

USS Valuation 2023 Technical Provisions Consultation – University of Edinburgh Response

Introductory comments

The University is dedicated to providing effective pensions options to staff. It is vital that pension schemes are well governed and designed to be financially sustainable in the long term whilst providing benefits that are valuable and contribute effectively to individual's plans for an affordable retirement. It is also critical that schemes are affordable to the University and that the contributions made to members' retirement pots are considered as part of the overall reward package.

The outcome of the 2023 Triennial Valuation for USS is a positive one which presents opportunities to do several things. The University believes there should be balance in how the current scheme surplus should be deployed to underpin the broader purpose and objectives of the scheme. It should be recognised that the scheme valuations have shown a seismic swing from deficit to surplus and the main (but not only) reason for this is the dramatic changes to the wider economic environment. Significant shifts in inflation and subsequent increases in interest rates have resulted in enormous swings in the valuation of scheme liabilities (the cost of providing pensions in the future).

The circumstances around this valuation are unusual, just as they were when the previous valuation was struck in March 2020. Consequently, we are seeing massive swings in scheme value. While on this occasion the swings are favourable, it is not inconceivable that these economic indicators reverse in the future, resulting in a less favourable outcome. Whilst the University does believe that the current valuation outcome should result in changes to both benefits and contribution rates, we also believe that it would be prudent to use this opportunity to build in greater scheme stability so that future contribution rates are not required to quickly revert upwards.

We believe that stability and a greater degree of certainty around both benefits and contributions would greatly benefit members and the University alike. We also believe that some of the issues that were discussed at the last valuation (when tackling a very different challenge) remain central to a longer lasting and equitable solution: the maintenance of the 65:35 Employer:Member ratio for changes in contributions; the consideration of new scheme characteristics, such as Conditional Indexation; and the development of flexibility and optionality for scheme members whose personal circumstances may benefit from adjustments to their pensions options within scheme rules. We also support the reviews into scheme governance and the underlying investment strategy that the Trustee has adopted.

The University responses to the formal consultations seek to support stronger, resilient and flexible pension offerings within an affordable framework which is valued by members and the University.

Technical Provisions consultation questions and responses

	Question	University of Edinburgh Response
1	Proposed discount rates, both for the purposes of valuing Technical Provisions and determining future service contributions	Agree that the proposed discount rates are appropriate
2	Remaining proposed assumptions set out in the Statement of Funding Principles (covering inflation, mortality, and the other demographic assumptions)	Agree that the remaining assumptions proposed are appropriate
3	Any other aspect of the assumptions and methodology underlying the Technical Provisions	Agree that there is nothing further to be added here
4	Any other matter included in the Statement of Funding Principles	Agree – no further comment, comfortable with proposed changes
5	The Trustee's overall assessment of employer covenant, including assumptions made about the	The University of Edinburgh is content to continue with the employer covenant

	level of financial support employers are collectively able and willing to give the Scheme and their Affordable Risk Capacity	requirements, but would be keen to understand if these measures have adversely affected any employer institutions since inception.
6	The assumed Valuation Investment Strategy (VIS) and strategic mix of return-seeking assets and matching assets. (Note that more extensive engagement with employers on the investment strategy will take place in the later stages of the valuation process.)	Agree with proposed response outlined – investment strategy to be further considered following Technical Provisions consultation.
7	The balance and trade-offs between investment risk, the degree of prudence and stability (of benefits, contributions, and funding levels), both at this valuation and looking ahead	Agree that the University of Edinburgh would seek stability as far as possible and agree that UUK and UCU should continue to consider this along with investment strategy and conditional indexation (and/or other appropriately low risk approaches) at this time and following this valuation. The University would be keen for a cautious corridor / tramline approach to contribution rates to be explored which would further support the longer term financial sustainability of the scheme.
8	Any other aspect of this consultation	In keeping with earlier consultation responses the University would be keen for the Trustee to consider greater optionality for members, considering affordability and flexibility. The issue of exclusivity continues to present challenges in terms of what can and cannot be offered to colleagues who opt out of USS. We are supportive of the principle to maintain the 65:35 (Employer:Member) split for proposed changes to contribution rates. The University would not support proposals for scheme surplus to be deployed for the purposes of ‘filling the gap’ relating to benefits earned between Scheme changes introduced in April 2022 and any changes agreed as part of this valuation.

Universities UK Questions for Employers and Responses

	Question	University of Edinburgh Response
1	Do you have any specific comments on the individual assumptions for the scheme’s technical provisions (and future service contribution rate) put forward by the USS Trustee, or indeed on their collective effect?	This refers to the 8 questions in the USS consultation – see above for responses
2	On the broader strategy, do you support the nine overall objectives set out in section 2 of this briefing and which do you consider the most / least important?	We agree with the nine objectives, and would rank the following as the most important: stability; use of scheme surplus to support stability; improvement to future

		benefits; reduction in contribution rates; Investment Strategy discussions. Of least <u>immediate</u> importance are: Covenant Support measures (from a UoE perspective though we acknowledge that across all employers this may be higher up the list); Conditional indexation (as indicated in Q.7 above – there may be other options to consider here). The University considers the scheme rule around the split of contribution rate changes (of 65:35) to be an appropriate and important element of the triennial review outcome.
3	Given the valuation outcome proposed in these TPs, do you support the approach set out in the joint statements to improve benefits to pre-April 2022 levels from April 2024 (and do you agree that there is sufficient evidence of stability / affordability to do so)?	Yes, but we would urge prudence regarding assumptions around investment returns and degree of inherent risk. We would welcome consideration of a corridor / tramline approach to contribution rates which could allow marginal flexibility but greater financial certainty regarding future valuation outcomes.
4	More generally, are you content to provide a supportive mandate to UUK's JNC negotiators to finalise the responses to the valuation in alignment with the joint statement?	Yes.