

COUNCIL

USS Review Working Group

Meeting rooms 1 and 2, Wellington Square, 10.00 am – 11.30 am

Minutes of the meeting of 25 September 2018

Present: Professor Richard Hobbs (Chair), Mr Charles Alexander, Sir Andrew Dilnot, Professor Danny Dorling, Mr Jaya John John, Professor Cecile Fabre, Professor Sam Howison, Mr Giles Kerr, Mr Julian Duxfield, Professor Fabian Essler

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

Apologies: Professor Jane Humphries, Professor Gordon Clark

1. Apologies for absence and welcome

Prof Clark and Prof Humphries had sent their apologies.

2. Conflicts of interest

All present were active members of USS except Prof Hobbs, Mr Alexander, Mr Dilnot and Ms Curtis.

There were no other new conflicts of interest declared.

3. Minutes of the previous meeting

Mr John asked that it be recorded that the assumptions used by Sheffield UCU in its analysis had been prudent (67% probability of achieving the assumed returns), not best estimate as was suggested by USS at the meeting and minuted.

Subject to getting input from Mr Mackie and the correction above, the minutes were agreed.

4. Matters arising from the minutes

All matters arising from the minutes had been completed or were covered as separate agenda items, except the discussion on remuneration comparisons carried forward from a previous meeting

Action: JD

5. Joint Expert Panel findings

Ms Curtis outlined the key findings of the report.

- Insufficient weight was given to the strength/diversity of the University Sector and characteristics of the Scheme (i.e. open scheme, immature, cashflow positive for many years)
- In relation to previous UUK consultations with employers the panel believed that the framing and context of the questions asked of employers and the timing of the UK

Pensions Regulator (tPR) expressing its views (during the employer consultation) steered employers to be more risk adverse than they might otherwise have been.

- The panel felt that too much weight had been given to the USS Trustees' "Test 1" which was sensitive to the assumptions fed into it whilst being used to drive future investment strategy (a key assumption underlying the valuation).
- Overall the panel believed that the USS Trustees and employers might be able to agree a larger risk envelop when completing the 2017 valuation and this risk appetite should be reassessed.

Assuming the employers were willing to accept additional risk the panel suggested a number of changes to the valuation assumptions.

The main change was to assume higher future investment returns by:

- Reverting to the Sept 2017 basis for the Technical Provisions (i.e. liabilities) which delayed de-risking for 10 years and increased the reliance on the employer covenant in 20 years' time to £13bn (from £10bn) under "Test 1". This would reduce the contribution rate by 1.9%.
- Allowing for outperformance in the recovery plan (i.e. above the prudent discount rate) in a manner consistent with the 2014 valuation. This would reduce the contribution rate by 3.9%.

Other changes proposed by the panel included:

- Using the most recent information on mortality trends. This would reduce the contribution rate by c0.1%.
- Smoothing the cost of future accrual following the valuation over a 6 year period to reflect. This would reduce the contribution rate by 1.5%.

If all of these changes were adopted by the USS Trustees the panel believed that the total contribution rate of 36.6% (which was currently being consulted upon) would reduce to 29.2% i.e. only a 3.2% increase from the 26% currently payable by employers (18%) and employees (8%) compared to the current implied increase of 10.6%.

Ms Curtis explained that these changes would still be subject to approval by the Pensions Regulator and it was unclear whether or not the Trustees would accept the level of increased risk without additional security being offered by employers (which was something the Trustees implied they would need in order to accept the Sept 2017 basis).

Mr Duxfield confirmed that the JEP report represented phase one of their review and the panel would now move into phase two which would consider:

- The long-term stability of the valuation process.
- A review of the approach and involvement of UUK and UCU in future valuations with a view to creating a more collaborative approach between the two parties.

6. UUK consultation on JEP report

The Group agreed that it would prepare a draft response to the specific questions asked and that Council would be asked to endorse the recommended response prior to the deadline. Mr Alexander proposed circulating the Group's draft response so that individual Colleges could form their own views and submit their own responses. Prof Hobbs noted that it was up to each College to formulate its own approach and in making the Group's response available there was no intention of seeking to influence the Colleges.

It was agreed that the specific questions would be answered with brief responses and that the responses would address the questions asked by UUK rather than the questions the Group felt UUK might have asked.

It was agreed that the draft would be agreed by circulation in the next few days.

JD

7. Update on Council discussions

Prof Hobbs reported on the Council discussion on USS matters at its away day in the previous week. Council received presentations from USS and UUK, with information on the valuation and the process following triggering rule 76.4. Ms Curtis from Aon was also present at the meeting. The insights were helpful for Council in gaining a better understanding of the issues and would assist Council in making judgements on USS matters when required.

8. Additional modelling

Ms Curtis presented the additional examples: a member with a salary of £72,000 and a member with increases in salary, to broadly illustrate possible career progression. The Group agreed that no further modelling was required at this stage.

9. Feedback from the open forum

Mr Duxfield reported that two of the four open forums had been well received by those attending. At the recent one there was good engagement with those attending (around 35 people) and the session lasted 1.5 hours. Prof Hobbs said that explaining technical terms such as risk and covenant helped attendees' understanding.

10. Employer consultation sessions

Mr Duxfield explained that these four sessions were part of the formal employer consultation process and so covered primarily the proposed changes to contributions and removal of the Match. The draft material would be updated for the JEP report and the work being done by the Group.

11. Process for Employer consultation feedback to USS

It was agreed that the Group would consider the University's summary by circulation as there would be limited time available.

12. Communication update

Mr Rouse reported high levels of interest in the online information: 2,500 hits on the JEP report webpage, 800 on the cost sharing proposals, and 7,500 had opened the email sent the previous day.

13. Any other business

There was no other business.

14. Next meeting

The next monthly meeting: Monday 29 October 2018, 11.30 am, to 1.00 pm, Rooms 3, Wellington Square.

The meeting closed at 11.40am