From the Chair-Elect

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Universities Superannuation Scheme

According to the latest Universities Superannuation Scheme report and accounts, the scheme deficit on a technical provisions basis stands at £12.6 billion, more than double the £5.3 billion deficit recorded at the 2014 valuation. The funding ratio has deteriorated from 89% to 83% over this period. According to recent press coverage, the deficit as measured on the FRS accounting rules basis stands at £17.5 billion, the largest deficit of any UK defined benefit retirement fund.

The USS’s 2011 actuarial valuation showed a £2.9 billion deficit and a 92% funding ratio. A 10-year recovery plan was adopted to address this. However, the 2014 valuation showed a further deterioration of the funding position - a £5.3 billion deficit and an 89% funding ratio – and a much longer recovery plan of 17 years was adopted. We await the results of the 2017 actuarial valuation. The 2016/17 accounts suggest, however, that this will reflect a picture of ongoing deterioration in the scheme's funding position.

The large and growing funding gap in this major scheme gives rise to serious concerns about how USS intends to address the deficit and the implications for sponsoring institutions and their funding model. The prospect of students incurring higher tuition fees and student debt partly to cover the burden of historic DB pension entitlements that they can never hope to enjoy in their own future careers is an important issue of intergenerational fairness.

While I understand the USS’s valuation and recovery plan process is ongoing, I would be grateful if you could respond please to the following questions:

- With hindsight, given the financial trends of recent years, what is tPR’s view of the adequacy of the recovery plans that USS agreed in 2011 and 2014, which spanned 10 and 17 years respectively?
• In respect of the 2017 valuation, what discussions have taken place between tPR, USS trustees and executives and Universities UK regarding future plans?
• In particular, what involvement has Bill Galvin had in discussions between tPR and USS both in his employment at tPR, latterly as Chief Executive, and subsequently as USS Group Chief Executive from 2013?
• What assessment have you made of the strength of the multi-employer covenant underpinning USS, and its capacity to bear the necessary burden of deficit repair contributions without passing the cost to students and/or the taxpayer?
• Are you satisfied that the Pension Protection Fund is adequately shielded from the risk of USS covenant failure?

The new Work and Pensions Committee has yet to be appointed following the general election, but when it is, I will propose that the sustainability of defined benefit pensions shall continue to be one of our priorities.

Best wishes,

Rt Hon Frank Field MP
Chair-Elect