Update on USS: 2020 valuation

28 February 2022

The Council at its meeting on 21 February considered alternative proposals put forward by the University and College Union (UCU) to close the USS 2020 valuation. It also considered an amendment to the employers' proposal to defer the imposition of a 2.5% inflation cap on revaluing benefits built up in the scheme.

The proposals put forward by UCU and considered by all participating employers as part of a formal consultation are as follows:

- that UUK call on USS to issue a moderately prudent, evidence-based valuation of the financial health of the scheme as at 31 March 2022, to be issued for consultation in June (at the latest);
- that employers agree to provide the same level of covenant support as for their own proposals to facilitate a cost-sharing of current benefits throughout the 2022/23 scheme year, starting on 1 April 2022 at 11% member/23.7% employer until 1 October 2022, and 11.8%/25.2% thereafter;
- that employers agree to pay a maximum of 25.2% and members a maximum of 9.8% from 1 April 2023 so as to secure current benefits or, if not possible, the best achievable as a result of the call on USS to issue a moderately prudent, evidence-based valuation.

The Council did not support the UCU proposals but did agree to support the deferral of the inflation cap. While not a major change in its own right, the deferral of the inflation cap is important because it protects members from high levels of inflation in the short term, is an important signal that a 2.5% inflation cap should not be normalised into benefit design, and buys a realistic amount of time to find a way to remove the cap permanently.

The main reasons for not supporting the UCU proposals are as follows:

- There is no clear evidence that a 2022 valuation would deliver an acceptable cost for the current benefits, in large part because there is no clear evidence that the valuation methodology adopted by the USS trustee and regulator would differ meaningfully from the approach they have used in the most recent valuations.
- Additionally, a 2022 valuation would almost certainly delay the evaluation and implementation of a long-term sustainable solution (see below).
- As many people have pointed out, the scheme's assets have increased substantially since the valuation date of March 2020. However, USS has signalled that the reduction in deficit contributions would be largely offset by the increase in the cost of future benefits. A material change is only likely with significant reform to the scheme and approach to risk from USS. Without this, even the contribution increase to 35% of salary as proposed by UCU would not avert the large majority of the benefit cuts from April 2022 (albeit they would be deferred until April 2023).
- Pursuing a 2022 valuation would distract attention from exploring an alternative scheme design, which the University believes is the most likely way of restoring benefits on a sustainable basis.

The Council would like to address some concerns about how it voted on the UCU proposals. It would like to clarify that all members of the Council were able to participate in the discussion. Only those members of the Council who are not active members of the USS voted on the matter. This approach, which reflects Council members' fiduciary duties as charity trustees, was agreed by the whole Council at successive meetings in 2018 and has been followed since then for all matters relating to the USS.

A detailed message explaining the latest developments relating to USS will be sent to all Cambridge members of the scheme by the Chief Financial Officer and published on the University website.