

USS Pensions Session 2

University of Nottingham
2021

isio.



Introductions and Agenda

- Overview of USS valuations
- USS valuation timeline
- Stakeholders
- Covenant
- Affordability
- Q&A



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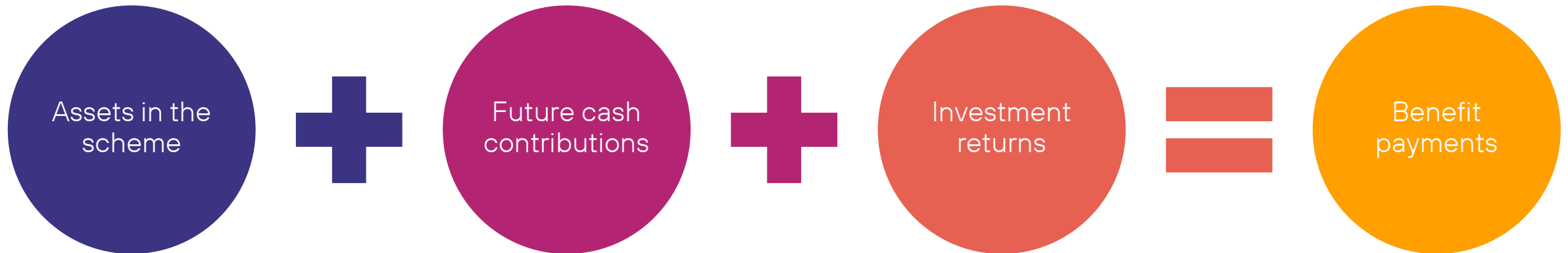
What is a pension scheme valuation?



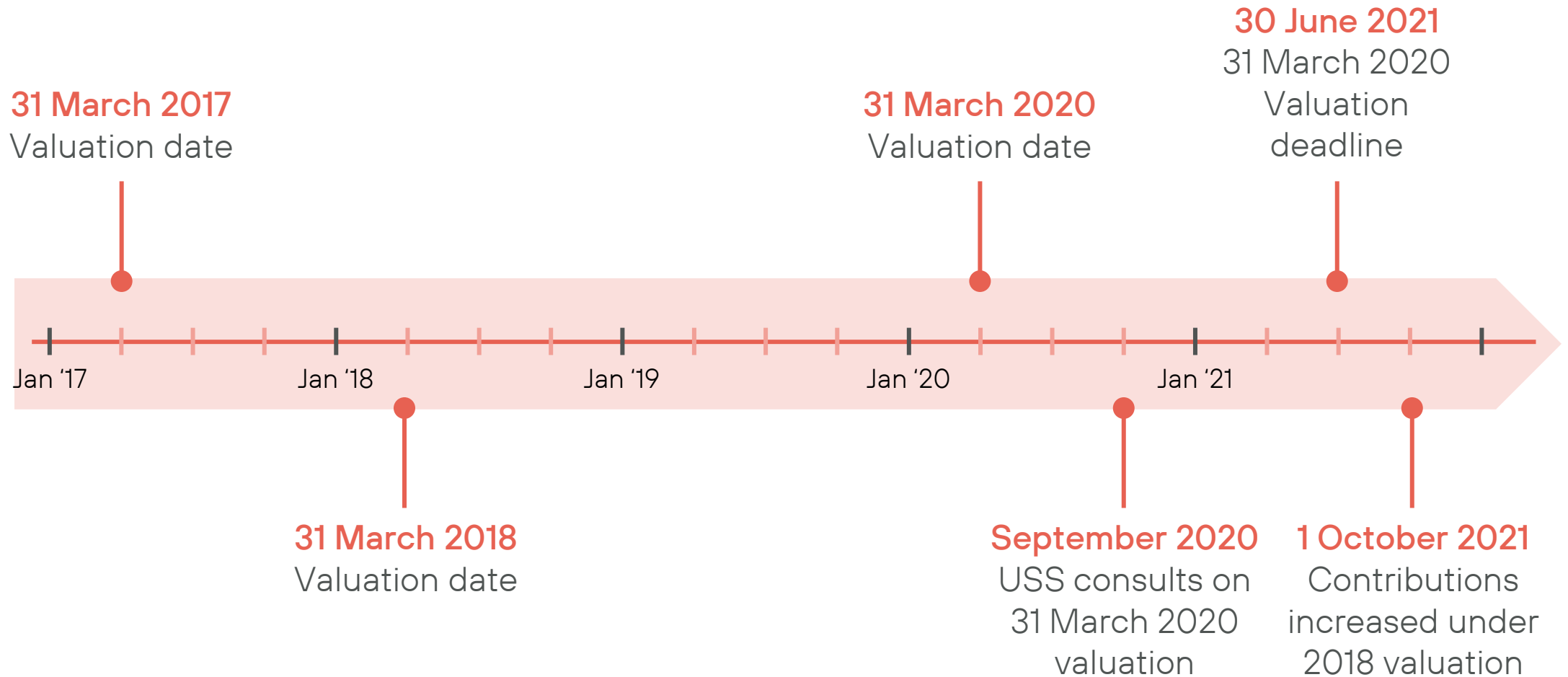
Occurs at least every 3 years



Only need to value DB schemes

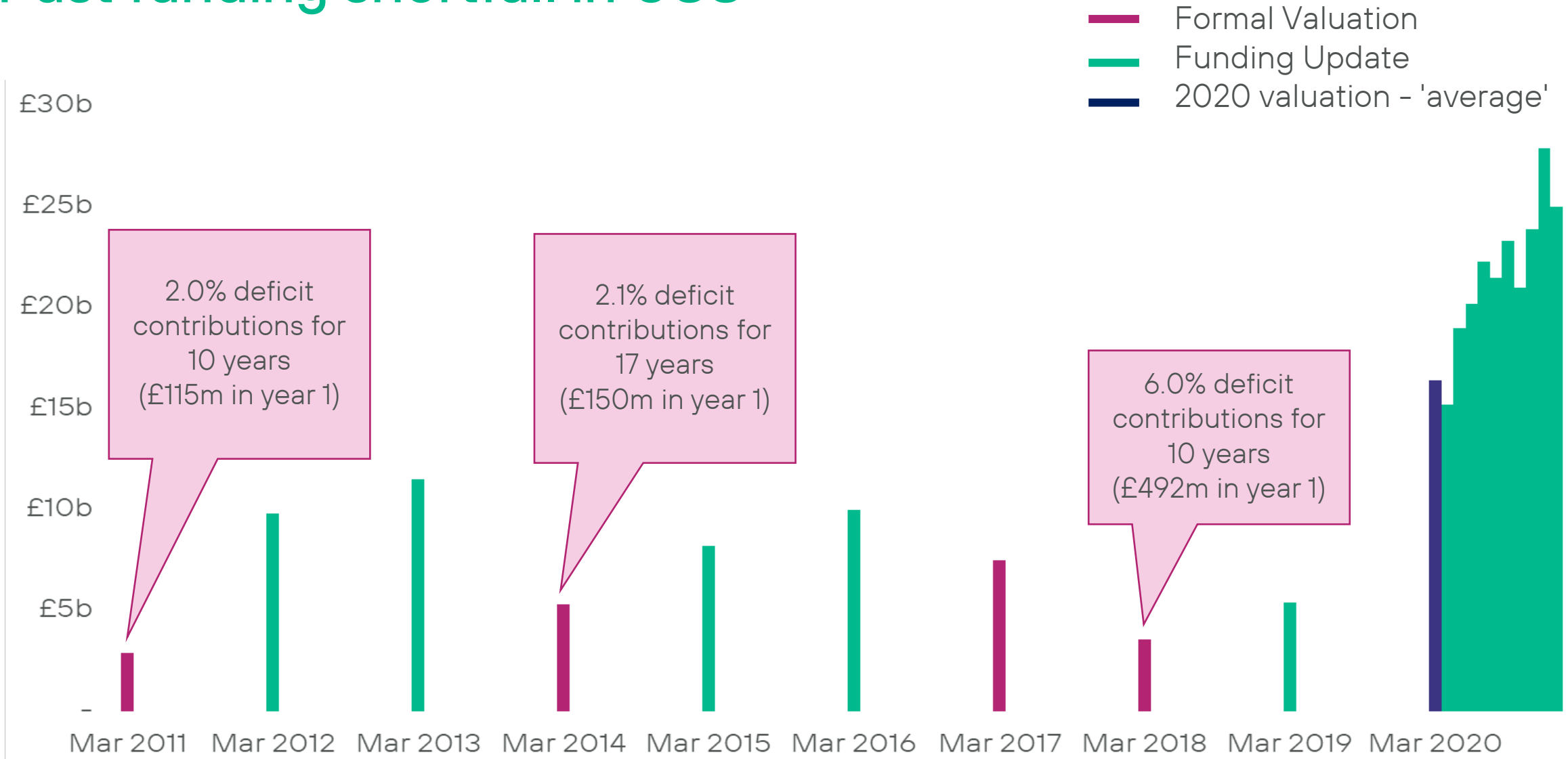


USS valuation timeline



....but likely to be delayed by 6 months

Past funding shortfall in USS



Source: USS website.

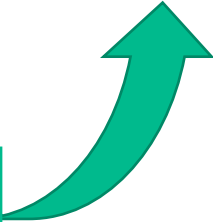
31 March 2018 valuation results



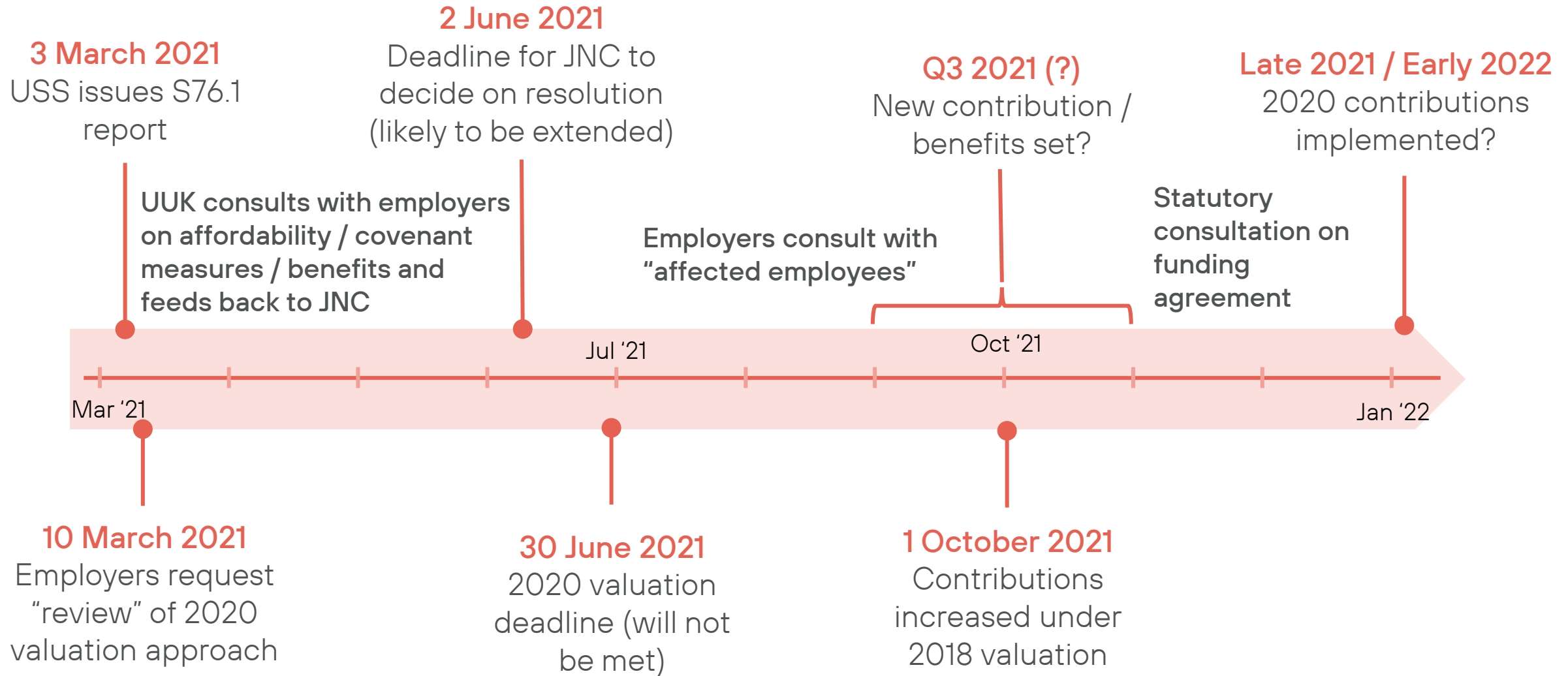
Source: USS website.

Contributions (% of pensionable salaries)		
Dates	Employer	Employee
to 30 Sep 19	19.5%	8.8%
1 Oct 19 to 30 Sep 21	21.1%	9.6%
1 Oct 21 onwards	23.7%	11.0%

This includes shortfall funding of 6% of salaries



Where from here?



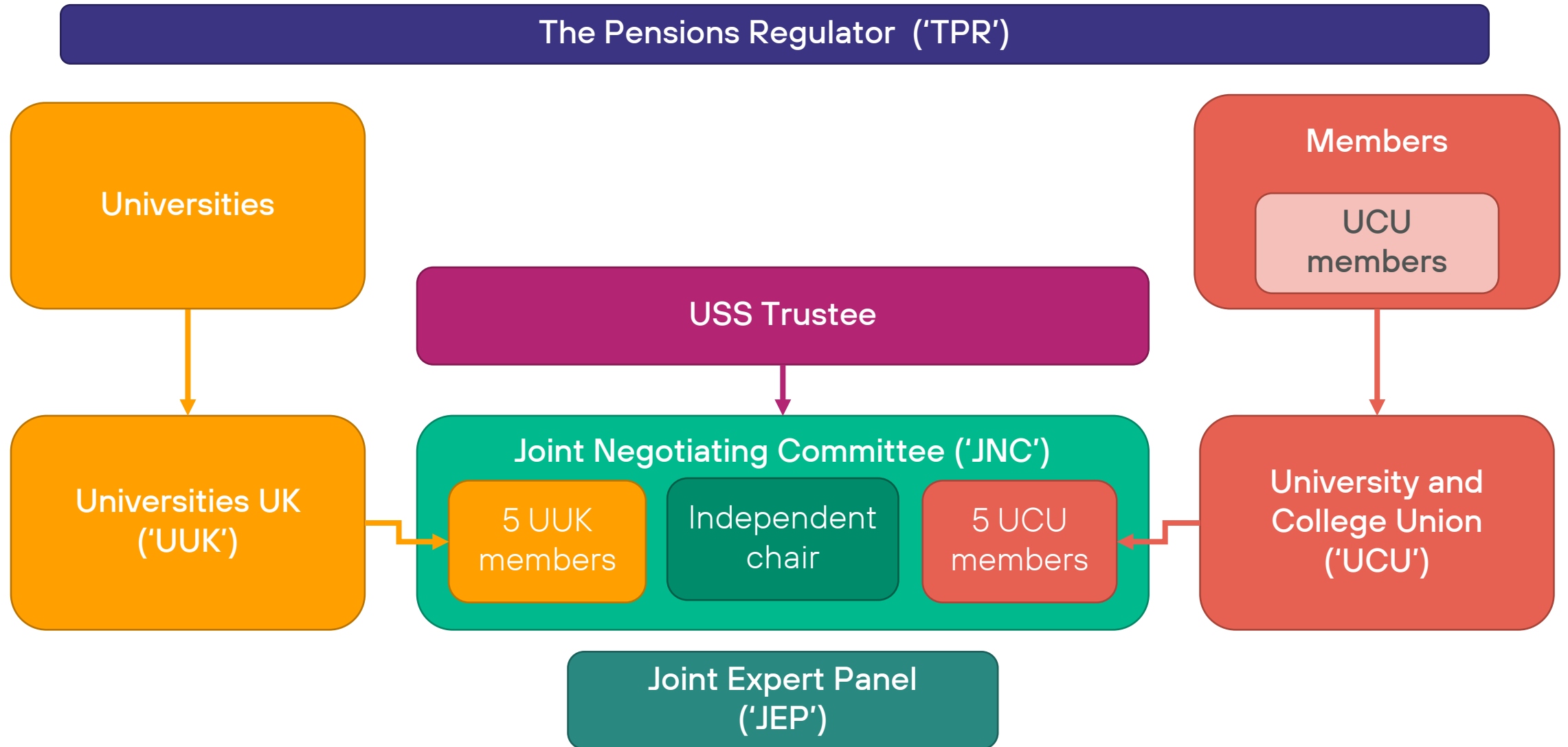
31 March 2020 valuation consultation

	Current position	Consultation (Sep '20)	Update 'Rule 76.1' (Mar '21)
Shortfall	£3.6b	£9.8b to £17.9b	£14.9b to £17.9b
Total contributions (%)	30.7% of payroll	40.8% to 67.9% of payroll	42.1% to 56.2% of payroll
University cost pa	£44.9m (£9.8k per member)	£59.2m to £97.7m	£60.6m to £80.2m (£13.4k to £17.7k per member)
Employee cost pa	£20.4m (£4,224 pa for an average member*)	£27.6m to £46.8m	£28.9m to £39.3m (£5,984 pa to £8,140 pa for an average member*)

Source: USS website & Isio analysis.

*assumes pensionable salary of £44,000 per annum

Stakeholders



Stakeholder roles & views

The Pensions Regulator

Protect members' benefits

"the deficit is worse, USS should be taking less risk"

"proposals for Scenarios 2 and 3...funding strategies are at the limit of what we consider to be compliant"

USS Trustee

Manage the scheme; Protect promised benefits

"Trends in financial markets have made the valuable pensionmuch more expensive today than in the past."

"it is now the role of the JNC...to decide on any changes to contribution rates or benefits that may be necessary"

"we need a covenant support package to keep the costs low"

University of Nottingham

Fund current benefits and any historic deficit; Discuss views with UUK

"we want good benefits for our staff but this is unaffordable"

"we are concerned about the inter-generational unfairness of the current arrangements"

Staff

Contribute towards benefits; Discuss views with representatives

"Our pension is an important part of our benefits package – don't mess with it"

"I have opted out because it is too expensive – please can an affordable pension scheme be offered"

Universities UK (UUK)

Represent employers' views

"...many of the covenant support asks would ultimately impact on employees as well as employers (through pay, staff recruitment, funding for research etc.) – and indeed on students..."

"The USS Trustee has placed considerable, and we believe wholly disproportionate, weight on this one employer [Trinity College, Cambridge] leaving the scheme."

UCU

Represent a subset of active members

"wait until market conditions improve and then do the valuation"

"USS's asset base is huge and has doubled in size since 2011, yet it continues to revise assumptions down"

Employer covenant

Covenant is the ability and the willingness of the employer to support the scheme, protecting against both short term and long term risks



Unable to rely on the employer to support the Scheme

Implications

- Cautious investment strategy
- More prudent Technical Provisions
- Shorter recovery plan?
- Additional security

Can rely on the employer to provide support in the event of adverse outcomes

Implications

- Adventurous investment strategy
- Less prudent Technical Provisions
- Longer recovery plan?

Employer covenant

- One of the main issues the USS faces is the **covenant** as it determines the sector's capacity to take risk
- The Pensions Regulator believes the covenant is **tending to strong** and not strong
- This means that the USS can take **less risk** which ultimately **increases the costs** in the short term
- The covenant is strengthened by putting in place a ban on employer exits, debt monitoring and pari passu

Pari Passu – if an organisation takes out secured debt, it has to provide the same level of security to the pension fund at the same time

- UUK consider that the strength of the sector, as it impacts the covenant of the scheme, continues to be undervalued

Impact of covenant on the 2020 valuation

	Option 1 - No additional covenant support	Option 2 – UUK package of covenant support	Option 3 – Adequate to fund on a strong basis
Covenant actions	<ul style="list-style-type: none"> • No ban on exits • No debt monitoring • Pari passu not in force 	<ul style="list-style-type: none"> • 9 year ban on exits • Reduced form of debt monitoring • Parri passu not in force 	<ul style="list-style-type: none"> • 15 year ban on exits • Debt monitoring • Pari passu in force
Deficit	£17.9b	£16.1b	£14.9b
Recovery period	10 years	10 years	15 years
Total contributions (assumed from 1 Oct '21)	56.2%	49.6%	42.1%

Source: USS website.

Implications for University

- The proposed options add between £16m and £35m to the University cost base
- A cost increase that only relates to two thirds of staff
- This would push our annual running costs to higher than our annual income
- Unless we took action to address this we would soon become financially unsustainable

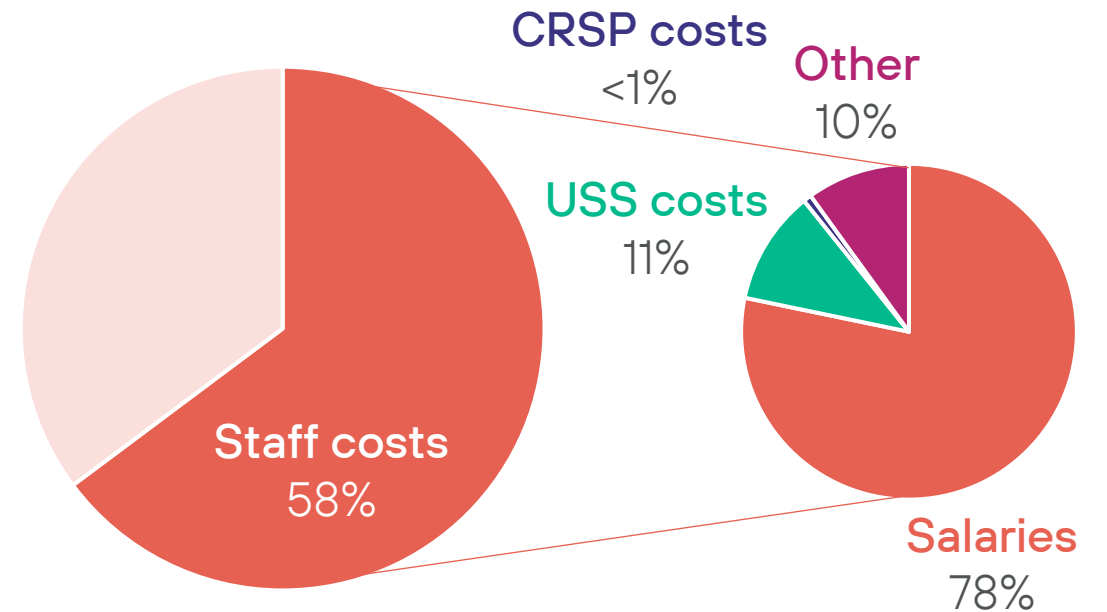
- This means that the University would have to:
 - reduce annual running costs
 - lower budgets for Faculties and Professional Services
 - stop strategic investment

- Strategic investment projects could include:
 - student accommodation
 - refurbishment
 - capital replacement programme
 - research investment
 - IT infrastructure projects

- The covenant requirements of USS would put pressure on us to reduce running costs and would limit our ability to borrow to assist with investments (should it be appropriate in the future)

Affordability – University of Nottingham

- Increased USS costs reduce the amount of money available for investment
- The suggested contribution rates will negate any surplus– it is not sustainable to be in a deficit position, which means other costs would reduce. This would jeopardise future plans
- Option 1 is an increase of £35.3m pa – this is just short of the potential cost for a new student accommodation block on Jubilee Campus and a refurbishment of Hugh Stewart Hall



Affordability – For employers in the Higher Education sector

As a multi-employer scheme, with the exclusivity rule operating, it is essential that the benefits are affordable across the sector.

UUK have said:

*“...the very high prices for current benefits put forward by the USS Trustee are **unaffordable for employers** and will risk pricing even more staff out of the scheme, particularly those at early stages of their career, thereby increasing even further the current intergenerational unfairness evident within the scheme.”*

Affordability - members

11%

Expected employee contribution rate effective from October 2021

300

UoN employees have opted out of the USS for affordability reasons

17%

The rate of members opting out of the USS – when the rate is 9.6%

6%

Estimated percentage of employee contributions paying for past pension obligations

Employee contributions (% of pensionable salaries)	
Current	9.6%
1 Oct 21 onwards	11.0%
Option 1	18.5%
Option 2	16.2%
Option 3	13.6%

- Opting out of the USS results in the loss of:
- Build up of future pension
 - Employer contributions to your pension
 - Tax relief on your pension contributions
 - Lump sum death benefit provided by USS
 - Spouse/dependant pension

Universities cannot offer an alternative pension scheme due to the USS exclusivity clause

Affordability for staff likely to depend on age



Helpful sources

USS

- Web: <https://www.uss.co.uk/contact-us> for an online contact form
- Tel: 0151 227 4711, lines are open 9am - 5pm, Monday to Friday
- Post: USS, 3rd floor, Royal Liver Building, Liverpool, L3 1PY

A benefit illustration tool can be found at <https://www.ussbenefitillustrator.co.uk> which can provide you with an estimate of your USS benefits at retirement

University

- For further questions following this session – email ussqueries2021@nottingham.ac.uk

Q&A

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Disclaimers

- Please note details in this presentation do not override the formal documents which govern the USS. The Trust Deed and Rules of the Scheme, together with any overriding legal requirements, will always take precedence.
- Please be aware that we provide a number of indicative figures and illustrations in this presentation that are critically dependent on assumptions. These assumptions may not be relevant to your specific circumstances, emerge in the future and your personal circumstances could materially differ from illustrations given.
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