25 August 2017

Rt Hon Frank Field MP
Chair-Elect
Work and Pensions Committee
14 Tothill Street
London
SW1H 9NB

Dear Mr Field

**Universities Superannuation Scheme (USS)**

Thank you for your letter, dated 14 August 2017, regarding USS.

Preparations are currently underway for a consultation on the proposed assumptions for USS’s technical provisions and Statement of Funding Principles due to commence 1 September. That consultation will take place between the USS trustees and Universities UK (UUK), as formal employer representatives. UUK will be seeking views from over 350 participating employers in the scheme during that consultation which will inform our response to the trustee. Once the actuarial parameters are set following this consultation, the funding situation at the valuation date can be calculated and the scheme stakeholders (through the Joint Negotiating Committee (JNC)) and the USS trustee will need to consider how to respond to the expected increase in the cost of the scheme.

More than ever, universities believe that achieving long-term stability of pension provision is critical and that cost and risk must be carefully controlled. That view is outlined in our recently published report, *Suitability and Sustainability: pensions in the higher education sector*. Universities are committed to achieving a sustainable solution to long-term pension provision within affordable levels. Increasing pension contributions at this valuation is not a viable solution to USS’s funding shortfall, as it would require further diverting university funding, for example that allocated for teaching, learning and research, some of which...
comes from students’ tuition fees, towards defined benefit (DB) pension provision. UUK does not believe this is an acceptable route to take and is considering all options including benefit reform. The schemes governance means that proposals for reform must be agreed through the JNC.

Over recent months UUK has engaged with sponsoring employers, member representatives (the University and College Union (UCU)) and the USS trustee and executive on issues relating to the valuation. As with the 2014 exercise UUK have engaged with the Pensions Regulator for this valuation process having met twice in recent months, with a further meeting arranged in September to discuss the emerging employer view on the scheme’s technical provisions consultation.

USS have indicated to UUK that pension costs have increased by around a third at this valuation due to continuing low interest rates, lower expected asset returns and increasing longevity which are driving up the cost of providing DB pensions. Alongside the increasing cost of providing pensions for future service a significant deficit remains. The USS trustee’s initial view, based on the proposed assumptions, is that an increase of around 6-7% in contributions across employers and members is needed to maintain the current benefit package. This is beyond what universities are willing to pay.

Decisions made during both the 2011 and 2014 valuations regarding contributions, the recovery plan and future service benefits were all designed to address the funding issues facing the scheme. Developments in wider economic circumstances since the last valuation have provided stakeholders with an even more challenging environment which likely makes further reform necessary.

Intergenerational fairness is a key consideration for universities, both from the perspective of benefits for future USS members and from the perspective of students paying tuition fees. The importance of intergenerational fairness is an issue that we are raising with the schemes other stakeholder the UCU and USS trustee.
We would be very happy to provide further information on the developing employer response to this valuation and our Chief Executive, Alistair Jarvis and the Chair of the Employers Pensions Forum, Professor Koen Lamberts, Vice-Chancellor of the University of York would be very pleased to meet with you to update you on the latest information.

Yours sincerely,

[Signature]

Professor Janet Beer
President, Universities UK and Vice-Chancellor of the University of Liverpool