Unreserved business
Paper No. 23.03.20.B1a

University of Cambridge

THE COUNCIL

Update on Matters Relating to the USS

Summary: In between actuarial valuations, the USS Trustee monitors how the Scheme is progressing against its Financial Management Plan (FMP). The purpose of the monitoring is to indicate whether or not the Scheme's financial position is progressing as expected and whether it is appropriate to continue to fund the Scheme on the basis of the 2020 valuation. It does not lead to any direct action from the USS Trustee other than potentially commissioning further analysis and advice.

At the last meeting of the Council the Chief Financial Officer (CFO) gave an oral update on the information published by the USS to support the FMP as at 31 December 2022. This information is provided for note as Annex A, together with an email update from the USS (see Annex B). Following the publication of the update by USS a joint statement was issued by UUK and UCU with respect to the dispute about USS (see Annex C).

The paper also provides a draft response to a consultation by The Pensions Regulator (TPR) on proposed new rules covering the funding of defined benefit pension schemes (see Annex D). The proposed response has been reviewed and approved by the Pensions Working Group (PWG) and the Finance Committee Financial Investments Sub-Committee (FCFISC). The Finance Committee has also been asked to review the response and its decision and any comments will be reported to the Council on 20 March.

Action requested of the Council: the Council is asked to **note** the update on the funding position of the USS. The unconflicted members of the Council are asked:

i. to **approve** the response to the consultation from The Pensions Regulator; and

ii. to **delegate** the making of any final changes to the consultation response to the CFO.

Risks: USS has been identified as a heightened risk area for the University. The paper links to the following risks on the risk register: Risk 1 'Financial sustainability', Risk 4 'Failure to communicate effectively with the Cambridge community' and Risk 9 'Failure to ensure our people feel valued'.

Previous decisions/decisions taken by sub-committees:

Committee	Reason why the matter was considered	Decision	Date	Papers (hyperlinks)
Finance Committee	Draft response to TPR consultation	Pending	By circulation	
FCFISC	Draft response to TPR consultation	Endorsed	01.03.23	FCFISC(23)10
PWG	Draft response to TPR consultation	Endorsed	20.02.23	
Council	Update on USS, draft response to Grace on USS and draft response to DWP consultation.	Noted update. Approved response to DWP.	17.10.22	Paper 22.10.17.B2 Minute 719

Next steps: The Council will receive further updates on the funding position of the USS as these become available.

Originating office/body: Finance Division

Annexes:

Annex A: Update on USS FMP as at 31 December 2022

Annex B: Update from USS of 17 February 2023

Annex C: Email of 23 February 2023 from UUK

Annex D: Draft response to TPR consultation

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Update on Matters Relating to the USS

Context

1. In between actuarial valuations, the USS Trustee monitors how the Scheme is progressing against its Financial Management Plan (FMP). The purpose of the monitoring is to indicate whether or not the Scheme's financial position is progressing as expected and whether it is appropriate to continue to fund the Scheme on the basis of the 2020 valuation. It does not lead to any direct action from the USS Trustee other than potentially commissioning further analysis and advice. USS published further information to support the FMP as at 31 December 2022 on 17 February 2023 (see Annex A), together with a general update on the 2023 valuation (see Annex B).

Update on the USS FMP as at 31 December 2022

2. As expected, the FMP update as at 31 December 2022 showed a continued improvement in the funding position since the valuation as at 31 March 2020.
3. As at 31 December 2022 USS was estimated to have a surplus of £5.0bn and a future service cost (including DC and expenses) of 17.9% of pensionable pay. This compares to a deficit at the valuation date (31 March 2020) of £14.1m and future service cost of 25.2% of pensionable pay.
4. USS have also estimated that based on the funding position as at 31 December 2022 the future service rate for pre-April 2022 benefits was expected to be less than 25.2% of pensionable pay.
5. USS have advised that markets continue to be volatile and that since 31 December 2022 the growth in asset prices and consequent decline in yields would, all else being equal, result in a reduction in any surplus and an increase in the future service cost for any given package of benefits. However, for planning purposes USS have indicated that the overall future service contribution rate for the current package of USS benefits is likely to be less than 20% of pensionable pay and the cost to provide future benefits at pre-April 2022 levels is likely to be lower than the current future service cost of 25.2% of pensionable pay.

General caveat in relation to monitoring metrics

6. As has been noted by the USS in the past, the monitoring basis reflects changing market conditions based on a pre-agreed methodology with limited judgement being applied. It is not a prediction of the likely outcome of a full actuarial valuation at any particular date. It is, instead, more an indication of the direction of travel. Increased uncertainty on forward inflation and interest rates has led to much financial market volatility and care must be taken with any individual reading. Additionally, it is not clear that the monitoring approach (necessarily a relatively crude approximation) takes full account of expected inflation. The valuation programme will provide the analytical framework for fully informed judgements on these and other issues.

Joint Statement from UUK and UCU

7. Following the publication of the USS update on 17 February 2023, UUK and UCU issued a joint statement regarding the ongoing dispute about USS. The key points of the statement are that UCU and UKK agree to:
    - 7.1. prioritise the improvement of benefits to restore these to pre-April 2022 levels, where this can be done in a demonstrably sustainable manner;
    - 7.2. work together so that all future valuations are undertaken on a moderately prudent and evidence-based basis, taking account of the open and long-term nature of the Scheme;

7.3. explore together a long-term solution for managing risk which can provide more stable and sustainable defined benefits and contributions, whilst protecting scheme members' long-term interests. In relation to these aspects UUK and UCU will work together on a constructive dialogue with the Pensions Regulator and the DWP;

7.4. work in partnership on USS governance reform;

7.5. work in partnership on low-cost options for USS; and

7.6. work with the USS Trustee to examine the case more fully for divestment from fossil fuels and for making greater visibility of climate crisis action and mitigation a feature of long-term USS planning.

Draft response to a consultation by The Pensions Regulator (TPR)

8. At its meeting in October 2022 the Council approved a response to a DWP consultation on draft regulations covering the funding of defined benefit pension schemes, such as the USS and the Cambridge University Assistants Contributory Pension Scheme.

9. TPR has now issued a consultation on a Code of Practice on defined benefit scheme funding, setting out its guidance on what trustees and employers should do in order to comply with DWP's draft regulations (which have not yet been finalised).

10. In particular, the proposed new rules would constrain the valuation approach and type of assets that a pension scheme can hold. This will have the effect of requiring closed schemes that have reached a certain maturity to have assets that substantially match the scheme liabilities and not allowing these schemes to rely on the employer covenant to hold assets with higher expected rates of return but higher market volatility. The PWG believes that while this approach may have its merits in respect of corporate schemes en-route to insurance company buy-out, it is not appropriate to all schemes (such as the ones sponsored by the University) and may well significantly increase costs without materially reducing risks for members.

11. It is also worth noting that while the proposed new regulations recognise that the funding arrangements for open schemes may need to be different to reflect the fact that the scheme is likely to be less mature, we consider that the new regulations may well have a "chilling" effect on the Trustees of open schemes causing them to adopt unnecessarily prudent valuation assumptions. It is also important that any deficit can be addressed over an appropriate time. This is particularly significant in the context of a multi-employer scheme where affordability for deficit recovery contributions may vary greatly between employers.

12. As a result the University's PWG, with input from specialist pensions advisors, has prepared the draft response which is provided as Annex D; responses have only been included to those questions which were felt to be relevant to the schemes that the University participates in and these follow on form our responses to the earlier consultation. The draft response has been endorsed by the FCFISC. The Finance Committee has also been asked to review the response and its decision and any comments will be reported to the Council on 20 March. It is suggested that the Council should delegate the making of any final changes that might arise following discussions of the draft to the CFO.

Action requested of the Council

13. The Council is asked to **note** the update on the funding position of the USS.

14. The unconflicted members of the Council are asked:

14.1. to **approve** the response to the consultation from TPR; and

14.2. to **delegate** the making of any final changes to the consultation response to the CFO.

Next steps

15. The Council will receive further updates on the funding position of the USS as these become available.

Annex A

Monitoring of the 2020 Financial Management Plan
December 2022

Background

In between actuarial valuations, the Trustee monitors how the Scheme is progressing against its Financial Management Plan. This document provides details of the monitoring for the month end of December 2022.

The purpose of the monitoring is to indicate whether or not the Scheme's financial position is progressing as expected and whether it is appropriate to continue to fund the Scheme on the basis of the 2020 valuation. It does not lead to any direct action from the Trustee other than potentially commissioning further analysis and advice.

Further, it should be noted that monitoring is not intended to answer the question: what are the contribution requirements if a valuation was undertaken at the monitoring date?

In the main body of the report, figures are calculated on the benefit changes which came in to effect from 1 April 2022 with the associated additional covenant support measures provided by our sponsoring employers .

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Monitoring of the 2020 Financial Management Plan December 2022

Differences between monitoring and actuarial valuation

The monitoring approach is not as thorough and hence does not give the same outcome as would be given by an actuarial valuation at the effective date. This is for a number of reasons, including:

- While monitoring updates the main financial assumptions, these and other assumptions do not go through the same level of assessment as would be the case for an actuarial valuation; in particular they do not necessarily reflect the risk capacity and appetite of employers at that date. In practice for an actuarial valuation the Trustee's Integrated Risk Management Framework would influence the choice of assumptions.
- An actuarial valuation would require consultation with UUK in relation to the assumptions used and the contributions payable; it is not possible to pre-judge the outcome of any such process.
- The deficit recovery contributions are based on the recovery plan parameters shown. At a valuation, additional factors (including the views of the Pensions Regulator) would be considered which could result in a different recovery plan.
- The calculations do not allow for new membership data, and contain some approximations relative to an actuarial valuation.

The monitoring position is relatively volatile from month to month, and in light of this the Trustee considers the overall history and trends since the valuation date rather than just the position at the monitoring date.

- Market movements since the end of December have been more on the downside: over January 2023, there was growth in the prices of many assets and declines in yields. All else being equal, these movements can be expected to reduce future investment return expectations (and any surplus) and increase the required future service contribution rate. There could yet be more market movements before the valuation date.
- However, based on the end-of-December position and how market conditions have changed since, stakeholders might want to plan for the 2023 valuation on the basis that the overall contribution rate required for the current level of benefits is unlikely to be in excess of 20% of payroll. Similarly, they might also want to plan on the basis that the rate that would be required for the pre-1 April 2022 benefit structure going forward is unlikely to be in excess of the current cost of future service (25.2%).

This is the Trustee's Financial Management Plan Monitoring report which is used by the Trustee to track the financial development of the Scheme.

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QUARTER END FMP MONITORING REPORT - END DECEMBER 2022

Figures allow for revised benefits from 1 April 2022 and implemented covenant support package

Monitoring results	Valuation	Monitoring	
	31-Mar-20	**31-Dec-22**	*Change*
Assets (£bn)	66.5	**71.4**	*+4.9*
Technical Provisions liabilities (£bn)	80.6	**66.4**	*-14.2*
Technical Provisions deficit (£bn)	14.1	**-5.0**	*-19.1*
Future service cost	25.2%	**17.9%**	*-7.3%*
Deficit recovery contribution	6.2%	**0.0%**	*-6.2%*

Monitoring metrics

Reliance Risk Metric	Green
Measures potential contribution required to reach self-sufficiency	
5.0%	
Valuation date	13.2%

Total contribution	Green
Remaining recovery period 0.25% outperformance	**17.9%**
10 year recovery period No outperformance	**17.9%**
Valuation date	31.4%

Covenant	Green
Measures strength of the sector	
Unchanged	
Valuation date	Strong

Main drivers of change since 31 March 2020 valuation date

- The monitoring position at the end of December is broadly similar to that at the end of September.
- The Scheme's asset value ended the year at £71.4bn. This is higher than at the 2020 valuation date (£66.5bn) but significantly lower than that at March 2022 (£88.9bn) as prices in equity and bond markets fell during 2022.
- The Technical Provisions liability has decreased significantly on the monitoring basis since the valuation date to due to rising real gilt yields, partly offset by higher inflation expectations. Overall the Technical Provisions deficit on the valuation date has been eliminated on the monitoring basis and is now showing a surplus of £5.0bn. At the end of September the monitoring surplus was £5.6bn.
- The future service contribution requirement has slightly decreased on the monitoring basis over the last quarter due to higher nominal gilt yields, and remains significantly lower than on the valuation date. The 2.5% cap on annual inflationary increases (on benefits earned since 1 April 2022) limits the impact of changes in expected inflation on the future service cost.
- Both the Reliance Risk Metric and Total Contribution Metric have improved since the valuation date, from Amber to Green, to be substantially within Green.
- The required contribution requirement at the end of December for the pre-1 April 2022 benefits, using the monitoring approach, is 22.2%.
- Market conditions have generally remained volatile since 31 March 2022 when the assumptions were last looked at in more detail as part of the Accelerated Year-end Review (AYR), as published on uss.co.uk. Although the monitoring position has been reasonably stable over the last quarter (other than during the short period of the Liz Truss government), this somewhat obscures some underlying market volatility which has had offsetting effects on the monitoring figures. Further commentary is given on page 2.

If, at the next valuation, there is a significantly improved financial position relative to the 2020 valuation, as is currently indicated by the monitoring, it may be possible to increase benefits, decrease contributions or do a combination of both.

Information is based on the monitoring approach, which is not intended to reflect the results that would be given by an actuarial valuation.

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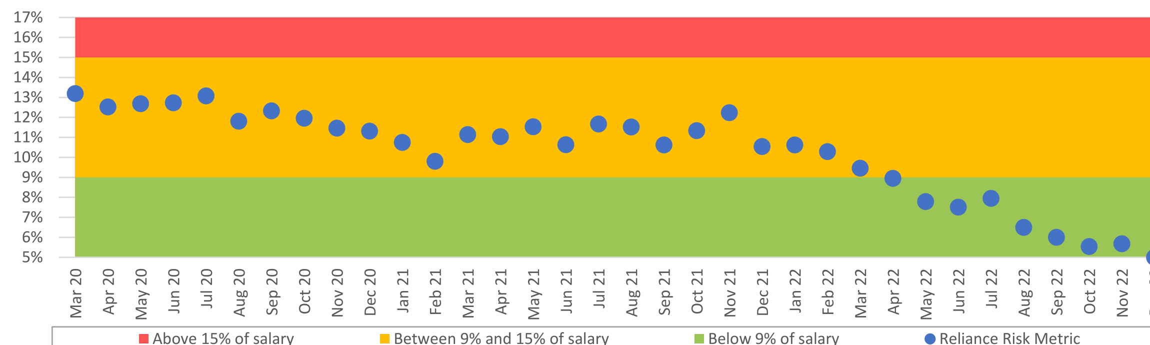
Reliance Risk Metric

5.0%

Valuation date	13.2%
Affordable Risk Capacity (ARC)	£22 - 25bn
Valuation date	£30 - 33bn
Reliance Risk Metric:	Green

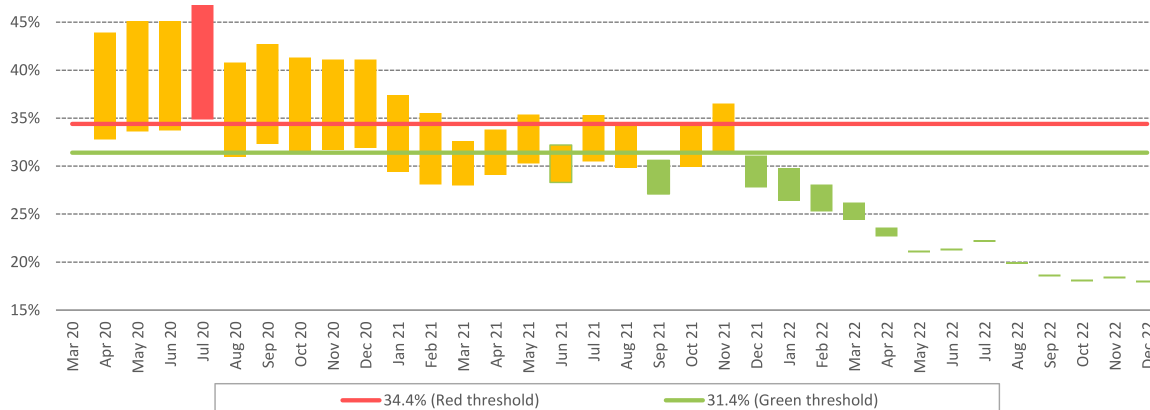
Reliance Risk Metric (SS deficit + transition risk, as a % of salary over 30 years)



Total contribution

Remaining recovery period 0.25% outperformance	**17.9%**
10 year recovery period No outperformance	**17.9%**
Valuation date	31.4%
Total contribution:	Green

Total contribution (colour of bar shows RAG status)



The height of the bar shows the range in contribution requirements, with the lower end of the bar showing the contributions using DRCs based on the remaining recovery period with outperformance and the upper end using DRCs based on a 10-year recovery period with no outperformance.

Covenant

Unchanged

Valuation date	Strong
Covenant:	Green

Note: Affordable Risk Capacity is determined as the present value of 10% of eligible sector salaries over 30 years.
Liabilities at the valuation date included an allowance in the liabilities of £0.5bn for certain late retirement entitlements and short service members with less than two years' service who retain rights to cash transfer sums. This adjustment is included in the monitoring figures.
The DRC calculation is approximate and assumes an immediate change in contributions. The FSC has been adjusted approximately to allow for the agreed delayed implementation of the 2.5% pa pension increase cap. The actual DRC will increase to 6.3% when this is implemented.

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QUARTER END FMP MONITORING REPORT - END DECEMBER 2022

Quarterly covenant monitoring update

SUMMARY: The covenant remains Strong

HIGHLIGHTS/ LOWLIGHTS

- Planning for 2023 valuation covenant assessment commenced following appointment of advisers in November. Government funding policies, international student numbers and inflation are key focus areas (see insights and events below).

Sector insights and events:

- Home Office reportedly considering restrictions on visas for dependents of international students and reducing post-study visa work entitlement (Oct-Dec)
- Sustainability of current funding model of UK HE questioned in speech by UUK CEO Vivienne Stern (Oct) with UUK launching a "national conversation" on future university funding (Dec)
- Cost of living crisis impact on students and potentially on student numbers highlighted (inter alia) by Million Plus (October)
- Widespread coverage of shortage of student accommodation in several UK cities as student numbers grow (Nov-Dec)

ACTIVITY LOG (Number of cases)

	QTD	YTD
• Non-survey DM notifications	0	6
• Of which:		
• intention to secure debt	0	2
• Quasi-security planned	0	1
• Open engagement cases	0	1
• Requests for clarification	0	45
• Complaints received	0	0
• Other feedback	0	14

Debt monitoring survey:	**2022**	**2021**
• Completed DM survey responses	285	250
• # in-scope HEIs exceeding follow-up thresholds	9	N/A
• In-scope cases requiring further measures	0	N/A

OPEN CASES	Issue raised	DATE FIRST REPORTED	CURRENT STATUS	PLANNED NEXT STEPS	RAG
Institution A	Institution considering potential security over new-build facilities	25/5/2022	Discussions ongoing	Discussions to continue	G

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Technical Provisions Deficit

-£5.0bn

Valuation date (31/03/2020)	£14.1bn
Liability	£66.4bn
Pre-retirement discount rate	Gilts + 1.40%
Post-retirement discount rate	Gilts + 0.61%

Self-Sufficiency Deficit

£4.8bn

Valuation date	£35.5bn
Liability	£76.2bn
Discount rate	Gilts + 0.61%
Self-sufficiency VaR	£17.5bn

Reliance Risk Metric

5.0%

Valuation date	13.2%
Components:	
Self suff deficit + transition risk (£7bn)	£11.8bn
÷ Value of salary over 30 years	£234bn

Reliance Risk Metric: Green

Future Service Contribution Requirement

17.9%

Valuation date (amount being paid)	25.2%

Deficit Recovery Contribution

Remaining recovery period 0.25% outperformance	**0.0%**
10 year recovery period No outperformance	**0.0%**
Valuation date (amount being paid)	6.2%

Total Contribution

Remaining recovery period 0.25% outperformance	**17.9%**
10 year recovery period No outperformance	**17.9%**
Valuation date (amount being paid)	31.4%

Total contribution: Green

Assets

£71.4bn

Valuation date	£66.5bn
'Breakeven' discount rate	Gilts + 0.47% CPI + 1.37%

IRMF metrics

	31-Mar-20	31-Dec-22
Metric A	10.0	13.7
Metric B	-4.0	18.7
Metric C	40.6	71.3

Covenant

Unchanged

Valuation date	Strong

Covenant: Green

Note: Affordable Risk Capacity is determined as the present value of 10% of eligible sector salaries over 30 years. The 'Breakeven' discount rate is that at which the liability value equals the asset value.
Liabilities at the valuation date included an allowance in the liabilities of £0.5bn for certain late retirement entitlements and short service members with less than two years' service who retain rights to cash transfer sums. This adjustment is included in the monitoring figures.
The DRC calculation is approximate and assumes an immediate change in contributions. The FSC has been adjusted approximately to allow for the agreed delayed implementation of the 2.5% pa pension increase cap. The actual DRC will increase to 6.3% when this is implemented.

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Technical Provisions - Assumptions

	31-Mar-20	31-Dec-22
FBB Pre ret expected rtn vs Gilts *	Gilts + 5.28%	Gilts + 3.21%
FBB Pre ret expected rtn vs Index-linked gilts *	ILG + 5.74%	ILG + 3.14%
Pre-retirement discount rate	Gilts + 2.75%	Gilts + 1.40%
Post-retirement discount rate	Gilts + 1%	Gilts + 0.61%
Gilts (single equivalent) nominal	0.7%	3.9%
CPI (single equivalent)	2.1%	3.0%
CPI with 2.5% cap (single equivalent)	1.7%	1.9%
Single equivalent discount rate	Gilts + 1.6%	Gilts + 0.9%
	CPI + 0.3%	CPI + 1.8%

* 30 yr expected return. 55% growth portfolio until February 2022 then VIS portfolio. Calculated on a deterministic basis allowing for an estimated rebalancing premium for monitoring purposes . At the 2020 valuation, the expected return calculated on a stochastic basis which allows for rebalancing was Gilts+5.9%.

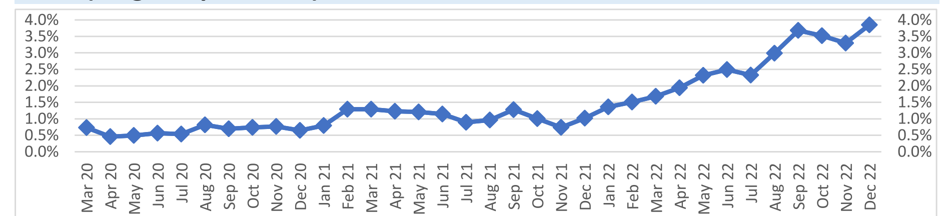
Self-sufficiency - Assumptions

	31-Mar-20	31-Dec-22
Discount rate	Gilts + 1%	Gilts + 0.61%
Gilts (single equivalent) nominal	0.7%	3.9%
CPI (single equivalent)	2.6%	3.5%
Single equivalent discount rate	CPI - 0.9%	CPI + 1.0%

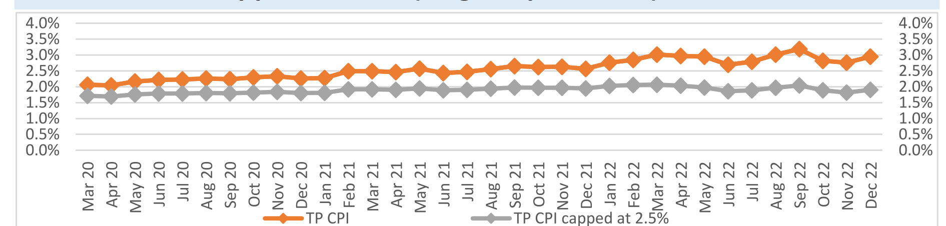
Affordable Risk Capacity

	31-Mar-20	31-Dec-22
Discount rate used to calculate the ARC	Gilts + 1.2%	Gilts + 0.78%

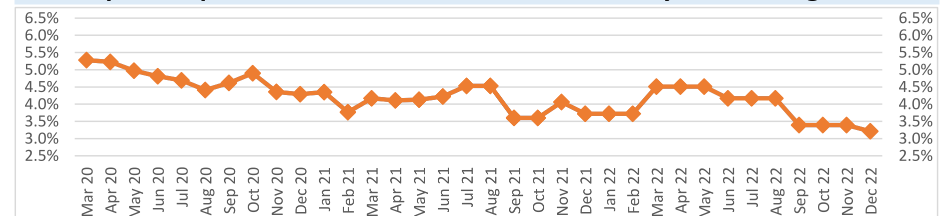
Gilts (single equivalent) nominal



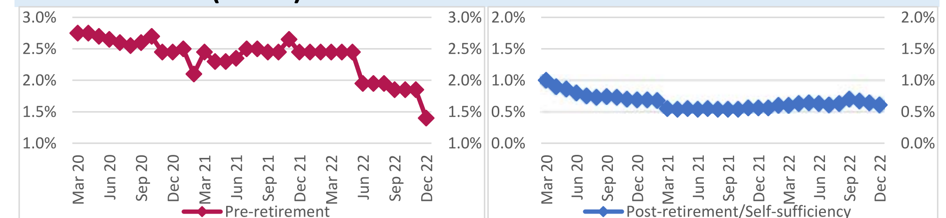
TP CPI and CPI capped at 2.5% (single equivalents)



FBB expected pre-retirement return relative to 30 yr nominal gilts



Discount rates (Gilts+)



At 31 March 2020, an allowance for investment outperformance of 0.5% pa was made in calculating the future service contribution requirement and deficit recovery contributions. For monitoring subsequent dates, the allowance for investment outperformance is made in calculating the deficit recovery contribution and total contributions where indicated. Within the monitoring, the future service contribution requirement shown does not include outperformance. The outperformance allowance was reduced to 0.25% pa from 31 March 2021.

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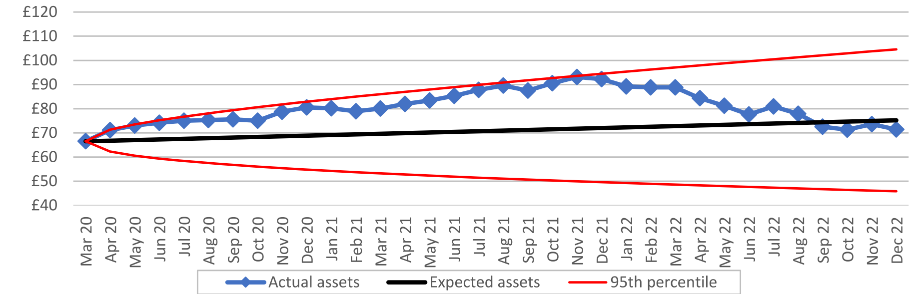
QUARTER END FMP MONITORING REPORT - END DECEMBER 2022

Figures allow for revised benefits from 1 April 2022 and implemented covenant support package

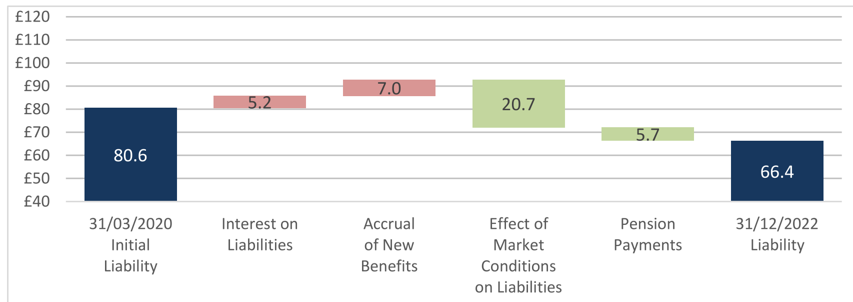
Technical Provisions

	31-Mar-20	31-Dec-22	Change
Assets £bn	66.5	71.4	+4.9
Liabilities £bn	80.6	66.4	-14.2
Deficit £bn	14.1	-5.0	-19.1
Funded Status %	83%	108%	+25%

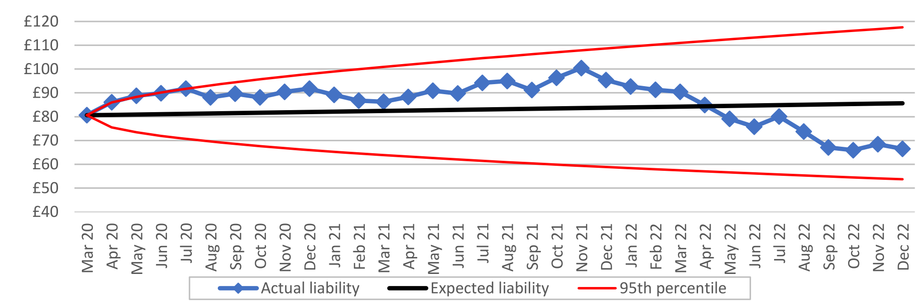
Assets (£bn)



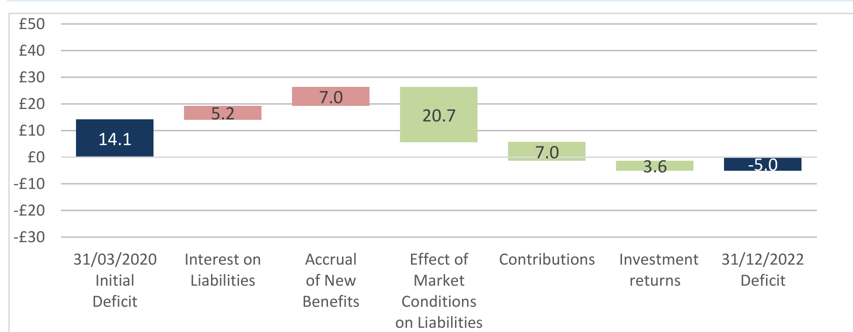
Liability change attribution (£bn) - 31 Mar 2020 to 31 Dec 2022



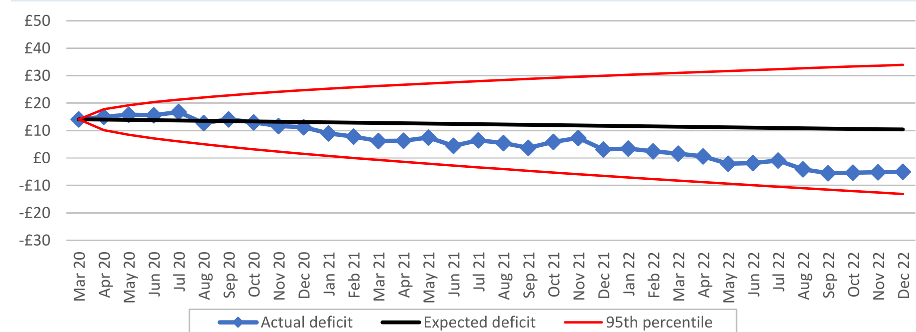
Liabilities (£bn)



Deficit change attribution (£bn) - 31 Mar 2020 to 31 Dec 2022



Technical Provisions Deficit (£bn)



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QUARTER END FMP MONITORING REPORT - END DECEMBER 2022

Figures allow for revised benefits from 1 April 2022 and implemented covenant support package

Future service contributions required

	31-Mar-20	31-Dec-22
DB Future Service Cost over next 12 months	19.5%	12.2%
Expenses	0.4%	0.4%
Expected DC conts over next 12 months [1]	5.3%	5.3%
Total [2]	25.2%	17.9%

Note

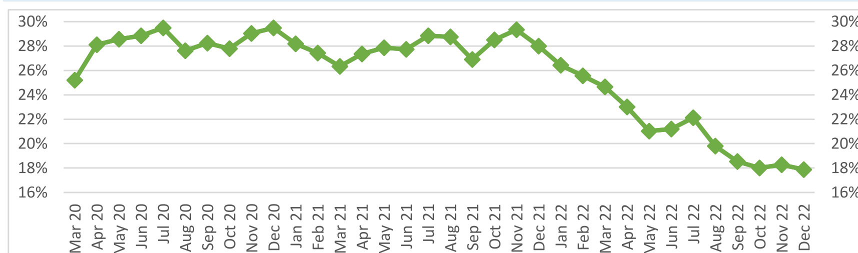
1. Includes 0.1% subsidy.
2. Excludes deficit contributions.

Self-Sufficiency

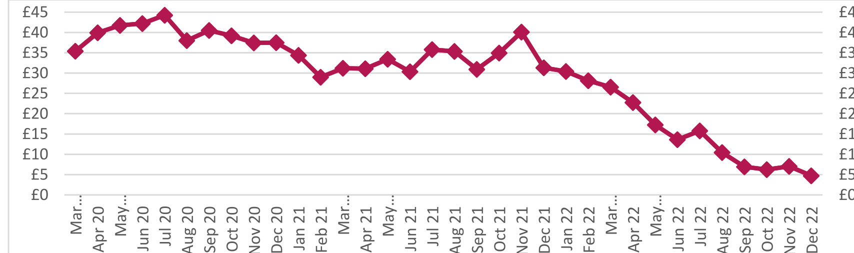
	31-Mar-20	31-Dec-22	Change
Assets £bn	66.5	71.4	+4.9
Liabilities £bn	102.0	76.2	-25.8
Deficit £bn	35.5	4.8	-30.7
Funded Status %	65%	94%	+29%

	31-Mar-20	31-Dec-22	Change
10% of pay for 30yrs £bn	31.4	23.4	-8.0

Future service contributions required (including DC)



Self-Sufficiency Deficit (£bn)



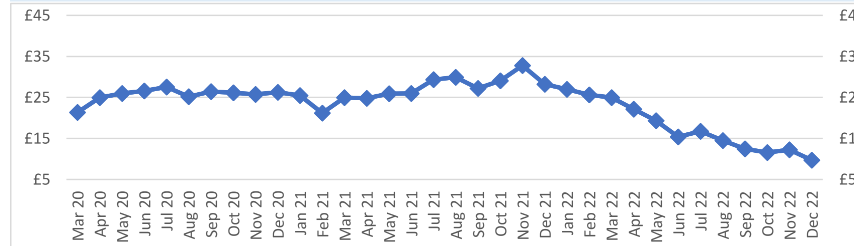
Sensitivity and Duration

	31-Mar-20	31-Dec-22
TP Sensitivity (£bn) [1]	-1.6	-1.1
TP Duration of scheme (years)	20	16

Note

1. Sensitivity is the impact of a +0.1% change in the discount rates on the TP basis

Gap between Self-Sufficiency and Technical Provisions (£bn)



At 31 March 2020, an allowance for investment outperformance of 0.5% pa was made in calculating the future service contribution requirement and deficit recovery contributions. For monitoring subsequent dates, the allowance for investment outperformance is made in calculating the deficit recovery contribution and total contributions where indicated. Within the monitoring, the future service contribution requirement shown does not include outperformance. The outperformance allowance was reduced to 0.25% pa from 31 March 2021.

This is the Trustee's Financial Management Plan Monitoring report which is used by the Trustee to track the financial development of the Scheme.

It is published on our website for information only and is not intended to provide sufficient information to support any decision making.

QUARTER END FMP MONITORING REPORT - END DECEMBER 2022

Figures allow for revised benefits from 1 April 2022 and implemented covenant support package

Placeholder

This page will show the results of USSIM stochastic analysis as at the end of December, when available.

This is the Trustee's Financial Management Plan Monitoring report which is used by the Trustee to track the financial development of the Scheme.
It is published on our website for information only and is not intended to provide sufficient information to support any decision making.

QUARTER END FMP MONITORING REPORT - END DECEMBER 2022

APPENDIX A - RAG rating definitions

Covenant

Green No apparent deterioration since previous review
Amber Potential deterioration due to emerging news and/or financial information
Red Significant deterioration due to emerging news and/or financial information

Reliance Risk Metric

Self-sufficiency liability + asset transition risk - assets, expressed as a percentage of salary over 30 years

Green Below 9% of salary (Approx £28bn at the valuation date - consistent with the position if we had been fully funded on a TP basis)
Amber Between 9% and 15% of salary (Between £28bn and £47bn at the valuation date)
Red Above 15% of salary (Above £47bn at the valuation date)

Total contribution

Sum of Future Service Contribution plus Deficit Recovery Contributions
With DRC calculated on:

- Calculation 1: Remaining term of the recovery period with outperformance (from March 2021 outperformance is set at 0.25% a year); and
- Calculation 2: A fixed recovery period of 10 years with no outperformance (which will lead to a higher figure than Calculation 1)

Green If the total contribution requirement using DRC 2 is less than or equal to the total contribution payable (31.4%)
Amber If the total contribution requirement using DRC 2 is greater than the total contribution payable (31.4%) and the total contribution requirement using DRC 1 is less than or equal to 34.4%
Red If the total contribution requirement using DRC 1 is greater than or equal to 34.4%

This is the Trustee's Financial Management Plan Monitoring report which is used by the Trustee to track the financial development of the Scheme.
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QUARTER END FMP MONITORING REPORT - END DECEMBER 2022

APPENDIX B - IRMF Metric definitions

Metric A

Affordable risk capacity less (self-sufficiency liability less Technical Provisions)

Green Headroom > Asset transition and demographic risks
Amber Asset transition risk < Headroom < Asset transition risk and demographic risks
Red Headroom < Asset transition risk

Metric B

Affordable risk capacity less self-sufficiency deficit

Green Headroom > Asset transition risk
Amber 0 < Headroom < Asset transition risk
Red Headroom < 0

Metric C

Available risk capacity less self-sufficiency deficit

Green Headroom > 'Value at risk'
Amber Asset transition risk and demographic risks < Headroom < 'Value at risk'
Red Headroom < Asset transition risk and demographic risks

Note

Affordable Risk Capacity represents the present value of 10% of salary over 30 years
Asset and demographic transition risk, and available risk capacity, have not been updated since the valuation date

The figures in this report have been derived for the purpose of monitoring the movement in funding over time. The approach adopted is not as accurate as when determining the liabilities in a one-off calculation and therefore these figures are not intended to be used as a basis for advice without further consideration. Advice from the Scheme Actuary should be sought prior to any decision being taken on the funding of the scheme.

Annex B

From: GCEO@uss.co.uk
To: Sue Curryer
Subject: An update from USS
Date: 17 February 2023 16:39:45

View in browser

An update from USS

17 February 2023

Colleagues,

We are moving ever-closer to 31 March 2023 – the date on which we will base USS's next valuation.

We have just published the latest Financial Management Plan monitoring report, which monitors the likelihood that the assumptions made at the last valuation remain sufficient in current market circumstances, to the end of December 2022.

On this occasion, we have sought to expand the scope of this analysis to provide a more forward-looking indication of the range of potential valuation outcomes and potential benefit pricing as at 31 March 2023. And while the underpinning analysis is not sufficient to regard this as a prediction (that would require more of the 'first principles' work that underpin the formal valuation), it does gives us grounds to look forward with cautious optimism.

The analysis assumes the covenant remains 'strong' (with the current covenant support package remaining in place), and that there are no unforeseen market movements between now and the valuation date that would undermine confidence in the sustainability of the market indicators of the last several quarters.

We are still a few weeks away from 31 March – and market movements since the end of December have been more on the downside: there has been growth in the prices of many assets and declines in yields. All else being equal, these movements can be expected to reduce future investment return expectations (and any surplus) and increase the required future service contribution rate.

So, we must recognise that there could yet be more ups and downs before the valuation date.

However, based on the end-of-December position and how market conditions have changed since, stakeholders might want to plan for the 2023 valuation on the basis that the overall contribution rate required for the current level of benefits is unlikely to be in excess of 20% of payroll.

Similarly, they might also want to plan on the basis that the rate that would be required for the pre-1 April 2022 benefit structure going forward is unlikely to be in excess of the current cost of future service (25.2%).

The latest FMP report also suggests a Technical Provisions surplus could be emerging, but this will only become clear as we work through the various stages of the valuation and as the Trustee's assumptions and stakeholders' preferences are confirmed.

The conclusions we go on to reach will ultimately reflect that we want USS to be the best scheme it can be – fit for the future, and offering secure, valuable, high-quality pensions and good retirement outcomes for decades to come.

So, we look forward with cautious optimism, intent on working collaboratively and pragmatically with UCU and UUK with the shared aim of making any changes decided by their representatives on the Joint Negotiating Committee (JNC) by 1 April 2024.

That is ambitious – but it is achievable, as we set out in the timetable we shared with you in December, if we can all work together constructively.

In the spirit of collaboration, we have been discussing the key assumptions with the Trustee Board and with UCU and UUK and their advisors through the Valuation Technical Forum (VTF) since November. A report of the VTF's first meeting is now available on our dedicated 2023 valuation webpage, with further reports to follow.

The USS trustee remains very keen to see progress towards the provision of a low-cost option for USS members that might address the relatively high rate of opt-out from the scheme, particularly among lower paid members, and encourages the JNC to move forward with its decision making in this important area.

Bill Galvin, Group Chief Executive

Unsubscribe

From: Pensions
Subject: USS update
Date: 17 February 2023 18:22:39

To Vice-Chancellors, Principals and Chief Executive contacts

Dear Colleagues,

USS update

USS funding monitoring update

This afternoon (Friday 17 February 2023), USS published an update on the interim financial monitoring of the Scheme at the end of December 2022.

The USS Trustee Board met last Thursday (9 February 2023) to consider this latest financial monitoring, and to provide its indicative views on how this monitoring might translate into a full valuation outcome should the current economic conditions broadly prevail until the formal valuation date of 31 March 2023.

Whilst there remains a degree of caution in the numbers to guard against unexpected economic movements, the USS Trustee says that based on the end of December position and how market conditions have changed since:

1. *"Stakeholders might want to plan for the 2023 valuation on the basis that the overall contribution rate required for the current level of benefits is unlikely to be in excess of 20% of payroll.*
2. *Similarly, stakeholders might also want to plan on the basis that the rate that would be required for the pre-1 April 2022 benefit structure going forward is unlikely to be in excess of the current cost of future service (25.2%).*
3. *The latest Financial Monitoring Plan (FMP) report also suggests a Technical Provisions surplus could be emerging (c£5 billion based on the December 2022 monitoring), but this will only become clear as we work through the various stages of the valuation and the Trustee's assumptions and stakeholders' preferences are confirmed."*

Our latest media statement, in reaction, is set out below:

> **Commenting on the latest quarterly monitoring statistics for the end of December 2022, a spokesperson for Universities UK on behalf of USS employers, said:**
>
> "We welcome the latest quarterly monitoring figures from the USS Trustee, which continue to show a significant improvement in the scheme's financial position in a remarkable shift since the last valuation. There is still considerable volatility due to current economic conditions, but it is clear that the sharp and unexpected rise in interest rates together with benefit changes – made as part of the response to the difficult 2020 valuation – and the substantial employer (covenant) support for USS have all contributed to the scheme's finances now being on a much stronger footing.
>
> "Alongside the monitoring figures, the USS Trustee has advised stakeholders that –

'*assuming there are no unforeseen market movements between now and the valuation date…… stakeholders might want to plan for the 2023 valuation on the basis that the overall contribution rate required for the current level of benefits is unlikely to be in excess of 20% of payroll. Similarly, they might also want to plan on the basis that the rate that would be required for the pre-1 April 2022 benefit structure going forward is unlikely to be in excess of the current cost of future service (25.2%)'*.

"We are committed to working with scheme stakeholders to achieve greater long-term stability, and to agree a solution where benefits and affordable contributions are adjusted through a pre-agreed framework, based on the USS valuation process. It is hoped that this might allow for changes to the scheme which could include a possible return to a comparable level of future benefits as existed before the April 2022 changes, a reduction in costs for members and employers, or even both. It will also avoid future contention and dispute, helping to build trust and confidence in the scheme. We look forward to working in partnership with UCU to achieve this for the benefit of all stakeholders.

"The valuation process, which must take place at least every three years, involves a review of the scheme's finances at a point in time. We took necessary action at the last (2020) valuation to reduce benefits and increase contributions when the USS Trustee would otherwise have required contributions totalling 43% (even with the covenant support package). This would have been unaffordable for both employers and members. The signs are that the position is much better and, if confirmed, employers will want to ensure that scheme members benefit from that improvement, and both employers and members benefit from reduced contribution costs. We have repeatedly said that we would make positive changes to the scheme – if the USS Trustee's figures allow it – and our priority is to work with the University and College Union (UCU) and the USS Trustee to bring this about as soon as possible."

Notes to editors

At the last scheme valuation as at March 2020, the USS trustee reported a significant deficit in the scheme and a substantial increase in the cost of future benefits, which required changes to be made in terms of both higher contributions and reductions in future benefits (the latter implemented from April 2022).

The USS employer contribution rose to 21.6% of salary in April 2022 which is three times higher than the average employer contribution rate among the FTSE 250 companies, p11, WTW Defined Contribution and Savings Survey, 2022

ends

As our statement makes clear, we are hopeful that the funding improvements which are seen in the monitoring will be converted into a better position in the formal valuation, and are committed to the accelerated timeline which can take us quickly into discussions about positive changes (and we expect to engage with employers in the coming months as we develop our valuation strategy).

The Russell Group joint statement on the USS 2023 valuation is available here.

Interim joint statement by UUK and UCU on the USS dispute

In light of the recent update from the USS Trustee, UUK has agreed a joint statement with UCU on the direction of an outcome for the 2023 valuation.

The joint statement has been drafted in conjunction with UCU negotiators, and has involved inputs from UUK's representatives on the Joint Negotiating Committee and from the UUK Board. The Chair of the Employers Pensions Forum, Professor Adam Tickell, and UUK President, Professor Steven West CBE, would like to add:

> "The joint statement sets out what we believe are reasonable aspirations for the 2023 valuation, taking into account the latest monitoring information from the USS Trustee and its early signals about the likely future contribution requirements. It has been developed to reflect a sensible collective view of all employers in USS, with balanced ambitions which we hope UCU and its members – and all of our USS-eligible employees – will welcome (and indeed the statement has been agreed on the basis that it is part and parcel of the industrial action being suspended, although we understand the latest re-ballot process is set to continue). We have included specific protections and conditions within the statement; these are necessary given that it will be some months before we have a firming-up of the actual valuation figures. Clearly employers will have specific priorities and points of emphasis, and we hope we have fairly represented these in the statement, whilst also providing UCU with something of substance (with suitable caution and caveat) which they can promote to their membership. We believe we have a statement with which you can align, and it is crucial of course that we do have a collective position. If you do have any concerns, please do feel able to raise them in the first instance with the UUK pensions team at pensions@universitiesuk.ac.uk."

The joint statement is set out below, and has been published here:

> **Interim joint statement by UUK and UCU with respect to the USS dispute**
>
> The latest information provided by the USS Trustee suggests that the forthcoming 2023 valuation is likely to reveal a high probability of being able to improve benefits and reduce contributions. Should this be confirmed, this would allow for a return to a comparable level of future benefits as existed before the April 2022 changes, as well as achieve a reduction in costs for members and employers. We jointly agree to prioritise the improvement of benefits in this way, where this can be done in a demonstrably sustainable manner.
>
> We are committed to working together so that this, and future, valuations are undertaken on a moderately prudent and evidence-based basis, taking account of the open and long-term nature of the scheme. We will explore together a long-term solution for managing risk which can provide more stable and sustainable defined benefits and contributions, whilst protecting scheme members' long-term interests, and so that we do not return to dispute at each valuation. We agree, in relation to these aspects, to work together on a constructive dialogue with the Pensions Regulator and the DWP.

> We agree to working in partnership on USS governance reform.
>
> We agree to continue working in partnership on low-cost options and aim to consult employers and members, once it is confirmed that the priority of improving main scheme benefits can be achieved. Any such low-cost option should not undermine the viability of the main scheme, and will be subject to analysis and review.
>
> We agree on the urgent need, with the USS Trustee, to examine the case more fully for divestment from fossil fuels and that a greater visibility of climate crisis action and mitigation should be a feature of long-term USS planning.
>
> Our negotiations have been constructive, and we commit to joint collaboration through the 2023 valuation process to achieve the optimum outcome for all stakeholders after appropriate consultation.

For information, there has also been a joint statement released on the pay dispute.

Communications material

As a reminder, we previously shared an information note from our actuarial adviser, Aon, on the market volatility over 2022 and how economic changes are affecting pension schemes, and in particular the USS scheme. Our latest Q&As are shown below, and both USS and UUK will continue to work on Q&As, to help employers communicate with their staff on the USS funding position and related matters.

As always, if you would like any further information regarding any of the points in this update, please contact the UUK Pensions Team at pensions@universitiesuk.ac.uk.

Kind regards.
UUK Pensions Team

Q1. Of the change in the scheme's financial position, how much is down to improvements in market conditions, and how much is down to the April 2022 reforms?
The scheme's financial position, based on the quarterly monitoring published by the USS Trustee up to 31 December 2022, has improved markedly. The scheme's funding level for all of the accrued benefits (the past service funding position) has moved from a substantial deficit to an indicative surplus, and the cost of providing future benefits has reduced. These improvements are due to a range of factors; the changed economic conditions have had the most substantial impact in recent times, albeit with considerable short-term volatility (rising interest rates have helped to reduce the value of scheme liabilities, but also with falling yields and wider economic pressures and uncertainties bringing considerable volatility in asset values). The changes to benefits implemented from April 2022 – which were a necessary response to the last valuation - have also had a material impact, primarily on the cost of future benefits (as changes to scheme benefits only affect the future rights which are built-up by members).

Q2. Does the positive swing in the financial position suggest the USS Trustee was overly prudent during the 2020 valuation and the resulting April 2022 changes unnecessary?

No-one could have predicted the economic turmoil we've seen over the last year and the steep rise in interest rates. One of the positive aspects of this economic downturn is its impact on pension schemes with large investment portfolios. The rise in interest rates means that the projected income from these investments has increased significantly and put the scheme in a much better financial position. We are exploring with the University and College Union (UCU) and the USS Trustee a long-term solution to managing risk which provides more stable and sustainable defined benefits and contributions, while protecting scheme members' long-term interests, and so we do not return to dispute at each valuation. We agree, in relation to these aspects, to work with UCU on a constructive dialogue with the Pensions Regulator and the DWP.

To illustrate a further point about the level of prudence adopted by the USS Trustee, it should be noted in relation to the 2020 valuation, in its letter dated 21 September 2021 the Pensions Regulator stated that in its view " … the appropriate overall contribution rate should be at least 1% to 2% of salaries higher than the Trustee's assessed cost of 31.2%."

Q3. What's the fastest route for benefit improvements in the March 2023 valuation to be implemented?

We (collectively UUK, UCU and the USS Trustee) began preparations for the 2023 valuation early, so that when an improved funding position is confirmed, positive changes to the scheme can be decided on, and implemented, quickly. There are legal steps that the USS Trustee is required to undertake in a valuation, and it is a complex process. The USS Trustee has said that any changes to benefits could not be implemented before April 2024, for example because statutory consultations are likely to be required. We will do everything we can to push for the earliest possible implementation of any changes.

Q4. If there is a return to benefits which are comparable to the pre-April 2022 benefits, from say 1 April 2024, will there also be an uplift to the benefits which members have built-up in the intervening period?

This will be the subject of further discussions with the USS Trustee, and with UCU, to see if the scheme's financial position supports such a decision – for example if there is a scheme surplus which could be used in this way – and whether any uplift would be lawful and justifiable. We expect this will be part of future discussions at the Joint Negotiating Committee, although for now the focus is on any changes to future benefits and/or levels of contribution. It should be noted that in concluding the 2020 valuation employers agreed to pay an additional 0.2% of pay to defer the introduction of the 2.5% cap on pension increases. This element of the changes has not come into effect nor has affected member benefits (and this issue is expected to be considered as part of the 2023 valuation discussions).

Q5. Are the extra covenant support measures, backed by employers at the last (2020) valuation, now no longer necessary?

The USS Trustee has made clear that having the covenant measures in place is an important factor in the way it sets and justifies its assumptions, and therefore on the likely improved financial position which it expects to report for the 2023 valuation. The importance of a strong covenant in supporting the scheme over the long-term, both when the scheme is in a strong financial position and also when it is more challenging, is something the USS Trustee would

emphasise. We are mindful of the imposition of the measures on employers, and have asked the USS Trustee to explain the way (and extent to which) the covenant measures improve the scheme's financial position at this valuation and at future valuations, and we will continue to press for full recognition of the measures, and to review the application of them.

Q6. Will the improved USS position, and in particular the prospect of lower employer (and member) contributions, provide more money for the pay settlement?

The extent of any reduction in contributions is not yet known, and won't be so until later in the year – and it will only be much later in the year, and most likely in 2024, that any actual changes in the contribution rate would come through and be implemented. It should also be remembered that for many employers, for example most post-92 universities, USS affects a very small number of their employees. To put this in context about 65 employers have over 90% of the active membership, in contrast to the 144 employers in this year's pay round.

It should be noted that should the improved position be confirmed, members too will see a material reduction in their rate of USS contribution which, all other things being equal, will increase take-home pay. Consideration should also be given to the possibility that the USS Trustee might require higher contributions in the future – for example, in a scheme deficit position where more money is required to pay past service benefit promises, or if the future service rate were to increase again. Putting any money saved at this valuation into on-costs, such as pay, means that money has been spent not just this year but ongoing into the future too.

Q7. If future valuations are again worse than the current one, will benefits and contributions need to change again?

We have stated that we want to build-in an element of stability into the outcome of the 2023 valuation so that we reduce the likelihood of having to change benefits and/or contributions at the next and subsequent valuations. We believe that members and employers would welcome a more settled period without these types of changes. We also wish to work with the USS Trustee and with UCU so that if changes are needed, then we can –within certain bounds – make adjustments to get back on track which have already been agreed. Nevertheless, as we have seen, the position can change materially from valuation to valuation and the reality of Defined Benefit pension provision is that changes to contributions and/or future benefits may be necessary and appropriate to respond to a valuation outcome (note that no changes can be made to the benefits which have already been built-up).

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University of Cambridge – draft response to TPR consultation on draft Funding Code of Practice

Introductory text

The collegiate University of Cambridge sponsors a number of defined benefit pension schemes and in particular participates in the Universities Superannuation Scheme.

Our responses to the consultation questions are based on the principle that the draft Code should be flexible enough to allow for schemes and sponsors that do not fit the typical “corporate” mould (in particular open schemes and/or schemes with very strong sponsors).

It is important that in such circumstances, trustees retain the ability to satisfy themselves that the risks for members are well covered without adopting an overly standardised approach to funding and investment strategy.

As currently drafted, the elements of the draft Code relating to employer covenant and how this should be assessed are quite restrictive, with a strong focus on cashflow forecasts. The approach to assessing employer covenant should be able to take into account the strength of the sponsor’s balance sheet, as this will be an important indicator of the resources available to the sponsor to support a scheme should additional contributions be required.

Responses to consultation questions on draft code

1. Are there any areas of the summary you disagree with or would like more/less detail? If yes, what areas and why?

2. Do you agree with the principles for defining a matching asset that i) the income and capital payments are stable and predictable; and ii) they provide either fixed cash flows or cash flows linked to inflationary indices? If not, why not and what do you think is a more appropriate definition?

3. Do you agree with our approach for defining broad cash flow matching? If not, why not and what would you prefer?

4. Do you think draft adequately describes the process of assessing cashflow matching? What else would be appropriate to include in the code on this aspect?

5. Should the code set out a list of the categories of investments into which assets can be grouped for the purposes of the funding and investment strategy? If so, what would you suggest as being appropriate?

6. Do you agree that 90% is a reasonable benchmark for the sensitivity of the assets to the interest rate and inflation risk of the liabilities?

7. Should we, and how would we, make this approach to broad cash flow matching more proportionate to different scheme circumstances (eg large vs small)?

8. Do you agree with our approach that a stress test is the most reasonable way to assess high resilience?

9. Do you agree that setting the limit of a 4.5% maximum stress based on a one year 1-in-6 approach is reasonable? If not, why not and what would you suggest as an alternative?

10. Do you agree that we should not set specifications for the stress test but leave this to trustees to justify their approach? If not, what would you suggest as an alternative?

11. Do you agree with our approach for not expecting a detailed assessment of liquidity for the low dependency investment allocation (LDIA) since we have set out detailed expectations in relation to schemes' actual asset portfolios?

12. Do you agree with our approach for not expecting a stochastic analysis for each assumption to demonstrate that further employer contributions would not be expected to be required for accrued rights, but rather focussing on them being chosen prudently? If not, what would you suggest as an alternative?

13. Do you agree that the two approaches we have set out for the discount rate for the low dependency discount rate (LDFB) are the main ones most schemes will adopt? Should we expand or amend these descriptions, if so, how?

14. Should we provide guidance for any other methodologies?

    It would be helpful to have further guidance on how a low dependency investment allocation could be constructed allowing for any contingent assets that might be in place. This is not covered in the draft code but is referenced in the consultation document itself (after question 17, under the heading "The period after significant maturity"). The commentary within the consultation document mentions that this is being considered further by DWP in light of the responses to their consultation on the draft funding and investment regulations. In our view, schemes that benefit from a strong employer covenant, potentially with access to significant contingent assets, should be able to take a higher degree of investment risk even if they are beyond the point of significant maturity.

15. Do you agree with the guidance and principles set out in Appendix 3 and 4? Are there any specific assumptions here you would prefer a different approach? If so, which ones, why and how would you prefer we approached it?

16. Do you agree that a simplified approach to calculating duration for small schemes is appropriate?

17. Do you think setting an earlier point for significant maturity within Fast Track as compared to the code (as described in option 3 in this section of the consultation document) would be helpful for managing the volatility risk of using duration? If yes, where would you set it and why?

18. Do you agree with the definitions for visibility, reliability, and longevity? If not, what would you suggest as an alternative?

    Whilst the definitions in the draft Code are reasonable, we would appreciate further detail on the process that trustees are expected to follow when assessing their sponsor's covenant, particularly in relation to sponsors outside of the corporate sector.

The overall approach to assessing employer covenant should be flexible enough to allow for sponsors that are very strong. Having a covenant grading system ranging from strong down to weak will work for the majority of sponsors but there will be some sponsors for whom a covenant grading which is better than “strong” is appropriate. For these sponsors it may therefore be reasonable for trustees to conclude that the covenant will continue essentially indefinitely.

In forming views on covenant visibility, reliability and longevity, trustees should be able to take into account the strength of the sponsor’s balance sheet, as well as assessing cash flow. For example, a sponsor may hold certain assets on its balance sheet, which, even though they may not generate regular cashflows, could be used to support a pension scheme should additional contributions be needed. An example of such assets is private equity holdings, which may not pay regular dividends but could generate substantial value if these holdings were sold.

19. Do you agree with the approach we have set out for assessing the sponsors cash flow? If not, what would you suggest as an alternative?

    Please see response to question 18.

20. Do you agree with the approach we have set out for assessing the sponsors prospects? If not, what would you suggest as an alternative?

    Please see response to question 18.

21. Do you agree with the principles we have set out for contingent assets, ie that i) it is legally enforceable and ii) it will be sufficient to provide that level of support? If not, what would you suggest as an alternative?

22. Do you agree with the approach we have set out for valuing security arrangements? If not, what would you suggest as an alternative?

23. Do you agree with the approach we have set out for valuing guarantees? If not, what would you suggest as an alternative?

24. Do you agree with the approach we have set out for multi-employer schemes? If not, what would you suggest as an alternative?

    Given our participation in the Universities Superannuation Scheme, we feel it is appropriate to respond to this question. The approach set out for multi-employer schemes is not unreasonable but is lacking in detail. We would appreciate further detail to be provided, although accept that the draft Code will not be able to cover the unique circumstances of all multi-employer schemes.

25. Do you agree with the approach we have set out for not-for-profit covenant assessments? If not, what would you suggest as an alternative?

26. Do you agree with how we approached how maturity has been factored into the code? If not, what would you suggest as an alternative in particular with reference to the draft regulations?

27. Do you agree with the way in which we have split the journey plan between the period of covenant reliability and after the period of covenant reliability? If not, what would you suggest as an alternative?

28. Do you agree that trustees should, as a minimum, look at a one year 1-in-6 stress test and assess this against the sponsors ability to support that risk?

29. Do you agree that if trustees are relying on the employer to make future payments to the scheme to mitigate these risks, then the trustees should assess the employer's available cash after deducting DRCs to the scheme and other DB schemes the employer sponsors?

30. Do you agree that this approach is reasonable for assessing the maximum risk that trustees should take during the period of covenant reliability?

31. Do you agree with the considerations we have set out regarding de-risking after the period of covenant reliability?

    We have some concerns here that this will lead to higher contributions even though there will be no practical change to the funding and investment strategy for schemes with very strong sponsors. This will divert the sponsor's resources into their pension schemes when they could be better spent elsewhere.

    Under the current draft Code, these schemes will not be required to de-risk immediately. However, when setting Technical Provisions, they will have to allow for de-risking after the period of covenant reliability, leading to lower discount rates and higher Technical Provisions.

    At each triennial valuation, assuming no change to the strength of the employer covenant, the period of covenant reliability (and hence the point at which de-risking is assumed to begin) will be pushed out a further three years and the existing investment strategy will be retained.

    An alternative approach might be to carry out asset and liability modelling to assess the likelihood of being more than say 95% funded on a gilts +0.5% p.a. liability measure over a long period of time, perhaps 40 years (assuming the current investment strategy remains in place). This would allow trustees to assess the risks inherent in their investment strategy and take action if needed.

32. Do you agree with our approach of not being prescriptive regarding the journey plan shape?

33. Do you agree with our approach that the maximum risk trustees should assume in their journey plan is a linear de-risking approach where they are taking the maximum risk for the period of covenant reliability?

34. Do you agree with our explanation of the statement of strategy and are there areas it would be helpful for us to expand on in this section?

35. Do you agree with how we have described the consistency of the TPs with the funding and investment strategy? If not, why not and what would you suggest as an alternative?

    Please see our response to question 31.

36. Do you agree that open schemes could make an allowance for future accrual – thereby funding at a lower level - without undermining the principle that security should be consistent with that of a closed scheme?

    Yes, we agree with this approach. Schemes which are still open to new joiners should be given the flexibility to take this into account, as this will materially affect the maturity profile of these schemes. Looking over the long-term, this will mean that open schemes will take much longer to reach significant maturity than closed schemes (and may even never reach that point).

37. Do you agree that this should normally be restricted to the period of covenant reliability? If not, why not and what you suggest as an alternative?

    Our view is that there could be circumstances that would justify allowing for new entrants and future accrual beyond the period of covenant reliability.

    Restricting the allowance for future accrual made could lead to unwanted scenarios in which trustees assume significant de-risking in the future which then leads to higher costs in the short term (which may then lead to a sponsor deciding to close a scheme to future accrual).

    The code should be suitably flexible to allow open schemes to continue, funded on sensible assumptions which properly allow for the sponsor covenant and the level of risk that this covenant can support.

38. Do you agree with our principled based approach to future service costs? If not, why not and what you suggest as an alternative?

39. Do agree with our approach to defining Reasonable Alternative Uses? If not, why not and what you suggest as an alternative?

40. Do you agree with the description in the draft Code of the interaction between the principle that funding deficits must be recovered as soon as the employer can reasonably afford and the matters that must be taken into account in regulation 8(2) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005?

41. Do you agree that reliability of employer's available cash should be factored in when determining a scheme's recovery plan length?

    Yes, although our view is that this should not be the only factor which is used to determine a scheme's recovery plan length. The employer's covenant longevity is also another measure of covenant strength which should be taken into account – if the trustees expect to be able

to rely on the employer over the long term, then it would be reasonable to assume cash would be available over a similar period.

42. Do you agree with the principles we set out when considering alternative uses of cash? If not, which ones do you not agree with and why? What other principles or examples would it be helpful for us to include?

43. Do you agree with our approach to post valuation experience? If not, why not and what you suggest as an alternative?

44. Do you agree with our approach to investment outperformance? If not, why not and what you suggest as an alternative?

45. Should we set out more specifics around what we would expect by way of security to protect against the additional risks?

46. Do you agree with our approach that, while trustees' discretion over investment matters is not limited by the funding and investment strategy, we expect investment decisions by trustees should generally be consistent with the strategies set out in the funding and investment strategy? If not, why not and what you suggest as an alternative?

47. Do you agree with the examples we have given for when trustees investment strategies may not mirror their FIS? Are there other examples we should consider?

48. Do you agree with the expectations regarding trustees with stressed employers? If not, why not and what you suggest as an alternative?

49. Do you agree with the principles we have set out regarding risk management? Are there other aspects it would be helpful for us to include?

50. Do you agree with the principles we have set out regarding liquidity? If not, why not and what you suggest as an alternative?

51. Do you agree with how we have approached security, profitability and quality? If not, why not and what you suggest as an alternative?

52. Are there other aspects it would be helpful for us to include?

53. Do you agree with the above considerations? If not, please explain.

54. Do you think there are any areas of systemic risk that should be considered further in in light of our draft code? If yes, please explain.

Responses to consultation questions on fast track

1. Do you agree with how we have positioned Fast Track relative to the code of practice?
2. Are there any aspects of this you think it would be useful for us to clarify further?
3. Do you agree that Fast Track should come with a lower level of burden in terms of the explanations required as part of the trustees' valuation submission?

4. Do you see any unintended consequences from requiring the scheme actuary to confirm when a submission meets the Fast Track parameters?
5. Could we make Fast Track more proportionate for schemes in differing circumstances?
6. Are there other considerations not discussed in the consultation document we should be considering?
7. Do you believe it would be useful to include an additional set of parameters for schemes where the employer has a high insolvency risk? If yes, how should schemes in this category be defined and where should the Fast Track parameters be set?
8. Do you agree with our approach of setting the Fast Track technical provisions test as a percentage of the low dependency funding basis liabilities? If no, explain why and what would you suggest as an alternative?
9. Do you agree with the limits we have proposed? If no, explain why and what would you suggest as an alternative?
10. Do you agree that for a Fast Track low dependency funding basis measure, the minimum strength of the discount rate basis should be gilts + 0.5% with no inflation risk premium?
11. Do you agree that our approach to other assumptions in the Fast Track low dependency funding basis (as set out in Appendix 1) is reasonable? If no, which assumptions would you suggest are amended and how?
12. Should we allow more flexibility for smaller schemes in relation to any of the assumptions?
13. Do you agree that the maximum recovery length after significant maturity should be set to three years rather than six? If no, explain why and what you would suggest as an alternative.
14. Do you agree with our approach of using the valuation date as the starting point for the recovery plan length?
15. Do you agree with our approach to how to allow for post valuation experience in Fast Track recovery plans? If no, explain why and what would you suggest as an alternative?
16. Do you agree that annual increases to deficit repair contributions should not be more than CPI? If no, what would you suggest as an alternative?
17. Do you agree with our approach for the stress test? If no, explain why and what would you suggest as an alternative?
18. Do you agree with the limits we have proposed? If no, explain why and what would you suggest as an alternative?
19. Do you agree with how we have allowed for schemes in surplus within the stress test?
20. Do you agree it is reasonable to use the Pension Protection Fund Tier 1 asset classes? If no, what do you suggest as an alternative?
21. Do you agree that smaller schemes should not have to produce cash flows to calculate projected duration?
22. Do you agree with the proxy we have proposed for smaller schemes?
23. Do you agree with our definition of smaller schemes for this purpose?
24. Do you agree that six years is a reasonable Fast Track parameter for the allowance of extra accrual in open schemes? If no, explain why and what would you suggest as an alternative?
25. Do you agree with our approach for new entrants? If no, explain why and what would you suggest as an alternative?
26. Do you think having no additional restrictions on future service cost will weaken the Fast Track approach significantly?
27. Which of the options for reviewing our parameters do you prefer?
28. Do you think a different approach to reviewing our parameters is preferred?
29. What further analysis do you think would be helpful to illustrate the potential impacts of any final regulations and code?