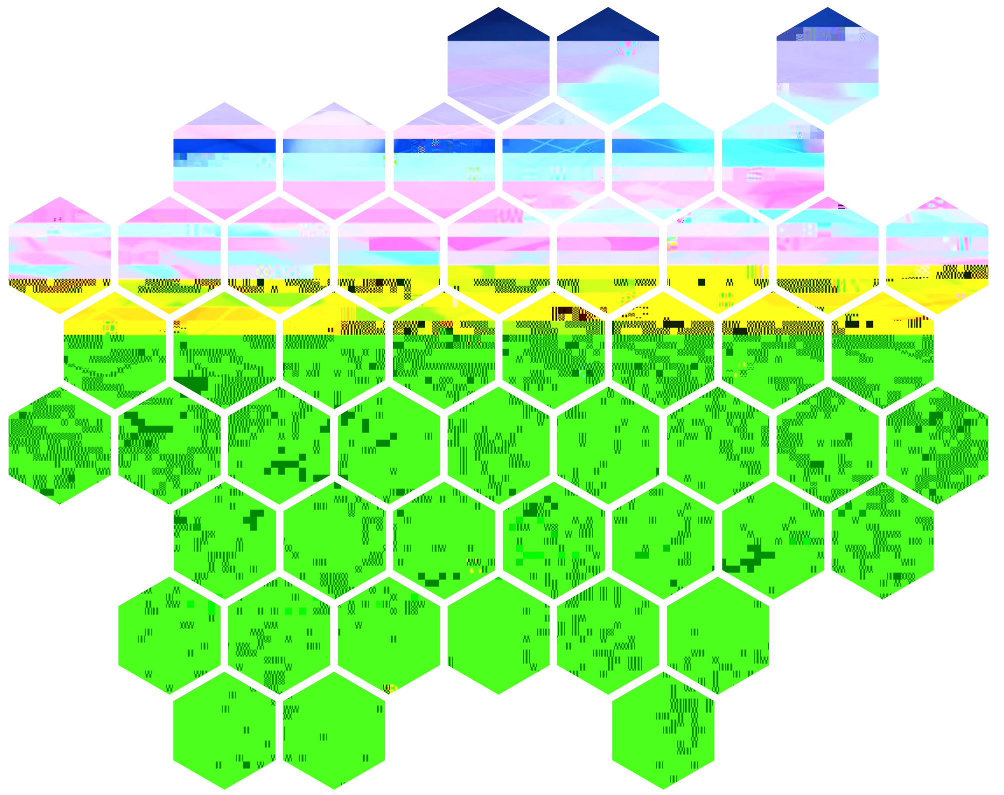

USS valuation at 31 March 2023

Comments on USS consultation materials

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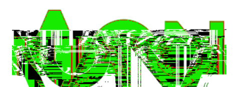
QAS Institute and Faculty of Actuaries ® Quality Assurance Scheme



Introduction

Why bring you this report?

This paper sets out our comments for Universities UK (UUK) on USS's consultation on the 31 March 2023 valuation, launched on 19 July 2023.

We have given permission for this paper to be shared by UUK with the participating employers on a non-reliance basis.

Next steps

We are running three webinars on 9, 15 and 24 August where we will summarise the report and take questions.

If you are reading this as a representative of a participating employer and have any questions in the meantime, please raise them with UUK in the first instance.

The consultation deadline is 29 September, with employers asked to provide feedback to UUK by 22 September at the latest.

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Technical provisions

In this section we set out our views on USS's consult

With the benefit of hindsight, it might have been better to have adopted less prudent assumptions for the 2020 valuation (as the assumptions at this

views on what the ılts mean

ction we set out comments on the consequences of tion results.

of benefits

tation document sets out some modelling of the stability of Appendix 2, with further information in the supporting also published by USS on 19 July.

›ility of the contribution rate exceeding various thresholds in 6 ımmarised below.

	6 years' time	
	Retains surplus	Does not retain surplus
	53%	60%
	3 %	

should be reasonable to argue that the contribution rate should stay at 22% if the valuation contribution rate is within a set distance e.g. 2-3% of this amount at future valuations. However, this assumes that stability is an end to itself, and many stakeholders may also wish to benefit from reduced contributions. This is being explored further by the stability workstream.

Contributions

The cost of pre 1 April 2022 benefits has been determined as 20.6% of pay. There is also a c.£7.4Bn surplus. It is reasonable to consider whether the total contribution rate should be reduced (from 20.6%) to a lower figure to spend or release the surplus.

Impact if surplus used to reduce contributions

It is worth considering what contributions would apply if the surplus is used to reduce the contribution rate. The Trustee give one example of spreading the surplus over 15 years. Such a partial contribution holiday would mean total contributions of 15.4%. So, the total cost (including the partial holiday) of pre April 2022 benefits would be 11.1% for employers and 4.3% for employees, under the default cost-sharing.

The principal issue with this approach is that it leads to a less stable contribution rate. More volatile contributions also exacerbate issues of intergenerational fairness and planning issues for institutions.

Ultimately, the use of surplus is a matter for the stakeholders to consider, it is not an actuarial issue. Nevertheless, given the extent of the change from the 2020 valuation to the 2023 valuation, the desire for an expedited valuation to prioritise returning to pre April 2022 benefits, and the existence of other joint working parties (covering stability in particular), we believe it would be reasonable for employers to accept a 20.6% contribution rate for the 2023 valuation.

Impact if higher contributions paid

The initial modelling from the Trustee suggests that contributions are more stable if a higher contribution rate (then 20.6%) is paid. In our view, it may be difficult to persuade stakeholders (i.e. employers and members) to pay more than 20.6% given the existence of the valuation date surplus, particularly if an accelerated timeline is sought.

When new contributions apply from

It is implicit in the Trustee consultation materials that new contributions would apply from 1 April 2024.

This means that there is a one-year period from the valuation date to 1 April 2024 whereby total contributions of 31.4% would be paid, relative to current benefits that only cost 16.2%. The sector is “over-paying” around 15.2% on a combined payroll of £10Bn, meaning around £1.5Bn would be overpaid.

It is not unusual for contributions following a valuation to be implemented some time after the valuation date, and of course employers and members

have benefited from this in the past when contribution increases have been delayed.

Nevertheless, the quantum of overpayment (about £125M per month) suggests that employers should investigate whether there could be an early implementation. Also, while this is a matter for the stakeholders, if it is decided to uplift benefits in recognition of the lower benefits accrued between 1 April 2022 to 31 March 2024, then it would appear that the cost of this could be met from these overpayments, rather than necessarily using up surplus at the valuation date.

Conclusions

Consultation questions

In this section we set out comments on the USS's eight consultation questions. In practice employers will wish to form their own views.

1. Proposed discount rates, both for the purposes of valuation Technical Provisions and determining future service contributions

As covered in the previous section, in our view the proposed discount rates are appropriate for the purposes of the 2023 valuation.

2. Remaining proposed assumptions set out in the Statement of Funding Principles (covering inflation, mortality, and the other demographic assumptions)

As covered in the previous section, in our view the remaining assumptions are appropriate.

3. Any other aspect of the assumptions and methodology underlying the Technical Provisions

We have no additional comments.

4. Any other matter included in the Statement of Funding Principles

We have reviewed the draft Statement of Funding Principles. This is the legal document that sets out the principles applying to the actuarial valuation, and documents the assumptions used for the latest valuation. The document is the responsibility of the Trustees, who must consult with UUK on its contents, as part of the formal valuation consultation process.

We are comfortable with the proposed changes, which effectively bring the 2020 statement of funding principles into line with the proposed assumptions for the 2023 valuation.

5. The Trustee's overall assessment of employer covenant, including assumptions made about the level of financial support employers are collectively able and willing to give the Scheme and their Affordable Risk Capacity

The Trustee provides (in section 9) an illustration of the potential contribution rate if the employer support measures are not renewed in full.

Overall thoughts

We support the approach of carrying out a 2023 valuation using largely the same approach as the 2020 updated for much improved market conditions.

The common objective of prioritising a move to pre 1 April 2022 benefits is achievable with a reasonable degree of stability, but there will always be an element of risk of future corrective action when running a large DB scheme.

In practice, this would mean that the moratorium on exits would still have than balance of the original 20-year period that remains, and the pari passu requirements for taking on secured debt would cease. The estimated impact of this would be to increase the contributions from 20.6% to around 23.8%.

This means that, in effect, the employers are collectively benefitting by their share of the 3.2% contribution difference (2.1%) and members are benefitting by their share (1%) assuming default 65:35 cost-sharing applies.

Our view is that this remains a substantial benefit (broadly £200M p.a. for employers across the sector, and £100M p.a. across all members). Also, it is not obvious that the employer support measures could be reinstated at successive valuations were they removed, e.g. if employers take the opportuni

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