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UNIVERSITIES UK CONSULTATION WITH USS EMPLOYERS ON THE RECOMMENDATIONS OF THE JOINT EXPERT PANEL

ANALYSIS OF RESPONSES

November 2018



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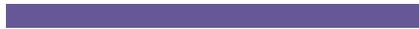


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Executive summary

Universities UK's (UUK) consultation with employers on the recommendations of the Joint Expert Panel (JEP) received 127 responses, representing 94% of the scheme's active membership. The responses to the consultation are essential for UUK; they are the foundation upon which UUK's overall mandate is based and which will be taken forward with the scheme's stakeholders over the coming months.

The responses show that the vast majority of employers which responded are generally supportive of the JEP's recommendations. However, a large number of employers - accounting for over half the scheme's active membership - expressed important conditions and caveats to their support. The additional conditions and caveats are explained later in this paper. It should be recognised that the conditions expressed by employers are additional to the caveat which UUK embedded in question 1, which is that any position of employers is subject to the acceptance of the USS Trustee (and The Pensions Regulator as appropriate) and of any implications arising therefrom.

Background

On 24 September UUK launched a consultation with Universities Superannuation Scheme (USS) employers, to invite their views on the recommendations proposed by the JEP. The consultation closed on 30 October.

During the consultation period, UUK endeavoured to ensure that employers had ample opportunities to ask questions on the specifics of the panel's recommendations, and published Q&A documents to answer these as well as holding [webinar events](#) - the slides of which were published on the USS Employers website.

Alongside this, a [short guide](#) to the Joint Expert Panel's recommendations was published and circulated to employers, which set out each of the recommendations and the indicative impact they might have if adopted into the 2017 valuation.

127 employers - accounting for 94% of the active USS membership - responded to the consultation. The responses show that the vast majority of employers which responded are generally supportive of the JEP's recommendations. However, many employers expressed important additional conditions and caveats to their support.

This briefing sets out a high-level summary of the responses to each question set out in the consultation document, including a statistical breakdown, and gives details of the further analysis considered by UUK.

Headline response rate

Overall 127 employers (37% of the total number of USS participating employers), which account for 94% of current active members in the scheme, provided a response to the consultation. Some employers (36) responded to confirm that they would not be providing a response, with a further 183 choosing not to respond. Most of the employers that did not respond have very small numbers of active scheme members.

	Number of employers	By share of active membership
Employers that provided a response to UUK's consultation	127 (37%)	94%
Employers that indicated they will not be responding	36 (10)	<1%
Employers that did not respond	183 (53%)	6%

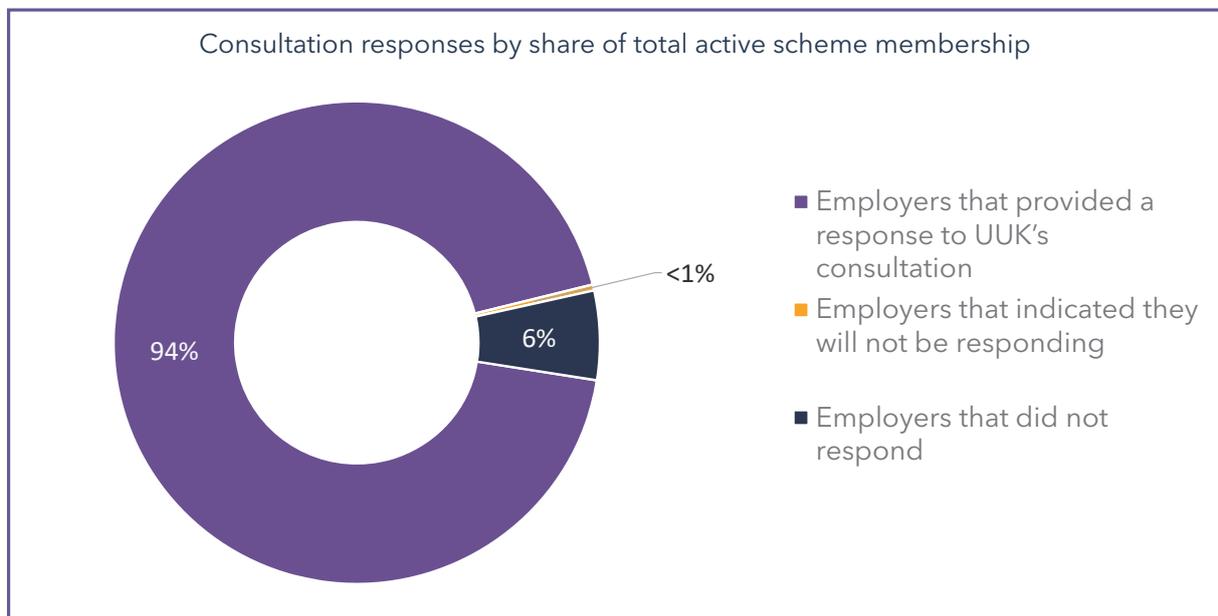


Figure 1: Consultation responses by share of total active scheme membership

The questions

The consultation document set out three questions for employers as follows:

1. Would your institution support the JEP recommendations regarding the 2017 valuation in overall terms, subject to the acceptance of such a position from the USS Trustee (and TPR as appropriate)?
2. What further information would you need to provide a final view for question 1?

3. Employers currently pay 18% towards the USS scheme, and the mandate agreed immediately following the Acas discussions was 19.3%. If the recommendations of the JEP were accepted in full by all parties, the outcome would be that existing benefits - minus the employer match of 1% - could be provided at an indicative employer contribution of 20.1% of salary (with a member contribution of 9.1%).
 - a. Would you accept employer contributions at that level?
 - b. If not, what balance of additional risk, higher contributions and/or benefit change would you prefer to see as an outcome?

How Universities UK has analysed the results

Employer responses varied between simple 'yes' answers and detailed paragraphs. Responses have been categorised and analysed, as shown in the results below.

The headline analysis considers the number of employers and the share of active membership that gave certain responses to the questions.

Further analysis was also undertaken to look at the following:

- The responses split between large and small employers, and between employers that have greater or less than 20% of their staff in USS.
- The net asset position of the employers that gave particular responses.
- The cashflow position of the employers that gave particular responses.

The further analysis supported the conclusions reached in the headline analysis: employers expressing conditional acceptance hold a larger proportion of the sector's net assets compared to those expressing clear support. This underlines the importance of the conditions and caveats attached to employers' acceptance of questions 1 and 3, which are explored below.

Responses

Question 1

Question 1 asked: *Would your institution support the JEP recommendations regarding the 2017 valuation, in overall terms, subject to the acceptance of such a position from the USS Trustee (and TPR as appropriate)?*

The responses to this question have been categorised as:

- expressed clear support
- expressed conditional support
- not expressed support
- not expressed a view

Note that employers expressing support of the position subject to acceptance by the USS Trustee and The Pensions Regulator are categorised as 'expressed clear support', since that caveat was included in the question itself.

	Number of employers (% of respondents)	By share of total active membership
Responses to Q1		
Total employers expressing support for recommendations	118 (93%)	92%
Employers expressing clear support	74 (58%)	42%
Employers expressing conditional support	44 (35%)	50%
Employers which have not expressed support	4 (3%)	<1%
Employers not expressing a view	5 (4%)	2%
Employers that did not respond to consultation	219	6%

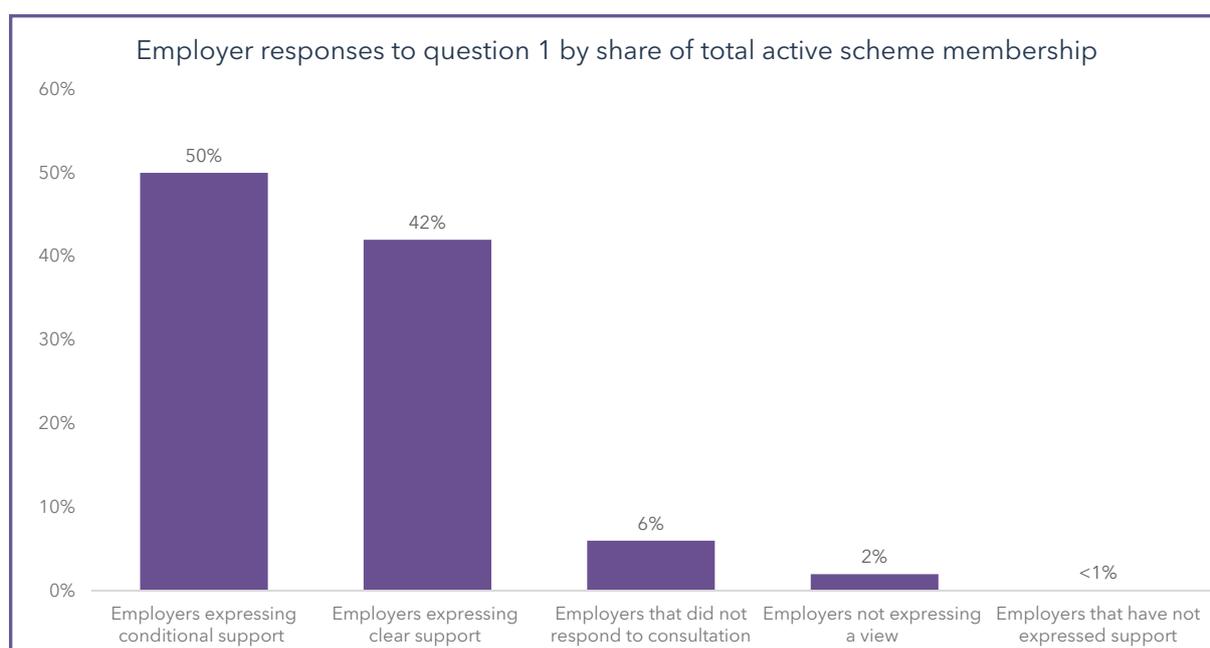


Figure 2: Employer responses to question 1 by share of total active scheme membership

In response to question 1, 118 employers accounting for 92% of the total active membership in the scheme expressed support for the JEP's recommendations regarding the 2017 valuation. Of these, 44 employers (representing 50% of the active membership) indicated that their support for the recommendations was conditional on a range of caveats, including:

- the JEP undertaking a second phase to inform further work to ensure long-term stability and sustainability of the scheme
- highlighting concerns regarding any requirements around any additional obligations placed upon employers (eg trigger contributions, guarantees, asset security etc)
- further information being provided (eg implications of more risk being taken in the valuation)

Question 2

Question 2 asked: *What further information would you need to provide a final view for question 1?*

Out of 127 respondents, 68 employers set out a substantive answer to question 2.

While the answers covered a range of topics, including covenant, investment strategy, member reaction, sharing costs with members, Test 1 and UUK's approach to consultations, there are four consistent themes that emerged:

- employers would like to have a better understanding of risk
- employers want to understand the backing for risk that the USS Trustee may demand
- employers want to know the views of the USS Trustee and The Pensions Regulator

Question 3

Question 3 was asked in two parts, and was prefaced the following information: *Employers currently pay 18% towards the USS scheme, and the mandate agreed immediately following the Acas discussions was 19.3%. If the recommendations of the JEP were accepted in full by all parties, the outcome would be that existing benefits - minus the employer match of 1% - could be provided at an indicative employer contribution of 20.1% of salary (with a member contribution of 9.1%)*

(a) Would you accept employer contributions at that level?

In response to question 3a, 116 employers - accounting for 90% of total active membership in the scheme - said they would accept indicative employer contribution levels at 20.1%.

However, a significant proportion - 40 employers, accounting for 43% of total active membership in the scheme - indicated that this acceptance was conditional on the increased contributions not being taken as a long-term solution, and on further work being undertaken to find a long-term sustainable solution.

	Number of employers (% of respondents)	By share of total active membership
Responses to Q3a		
Total employers expressing acceptance	116 (91%)	90%
Employers that expressed clear acceptance	76 (60%)	47%
Employers that expressed conditional acceptance	40 (31%)	43%
Employers which have expressed clear opposition	6 (5%)	3%
Employers that were undecided	1 (1%)	<1%
Employers not expressing a view	4 (3%)	1%
Employers that did not respond to consultation	219	6%

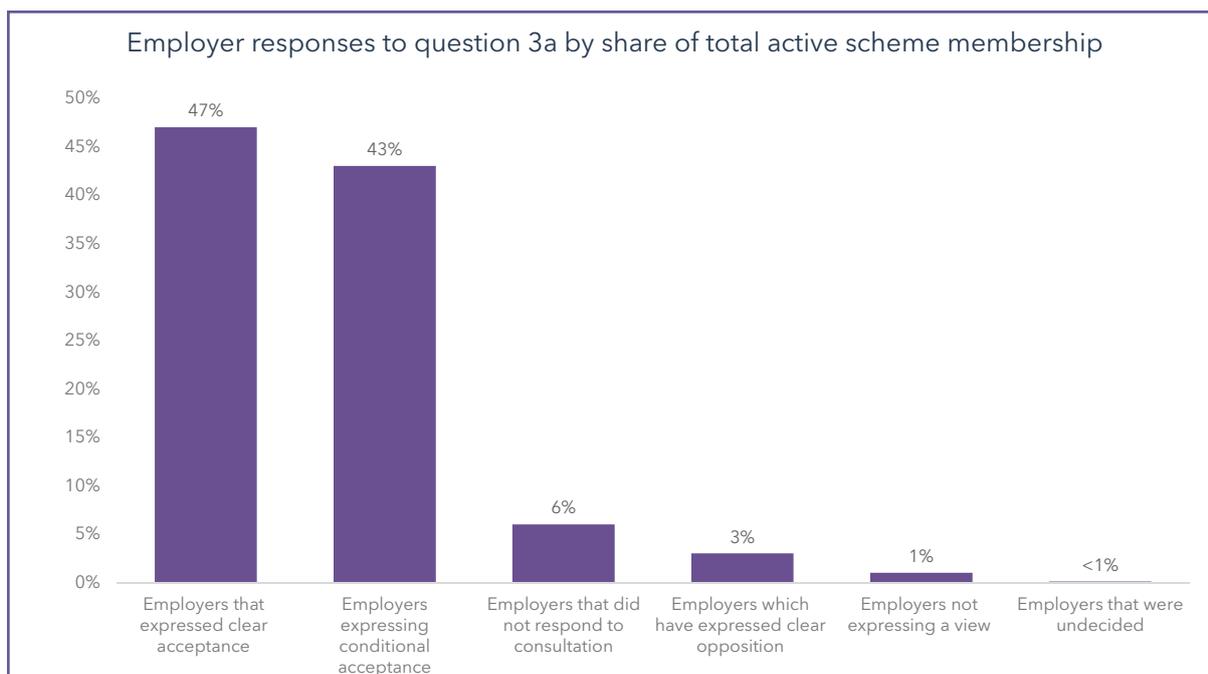


Figure 3: Employer responses to question 3a by share of total active scheme membership

Analysis of responses to question 3a also identified a number of common themes in relation to the overall acceptance of a higher level of contributions. Some employers noted the following points:

- that 20.1% is at the absolute upper limit of affordability for the employer
- that accepting a higher contribution rate of 20.1% would have significant implications for activity (eg staffing, student experience, capital investment etc)
- that acceptance of 20.1% was preferred over even higher contribution rates resulting from rule 76

(b) If not, what balance of additional risk, higher contributions and/or benefit change would you prefer to see as an outcome?

The responses to question 3b covered a range of areas, including:

- risk sharing with members
- reforming the scheme to provide more options for members
- concerns over the impact of higher member contribution rates and the potential for increased opt-outs from the scheme
- risk tolerance of employers
- a need for JEP phase 2 to consider the longer-term balance between contributions, risk and benefits

Conclusion

Overall, the analysis reveals a high response rate to the consultation, with responses received from employers accounting for 94% of the active membership. The responses show support from most employers for the recommendations of the Joint Expert Panel.

It should be noted, however, that there are significant conditions attached to this support, and importantly is entirely subject to acceptance of the position put forward by the JEP from the USS Trustee (and The Pensions Regulator as appropriate) and the need for further information on any implications for employers of such acceptance.

The responses also reveal that many employers regard a longer-term review of USS as essential - supported by a second phase of a JEP - and are only prepared to accept the JEP recommendations on this basis.

Universities UK looks forward to taking the views expressed by employers to the consultation into discussions with UCU, and with the USS Trustee, over the coming weeks with the continued aim of achieving a jointly agreed solution.

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