Fitzwilliam College responses to questions from the UUK September 2017 survey on the 2017 USS valuation

UUK questions and text in black.
Fitzwilliam responses in RED

The following questions are taken from Section 3 of the Universities UK (UUK) papers titled "UUK papers to accompany the USS technical provisions consultation – September 2017", which also explains how to file a response.

Survey questions

Identifiers

1.	(a) Name of respondent	R A Powell
	(b) Position of respondent	Bursar
	(c) Email address of respondent	Bursar@fitz.cam.ac.uk
	(d) Name of USS employer	Fitzwilliam College in the University of Cambridge

2. Please confirm that the content of this questionnaire (and related documents) has been discussed such that the views expressed can be considered to be the authorised view of the institution.

• Yes
• No (comment)

No.

Comment – Once again Colleges have received a consultation out of Term when processes for approval by the College as a body are not in place. This response represents the opinion of the College Bursar regarding what the College is expected to conclude when the matter is debated next Term.

Risk and reliance

The questions in this section should be considered alongside the USS Technical Provisions consultation and the Aon commentary. Issues that employers should consider in relation to risk are also summarised in section 1, paragraphs 7 to 15, in the UUK paper.

3. **(a) Does your institution support the level of risk (i.e. level of reliance being placed on the employer covenant) being proposed by the USS trustee for this valuation?**

• My institution believes it would be appropriate to take more risk
• My institution accepts the level of risk being proposed by the trustee
• My institution wants less risk to be taken, acknowledging the implications this might have for benefits and/or costs

Answer - • My institution wants less risk to be taken, acknowledging the implications this might have for benefits and/or costs

(b) Do you have any additional views or concerns regarding the level of risk being proposed?

We note and strongly support the University of Cambridge's specific comments in this section of their response. In particular the current arrangements result in subsidies between the stronger and weaker balance sheets in the HE sector which distort competition, and may be encouraging over-enthusiastic lending to some parts of the sector. In particular secured lending undermines the position of the Scheme as an unsecured creditor. There is an argument in favour of the Trustee Company systematically scrutinising Employers' published financial statements and having the right to draw attention in public to actions that significantly weaken an Employers' covenant. The PRs recent letter seems to require Employers to move on from the assumption that the Sector's long term creditworthiness is beyond doubt and can only serve to both legitimise and reinforce the concerns of the stronger covenants about the degree of cross-subsidisation.

We are very strong advocates of sectionalisation of the Scheme, certainly for future service and if possible also for the past service deficit

4. **If the USS trustee decides to take action between valuations because short-term reliance on the employers has become too great, what action do you believe should be taken (potentially temporarily)[33]?**

- Additional contributions to the scheme to alleviate risk (not towards benefits)
- Changes to future service benefits
- My institution's position would depend on the outcome of the 2017 valuation

[33] Please note that any action would be in addition to measures taken to meet the funding shortfall identified at the 2017 valuation

Answer - • My institution's position would depend on the outcome of the 2017 valuation; the new set of contributions and benefits from 2018-21 must provide for this to be an extremely unlikely event

Cost

The questions on this page relate to section 1, paragraphs 16 to 21, in the UUK paper.

5. **(a) Over recent months UUK has compiled a view from institutions that 18% is the maximum level of regular contributions that employers are willing to pay towards USS benefits. We need to affirm this view for the 2017 actuarial valuation. Please indicate your institution's view on the statement that regular employer contributions should be no more than 18% of salary.**

- Support – 18% is the maximum my institution is willing to pay
- Moderately oppose – my institution might be willing to pay more than 18% in specific circumstances (please specify these circumstances in question 5(b) below).
- Strongly oppose – my institution would be willing to pay more than 18% to reduce impact on benefits (please specify the maximum your institution would be willing to pay in question 5(b))

Answer - • Support – 18% is the maximum my institution is willing to pay

(b) Please add any additional comments in support of your response to this question.

6. **(a) Does your institution believe that increasing member contributions beyond the**

current 8% of salary is likely to lead to more scheme members opting out?

- Yes
- No

Answer - Yes

(b) We would welcome any further comments to support your answer above.

Benefits

The questions on this page relate to section 1, paragraphs 22 to 63, in the UUK paper.

7. **(a) Does your institution prefer maintaining a level of DB accrual for future service at this valuation or moving to a DC-only solution (either temporarily or permanently)?**

- Maintaining some DB
- Moving to DC

Answer – • Moving to DC

(b) We would welcome any further comments to support your answer above.

Certainly as an absolute minimum there seems no way of avoiding a substantial move in the mix of DB and DC **towards** much greater provision of DC with immediate effect.

We agree in principle with the UUK view that retaining the possibility of a reversal in that movement at some future point has merit, but this seems to be a long way away and we would not wish to create any expectations among employees of a reversal in one of the next few triennial reviews. There is a point where the DB component could look derisory to longer serving and more senior staff (eg the quoted £15k figure?) but where it might still be a major benefit to a large number (12%) of less well paid people.

It is of concern that professional advisers anticipate a rise in the past service deficit from 2017-2020 under plausible assumptions about future market movements and contribution rates. It will be completely unacceptable to put in place in 2018 a combination of contributions and benefits for 2018-21 for which that is anything more than a very remote probability.

The term "regular" contributions means those contributions payable by employers on an ongoing basis to maintain both the scheme's future service benefits and contributions to any deficit recovery plan contributions relating to the DB section. It also includes the employer's contribution to scheme running costs.

8. **If a level of reduced DB accrual is maintained in the future, do you have any initial thoughts on which of the following approaches would have your institution's preference?**

- Reducing the salary threshold
- Reducing the accrual rate
- A combination of both
- No preference

No preference

9. **If the outcome for employers at this valuation is a mandate to seek a DC-only**

solution to future service benefits, do you have any comments you wish to be taken into account as to how best to achieve a DC offer optimised and tailored to the needs of USS institutions?

For example, you may wish to comment on whether the move to DC should be permanent, what the minimum employer contribution should be, whether there should be greater flexibility in terms of member contributions and which ancillary benefits should be offered.

We have no comments to make at this stage

Final remarks

10. **What additional support can UUK or the USS trustee offer to support your institution in the valuation process?**

- Share information at the earliest opportunity to allow the Employers to consider and respond
- Continue to engage with the Employers on developments in terms of the valuation and potential changes to benefits
- Consider related issues in more detail (i.e. sectionalisation and exclusivity)

11. **Please add any further comments your institution has on the USS valuation, for example you may wish to comment further on the following pertinent to your exposure to USS.** For example, you may wish to comment on:

• The proposed valuation assumptions
• Any areas of concern related to cost or risk
• Any further comments on future benefit design (including core benefits, as well as ancillary benefits) or the consequences of benefit change
• Any wider views on scheme structure, including mutuality and exclusivity
• Issues relating to section 75 debt

Further comments

Assumptions: We note that the proposed assumptions for the Technical Provisions are materially weaker than those adopted for the 2014 valuation and are at the least prudent end of the range likely to be acceptable to the Regulator in respect of the HE sector as a whole, even if the PR is persuaded to upgrade its provisional assessment of the sector's credit risk.

Risk: Put simply, the College wishes to significantly reduce current levels of risk beginning in the 2018-21 period

Other:

- The College expects to see concrete proposals to sectionalise USS in the coming few months.

-The College, like the University, would like to understand what lessons can be learned from not hedging interest rate and inflation risks in previous years, noting that falls in real yields have been a significant contributor to the increase in deficit on a like for like basis

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