

2017 USS valuation exercise

UMUCU would like to suggest the following points for discussion regarding the current USS valuation exercise and pensions' policy generally:

1. First Actuarial report: Gilts Plus and Yields Minus discount rates

A report UCU commissioned from First Actuarial has been sent to the President & Vice-Chancellor. The report attempts to identify a methodology for determining the discount rate used in the valuation of USS that accords with current legislation but is not dependent on the historically low level of Gilts used by USS in its last valuation exercise. UMUCU would welcome management's views regarding First Actuarial's analysis.

In particular, we note (see p. 35 of "Code of practice no. 3 Funding defined benefits"), that the discount rates used in setting technical provisions must be *chosen prudently, taking into account the yield on assets held by the scheme* to fund future benefits and the anticipated future investment returns and/or the market redemption yields on government or high quality bonds. First Actuarial therefore proposes that, instead of the problematic "Gilts Plus" approach used in the last valuation, the USS Trustees adopt a "Yields Minus" methodology based on the Internal Rate of Return to USS assets to calculate the discount rate used in the forthcoming valuation.

According to a report last July in the Financial Times (<https://www.ft.com/content/a359ba1c-4432-11e6-b22f-79eb4891c97d>) the previous government's Pensions Minister, Baroness Altman, is "maddened" by the lack of flexible thinking among pension fund trustees (who she describes as a "naturally overcautious lot"), pointing out that they are allowed to use higher estimates of their total future returns than those suggested by Gilt yields, which would instantly make their deficits, and the contributions required to close those deficits, look a lot lower.

UMUCU would like to know the views of the SLT regarding these critically important decisions regarding the technical provisions and discount rate methodology, and would like to see more understanding displayed by the University that there is room for an assessment of liabilities other than that adopted by USS in the last valuation. In particular, UMUCU would like to see the University, on behalf of staff in USS, robustly questioning the reluctance of the USS Board and Trustees to replace the, in our view, currently discredited Gilts Plus approach with a prudent Yields Minus one.

2. Misguided De-Risking Strategy

We would welcome discussion of the proposition by USS Management that the fund De-Risk by moving more money into Gilts.

Such a move would, in our view, be dangerous as it would increase the risks the fund, and our pensions, will face. We believe such conservatism is misguided and that, instead, De-Risking should be guided by innovation and best practice in the pensions sector. We note, for example, that HSBC has increased investment in its property

portfolio in order to reduce risk, reflecting the fact that yields on property are round 7% while returns on Gilts are close to being negative. HSBC has been an industry leader in De-Risking their pensions provision; USS should be following its lead, and that of other industry leaders, since UK universities should be at the forefront of innovation, not lagging behind.

3. Threat to Defined Benefit Scheme

UMUCU is concerned by reports that some Trustees on the Board of USS are arguing that the defined benefit section of the scheme should be closed so that only a defined contribution scheme is available to new members, and are using an unnecessarily pessimistic valuation methodology to justify this.

Such moves appear to UCU to be little more than scaremongering by certain employers to justify shifting risk from institutions to members. In addition to being unnecessary, for the reasons given above, this is unfair, since institutions are better able to bear risk than individual members, and irrational, since it would reduce the incentives of employers to hold the USS Board to account.

4. Ethical Investment

We would be interested in hearing the views of the SLT on USS's ethical investment strategy.

For example, do USS investments in tobacco run counter to the University's stated commitment to Social Responsibility and its claim to being a centre of excellence in the fight against cancer? Should the University take note of the UMSU campaign and suggest USS reduce fossil fuel investments? Should USS, and the University, be basing investment decisions more on social justice and the long-run future of humanity rather than short-term performance of large multinational companies that many people believe compromise on health issues and climate change?

5. Taking advantage of Expertise within the University

Pensions, which are a form of deferred pay, are vitally important to all University staff, but there is little or no opportunity for involvement of staff, especially those with relevant expertise, to participate in the development of pensions' policy. Despite the fact that USS is a managed jointly by the employers and UCU, there is no local mechanism whereby members of USS can hear what the University is saying to USS regarding its policies on investment and the valuation methodology

In addition, UCU believes there is a lack of transparency in USS's financial reporting. The annual reports provided to the public and members do not give adequate information on the performance of USS funds and management. For example, the annual reports do not reveal the split of growth of the funds between investment growth and performance growth. UMUCU would like to see the University's representatives insisting on greater transparency and asking more searching questions about such matters instead of being, as currently appears to be the case, rather passive.

These represent missed opportunities for the University to play a greater role in USS, to the benefit of both employers and individual members. As one of the largest employers involved in USS, the University has some influence over investment policy and the valuation methodology chosen by USS, and the SLT could do more to draw on expertise within the University to enable its USS representatives make a better informed contribution to discussions of USS and pensions' policy.

While UCU and University management may not agree on all matters regarding USS, we all have an interest in ensuring the success of the scheme. UMUCU therefore invites views from the SLT regarding the setting up of an **USS Working Group** (as Cambridge University has done) with representatives from the SLT, UMUCU, the University Pensions Office, and academic and other staff with relevant expertise, to provide guidance and help improve and strengthen the University's contributions to discussions about the future of USS.