-term focused.
3. Shouldn't be changed if in a period of 12 months before a triennial valuation.
4. Should allow for contribution reductions if market conditions improved for a sustained period of time.

Prof Essler questioned what the limit of sustainable contributions in the future would be. Prof Hobbs confirmed that some institutions have said the current contribution structure is not sustainable in the future and so that should be the upper limit of the contingent contributions.

The Group agreed that an initial draft to the consultation should be drafted incorporating the above suggestions and should be distributed to the Group for review.

Action: **JK/RP**

7. USS discussion paper on 2018 valuation and tPR letter to USS
This was covered as part of item 6.

8. Draft paper for Council
Mr Duxfield summarised the draft paper to be issued to Council highlighting the possible options for alternative pension provision. The Group accepted the proposed summary and actioned this to be finalised and issued to Council.

Action: **JK/JD**

9. Communication update
Mr Rouse reported that the traffic on the pensions pages was low over the Christmas period. The most recent email was opened by 57% of the population. Mr Rouse confirmed the date of the next forum was 11 February 2019 and a webinar would be run on 8 April 2019.

10. Any other business
There was no other business.

11. Next meeting
The next monthly meeting: Tuesday 19 February 2019, 12:00 pm, to 13.30pm, Meeting room: Bannister Room, 6 Worcester St. Lunch will be provided.

The meeting closed at 12:00 pm

Extract from USS pensions – options and update paper for Council meeting 4 February 2019

2018 valuation.

1.4 Before Christmas the Pensions Regulator wrote to USS setting out its expectations for the 2018 valuation, in particular the need (if weaker valuation assumptions were adopted) to support any additional risk of reliance on employers with contingent support measures (Annex B). USS took the Pensions Regulator's position into account when it issued a formal consultation on the 2018 valuation assumptions to UUK, with a closing date of 28 February. UUK are now consulting with employers seeking a response to the USS consultation questions –"comments from UUK on the amount of risk employers are willing to support in funding the scheme and the contingent support they are willing to provide". The USS consultation document is available on SharePoint [link]. USS have categorised the JEP proposals in terms of risk and identified that incorporation of four of them into the valuation can be done without significantly increasing the aggregate risk position while the adoption of the remaining four would require the adoption of contingent support measures. USS proposed a possible range of contributions (29.7% to 33.7% depending on contingent contributions amongst others matters (this implies employer contributions, from the current rate of 18% to between 20.4% and 23%, if costs are shared with employees with a 35:65 split employees:employers). This would translate into an additional cost to the University of between £11m and £20m p.a.

1.5 USS are considering a number of contingent support measures and triggers for contingent contributions. Further details on possible triggers are expected from UUK at the end of January.

1.6 The USS working group meeting on 14 January held preliminary discussions on some key points. The Group:

- Continued to be accepting of the findings in the initial Joint Expert Panel (JEP) report and the potential increase in risk as a result of including the JEP proposals in the valuation.
- Felt that in considering risk the USS Trustee should not put undue weight on the short term volatility observed in financial markets and instead focus more on long term risk.
- Was concerned by the significant reduction in the proposed deficit recovery period compared to the 2017 valuation (from 14 years to 10 years) and felt a recovery period in line with the 2017 valuation was reasonable.
- Wanted a better understanding of the risks that USS presented to the sector as whole, in the context of other factors such as Brexit and the Augar report.

In regards to the USS proposals on contingent support, the Group agreed that if additional security was required then the option of contingent contributions was most realistic of the alternatives presented (negative pledges, contingent assets, surety bonds and ring-fencing of cash reserves). The Group also agreed that any such arrangement:

- Should allow for the relative affordability of contributions for all universities, not just Oxford, and that a maximum contribution cap should be applied.
- Should be long-term focused.
- Shouldn't be changed if in a period of 12 months before a triennial valuation.

- Should allow for contribution reductions if market conditions improved for a sustained period of time.

1.7 The USS working group will consider further its proposed response on the issue of contingent contributions once more detailed information is available at the end of January. If UUK material is available by this Council meeting an oral update will be given at the meeting. The Working Group will finalise a response to UUK at the group's meeting on 19 February 2019, and a final draft will be circulated to Council but timing will be tight for the 25 February deadline.

PAD COMMUNICATION PLAN – PENSIONS

SPONSOR & LEAD
Sponsor: Anne Trefethen, Pro-Vice-Chancellor, People and GLAM Leads: Lucian Hudson, Director Public Affairs and Communications Stephen Rouse, Head of University Communications
CONTEXT: RISK/OPPORTUNITY
Industrial action and a Congregation meeting in the early weeks of 2018 highlighted the strength of feeling across the University in favour of a direct benefits pension scheme. These events also revealed a need for improved internal communication about national negotiations on the USS scheme and the University's own involvement. New communication channels have been established, and broadly welcomed by staff, but there is potential for further debate and challenge, once more detail of the USS proposals for a new valuation emerges.
OBJECTIVES (3 max)
To inform staff about the choices they face To inform staff about the choices the University faces To inform staff about the likely impact of various proposals for the USS valuation
SUCCESS CRITERIA
A fast and accurate flow of information to staff, with effective co-ordination of communications and messages across channels University-wide confidence in council and the working group's efforts to secure the best possible pension settlement
MEASURES & METRICS
Attendance and feedback from forum events Active involvement in the online forum Hit rates on the University's Pension information pages Opening rates on staff emails and newsletters Positive media coverage of University comment and statements (where applicable)
TIMING & PRIORITIES
Ongoing Regular updates of working council minutes and USS/UUK/UUK/JEP developments **February 28 (tbc)** Communication of University response to UUK consultation on new valuation **April 1** First phase of 2017 valuation increases to kick in – staff to be reminded to prepare **June 30** Deadline for 2018 valuation to be completed staff to be appraised immediately of outcome and implications **October 1, April 1 2020** (Proposed) Second and third wave of contribution increases – staff to be kept informed and reminded **Long term**

Continued updating of the website on the long term efforts to secure a stable future for USS (JEP 2)

PLAN OF ACTION

Scoping

Over the past year, we have improved the internal communications architecture around pensions. The tone has been neutral and informative, rather than campaigning. Informal feedback from staff is they have found this approach helpful. The progress of the 2018 valuation over the next four months is likely to be complex and contentious. PAD intends to undertake a staff survey before the end of the current UUK consultation period to formally evaluate the effectiveness of internal communications and assess whether any change in approach or additional communication channels should be considered over the coming months. The priority will remain to provide colleagues with as much information as possible, using and improving all existing channels, to meet their most pressing concerns. We will be open when information is not available, reassuring staff we are urgently seeking answers.
Externally, we will continue to liaise with UUK and USS on their communications and ensure fresh information about the valuation is passed on from them to staff as swiftly as possible.

Key concerns that need to be addressed within the University

Direct Benefits – That these could be lost to a DC scheme
Increasing contributions – That the phased increases under the 2017 scheme will be unaffordable and some colleagues may consider leaving USS
The scheme deficit – A suspicion that contributions have been mismanaged and that USS trustees have exaggerated the scale of the deficit
The JEP jeopardy – Fear that JEP's solution to the valuation problem will be blocked unnecessarily by some combination of Universities, USS and the pensions regulator
The Oxbridge influence – the claim that Oxford, Cambridge and their colleges acted collectively to influence UUK's attitude to risk (the so-called double vote)

Preparation: messages, audiences, channels, advocates/spokespeople, influencers/supporters, resources

Messages:

- The University is working to achieve the best possible pensions settlement the University and staff can afford
- The University is informing and engaging staff in the ongoing process, locally and, as far as possible, nationally
- The University believes remaining the USS scheme is the only viable option and supports the approach to valuation outlined in the JEP report.
- We will all face difficult choices
- We have the best interests of Oxford at heart, now and into the future

Audiences:

- Internal, primarily USS pension holders but all staff on wider issues affecting University finance

- Media – a secondary audience but may need to be considered if the issue, and Oxford's approach, become contentious again

Channels:

- **University web-page**
  The page seeks to be easily understood, recognising that pensions are a complex area and that many people do not grasp all the detail and terminology. It contains links to the Online Forum set up to facilitate communications between Council and Congregation. It also hosts briefing material (either written by PAD, UUK or already available on the USS site) including: a short history of the USS scheme; a guide to the USS scheme and its structure; a timeline showing possible options over the next 12 months; a who's who of our Pensions Working Group, and an outline of its remit; an overview of options available to Oxford; an overview of pension regulation.

- **Social media**
  Institutional messages are posted on the main university channels where levels of commentary reach a sufficiently high point.

- **Face to face**
  Physical events have been important in complementing the online work. Pensions Open Forum events have been held where all pensions issues are discussed including the work of the Pensions Working Group. These are all recorded and the video posted on the pensions website. Hour long consultation sessions were also been held on the USS cost-sharing proposals in the autumn of 2018 as part of the formal UUK consultation.

- **Staff emails/newsletter**
  Staff emails from Council, the Vice-Chancellor, PVC for People and Director of HR have circulated more frequently, updating colleagues on the latest developments at national level, the University's own thinking and forthcoming consultation meetings. The creation of a new staff email, Blueprint Bulletin, has complemented this messaging, guiding staff to the further information available on the website.

- **Spokespeople**
  The Vice-Chancellor (highest level and most significant developments only)
  Pro-Vice-Chancellor for People and GLAM
  Chair, University Pensions Working Group
  Director, Human Resources

Resources:

- **Employers communications**
  UUK has delivered a range of materials to support employers in communicating with their staff on pensions during what is likely to be a complex period where we have the 2018 valuation consultation from the USS Trustee. There will be a regular e-newsletter from UUK to alert employers to new content. All materials have been made available to employers for them to draw from or to customise with their

own branding and supplementary information where appropriate. To request specific digital content or to sign up to the e-newsletter email: pensions-update@universitiesuk.ac.uk.

- **USS Pensions Hub:**
  www.ussemployers.org.uk – provides facts and explanatory materials on all aspects of the valuation. In addition, a new Twitter account: @USSEmployers – has been launched and which is dedicated to USS pensions, enabling UUK to promote content, and providing more capacity to answer questions and respond to other public comment where they believe it is necessary.

Implementation

Ongoing

- The web page will be updated with: Developments or announcements from USS, UUK, or the Regulator; Minutes from the Pensions Working Group; Developments or announcements from the Joint Expert Panel; Presentations (such as a videos of the Forum presentations); Specially commissioned material, for example to illustrate the benefits and downsides of DB vs DC schemes for different categories of staff. The page will be open in stance, providing links to all relevant websites: USS, UUK and UCU, including media coverage of the USS scheme.

- A PAD-created social media toolkit will be provided for departments and divisions to post on their channels – this will have a lower propensity for public/media criticism and a higher propensity to reach staff, containing the following: Copy and assets; Shortened link that we can monitor the rate of clicks through; Advice on what to do in case of criticism; Links to the online forum for Q and A; Links to the pensions website; Response criteria developed and agreed for all channels.

February 28 (or later if UUK consultation extends)
Staff email updating on the full USS proposals for the 2018 valuation and the University response, linking to both documents on the staff website and also giving details of the online forum proposed for April 8

Mid-March

Staff email updating on proposed next steps following the valuation consultation (if known) and reminder of the Phase 1 increased contributions due to take effect on April 1.

April 8

Online webinar (to be hosted by the Saïd) following the format of the physical forums, updating on all aspects of the pensions issue

June 30

Update on changes to contributions in the wake of the 2018 valuation (assuming USS meets the deadline). Further communications around future phased increases will depend on the outcome of the valuation.
Review
Given the decline in numbers attending the open forums, PAD intends to survey staff in February, on the video of the latest forum presentation has been posted. We will ask staff what communication channels they find most useful, whether there are others we could be using and whether there is information they feel they are not currently receiving.
Evaluation
PAD will continue to update the Pensions Working Group on hit rates for the pensions page and staff communications, evaluating on an on-going basis which channels are proving the most effective. Particular consideration will be given to the success of the April webinar and whether it represents a more effective alternative to face-to-face forums.
APPROVALS and CO-ORDINATION
Top-level communication of the University approach and views – VC Internal communications – Anne Trefethen (PVC portfolio holder), Richard Hobbs (working group chair) HR Contacts – Julian Duxfield, Jan Killick

USS

USS WG
Item 7 02/19

Mr A Jarvis
Chief Executive
Universities UK
Woburn House
20 Tavistock Square
LONDON
WC1H 9HQ

Your Ref
Our Ref BG/JMR
Date 8 February 2019

By email only

Dear Alistair

The 2018 Actuarial Valuation and Contingent Contribution Arrangements

Following recent meetings of the Trustee Board, and your letter of 30 January, I am writing to share with you the USS trustee's position on contingent contribution arrangements, as employers consider their responses to UUK on the Technical Provisions consultation for the 2018 valuation.

As committed to in our letter of 21 December, the trustee completed further analysis in January, including modelling of parameters and scenarios within the framework previously outlined. As you know, we have shared some of the results of that modelling with UUK and your advisors, Aon, and at a high level with the Employer's Pension Forum (EPF) on 29 January.

At its meeting on 31 January, the board considered the proposed framework for the 2018 valuation. During those discussions, the board reaffirmed its view that, in the absence of contingent contributions to underpin an increased level of risk, the contribution rate of 33.7% should apply. The board also agreed to a set of principles that, if met, would make it likely that a contingent contribution arrangement could move that base contribution level towards or to the lower 'bookend' of 29.7%.

The board noted the concerns raised by UUK in relation to the modelling of parameters and scenarios that had been shared with the EPF on 29 January, and, in particular, the concerns expressed that the model that had been illustrated within the framework is one that employers would find hard to accept.

The board agreed to invite UUK, in consultation with employers, to propose a contingent contributions arrangement that they feel able to support. Part of that consideration may require UUK and employers to form a view on the optimum balance of fixed-versus-contingent contributions that they may be willing to support.

I have enclosed that "Framework and Principles" document here for sharing with employers as supplementary information to the Technical Provisions consultation.

The executive stands ready to support further discussions as UUK and their advisors develop their proposals, in consultation with employers, on a contingent contributions arrangement, and will share the analysis that has been produced so far.

These are important and complex matters that need due consideration. In light of these latest developments, and cognisant of the internal decision making and governance timelines for employers, we propose to extend the closing date of the Technical Provisions consultation to **no later than 1700 hours on Friday 15 March.**

The trustee remains committed to the statutory deadline for completing the 2018 valuation of 30 June 2019, and is acutely aware of the desire of the stakeholders to conclude the 2018 valuation and put in place a revised Schedule of Contributions such that the later phases of contribution increases under the 2017 valuation can be mitigated or avoided.

Thank you for your continued engagement on these important matters. We look forward to working with you closely as you formulate your proposals for contingent contribution arrangements with the support of employers.

Yours sincerely

Bill Galvin
Group Chief Executive Officer

Enc.

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USS

Universities Superannuation Scheme

2018 Actuarial Valuation

A Framework for Contingent Contributions

7 February 2019

Contents

1. Introduction

This document sets out a framework for contingent contributions, which was outlined at a high level in the Technical Provisions and Statement of Funding Principles consultation document for the 2018 Actuarial Valuation (the "Consultation Document"). See the Consultation Document section 7.3, pp. 20-21 and Appendix D, pp. 29-30.

The starting point for contingent contributions is the so-called "upper bookend" for 2018 technical provisions (Section 7.1 of the Consultation Document, pp. 17-19). The upper bookend refers to the contribution required by the Trustee in the absence of contingent support. This amounts to **33.7%** of salary (being the sum of the future contribution requirement of 28.7% and a deficit recovery contribution of 5%).

With a sufficiently strong arrangement to provide contingent support, the Trustee believes it is possible to grant a rebate against the upper bookend and as such agree a base level of contributions that is lower than this upper bookend. This is explained in Section 7.2 of the Consultation Document (pp. 19-20), where it was noted that the Trustee's "lower bookend" with appropriately robust contingent support is a contribution rate of slightly less than 30% of salary.

Section 2 of this document presents a rationale for the contingent contribution framework that is discussed in this document. This is followed in Section 3 by a summary of the various contingent arrangements that have been used in other UK pension schemes.

Section 4 then presents 11 principles that the Trustee considers must underpin any contingent contribution arrangement. These principles support the framework for contingent contributions that is presented in Section 5 and must also underpin any agreed input parameters.

The contingent contribution framework described herein is a development of the tentative outline provided in the Consultation Document.

2. Rationale for a contingent contribution arrangement

As explained in the Consultation Document, there are a number of ways in which the valuation methodology and assumptions could be adjusted in order to achieve a contribution rate of slightly less than 30% of salary, instead of the upper bookend of 33.7%. All of these involve the Trustee adopting more risk in funding the scheme. The Trustee believes it would be possible to justify this providing there were steps in place to rectify the scheme's financial position should this additional risk crystallise in the form of an adverse funding outcome.

A major component of the upper bookend contribution rate of 33.7% is the deficit recovery contribution (DRC) of 5%. The Consultation Document explained that the main reason for requiring this level of DRC was the level of risk associated with the scheme's short-term reliance on the employers' covenant (see Section 7.1, pp. 17-19). Between 31 March 2014 and 31 March 2017 short term reliance (measured as the difference between the assets required on the self-sufficiency basis and those currently held by the scheme) increased from £11.6bn[1] to £22.4bn. At 31 March 2018 it amounted to £20.8bn.

Whilst the Trustee believes there is a credible path to an acceptable level of reliance in 20 years' time, there are considerable downside risks that need to be managed in that process. The concern is that reliance could grow to such a level that employers cannot collectively support it. To date, the amount of long-term reliance that the sector has been prepared to support has been evaluated in terms of additional contributions, expressed as a percentage of salary over time. Table 1 gives the percentage of salary required over different time periods to meet different levels of the self-sufficiency deficit.

Table 1: Contributions required to meet different self-sufficiency deficits over different periods (% of salary).

Years over which additional contributions payable	10yrs	20yrs	30yrs
Self-sufficiency deficit			
£20bn	22.8% p.a.	10.5% p.a.	6.4% p.a.
£23bn	26.2% p.a.	12.1% p.a.	7.4% p.a.
£25bn	28.5% p.a.	13.2% p.a.	8.1% p.a.

Reducing contributions below the upper bookend increases the risks associated with funding the scheme. Contingent contributions provide a means of lowering the base contribution rate and controlling risk by collecting additional contributions when they are most needed. Having a high fixed contribution rate is a very blunt instrument for addressing additional risk in any actuarial valuation, since this must be paid in scenarios with good outcomes as well as in scenarios with adverse outcomes.

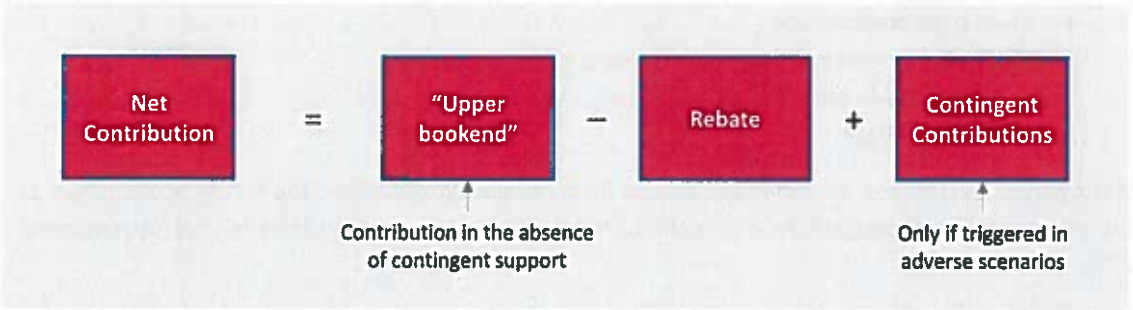
[1] The £11.6bn for 2014 corresponds to measurement of self-sufficiency on a similar basis to 2017 and 2018, i.e., using a discount rate of gilts + 75bp.

By contrast contingent contributions are more precise in that they target only those scenarios with adverse outcomes.

With an appropriate contingent contribution arrangement that incorporates an agreed automatic response should the above risks materialise, the Trustee believes it can justify lowering its required contribution rate, essentially providing a "rebate" against the upper bookend. This rebate is provided in exchange for the contingent contribution arrangement, which effectively reduces the rebate in scenarios in which it is triggered.

Under such an arrangement, the net contribution may be represented as detailed in Figure 1.

Figure 1: Net contribution rate under the contingent contribution arrangement discussed in this paper.



3. How other pension schemes have used contingent support

Contingent contribution arrangements are only one of a range of contingent risk mitigation mechanisms that have been used by UK trustees and employers to support defined benefit pension schemes and ensure adequate funding.

In Mercer's universe of schemes which had an actuarial valuation in 2016 or 2017 some 45% (of a total of around 360 schemes) had some form of contingent risk mitigation in place, or were in the process of agreeing such an approach.

The various forms of contingent risk mitigation include:

- Parent (or other group company) guarantees;
- Contingent contribution arrangements;
- Escrow agreements;
- Special purpose vehicles;
- Charges over other assets (including property;
- Letters of credit (aka bank guarantees);
- Negative pledges.

Whilst parent guarantees are the most popular form of risk mitigation provided (73% of the schemes with or considering contingent arrangements), contingent contributions are the second most popular (21%).

The rationale for adopting contingent contribution arrangements is generally very specific to the circumstances of the individual schemes. The objectives of such an arrangement include:

- To manage the funding level of the scheme to ensure it does not become excessively funded;
- To address non-funding related issues, such as profit/dividend related triggers or changes in corporate structure and covenant strength;
- To balance differences in views between the trustee and sponsor on investment strategy and recovery plans.

Where the contingent contributions are triggered by the funding level this is, in the vast majority of cases, measured on a technical provisions basis, which for the vast majority of scheme's in the Mercer universe is based on "gilts plus".

Many of the triggers focus on maintaining 100% funding with contributions being payable to restore this level over a relatively short period and ceasing when the target is reached.

Negative pledges have been used for some schemes and are useful in protecting the long-term value of the covenant provided by the employers. Implementing negative pledges in multiemployer schemes is challenging in terms of documenting the pledges and ensuring the conditions are applied equally across all employers. The Trustee believes that they are not, however, a substitute for higher, or contingent, contributions.

The contingent contributions framework outlined in this paper has similarities to those adopted by other trustees in that it is focused on the particular circumstances and issues faced by USS.

4. The Trustee's principles for contingent contributions

The Trustee has formulated a number of principles that any acceptable arrangement for contingent contributions should satisfy. These principles are listed below.

Principle 1. Efficacy

The structure of any contingent contribution arrangement should be practical, transparent, unambiguous and as simple as possible.

As such, this means that the framework for contingent contributions must avoid being overly complex and focus on being as practical, straightforward and clear as possible. This means, for example, that changes to contribution levels should probably occur on fixed dates following an agreed notice period after a trigger event. Furthermore, any increase in contributions should remain in force for a minimum period of time.

Principle 2. Objective metric

The metric that is used to trigger contingent contributions should be objective and not require subjective judgments, interpretations or a decision-making process.

This means that the definition of the metric must be clear and unambiguous so that it can be evaluated in a straightforward and objective way. Any two people armed with the definition and appropriate data should agree on their calculations for the value of the metric and whether or not there is a trigger event. Because of this principle, it is difficult to see how a technical provisions measure of the funding deficit can be an appropriate trigger metric, unless it is measured on a "gilts-plus" basis.

Principle 3. Alignment

The mechanism for triggering contingent contributions should be sufficiently sensitive to data that could signify that current contributions may not be adequate.

This means that the mechanism for contingent contributions must be aligned to the underlying reason or concern behind the requirement for contingent contributions, and must lead to a trigger event that reflects that concern at the appropriate time.

Principle 4. Robustness

The mechanism for triggering contingent contributions should be robust in the sense it is not triggered solely in response to short-term market volatility.

This means that, despite the fact that asset values and financial market rates and yields are highly volatile, the trigger mechanism for contingent contributions must be designed to respond to medium-to-long term adverse scenarios and be largely immune from short-term volatility. Taking an average of the trigger metric is one way to mute short-term volatility. Another is to require the trigger metric to remain above the threshold for a minimal period of time before contingent contributions are triggered.

Principle 5. Safety valve

Contingent contributions once triggered should be terminated over a reasonable period should data suggest that they are no longer needed.

This means that the mechanism for contingent contributions must respond appropriately to the situation in which an adverse scenario reverses, leading to a significant improvement in funding and/or a reduction in risk. In such a situation, contingent contributions should be terminated in a reasonable time frame.

Principle 6. Materiality

Contingent contributions once triggered should be sufficiently material such that, if they were sustained over the long term, they would substantially improve the funding position in adverse scenarios.

This means that contingent contributions should make a significant impact in terms of rectifying adverse scenario outcomes.

Principle 7. Quantum

In adverse scenarios in which contingent contributions are triggered, the aggregate quantum of the contingent contributions should broadly similar to the Trustee's contribution requirement in the absence of contingent arrangements over a reasonable period of time.

This means that contingent contributions, when triggered in an adverse scenario, should perform a broadly similar improvement role in that scenario to what non-contingent, fixed contributions would have done. There should be no significant detriment to the funding position (relative to fixed contributions) over a reasonable time period after the start of an adverse scenario. Another implication of this principle is that the time lag between a trigger event and the introduction of contingent contributions must not be excessively long.

Principle 8. Durability

The contingent contribution arrangement should remain in place until a revised Schedule of Contributions comes into force following a future valuation.

This means that the contingent contribution arrangement should be designed and committed to as a long-term arrangement, just as for regular, fixed contributions as part of a recovery plan in any typical valuation.

Principle 9. Covenant

The contingent contributions should be consistent with the findings of the most recent review of the employers' covenant.

This means that the sizing and timing of contingent contributions should be appropriate to the covenant results. This means stepping up contingent contributions over time, rather than jumping immediately to a high level. It also means setting a cap to the maximum size of contingent contributions.

Principle 10. Legally binding

The contingent contribution arrangement should be legally binding and documented as part of the Schedule of Contributions.

This means that contingent contributions must be paid in the same way that regular, fixed contributions must be paid.

Principle 11. Payment certainty

The Trustee must be sufficiently comfortable that contingent contributions would be paid in full if triggered.

This means that the trustee must have complete confidence that contingent contributions can and will be paid, when triggered, as they fall due.

5. A contingent contribution framework consistent with the principles

The contingent contribution framework that we describe in this section has been designed to fulfil the objective of providing higher contributions only when they are needed, i.e., in adverse scenarios. Furthermore, it has been formulated to be consistent with all of the Trustee's Principles described Section 4.

Note that we describe only the structure of the framework and do not specify what suitable values might be for the parameters. Nor do we present any analysis.

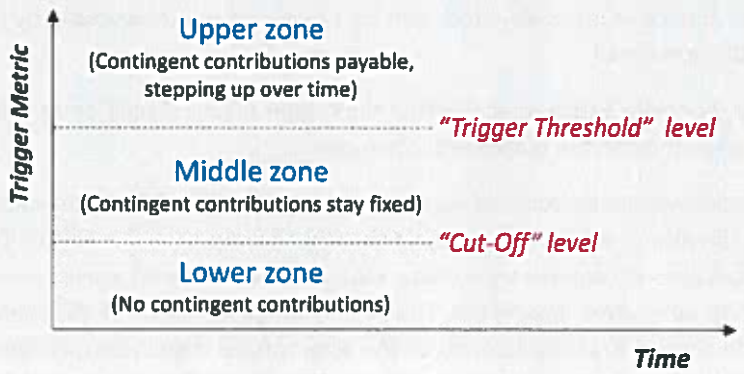
5.1 Overview of the structure

Essentially, the arrangement works as follows. Instead of paying the full required contribution rate equal to the upper bookend of 33.7% of salary, employers pay a lower *rebated* contribution rate, but with the caveat that they must pay additional contingent contributions on top of this rebated rate should they be needed. Effectively the contingent contributions offset some or all of the rebate, but only in adverse scenarios. This arrangement leads to a significantly lower expected cost over the long term, but at the same time provides protection to scheme funding when it is needed.

In this structure, contingent contributions are controlled automatically through the values of a particular "trigger metric". There are three ranges of outcomes, or "zones", for the trigger metric and three corresponding states for contingent contributions (see Figure 2). The relationship between contingent contributions and the zone in which the trigger metric falls is as follows:

- *Upper zone:* Contributions step-up over time up to a maximum. (If the trigger metric is in this zone for a minimum period then contingent contributions will kick-in and rise in predefined steps, up to a maximum).
- *Middle zone:* Contributions stay constant. (If the trigger metric is in this zone for a minimum period then contingent contributions remain unchanged, i.e., if they are zero they remain at zero, if they are 2% they remain at 2%).
- *Lower zone:* Contributions fall to zero. (If the trigger metric is in this zone for a minimum period then contingent contributions are reduced to zero).

Figure 2. The three zones for the trigger metric which are proposed for the contingent contribution approach.



Defining the arrangement in this way provides the basis for consistency with Principle 1 (Efficacy) and Principle 5 (Safety valve).

5.2 How it works – practicalities

If adverse scenarios materialise, the trigger metric would move into the upper zone, triggering contingent contributions which partially offset the contribution rebate. If the trigger metric remains in the upper zone, above the predefined trigger threshold, then contingent contributions would increase periodically, further offsetting the contribution rebate. However, even if the trigger metric remains in the upper zone, contingent contributions would stop increasing once a predefined maximum contribution has been reached. These step-up features are consistent with Principle 9 (Covenant).

If, once contingent contributions have been triggered, the trigger metric should fall back into the middle zone, then contingent contributions are held fixed at whatever level they were before they entered the middle zone. If, however, the trigger metric should fall all the way into the lower zone, then contingent contributions would cease and the full rebate would be reinstated.

There are some important practical points regarding the operation of the arrangement:

- Employers should be given a pre-specified notice period before contingent contributions would become payable.
- Once the trigger threshold has been crossed, the trigger metric should remain in the new zone for a minimum period of time before contingent contributions start.
- Once a new level for contingent contributions is set, it should remain in force for a minimum period of time.

Note that the overall size of contingent contributions should be sufficiency large to satisfy the requirements of Principle 6 (Materiality).

For consistency with Principle 7 (Quantum), the maximum contingent contribution is likely to be slightly greater than the contribution rebate. This would be necessary to make up for the periods in which contingent contributions are still stepping up and are consequently below the level of the rebate. This is slightly different from the outline in the Consultation Document.

5.3 The trigger metric

The trigger metric should be consistent with Principles 1 (Efficacy) and 2 (Objective metric). Specifically, it should be an objective measure which can be calculated unambiguously by different parties, once defined in sufficient detail.

It should be consistent with Principle 3 (Alignment) in that the trigger metric should be a reflection of the risk associated with the reliance on the employers' covenant.

Some potential trigger metrics will not be suitable because they fail Principle 2 (Objective Metric), as they involve subjective judgements and are *not* objective. One example of this is the Technical Provisions Deficit, whose calculation requires up-to-date values of the technical provisions discount rate, which depends on two subjective judgments. The first is an assessment of expected future investment returns and the second is an assessment of the appropriate amount of prudence to be subtracted from the expected return. It may still be possible to define a suitable trigger metric related to technical provisions, but it would need to be modified to be calculated in a fully objective manner.

Another potential challenge with any trigger metric is that it is subject to volatility and may not necessarily be reflective of a sustained change in the scheme's risk position – this is the case of a so-called "false trigger". As such a metric suffering from this disadvantage would not be consistent with Principle 4 (Robustness).

However, this challenge can be addressed by using a moving average of the underlying metric, so that volatility is muted by the process of taking an average over an appropriate period of time. Furthermore, setting a requirement for the metric to exceed the trigger threshold for a minimal period of time before a trigger event occurs would also act to reduce the impact of volatility.

5.4 Trigger threshold level

The level of the trigger threshold is an important parameter in this framework. It sets the level at which contingent contributions will be initiated, once the trigger metric has exceeded this level for a specified period of time. The lower the trigger threshold, then the more likely it will be that contingent contributions are triggered. If it is set too low, then contingent contributions will be triggered by scenarios that don't require them. On the other hand, if it is set too high, such that only the most extreme scenarios trigger contingent contributions, then some very adverse scenarios that really do need such contributions may not be triggered early enough.

Risk appetite is a key input for setting the appropriate level of the trigger threshold. This reflects Principle 3 (Alignment).

5.5 Balancing the risk of missed triggers vs. false triggers

No trigger mechanism is perfect and there is always a risk that this contingent contribution arrangement does not trigger when it should (i.e., an adverse scenario is not identified early enough), as well as a risk that it triggers and thereafter reverts (i.e., a short-term statistical fluctuation triggers the arrangement in a benign scenario). This is related to Principle 4 (Robustness).

There are a number of steps that can be taken to find the appropriate balance between missed triggers and false triggers. These include:

- Defining the trigger metric appropriately. To reduce the volatility in the trigger metric it could be defined as an average over a suitable period of time.
- Requiring the trigger metric to exceed the trigger threshold for a minimum period for a trigger event. This avoids the situation where a short-term spike that does not signify an adverse scenario triggers the arrangement.
- Implementing a contingent contribution "cut-off". By incorporating a cut-off level for contingent contributions, then situations in which there is a false trigger event (due to a medium-term deterioration that is later reversed, for example) can be rectified.

5.6 The lag period

For operational reasons, it will be necessary to define a minimum period after a trigger event to allow time for contingent contributions to be implemented. It is also likely to simplify the operation of the mechanism if the time at which implementation of contingent contributions would take place are fixed dates in the year. Combining both of these leads to a variable lag period, but with a minimum amount of time between triggering and implementation.

Clearly the lag period should not be too long, or the benefit of the contingent contributions that have been triggered will be diminished. Increasing the lag period would necessitate a higher contribution

level to compensate. On the other hand, a lag period that is too short would be operationally challenging.

5.7 The key elements of the framework

The key elements of the contingent contribution framework include the trigger threshold and cut-off levels, as well as the size and profile of the contingent contributions themselves. The full set of framework elements is shown in Table 2.

Table 2. Key elements of the contingent contribution framework.

Framework element	Definition
Upper Bookend	The required contribution rate in the absence of contingent support. This is **33.7%** of salary.
Contribution Rebate	This is the amount by which the regular contribution rate (*Upper Bookend*) is reduced because of the contingent contribution arrangement.
Base Contribution Rate	This is the *Upper Bookend* minus the *Contribution Rebate*. Contingent contributions would be paid on top of this *Base Contribution Rate*.
Trigger Metric	This is the metric that is monitored to see if contingent contributions have been triggered. This should be defined in terms of an objectively calculable metric averaged over a suitable period of time
Trigger Event	Contingent contributions start if the *Trigger Metric* exceeds the *Trigger Threshold* for a certain pre-specified period of time.
Trigger Threshold	This is the level of the *Trigger Metric* above which contingent contributions are triggered (provided the *Trigger Metric* remains above the *Trigger Threshold* for a specified minimum period of time).
Cut-off Event	Contingent contributions cease if the *Trigger Metric* remains below the *Cut-off level* for a specified minimum period of time.
Cut-off Level	This is the level of the *Trigger Metric* below which contingent contributions would cease.
Payment Lag	This relates to the date (subject to a minimum time period) on which contingent contributions would be implemented following a *Trigger Event*. In a similar vein, this also relates to the date (subject to a minimum time period) on which contingent contributions would cease following a *Cut-off Event*.
Minimum Payment Period	Whenever the amount of contingent contributions increases, it must be held at this level for a minimum period before it can change again.
Contingent Contributions Quantum and Schedule	Once triggered, contingent contributions should step up in pre-specified steps over pre-specified time scales, provided the *Trigger Metric* is still above the *Trigger Threshold*. There should be a maximum contingent contribution, which is reached after stepping up from lower amounts.

6. Conclusion

This document has presented the Trustee's principles for contingent contributions and outlined a framework for contingent contributions that is consistent with those principles.

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USS valuation: taking stock, and next steps

A webinar for USS participating employers

Professor Alistair Fitt: Vice-Chancellor, Oxford Brookes University and EPF member
Stuart McLean: Head of Pensions, Universities UK
John Coulthard: Partner, Aon (adviser to Universities UK)
Sharon Moore: Pensions Policy and Engagement Manager, Universities UK
Brendan Mulkern: Senior Pensions Adviser, Universities UK

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Introduction

Universities UK

Introduction from Professor Alistair Fitt
Vice-Chancellor of Oxford Brookes University and member of the Employers Pensions Forum

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Overall structure for the webinar

USS valuation: taking stock, and next steps

1. **Introduction from the Chair**
   Professor Alistair Fitt, Vice-Chancellor of Oxford Brookes University
2. **Taking stock … what we know, and a recap on the key developments**
   Brendan Mulkern, Universities UK
3. **The next steps for employers, our areas of focus, and JEP2**
   Stuart McLean, Universities UK
4. **2018 valuation – Contingent Contributions**
   John Coulthard, Aon
5. **Questions from employers**
6. **Close**
   Professor Alistair Fitt, Vice-Chancellor of Oxford Brookes University

Taking stock … what we know, and a recap on the key developments

Brendan Mulkern, Universities UK

Taking stock, and a recap on the latest developments

- The 2017 valuation has been concluded, and has effectively created backstop levels of contributions
- We await further information from USS about the accounting provision for the £7.5bn deficit. The DRCs moved from 6% of salary to 5%.
- We understand now remitted to the Pensions Regulator – unlikely we will see any challenge as focus is on 2018 valuation?
- The 2017 valuation contributions are wholly unsustainable for all stakeholders, and therefore equally interested in new outcome
- Primary objective is to ensure that October 2019 increases don't come into effect. Clear timescale challenges with this.

The latest context, looking at the trade-offs, and next steps

Stuart McLean, Universities UK

Context – the 2018 actuarial valuation

USS valuation as at 31 March 2018

1. UUK notifies Trustee of support for JEP
2. Trustee concludes 2017 valuation and starts 2018 valuation
   - Backstop contribution increases
3. Deadline to complete valuation is 30 June 2019
4. Trustee sets contribution in **consultation** with UUK
5. Consultation commenced 2 January – deadline extended to **15 March**
6. What has changed?
   - One year of (positive) experience
   - JEP recommendations

The latest context, looking at the trade-offs and next steps

Table 3: Comparison of the 31 March 2017 valuation and 31 March 2018 if no contingent support is provided.

	Rule 76.1 Valuation at 31 March 2017	Valuation at 31 March 2018 with no contingent support
Prudence percentile level:	67th	67th
Reliance in 20 years:	£10bn	£10bn
Technical Provisions (TP)	£67.5bn	£67.3bn
Self-sufficiency (SS)	£82.4bn	£84.5bn
Assets	£60.0bn	£63.7bn
Deficit on TP basis	£7.5bn	£3.6bn
SS basis	£22.4bn	£20.8bn
Total contributions:*		
Future service contribution	30.6%	28.7% (NRA 66)
Deficit recovery contribution	6%	See discussion point below
Total contribution	36.6%	See discussion point below
Average discount rate above current gilt yields	1.20%	1.35%
Average discount rate above CPI assumption	0.71%	0.92%

The latest context, looking at the trade-offs and next steps

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Total contributions:*		
Future service contribution	30.6%	28.7% (NRA 66)
Deficit recovery contribution	6%	See discussion point below
Total contribution	36.6%	See discussion point below
Average discount rate above current gilt yields	1.20%	1.33%
Average discount rate above CPI assumption	0.71%	0.92%

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The latest context, looking at the trade-offs and next steps

Table 4: Deficit Recovery Contributions (DRCs) for different terms and investment outperformance

DRCs required (% of salary)		Deficit recovery period (years from 31 March 2018)							
		14	13	12	11	10	9	8	7
Level of outperformance (proportion of BE returns over TP)	0%	3.5	3.9	4.3	4.8	5.5	6.3	7.5	9.1
	5%	3.0	3.3	3.7	4.2	4.8	5.7	6.8	8.3
	10%	2.5	2.8	3.2	3.6	4.2	5.0	6.1	7.6
	15%	2.0	2.2	2.6	3.0	3.5	4.3	5.3	6.8
	20%	1.4	1.7	2.0	2.4	2.9	3.6	4.6	6.1
	25%	0.9	1.2	1.4	1.8	2.3	3.0	3.9	5.3
	30%	0.4	0.6	0.9	1.2	1.6	2.3	3.2	4.6
	35%	0	0.1	0.3	0.6	1.0	1.6	2.5	3.8
	40%	0	0	0	0	0.3	1.0	1.8	3.1
	50%	0	0	0	0	0	0	0.4	1.5

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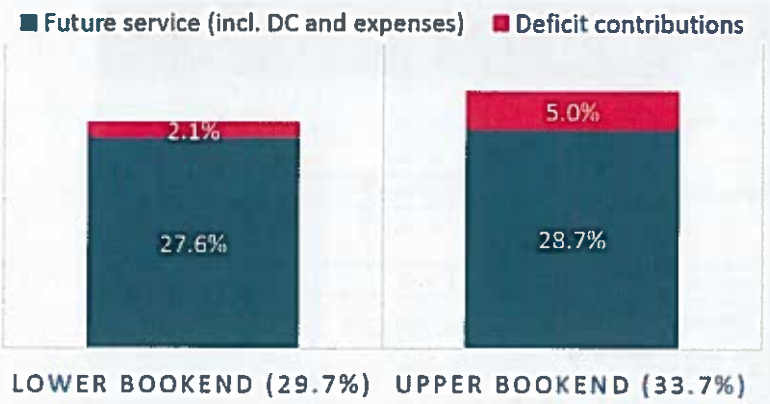
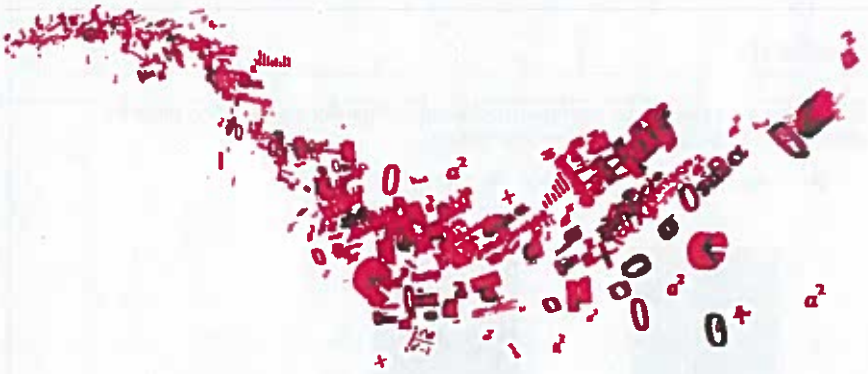
The latest context, looking at the trade-offs and next steps



The latest context, looking at the trade-offs and next steps

The Trustee's principles for contingent contributions	
1. Efficacy	7. Quantum
2. Objective metric	8. Durability
3. Alignment	9. Covenant
4. Robustness	10. Legally Binding
5. Safety Valve	11. Payment certainty
6. Materiality	



2018 valuation – Contingent Contributions

Prepared for: Universities UK
Prepared by: John Coulthard FIA, Kevin Wesbroom FIA
February 2018

Prepared by Aon
Retirement & Investment

QAS

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Empower Results®

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Trustee proposal for 2018 valuation

- JEP report published 5 months ago now (13 September 2018)
- JEP recommended **29.2%** at 31 March 2017 though noted other paths exist for getting to a contribution rate below 30% (including allowing for more recent market conditions)
- Trustee decided to call 2018 actuarial valuation to consider the JEP recommendations
  - Reasonable approach, but employers should be in no worse position than had 2017 valuation been finalised in light of the JEP
  - We are primarily viewing the 2018 valuation through the lens of: To what extent does it deliver on the JEP recommendations ahead of JEP Phase 2?

2018 valuation called to consider JEP recommendations

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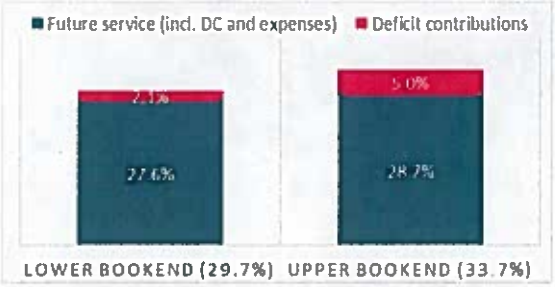
The "bookends"

- USS Trustee is consulting on a range of potential contributions for existing benefits (less the 1% DC employer matching contribution)



Notes:
- Lower Bookend = "slightly below 30%" (29.7% from example provided), if satisfactory contingent support is given
- Upper Bookend = 33.7% of pay, if employers offer no additional formal support

1. Most of gap is due to deficit contributions (not being consulted on)
2. Maximum difference in contributions over 3 years is about £1.0Bn ("small" cf. scheme)

Contingent Support

- In our view Contingent Support is worth considering to try to find an approach all stakeholders can live with
- Two ideas for Contingent Support in USS's 2 January consultation (negative pledges and contingent contributions)
  - From 7 February USS note, negative pledges seem off the table
  - If employers wish to explore this further, please let Universities UK know
- USS Executive have presented to the EPF some initial thinking on Contingent Contributions, which were considered hard to accept
- USS Trustee has subsequently developed 11 principles, and invited UUK to put a proposal to the Trustee.
  - Our initial thoughts are set out below
  - We aim to be consistent with the 11 principles (however please note that the Trustee principles do not define the trigger event)

Contingent Support aims to bridge different views

Initial thinking – Potential structure (1 of 2)

Aon have discussed the following initial thinking with UUK:

- Any proposal conditional on the Trustee accepting JEP recommendation as base contribution rate
- Only triggered in more extreme conditions (not by normal market movements, as strong covenant supports waiting until next valuation)
- Phased contribution increases with three potential step-ups, with each step equal to 1/3 of difference between Upper Bookend and Lower Bookend

Source: USS Executive consultation paper dated 2 January 2019

Note: Consistent with 2 January consultation, though 7 February paper suggests maximum contingent contribution "is likely to be slightly greater"

- Lower Bookend of say 29.2%, and Upper Bookend that is sufficiently high for the Contingent Contributions (close to 33.7%) to be deemed to have value by the Trustee

NB thinking likely to develop as we receive more information from USS Executive

Initial thinking – Potential structure (2 of 2)

- Our starting point is that the trigger metric should be Technical Provisions, not Self-Sufficiency, corresponding to how the scheme is funded
- Deterioration should endure for a reasonable period e.g. 2 or 3 quarter-ends, and there should be some smoothing (e.g. average of last three months)
- At least 6 months between the trigger being breached and increased contributions applying to allow the JNC to consider alternative approaches, and to allow institutions to mitigate the impact of paying additional contributions
- Should be proportionate, and should not be overly complex given that JEP Phase 2 will provide a broader review
- Contingent contributions assumed to be "cost-shared" based on instruction from UUK
- The next actuarial valuation is important in providing a reset (whether at 31 March 2021 or potentially at 31 March 2020)

Key issues include: initial contribution, chance of hitting trigger, how much paid, lead time

Potential structure vs 11 USS Trustee principles (1 of 3)

USS Principle	USS Description of Principle	Does initial thinking meet principle?
1. Efficacy	The structure of any contingent contribution arrangement should be practical, transparent, unambiguous and as simple as possible	Yes
2. Objective metric	The metric that is used to trigger contingent contributions should be objective and not require subjective judgments, interpretations or a decision-making process	**We prefer Technical Provisions. This is "subjective" [and so is self-sufficiency!], but should cope better with more extreme events. (Potentially a "Gilts plus" proxy could be used which meets principle 2, but this would be more volatile which should be reflected in a higher Trigger Threshold)**
3. Alignment	The mechanism for triggering contingent contributions should be sufficiently sensitive to data that could signify that current contributions may not be adequate	Yes – the USS Trustee's Statutory Funding Objective is to be fully funded on Technical Provision, so using this ensures a direct alignment to how cash contributions are set
4. Robustness	The mechanism for triggering contingent contributions should be robust in the sense it is not triggered solely in response to short-term market volatility	Yes – include smoothing and requirement for Trigger Threshold to be breached for 2/3 quarter ends Technical Provisions more robust to extreme events than self-sufficiency

Potential structure vs 11 USS Trustee principles (2 of 3)

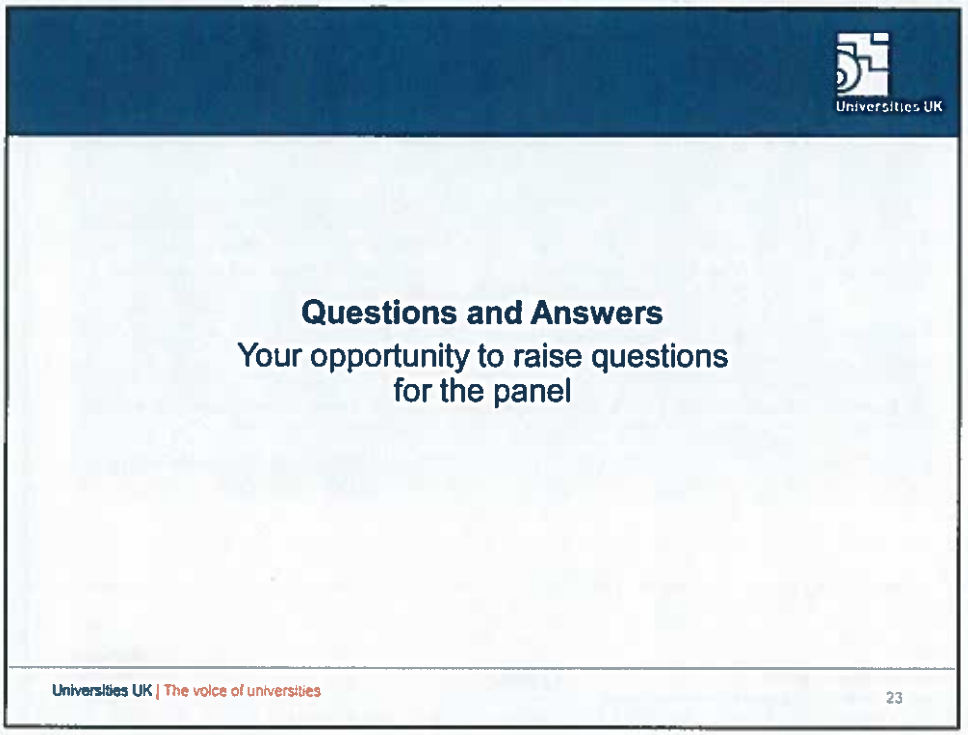
USS Principle	USS Description of Principle	Does initial thinking meet principle?
5. Safety valve	Contingent contributions once triggered should be terminated over a reasonable period should data suggest that they are no longer needed	Yes
6. Materiality	Contingent contributions once triggered should be sufficiently material such that, if they were sustained over the long term, they would substantially improve the funding position in adverse scenarios	**Yes – the difference between bookends is material, though in any event the next valuation will afford the chance to change contributions again (subject to consultation)**
7. Quantum	In adverse scenarios in which contingent contributions are triggered, the aggregate quantum of the contingent contributions should broadly similar to the Trustee's contribution requirement in the absence of contingent arrangements over a reasonable period of time	We do not suggest "over-shooting" the Upper Bookend, and prefer the Upper Bookend to be the highest contributions Consistent with principle 9 (covenant) However, the Trustee will have the statutory valuation process to make further changes as appropriate

Potential structure vs 11 USS Trustee principles (3 of 3)

USS Principle	USS Description of Principle	Does initial thinking meet principle?
8. Durability	The contingent contribution arrangement should remain in place until a revised Schedule of Contributions comes into force following a future valuation	Yes The next valuation which will take place after JEP Phase 2 provides an opportunity to reset the approach
9. Covenant	The contingent contributions should be consistent with the findings of the most recent review of the employers' covenant	**Yes. (The USS Trustee use this principle to justify stepping up the contingent contributions, and we would support this)**
10. Legally binding	The contingent contribution arrangement should be legally binding and documented as part of the Schedule of Contributions	Yes, though legal advice may be needed on implementation aspects
11. Payment certainty	The Trustee must be sufficiently comfortable that contingent contributions would be paid in full if triggered	Yes, Contingent Contributions would be recorded in Schedule of Contributions There should also be enough time for the JNC to decide on alternative approach

Wrap up

- Employers supported JEP recommendations, but told not on offer unless employers can provide satisfactory Contingent Contributions
- Assuming we engage on this basis, we have developed some initial thinking with UUK and compared it with the 11 Trustee principles
  - USS Executive are providing some further information to help flesh out initial thinking and show potential consequences to employers
  - A second "Aon note" will follow along with a UUK consultation
- If you have any views or questions in the meantime, please share them with UUK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Questions and Answers
Your opportunity to raise questions for the panel
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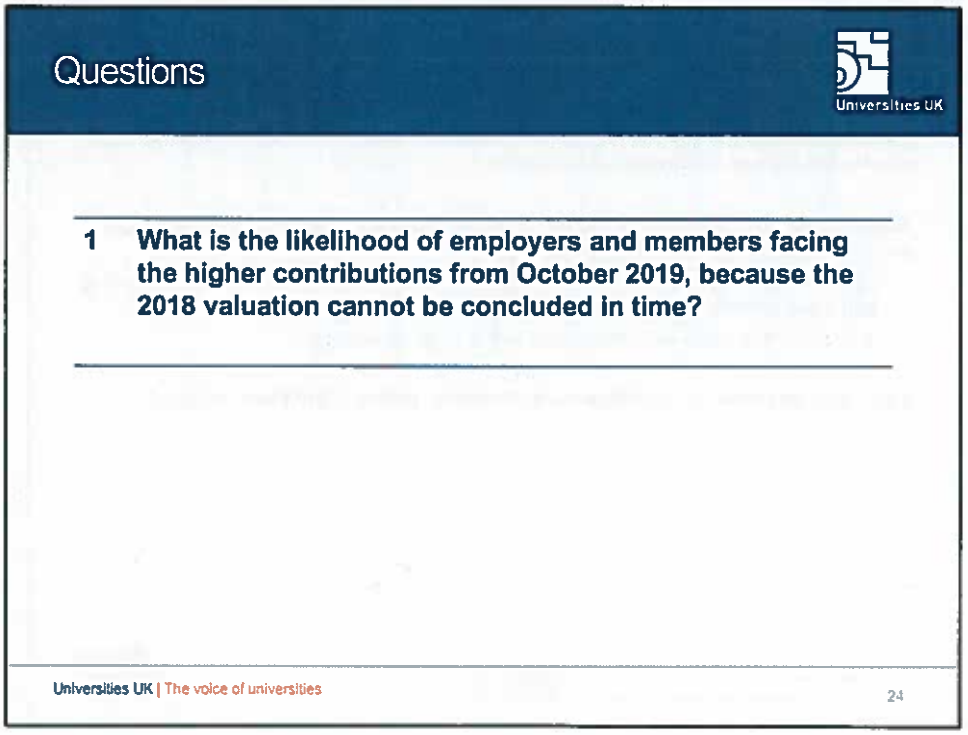
Questions
Universities UK
1 What is the likelihood of employers and members facing the higher contributions from October 2019, because the 2018 valuation cannot be concluded in time?
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Questions

2 **Why are rule amendments needed to introduce cost-sharing of any contingent contributions – and what are the implications of that?**

Questions

3 **My employer offered its support for the JEP recommendations on the basis that 20.1% was the absolute limit for employer contributions. It now seems that there are a number of scenarios in which contributions could go higher (a mid-bookend outcome, and not avoiding the October 2019 increases). How is this being taken into account?**

Questions

4 **Can you recap on why the DRCs for both the 2017 valuation and the 2018 valuation are 5% of salary, when the proposed deficits are very different?**

Questions

5 **Is it not inevitable that some level of benefit reforms will be needed to make contributions levels more affordable for employers and members?**

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Questions and Answers

Your opportunity to raise questions for the panel

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Close

Thank you for joining today's webinar event

You can be in touch with UUK's pensions team at pensions@universitiesuk.ac.uk

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USS WG
Item 9 02/19

USS Joint Expert Panel

Call for submissions – Joint Expert Panel

The JEP has recently started its second phase of work on the USS valuation. The second phase has two parts, the first of which is concerned with the valuation process and governance.

The second part of the Panel's work which, will start later in the year, will consider how the long-term sustainability of the Scheme can be secured through the development of a shared set of principles and will revisit the valuation of technical provisions and other aspects of the valuation methodology, including Test 1.

We would ask stakeholders to hold back any comments on this wider matter until later in the year.

The first part of the JEP's work includes consideration of:

• The roles and involvement of UCU and UUK in the valuation process so that a more collaborative approach could be adopted.
• An examination of the interaction of the various bodies with a formal role in the valuation process, including the trustee and the JNC.
• The potential for the involvement of Scheme members in the valuation process and how more effective engagement with employers can be achieved.

The Panel is seeking submissions from stakeholders and others on the above subjects and is particularly interested in views on improvements that could be made to:

• The valuation process, and decision-making (rather than, at this stage of its deliberations, the methodology) and in particular the content and timing of different aspects of the process and engagement between the scheme and the various stakeholders; and
• The governance of the valuation process and in particular the role of different parties including UUK, UCU, the JNC, the trustees and others in providing that governance.

Submissions on the above matters or comments for the attention of the Panel are warmly welcomed and should be sent by 15th March 2019 to submit@ussjep.org.uk.

The Panel will issue a further call for evidence in respect of part two of its enquiry in due course.

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