

Schedule of Contributions and Recovery Plan for the 2017 Valuation consultation

The 2018 valuation is the primary focus for employers as it could enable an agreed solution in line with that proposed by the Joint Expert Panel (JEP). There are, however, questions regarding the USS trustee's proposals for the 2017 valuation that we think it important to raise, and comment on. These 2017 valuation issues should be considered carefully given that the proposed contribution levels will come into force, and will apply, unless and until they are replaced with new contribution rates arising from a 2018 valuation. The current proposals will have a material impact on this year's I&E account at all universities.

The specific points which we would like to be raised by Universities UK are:

- **Deficit recovery contributions (DRCs)** - the trustee is intending to implement DRCs of 6% of salary payable for 14 years from April 2020; we do not believe that this proposal has been fully justified. The advisory note from Aon, the advisers to Universities UK, explains why the USS trustee could credibly accept lower DRCs, including the point that additional investment performance was assumed by the USS trustee in previous recovery plans and could therefore similarly be adopted for this valuation. We support this view. The 2018 valuation consultation now underway further highlights the need for the deficit recovery plan and contributions to be fully justified and consulted upon. We don't support the recovery plan with 6% contributions.
- **References to recent market volatility** - in forming its proposal, the USS trustee has referred to recent adverse market movements from October 2018. Such short-term factors clearly cannot be ignored, however employers would hope that periodic fluctuations are not given too much weight by the trustee given the long-term nature of the scheme and its covenant.
- **Accounting for pension costs** - we welcome the statement from the USS trustee regarding the provision of further information for employers on accounting for DRCs under FRS102, and look forward to engaging with the USS trustee further on that.
- **Interim schedule of contributions** - we support the proposal for an interim schedule of contributions to be put in place ahead of completing the 2017 valuation that replaces the current contributions with those due from 1 April 2019. These contributions would apply until the 2018 valuation is complete.

We believe this is consistent with our response to the cost sharing consultation where we asked for the JEP report recommendations to be considered rather than implementing cost sharing in full because of the impact of the planned contribution increases on scheme members and potential scheme members as well as on the University.

9 January 2019