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*Dear Mr. McLean,*

**A consultation by the USS Trustee on the proposed assumptions for the scheme's Technical Provisions relating to the 2020 actuarial valuation**

I write on behalf of Fitzwilliam College in the University of Cambridge in response to your email of 7 September 2020 requesting comments on the above consultation.

The Governing Body of Fitzwilliam College, having discussed the consultation at its meeting on 14 October 2020, considers that the best interest of the College is closely tied to the continued ability of the University of Cambridge to sustain the highest standards of teaching and research, which in turn means the ability to attract and retain high quality academic staff. The College recognises that the University response is informed by specialist advice which is not directly available to an institution of the size of Fitzwilliam. The College therefore supports the response of the University to this consultation (Attached as Appendix 1 to this letter).

The great majority of the Governing Body of Fitzwilliam College have declared themselves to be conflicted in this matter because of their personal membership of USS. However, they believe that, whilst fully recognising this conflict, it is appropriate and in the best interests of the College to respond to this consultation in this way.

*Yours sincerely,*  
*Baroness Morgan of Huyton*

Baroness Morgan of Huyton  
Master

## University of Cambridge (“the University”)

### USS consultation on the assumptions and approach to be adopted for the 2020 valuation

#### University’s response to the consultation

##### Executive summary

The approach taken by USS leads to a set of potential outcomes that are both unaffordable for the sector and inter-generationally unfair. The proposed increase in the level of prudence and the elimination of the inflation risk premium lead to an unrealistically low discount rate of 0% over CPI **for ever** from the market lows in March. No evidence was presented for the need for these changes, and the lower discount rate leads to an unnecessarily large deficit of up to £18bn. Compounding the problem, illustrations were presented for deficit recovery contributions over a recovery period of 8-10 years leading to higher deficit recovery contributions (even in the best case) than USS considered affordable for employers. An 8-10 year recovery period is inconsistent with the covenant visibility of 20-30 years, and a 20 year recovery period would be appropriate. Overall, the full application of JEP recommendations would have led to a more credible and sustainable outcome.

We are supportive of measures to enhance the covenant but USS needs to ensure that the changes made to the rules do not have a disproportionate effect on certain employers and do not lead to unintended consequences. In any event, while adding some strength to the covenant at the margins, we do not believe that the proposed changes have the dramatic impact on the strength of the covenant that seems to be attributed to them by USS. We believe the covenant remains strong.

##### Key issues and summary of University feedback

In responding to this consultation our aim is to ensure that our valued employees receive their full USS pensions when they retire, including benefits already built up and benefits that will be built up in the future.

Despite the very challenging conditions at the valuation date, it is our firm view that if a balanced approach is taken, then a long term solution is possible that is both acceptable to USS and affordable for members and employers. We have provided our detailed views on how this can be achieved under question 2, which we expect USS to consider.

The 2020 valuation provided an opportunity to rebuild trust between USS, UCU and UUK as well as between employers and members. Based on the proposals in the USS consultation document, that opportunity has not been taken and there is a real danger of a breakdown in trust.

We are disappointed in a number of specific aspects of the USS proposals including the following:-

- **Prudence and responsibilities** - USS has increased the level of prudence both relative to the 2018 valuation and to what is required under the funding regulations, arguably leading to excess prudence, unjustifiably high contributions and further intergenerational unfairness. The USS Trustees’ primary responsibility is to ensure that pensions are paid in full over the long term. The USS Trustees should use the flexibility of the funding regime and covenant strength to meet this responsibility in a balanced way.
- **Employers’ sustainable growth plans** – it is not clear how the USS Trustees have considered or allowed for Employers’ plans. We request that USS use the flexibility permitted by the funding regime to support rather than hinder employers’ sustainable growth plans at this very challenging time (since the implementation of such plans are likely to support the long term funding of USS).

- **Content and format of the consultation** – the format of the consultation is somewhat difficult to follow and we feel that the content is not sufficient for employers to provide a detailed and fully satisfactory response. In particular, key issues such as the recovery plan structure, which is critical to the overall contribution rate and the Trustees' position on the employer covenant based on current information must be included
- **Unjustifiably high levels of contributions** which are unaffordable for employers and members and which will lead to a significant number of members leaving the scheme unnecessarily and being without valuable pension and protection benefits as a result
- **Intergenerational unfairness** – the high contributions would also lead to unnecessary intergenerational unfairness
- **Employer covenant** – we do not agree with the use of a “tending to strong” covenant assessment when the covenant is currently rated as “strong”. The USS Trustee should recognise that it will take significant time to complete the ongoing covenant-related consultations and should not pre-empt the outcome. We would support an extension of the moratorium on employer exits if this is required to support a strong covenant assessment for the 2020 valuation.
- **A lack of transparency and consistency** – in particular between the investment strategy and proposed funding assumptions, leading to a lack of clarity on the overall level of prudence in the proposed assumptions.
- **Alternative approaches and sense checks** – based on the information provided, it is not clear what alternative approaches to the valuation the USS Trustees have considered outside of traditional actuarial methodology. The specific circumstances of the scheme (e.g. open to new members, enduring employer covenant and scale to invest in a diversified range of assets) support the careful consideration of alternative approaches alongside traditional actuarial approaches. It is also not clear whether the proposed approach has been tested against a full range of “sanity checks” to consider the implications for basic measures such as long term real returns.
- **JEP recommendations** – we are disappointed that the proposals do not take into account the full JEP recommendations

In summary, we support the views set out in the Aon paper, but we would also push for further changes to the methodology and assumptions proposed by USS to provide a less volatile and more sustainable approach to this and future valuations. We hope that USS will consider this feedback and provide revised proposals.

## **Consultation questions and responses:-**

### ***INPUTS AND ASSUMPTIONS***

#### ***1. What are your views on the inputs and assumptions proposed by the USS Trustee for this valuation?***

The main valuation inputs are:-

- USS's assessment of the employers' collective covenant strength
- USS's view of how employers' risk capacity should be measured
- The actuarial inputs in terms of the methodology and assumptions
- The investment strategy both current and long term
- Time horizon – for taking risk

The main assumptions are:-

- The financial assumptions – predominantly the discount rates and the inflation assumption
- The demographic assumptions – life expectancy, retirement age/s, marital statistics

- Assumptions relating to the recovery plan, in particular the term of the plan and any allowance for investment outperformance (we note this is not covered by the current consultation despite being a key factor in determining the level of recovery plan contributions)

**Employer covenant** – we do not support the use of a tending to strong assessment to set the valuation assumptions. The valuation assumptions should be based on the current ‘strong’ assessment. We note that USS is carrying out separate consultations with respect to measures to lock in the strong covenant. The measures proposed by USS have logic in principle, but finding a way to implement them without unintended consequences or having a disproportionate effect on some employers is complicated with such a diverse employer group. It is therefore very unlikely that the arrangements will be finalised in time for the 2020 valuation. We do not believe that the finalisation of these arrangements in the short term are necessary to maintain a strong covenant.

**Risk capacity** – we broadly support the assessment of affordable risk capacity of 10% of salary over a 30 year period. We note that this would lead to an expected overall employer rate of 25% as a long run affordable maximum. The University of Cambridge could afford more in extremis but we understand that this may well not be true for the sector as a whole. The preparations to deal with the expected revenue loss in relation to Covid are likely to provide additional information as to the capacity of the sector to deal with additional costs or lowered revenues.

**Risk metrics (Metrics A, B and C)** – the headroom under each of these metrics is calculated by reference to the self-sufficiency liabilities. In our view, this approach to managing risk is unnecessarily volatile and may lead to poor decisions. As noted later in our response, our view is that the self-sufficiency liabilities do not provide a good basis for measuring risk in an open scheme. At the very least, the Trustees should introduce additional measures of risk – such as long term scenario testing - which take into account the specific circumstances of USS. Such alternative long term metrics should be given at least equal weighting alongside the self-sufficiency based metrics when assessing risk and making any decisions that could affect the long term future of the Scheme.

**Actuarial inputs** – we support the proposed methodology in principle but have concerns about its detailed proposed implementation and have provided further comments under question 2.

**Financial assumptions** – we have significant concerns on the main financial assumptions – the discount rates and the CPI inflation assumption – as set out under Section 2

**Non-financial assumptions** – we broadly support the non-financial assumptions but would ask whether the long run mortality improvement assumptions are overly prudent and whether USS has considered making any allowance for the expected impact of Covid-19 on life expectancies.

**Investment strategy and interaction with discount rates** – there is a lack of transparency and potential doubling up of prudence. We have provided detailed comments under question 2.

**Time horizon** – we note that the recovery plan term is not part of this consultation but the illustrative figures provided all assume a term of 10 years or less. Our firm view is that the recovery plan period should be at least 20 years. A shorter period leads to significant intergenerational unfairness. Here we would also note that, for an open scheme, the time horizon for confidence on the employer covenant strength is analogous with the time horizon for the recovery plan.

## **VALUATION METHODOLOGY**

## **2. Do you have any comments on the proposed valuation methodology, which was the primary focus of the March 2020 discussion document?**

### **1. The methodology**

The proposed principles and approach adopted by USS are summarised below in italic text:-

- *Principle 1: The level of risk must be “acceptable”*
- *Principle 2: Long-term and short-term perspectives are important*
- *Principle 3: Intergenerational fairness should be considered*

*Our proposed approach is more closely aligned with the evolving economics and demographics of the Scheme, as well as with emerging legal and regulatory developments. Consistent with the JEP's views, it takes account of the Scheme still being open to new members. It is designed to produce a 'budget' that is achievable, yet still prudent and compliant with regulation.*

*The key elements of the methodology are:*

- *the use of the Dual Discount Rate (DDR) approach*
- *the framework for setting investment strategy, prudence and discount rates*
- *the approach to future service contributions and deficit recovery contributions*
- *the integrated risk management framework*

**Dual discount rate approach** – we support the proposed methodology but have significant comments on the assumptions as set out below.

**Level of risk** – under the strong covenant approach set out in the proposals, the level of risk taken is lower than the level of risk inherent in the current assumptions. We do not support any material increase in the overall level of prudence in the assumptions. In particular, we do not support an increase in prudence from the 67<sup>th</sup> percentile approach used at the 2018 valuation to the 78<sup>th</sup> or 85<sup>th</sup> percentile (pre-retirement discount rate) and 73<sup>rd</sup> percentile (post-retirement discount rate). We would also note that the justification for an increase in prudence is based on pre-empting a weakening in the employer covenant. As noted below, we would support a pre-retirement discount rate of CPI plus 2.3% (equivalent to gilts plus 4%) and a post retirement discount rate of Gilts plus 1% with initial tapering from the higher pre-retirement rate. This would be broadly equivalent to gilts plus 1.2%. We estimate that the level of prudence in this approach would be around the 70<sup>th</sup> percentile.

**Proposed discount rates** – we do not support the proposals under which the discount rates would be based on a 'tending to strong' covenant and would force a lower risk approach to be baked into the assumptions. Our firm view, as set out in previous responses, is that long term investment in a balanced portfolio of return seeking assets provides better expected outcomes than de-risking. The modelling carried out by USS for the Valuation Methodology Discussion Forum (together with the historical precedent over the last 100 years) strongly implies that a diversified portfolio of growth assets reduces risk in the pension scheme where requirements for liquidity are limited for a long period. It should also be noted that likely outperformance of growth assets in the portfolio over a 20 year period can help offset other non-financial risks (such as longevity) which a matching asset portfolio of the same value cannot. The expected outcome for members is also better.

**Interaction between investment strategy and discount rates** - our view is that the discount rates should be based on the scheme's expected long term asset allocation, which should remain static provided the scheme is open and the membership profile remains stable.

Using the higher allocation to growth assets (64% based on the reference portfolio) and allowing for a strong employer covenant leads to the following assumptions:-

- For non-pensioner liabilities – 100% allocation to diversified portfolio of return seeking assets
- For pensioner liabilities – 20% allocation to return assets, 80% allocation to matching  
(We note that other combinations are possible)

This gives an implied asset allocation of:-

- $55\% \times 100\% + 45\% \times 20\% = 64\%$  to return assets
- $45\% \times 80\% = 36\%$  to matching assets

The higher allocation to return assets for pensioners could be allowed for by tapering from the higher pre-retirement rate to the lower post retirement rate over, say, the first 10 years of retirement. This is similar to the investment approach used in defined contribution funds to support income drawdown.

Prudence can then be allowed for in a transparent way taking into account the scheme’s long term investment strategy as illustrated below using estimated figures derived from table 8.2 in the USS proposal.

	<b>% return seeking</b>	<b>% matching</b>	<b>Best estimate</b>	<b>Funding</b>
<b>Pre-retirement discount rate</b>	100%	0%	Gilts + 6.5%	Gilts + 4.0% (CPI equivalent)
<b>Post retirement discount rate</b>	20%	80%	Gilts + 2.1%	Gilts + 1.0% (with tapering)
<b>Implied overall strategy</b>	64%	36%	Gilts + 4.9%	Gilts plus 2.65%

Table 8.2: Expected 30-year investment returns for the component investment portfolios

Investment Strategy	Return relative to	Pre-retirement portfolio	Post-retirement portfolio
55% Growth	CPI	4.22%	0.70%
	Gilts	5.90%	1.55%
40% Growth	CPI	2.77%	0.70%
	Gilts	4.47%	1.55%

The level of prudence is then clear and there is no double counting based on a lower than actual allocation to return assets. Table 8.2 from the USS consultation document is included for reference.

The derivation of discount rates can be reviewed at each future valuation taking into account the liability profile and return expectations at that time.

**Anchoring of discount rates** – we understand the rationale for the post retirement discount rate and linking this to gilts as the notional assets backing pensioner liabilities are largely invested in bonds. However, we do not support linking the pre-retirement discount rate to gilts as the assets backing non-pensioner liabilities do not include gilts. Our firm view is that the pre-retirement discount rate should be linked to CPI. This will lead to a significant reduction in funding level volatility, which will be good for both members and employers.

**Post-retirement discount rate** – although our preference is to anchor this to CPI, we support the use of a ‘gilts plus 1%’ discount rate. However, we would ask that USS incorporate a tapering period of up to 10 years from NRA so that the discount rate reduces uniformly from the pre-retirement rate to the gilts plus 1% rate over this period.

**Pre-retirement rate** – we do not support the use of a gilts plus approach. We propose a CPI plus approach with a margin of 2.3% (equivalent to gilts plus 4.0%). Here we would note that the best estimate return from USS's growth assets is approximately 6.5% pa above gilts.

**Other methodologies** – although we support the use of the dual discount rate methodology, we would also like to understand what other approaches have been considered, including those put forward by the VMDF, and why have they been rejected for what is a very traditional actuarial methodology.

**RPI inflation** – please explain why the inflation risk premium of 0.3% has been removed (we estimate that this adds 6% (c. £5bn) to the liabilities and deficit as well as increasing the cost of new benefits by c. 3% of salary).

**CPI inflation** – we note that the USS proposal is to set CPI by reference to market implied RPI inflation. Here we would note that inflation markets are unreliable as a predictor of long term inflation due to the current consultation on aligning RPI and CPIH.

Notwithstanding our comments on USS's proposed removal of the inflation risk premium, we support the use of a long term CPI assumption of 2% as proposed by Aon. When combined with a 'CPI +' pre-retirement discount rate this will help to reduce funding level volatility.

As a final comment here, we would note that it is easy to get immersed in the detail of what margin to add to gilts. It is essential that "sanity checks" are applied to the proposed assumptions and these would include consideration of the implied long term real returns.

## **RISK MANAGEMENT FRAMEWORK**

### ***3. Do you have any comments on the Trustee's proposed risk management framework?***

#### **3. The risk management framework**

We support the comments made by Aon with respect to the risk management framework

We have significant concerns about the use of the self-sufficiency liabilities as the only metric to measure risk. As the investment portfolio is (correctly in our view) not set to manage a self-sufficiency metric, its use as the only metric creates an unmanageable risk for employers and employees and leaves the Trustee in an impossible position in trying to balance its duties.

We suggest that other measures are considered to measure risk in particular long term scenario analysis that looks at how much additional cash would be required to provide a very high probability (95-99%) of meeting all benefits. This would provide equivalent comfort but would not lead to a short term "crisis" driven by movements in gilt yields (especially where such changes do not reflect underlying long term market shifts but rather the intervention of central banks).

The work of the VMDF and its predecessor discussion forum should be considered as long term modelling has already been carried out to test the scheme against a repeat of various historic scenarios including Japan from the 1980s to the 2000s.

We would also note that the term "de-risking" as used in the consultation refers to reducing the allocation to return assets and increasing the allocation to liability matching assets. In our opinion, de-risking in this way may lock in a poor funding position (and high contribution rate) which in turn may undermine the covenant. Therefore, over the long term, this kind of de-risking leads to worse expected outcomes, higher expected costs and increases the likelihood that members do not receive a

full pension based on the current benefit structure. Our firm view, while the Scheme remains open, is that there is a sufficiently long time horizon to take investment risk and this will lead to better expected outcomes for members and employers in the vast majority of scenarios. We recognise that there are some extreme long term scenarios where outcomes would be better if the Scheme de-risks. However, especially given the current levels of real interest rates, these are very unlikely scenarios and the USS Trustee is placing too much emphasis on very low probability long term scenarios. A more balanced approach to assessing risk is needed using more than one reference point.

## **TECHNICAL PROVISIONS**

### **4. Do you have any comments on the proposed figures for the scheme's technical provisions?**

**The figures for the Technical Provisions** - we note that the figures are illustrative and that the consultation does not include the period of the recovery plan. As such the figures are of very limited use other than as a starting point to consider the impact of adopting other assumptions.

We would not support the adoption of any of the proposed assumptions other than the 'strong' assumptions combined with a recovery plan of at least 20 years. Depending on the assumptions actually used, we would consider retaining the current recovery plan end date. However, our strong preference is a recovery plan of at least 20 years, to ensure there is no unnecessary intergenerational unfairness.

We would also note that a rolling recovery plan period of 20 years could be used at future valuations, provided that it is supported by the employer covenant. Whilst we understand the Regulator's position on recovery plans, this is an area where the Trustees should apply the full flexibility of the funding regulations taking into account the specific circumstances of USS.

We would also note there should be a balance between the prudence of the assumptions and the terms of the recovery plan. In particular, if prudence is strengthened the terms of the recovery plan should be more flexible both in terms of period and/or including some allowance for future investment outperformance. However, to reiterate, our key comment here is that the deficit should be spread over at least 20 years to minimise intergenerational unfairness.

For the discount rates, our preferred approach as stated under question 2 is to use a higher pre-retirement discount rate anchored to CPI and equivalent to gilts plus 4% at the valuation date.

We would also note that the total contribution rates shown in the report are quite clearly unaffordable. Here, we would further note that the USS trustee is required to take into account the sector's sustainable growth plans when agreeing assumptions and contributions. It is not clear whether or how USS have allowed for this.



Table 9.1: Potential range of Technical Provisions and associated contributions

	TTS covenant		Other potential outcomes (subject to Trustee review of the covenant)	
Discount rate pre-retirement	Gilts+2%	Gilts+2.5%	Gilts+3%	Gilts+3.5%
Technical Provisions	£84.4bn	£81.4bn	£78.8bn	£76.3bn
Assets	£66.5bn	£66.5bn	£66.5bn	£66.5bn
Deficit	£17.9bn	£14.9bn	£12.3bn	£9.8bn
Future service cost (current benefits)	37.6%	34.5%	31.8%	29.4%
Single equivalent discount rate	Gilts+1.4%	Gilts+1.5%	Gilts+1.7%	Gilts+1.9%
	CPI+0.0%	CPI+0.2%	CPI+0.4%	CPI+0.5%

Notes to table:

1. In each case the post-retirement discount rate is gilts+1% pa.

2. Future service cost is the total rate including employee contributions. It includes allowance for expenses of 0.4% of salary and DC contributions.

3. Because of rounding to the nearest 0.1%, the difference between the gilts+ and CPI+ single equivalent rates varies slightly

Table included for reference

## COVENANT SUPPORTING MEASURES

### 5. Are you willing to agree to debt monitoring and pari passu arrangements and the long-term rule change required to support a strong covenant?

[Relevant extract from USS consultation:-

*TPR's guidance sets out a four-point scale for covenant strength: weak, tending to weak, tending-to-strong and strong. EY Parthenon and PwC have carried out work that has helped to determine the covenant provided to the Scheme by the employers. **PwC advises that the covenant is currently 'strong – on negative watch' and that the possibility of maintaining a 'strong' rating depends on:***

- *an additional review in the autumn that will assess if any aspects of the covenant have changed – covering the outlook for the HE sector, the affordability of contributions, and the material and newly emerging risks and opportunities facing the sector (including those related to geopolitics, technological change, COVID-19 and government support for R&D related to its target of 2.4% of GDP by 2027)*
- *implementing the debt monitoring framework*
- *committing to granting pari passu security for the Scheme with any new secured debt issued by employers*
- *executing the long-term rule change regarding an employer's ability to exit the Scheme without our written consent*

*UUK has consulted employers on the proposed debt monitoring and pari passu arrangements and we await their formal feedback. Employers have yet to be consulted on the rule change. We have considered this position, along with PwC's advice, and in light of the covenant review due in the autumn. **We are therefore consulting on the basis that the covenant would be tending-to-strong.]***

We recognise the Trustees' concerns about the covenant strength and we are committed to working with USS on the separate consultations relating to debt monitoring, pari passu security and the rule change on employer exits. However, these are challenging and complex issues and different employers will have different views on each issue. Our firm view is that it will not be possible to

conclude these consultations within the valuation timetable and USS should not try to do so. If the USS Trustees require some interim comfort to carry out the 2020 valuation based on a strong covenant, we suggest that the existing moratorium on exits is extended.

We will respond to the covenant-related consultations separately but would note that the covenant is currently rated as strong and that the assumptions should be set on the basis of the current covenant strength rather than pre-empting a weakening in the covenant.

We recognise that if the covenant assessment is revised downwards then this will need to be taken into account at the next valuation, due in 2023.

Our view is that, due to the unique and essential nature of the sector, there is good long term visibility on the covenant and this can be used to support a longer term approach to funding and deficit removal. In particular, as a sector wide scheme, the insolvency of one employer with activity transferred to another has no impact on the scheme. Furthermore, Higher Education Institutions have no shareholders and so no distributions. Monies are retained within the employers and invested to strengthen the covenant. This may provide greater long term risk mitigation than seeking to extract too much money in pension contributions – especially at a time when USS is predicting returns on its investments will exceptionally poor by historical standards. Finally, the strength of the sector is easily underestimated, for as charities with educational purpose the sector is not trying to maximise its profit. It would be able to make changes to its business model if necessary to absorb additional costs – albeit with an impact on the achievement of its charitable objectives.

#### **ADDITIONAL CONTINGENT SUPPORT**

##### ***6. Do you have any further feedback on the possibility of additional contingent support?***

We would be willing to consider contingent support arrangements if the approach to funding was more balanced and led to a less volatile measure of the liabilities and deficit.

We would note that the requirement for agreement from all employers (some with very limited affordability) is likely to create problems. However, it may be possible if there is a solution that can work proportionately for all employers.

#### **FINANCIAL SUPPORT**

##### ***7a. What percentage of payroll would you have available as financial support for the scheme (USS assume 10%)?***

The University would be able to support a total long term contribution rate of at least 25%, with 10% as financial support for the scheme (i.e. to remove a deficit). However, this cost increase would result in damage to the University's ability to deliver its charitable mission.

We would also note that a 25% employer rate may not be affordable for all employers.

#### **FINANCIAL SUPPORT**

##### ***7b. What period of time would your financial support be available (USS assume 20 years under a tending-to-strong covenant, and 30 years under a strong covenant)?***

For at least 30 years. However, as noted above continued payment of this rate would result in cumulative damage to the University's ability to deliver its charitable mission.

Whilst acknowledging the adverse impact on our charitable mission, our strong preference is to spread payments over a long period rather than over shorter periods.

We would also reiterate that, for USS, the period over which financial support is available is analogous to the Recovery Plan period.

#### **FINANCIAL SUPPORT**

**7c. What cost of future pension provision would be acceptable to you in an adverse scenario? (USS assume 15% of payroll. This is on top of the 10% of payroll available for deficit recovery contributions. This gives a total rate of employer contributions of 25% of payroll).**

15% would be affordable, and we would look to have a consistent approach with the sector as a whole.

We would also refer to the comments under 7b. above with respect to payment of a total employer rate of 25%.

#### **FINANCIAL SUPPORT**

**7d. What do you expect your future growth of payroll to be over the longer term? (CPI+2% has been used by USS before, but they have shown alternatives).**

CPI plus 2% is reasonable as a long term assumption for annual growth in total payroll. However, this is based on the assumption of a return to normalised economic conditions and it is currently unclear when this will happen.

#### **RISK APPETITE**

**8. How should USS determine employers' collective risk appetite, and do you recommend any alternatives if you don't think the approach based on affordable risk capacity is reasonable?**

Please refer to our comments under question 3 in particular the Trustees' over-reliance on the self-sufficiency metric and the lack of alternative risk assessment measures that take into account the long term nature of the scheme and sector.

It is difficult for employers to engage with the question as phrased without any alternative.

An alternative approach where employers accept the principle that lower contributions come with a higher level of risk would be useful. For example, an alternative which employers may prefer could be something like (note example is purely illustrative):

1. A current total contribution rate of 30% with a 70% chance of this being sufficient and a 15% chance of requiring greater than 10 years of 10% deficit recovery contributions required, or
2. A current total contribution rate of 35% with a 90% chance of this being sufficient and a 5% chance of requiring more than 10 years of 10% deficit recovery contributions?

With the model and assumptions behind the above statements being transparent and visible. Such an approach would work well with the proposed change of key risk metric to a long term measure.

**PLEASE CONFIRM IF YOUR ORGANISATION'S GOVERNING BODY HAS BEEN CONSULTED:**

**Yes**

**In addition to our responses to the specific questions, we would ask that the following comments should form part of our feedback to USS.**

- Flexibility is needed now for members and employers. The USS structure provides the building blocks but these are not being used.
- As noted in the Aon report and our response, the JEP recommendations have not been allowed for.
- VMDF – we would like to understand which models produced by the VDMF were considered by the USS Trustee when setting the proposed assumptions and risk management framework?
- A gilts plus approach is not required by the funding regulations
- It is likely that the Scheme will fall into the 'bespoke' category under the Regulator's proposed new funding regime, so extra modelling will be required at future valuations. It would be useful to consider such alternative modelling as part of the 2020 valuation. We would also note that modelling to show long term resilience of assets to changes in market conditions (and therefore ability to pay benefits in full) has been used in other 'non-standard' cases
- Employers should be required to continue to pay deficit contribution where their employees withdraw from USS.
- There is a requirement for the USS Trustee to take into account the sectors' sustainable growth plans when setting contributions. We would like to understand how has this been taken into account?