# Joint Staff Negotiating and Consultation Committee

# Subcommittee – USS Consultation

**5th April 2022**
**14.00-15.30**
**Online via Microsoft Teams**

# Minutes Of Meeting

**Present:**

Martin Atkinson; Director of HR and OD, Chair [MA]
Jane Higham; Chief Financial Officer [JH]
Wendy Green; Reward and Recognition Manager [WG]
Gordon Vernon; Payroll & Payments Services Manager [GV]
Chris Henry; UCU [CH]
Owen Lyne; UCU [ODL]
Balihar Sanghera; Staff Representative Grades 7+ [BS] – left at 14.45
Charlotte Ransom, Staff Representative Grades 7+ [CR]
Paul Ducker; Unite Representative [PD]

Karen Cherpin (minutes) [KC]

### 1. Welcome and Apologies

The Subcommittee consented to the recording of the meeting for the sole purpose of the completion of draft minutes.
Apologies were received from Paul Cornwall-French, Russell Jordan and Maria Bakali.

### 2. Agenda item 3

**Minutes of Meeting held on 14 January 2022**

**Page 3 Section 2:**

Section 2 concerns a working group to explore conditional elements of USS scheme design. Work has started but the minutes state that UCU is not able to participate in this as yet. The work should be concluded by the end of 2002, with outcomes to go into the next formal valuation. MA added that this should allow for UCU involvement.

This should read 2022.

The minutes were otherwise approved.

**Action: KC to correct the minutes and replace the previous version on the Teams site.**

**3. Agenda item 4**

**Matters arising**

- KC to follow up with Caroline Mitchell [CM] regarding the specific point around the University not being able to pay into a different pension scheme. This point is to be included in the FAQs section of the pensions website.

KC confirmed this had been actioned.

- GV to ask AG to run the report regularly so that monitoring can take place and presented periodically to JSNCC.

GV confirmed this had been actioned and noted that the report cannot be run retrospectively. He added that he is working on improving the report over time.

MA asked committee members to have a look at the report that GV had produced, and pass any comments on to GV directly by the end of the following week.

In terms of frequency of the report going to JSNCC, committee members confirmed this should go to JSNCC quarterly, with the frequency level to be reviewed.

**Action: GV to finalise the report ahead of the next JSNCC meeting, then quarterly thereafter.**

- CH to investigate why UCU is not able to be participate in discussions at this time.

This concerned the conditional indexation. CH noted that his understanding is that UCU is exploring conditional indexation alone, rather than with UUK, as they feel that UUK have not shown good faith in the negotiations and the positions that have been put forward. CH added that he would encourage MA and Karen Cox to increase levels of trust between UCU and UUK.

MA felt that it was disappointing that they are not working on this together. He added that he would look at this separately with JH.

JH noted that this is one of the shortfalls of the structure of the JNC, and the independent casting vote, as it allows both sides to diverge. Until the USS governance has been reviewed to look at the structure, both parties do not have to come to an agreement. UUK have to go out to members to get a mandate and they are bound by those parameters.

- This information [*concerning the independent governance review of USS*] is useful and should be shared on the website. KC to add to the pensions webpages.

KC confirmed this had been actioned.

**4. Agenda item 5**

**Kent Consultation Response – UCU Proposal**

JH confirmed this had been circulated at the time, setting out the University's position on the UCU proposal. It was pleasing to see a proposal being presented but affordability concerns would make it difficult to support something along these lines. In terms of the March 2022 valuation, we need to keep an open mind. It may be as good a time as any to have a valuation, but equally this may be risky given the inflationary pressures which would change underlying assumptions, as well as ongoing volatility in the markets. Once USS have had an opportunity to update their monitoring position, based on the results as at the end of March, the University will look at this again.

CH noted that periods of short-term volatility have not, historically, had any effect on the long-term stability of the plan. JH clarified that the volatility may have an impact on any assumptions that the trustee determines are appropriate at the time.

In the light of this, ODL queried if there is such a thing as good news in terms of the pension funds.

JH confirmed that it is getting harder to sustain these types of schemes. The pension regulator is trying to keep pensions out of the Pension Protection Fund, and protect member benefits which makes trustees more prudent in their assumptions that are agreed as part of the valuation.

MA confirmed that the pension contribution ‘holidays’ that used to exist, are a thing of the past. Over the years, schemes have been pushed to be more prudent by the regulator. There are consequently far fewer open DB schemes in the UK.

**5. Agenda item 6**

**USS Interim Valuation and Financial Management Plan for Discussion**

MA referred to the documents that had been issued ahead of the meeting. UCU would be keen that the University enters into a joint statement. MA confirmed that there is a level of agreement on some of the fundamental issues and concerns about USS, but the University is not able to sign up to some of the other letters that have been circulated.

CH highlighted UCU’s view of where they are as a result of these documents. The deficit reduction contributions are now not needed, as the deficit is so low. This means that Kent is contributing unnecessarily. What USS will do with this extra money is unclear but Kent should put forward a clear position. This may mean that USS, and possibly UUK, push for a more prudent valuation which UCU does not believe is justified based on the value of the assets in the USS pension pot which in turn has consistently outperformed USS’s predictions. Valuations have not been corrected based on this, and the governance needs to be looked at. Some of the pessimistic notes that were built into the 2020 valuation have not come to light.

JH noted that there is some  improvement but this is a snap shot position. She referred to Page 6 of Paper 4, which shows that the cost of future service contributions has fluctuated quite a lot over the period – from 25.2% at 31st March 2020 to almost 29.5%-30% at certain points over the last two years. As the scheme moves forward, it is important not to increase the risk of adding to a deficit.

It was agreed that clarity regarding where the deficit contribution will be going and how it will be utilised, would be beneficial. JH added that the key point is that if these changes had not been made, we would not be in the stated position. Appendix C shows what the cost of the future service accrual would be had we not made those benefit changes. There is a need for USS to work through these in a proper valuation to see if there is a way to revert back to improved benefits at lower cost without impacting on the future service cost accrual.

MA thought the interim monitoring statement shows an improved position because it is based on the scheme changes being in place. JH noted that the deficit contributions were put in place for the period of the recovery plan over a period of 15 years. The market has improved which gives USS an opportunity at the next valuation to see if this is still required. The contributions will also be going to paying off the deficit.

JH explained that the recovery plan and the schedule of contributions would have been integral to the signing off of the 2020 valuation that it submitted to the regulator. When it was submitted in Sept/Oct 2021, there was a contingent schedule of contributions in case this proposal did not go through, and this would require an updated submission to the regulator around this. It would be very difficult for USS to change these schedules of contribution.

CH added that Kent is paying £7.5 million a year that it does not need to be paying. MA noted to change the schedule of contributions and the deficit recovery a new valuation would be needed and a sign off from the pensions regulator. MA acknowledged that we should at least be asking these questions. JH added that UUK are keeping an open mind and want to get views from employers.

**Action: MA/JH to investigate whether it is possible to amend the schedule of contributions mid-term.**

BS asked for an explanation of what self-sufficiency means. JH explained that it is another basis of the evaluation that does not assume you are going to outperform your underlying investment return – effectively clearing the valuation through contributions coming into the scheme and an investment return at a standardised level. WG added a more detailed explanation below from the TPR (the Pensions Regulator) website.

BS left the meeting at this point.

## Self-sufficiency and low dependency

### How much it will cost for the scheme to not need the support of the employer anymore or to reduce it to a minimal level

The purpose behind a self-sufficiency valuation is to show the level of assets that the scheme would need if the ongoing reliance on the sponsoring employer were to be kept to a minimal level. This generally requires a low-risk investment strategy to minimise the chances of the employer having to make good any investment losses.

Typically, the investment approach may target a slightly higher level of return than the buy-out approach adopted by an insurance company, but without the profit margin and solvency requirements of an insurer. Therefore, the liability value under a self-sufficiency valuation should be lower.

The following explanation regarding buy out valuation was also circulated to the committee:

## Buy-out valuation/section 75

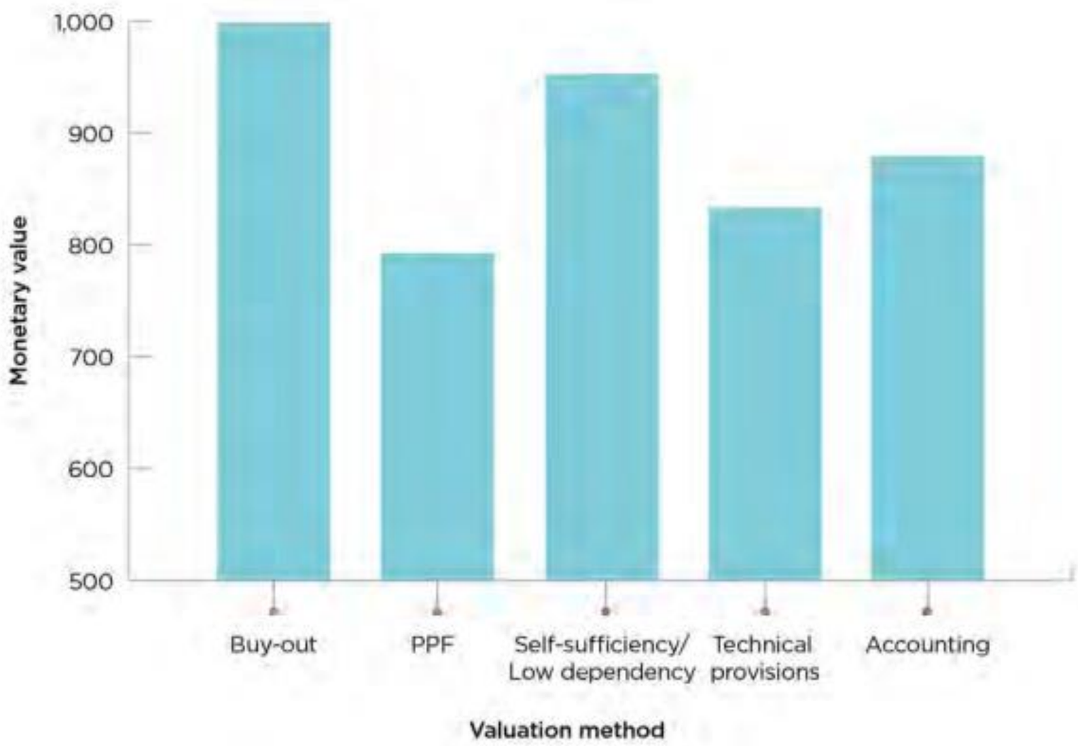
### How much it would cost to buy out the scheme with an insurance company

The buy-out valuation tells trustees how much money they would need to 'buy out' the scheme with an insurance company. A buy-out is where an insurer takes responsibility for paying out the promised benefits to members until the last member dies. The insurance company will choose to invest in the least risky assets, which makes it the most expensive option. There is also an added premium for its profit margin and solvency requirements.

The buy-out deficit is sometimes referred to as the 'section 75 debt'. Section 75 of the Pensions Act 1995 requires employers to pay the cost of buying out the scheme when the scheme winds up (and in some other circumstances).

From the members' and trustees' perspective, a buy-out may be viewed as the safest approach for securing the scheme's liabilities. But, as already mentioned, it is also the most expensive.

**Chart 1: Different methods commonly used to value scheme liabilities**




This chart illustrates the relative differences between the valuation methods. For example, if an insurance company had priced a given benefit at £1,000 (the buy-out liability) then valuations of the same benefit on the same day but using the different valuation methods would be as shown by the vertical bars. The relative differences depend on market conditions on the day concerned and do not remain constant over time.

CH noted that in one of the recent JSNCC meetings, Karen Cox had agreed to provide comments on her negotiations with some of these large groups, particularly UUK, and added that UCU would like some feedback from these meetings.

**Action: MA to raise with Karen Cox**

**6. Agenda item 7**

**UCU Request to Revoke USS Changes for Discussion**

Exchange of letters between Jo Grady, President of UCU, and Alistair Jarvis, Chief Executive of UUK.

Most issues were discussed earlier in the meeting.

MA felt there was an opportunity to communicate the University view to Kent members and asked the UCU representatives if this was something that could be done jointly with UCU, taking a common position.

ODL commented that while there is an exchange from the UCU general secretary, it would be difficult to say anything substantially different, but agreed to look at a draft.

**7. Agenda item 8**

**Statement of Investment Principles Consultation with Employers**

MA informed the committee that the University is not proposing to send to the whole membership for consultation but added that he was happy to take views on this.

ODL commented that in the main SIP document, Section 1.4.3 on page 3 refers to an ambition to be net zero for greenhouse gas emissions by 2050. He added that this seems to be painfully unambitious. He asked whether an earlier date could be considered.

After discussion, the committee agreed that members should be consulted. Discussion followed around whether to send to Council but time frames may not allow for this.

**Action: WG/KC to send information out to the membership.**

**8. Agenda item 9**

**Any Other Business**

There was none.

Next meeting date to be agreed.