Survey questions

Identifiers

1. (a) Name of respondent [...] 
   (b) Position of respondent [...] 
   (c) Email address of respondent [...] 
   (d) Name of USS employer THE QUEEN’S COLLEGE, OXFORD

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)

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

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

   The parameters of test 1 are quite abstract, and it is not always clear how sensitive the overall level of reliance is to modifications in these variables. For instance, the proposals for test 1 assume a period of 20 years for contingent contributions of 7%; we have some doubts about whether all employers would in reality be able (financially as well as politically) to maintain this level of contributions for such a long period. But without understanding precisely how these variables affect the level of reliance over time, it is difficult to assess the overall level of risk.

   We assume that the trustee would not call for contingent contributions unless it became imperative to do so. It is hard to foresee such a situation, and harder still to quantify the risk of it occurring. However, on any sensible and historically informed analysis the risk must be small. Provided that the trustee keeps a cool head and correctly focuses on the long-term horizons of the scheme, as we believe it must do, we think that the unlikelihood of a move to full self-sufficiency sufficiently comforts our doubts about the feasibility of such a move.

   Notwithstanding this analysis, the level of short-term reliance on the employer covenant is clearly very significant and we welcome the trustee’s proposal to reduce it to £10 billion in real terms over 20 years. Regardless of the numbers, we are firmly of the view, as we were in 2014, that reliance must measure the realistic ability of all the employers to fund the scheme appropriately; any assumed or hidden reliance on the mutuality of the scheme is unacceptable.
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)*?

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

- 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

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))

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

There is nothing particularly sacred about 18%. We have no desire to pay more, but in a scenario in which a small increase were required, perhaps relatively temporarily, we might be willing to increase employer contributions. It would depend upon what was being achieved: an extra 1 or 2%, say, to secure something desirable is not out of the question for us.

If 18% is the maximum that the majority of employers is willing and/or able to pay, then this only underlines our doubts about the feasibility of contingent contributions that are used in the calculation of maximum reliance under test 1.

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

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

UUK should not assume that 8% is the practical limit on member contributions if it does not have robust evidence that this is indeed the case.

UUK should encourage more creative approaches to this (and other) questions. It is not necessary, for instance, to have a uniform employee contribution rate. The Teachers’ Pension Scheme, for example, has tiered employee contribution rates ranging from 7.4% to
11.7%, depending on salary levels. A progressive structure such as this has several attractions.

Benefits

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

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

UUK should explore the possibility of offering a suitably enhanced DC section for those members who might wish, perhaps for reasons of international portability or tax-planning, to be in a DC scheme rather than a DB scheme.

For those members who do not wish to be in a DC scheme, we believe that it is quite clearly preferable to offer a DB section to the greatest extent possible. The accrual of benefits which are (relatively) secure remains an attraction to employees, and in a sector where salaries have not kept pace with those of other professions in the UK, to say nothing of competition from similar institutions worldwide, maintaining a strong and attractive pension package is very valuable for the recruitment and retention of staff.

Again, we would welcome some more creative thinking. Currently the transition-point between DB and DC is being set by salary level. The UUK discussion paper raises the possibility of avoiding lowering the salary threshold by instead changing the accrual rate. However, there are other possibilities: for example, a scheme could offer a DC basis in an employee’s early years, with DB following later, thereby providing a more attractive package to those who remain employed in the sector over longer durations of their careers. Alternatively (reversing the principle), all members could be permitted to accrue a maximum number of years' service in a DB section; any contributions beyond that point would have to be made into a DC section.

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

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 cannot see an attraction in presenting a move to DC as permanent. The scheme should always aim to offer the most attractive package possible, and it should therefore keep the basis of the scheme under review.

The ancillary benefits are extremely important, and perhaps somewhat overlooked. We suggest that they should all be retained if the scheme moves to a DC basis, provided that we can be confident that they are being obtained at a reasonable cost. If we had to prioritise them, incapacity and life cover, and then spousal pensions would rank highest.

We do not have a view on the minimum employer contribution. We would need to see projections of benefits under a wholly DC arrangement to form a view.

Final remarks

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

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

We are grateful for the opportunity to comment and appreciate the clarity of the papers that have been circulated to employers.

1. The methodology of the valuation produces a very cautious assessment of the liabilities of the scheme. Any de-risking of the investment portfolio is far from sensible: the expected investment returns of the scheme (3% real annual returns over 30 years) are forced to err on the side of caution, and differ notably from those used by many educational endowments which are also aiming to survive in perpetuity and also have to strike a sustainable balance between long-term equity-driven growth and the generation of cash to fund increasing real expenditure.

2. It is very unfortunate that the instinctive response to all of this is then to look to further reform of benefits. It is nowhere expressed honestly that this simply substitutes a hidden employee covenant for that of the employers.

3. We thus view the drift towards a wholly DC scheme with some dismay. Whilst accepting that DC schemes have certain attractions, the potential loss of the DB element is undesirable if it is needless. UUK needs to think more carefully and creatively about ways to avoid or decelerate this drift.

4. We are particularly concerned by the question of intergenerational fairness that UUK quite correctly raises in its paper (paragraph 29). A younger member with 30 years ahead of her in the scheme will already have seen an erosion of likely pension savings by perhaps 25% as a result of recent changes. A further erosion of benefits now will render the scheme vulnerable to the charge that unaffordably generous
benefits *insufficiently accrued* in the past are being honoured by decimating the pension benefits of future generations. Short-term financial exigency should be measured against the long-term collective interests of employers (and employees) in the sector.

5. There is a strong argument that older and wealthier members should bear or share the costs of deficit recovery to a far greater extent than they do now; it is inequitable that this burden should fall directly or indirectly (as it does as present) upon newer and future members.