From the Chair-Elect

14 August 2017

Professor Janet Beer
President
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Dear Professor Beer

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 gives rise to serious concerns about the implications for sponsoring institutions and their funding model, which are reflected in your report on *Suitability and sustainability: pensions in the higher education sector* (3 August). The report notes that the 2017 valuation "is expected to show a significant further increase in the cost of providing benefits" and that DB pension risk is viewed as a "significant financial uncertainty” by 97% of institutions in the USS scheme.

Of particular concern is 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, which is an important issue of intergenerational fairness.
While I understand the 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 Universities UK's view of the adequacy of the USS recovery plans that were agreed in 2011 and 2014, which spanned 10 and 17 years respectively?
- In respect of the 2017 valuation, what discussions have taken place between Universities UK, USS trustees and executives and the Pensions Regulator regarding future plans?
- Do you anticipate a further lengthening of the recovery plan, and/or a further increase in employer contributions to repair deficits relating to past service?
- What assessment have you made of the strength of the employer covenant, and its capacity to bear the necessary burden of deficit repair contributions without passing the cost to students and/or the taxpayer?
- What arrangements, if any, are in place to ring-fence tuition fee income to ensure that it is spent on tuition rather than legacy pension liabilities? Does practice vary between employers?

You will be aware that the sustainability of defined benefit pensions was one of the major concerns of the Work and Pensions Committee in the last Parliament. The new Committee has yet to be appointed following the general election, but when it is, I will propose that the defined benefit landscape shall continue to be one of our priorities.

Best wishes,

Rt Hon Frank Field MP
Chair-Elect