Felicity Callard
@felicitycallard

Thread Reader App
114 tweets - 12 Mar 2018
felicitycallard/status/973136190319792129

Over the weekend, I have been fixated on trying to understand all that happened in 2014 as key to the current (2018) university pensions crisis #ucustrike #ussstrike. An earlier thread is attached below. #ucustrike #ussstrikes

Felicity Callard
@felicitycallard

Today's reading: getting to grips w recent history of UUK, particularly in relation to 2014 consultation on USS funding. Placing these public links on Twitter for others to read, digest & use as we piece together last few years.
Too tired to comment today. #ucustrike #USsstrikes

6:51 PM - Mar 10, 2018

50 31 people are talking about this

When I'm not on strike, I usually research by piecing together published, archival & grey literatures to build up a rich tapestry through which to get a grip on shifting phenomena. How do 'objects' & phenomena gain consistency & tractability? How do they change in form?

So here are some of the things (official lit, grey literatures, weblinks, newspaper/magazine articles etc.) that are currently in my "What happened around pensions, USS & UUK in 2014?" folder #ucustrike #ussstrikes

Feb 2014: Aon Hewitt "calls on UK government to concentrate on collective DC". An Aon Hewitt partner, said "the increase in cost [because of shift to single tier] might make the cost of DB unaffordable for the very few employers still offering the scheme"

Aon Hewitt calls on UK government to concentrate on collective DC
Employers should consider collective savings format in wake of abolishment of contracting-out
https://www.ipe.com/aon-hewitt-calls-on-uk-government-to-concentrate-on-collective…

https://www.ipe.com/aon-hewitt-calls-on-uk-government-to-concentrate-on-collective-dc/10000998.article

The Aon partner also "called on the government to provide certainty on the timetable for implementing [collective DC] CDC, in a bid to avoid employers having no alternative to pure DC."

Aon Hewitt calls on UK government to concentrate on collective DC
Employers should consider collective savings format in wake of abolishment of contracting-out
https://www.ipe.com/aon-hewitt-calls-on-uk-government-to-concentrate-on-collective…

https://www.ipe.com/aon-hewitt-calls-on-uk-government-to-concentrate-on-collective-dc/10000998.article

10 March 2014: UCEA ran its "Annual HE pensions schemes update." Programme available here: http://www.ucea.ac.uk/en/seminars/event-materials/2013-14/pensions.cfm

31 March 2014: The date for the USS financial position. The USS report on this (with a document date of 20 November 2014) is available here: https://www.uss.co.uk/how-uss-is-run/running-uss/annual-reports-and-accounts

April 2014 membership of USS Employers Pension Forum. employerspensionsforum.co.uk

(I can't actually locate where I downloaded this. The broader point is that EPF website provides little info on its committee processes. I have been able to find membership for only 2014 & 2017)

EMPLOYERS PENSION FORUM
USS GROUP (April 2014)

Chair:	Professor Anton Muscatelli	University of Glasgow
Vice-Chancellors	#Professor Dame Glynis Breakwell	University of Bath USS director
	Professor Sir Peter Gregson	Cranfield University
	Professor Koen Lamberts	University of York
	Professor Paul Webley	SOAS
Registrar and Secretaries	*Will Spinks	University of Manchester
	John Neilson	Imperial College
	Jonathan Nicholls	University of Cambridge
Finance Directors	Allan Spencer	University of Sussex
	*Philip Harding	UCL
HR Directors	Carol Costello	University of Liverpool
	Paul Stephenson	University of Surrey
Scotland	Robert Fraser	University of Glasgow
CUC	#David McDonnell	USS director
USS JNC	*Malcolm Ace	University of Southampton
	*Cliff Vidgeon	Aston University
UCEA	Helen Fairfoul	
UUK	Professor Sir Rick Trainor Nicola Dandridge Jeremy Holmes	King's London UUK CEO UUK COO
Secretariat	*Tony Bruce	UUK
Observers	Emelda Conroy	UCEA
	Andy Fryer	UCEA
	Matt Robinson	University Alliance
	Tim Bradshaw	The Russell Group

USS director
* JNC member

*** HIATUS ***
I need to go to the picket line. More later. Including some estimable documents from some universities in response to 2014 consultations.

4 June 2014: Queen's Speech. Private Pensions Bill (see p. 35 ff) which enables "'Collective schemes' that pool risk between members & potentially allow for greater stability around pension outcomes." https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/317823/Queens_Speech_lobby_pack_FINAL.pdf

Private Pensions Bill

"My government's pension reforms will also allow for innovation in the private pensions market to give greater control to employees."

<u>The purpose of the Bill is to:</u>

- Provide wider choice, with Defined Ambition pensions encouraging greater risk sharing between parties and allowing savers to have greater certainty about their retirement savings.

The main benefits of the Bill would be to:

- Introduce new definitions into the current legislative framework.
- Encourage new forms of pension schemes that provide more certainty for individual members about their pension than current Defined Contribution schemes, which currently dominate the market, while limiting costs for employers to realistic levels.
- Enable 'collective schemes' that pool risk between members and potentially allow for more stability around pension outcomes in retirement.

16 July 2014 [creation date as listed in doc 'Properties'] "USS funding and benefits – consultation by Universities UK" https://www.ox.ac.uk/sites/files/oxford/field/field_document/USS%20funding%20and%20benefits%20-%20consultation%20by%20Universities%20UK.pdf

USS funding and benefits – consultation by Universities UK

Introduction

1. This consultation paper provides an update on USS developments following the Universities UK consultation on the scheme's future funding which concluded in March 2014. It outlines the options for benefit reform and invites USS member institutions to comment.
2. Universities UK is the formal representative of all USS participating employers on funding and investment issues under the scheme rules and we would encourage all employers to respond to this consultation so that their views are taken into account as the employers' position on benefit reform is developed further.
3. Replies to this consultation – together with comments on the enclosed USS discussion paper which is referred to in paragraph 12 below - should be sent to Tony Bruce at pensions@universitiesuk.ac.uk by **5 pm on Monday 15 September 2014 or earlier if possible**.

NB The start of the doc makes clear that this consultation follows "the Universities UK consultation on the scheme's future funding which concluded in March 2014." I haven't located this yet. Does anyone know if details are available and, if so, where?

This doc also mentions UUK's "response to the previous consultation on behalf of the USS employers, which was submitted to USS in March 2014". I haven't located this yet. Is it available? Where?

Background

6. Universities UK's response to the previous consultation on behalf of the USS employers, which was submitted to USS in March 2014, concluded with an acknowledgement of the following:

- the need for increased employer contributions, but with a clear indication that contributions should remain within the 16 to 18 per cent range in order to ensure that they are maintained at an affordable level, particularly in view of the additional increase in National Insurance due in April 2016;
- the need for benefit reform (based on redefining the final salary link for past service and career average benefit for all for the future);
- the need for some investment de-risking, principally to respond to the increasing reliance which the scheme will otherwise place on the sector over time, and to help in reducing funding (and contribution) volatility;
- deficit contributions being required over a 15–20 year period; and
- a longer-term review of mutuality and the need for greater institutional flexibility in USS pensions provision.

7. Following the consultation, Universities UK commissioned the actuarial consultancy AonHewitt to advise the USS Group of the Employers Pensions Forum (the EPF) on potential benefit reform options. These options are considered central to maintaining employer contributions within the range of 16 to 18 per cent alongside the need to eliminate the USS deficit and to manage investment de-risking effectively.

8. AonHewitt identified a number of potential benefit packages, taking account of the outcome of the previous consultation with employers, and set out the estimated costs of each option when combined with one of four different levels of investment de-risking and either a 15 or 20 year recovery period.

Doc states: 'option of moving to a DC scale for all future accruals' was considered. A 'significant minority of institutions...supported a full move to DC in the earlier [UUK] consulation' but majority wanted to maintain 'core' DB element (p.5). Any more info available anywhere?

Commentary on other benefit reform options

15. The option of moving to a DC scale for all future accruals was also considered. This provision has become commonplace in the private sector and is now found (for new entrants) in a number of Self Administered Trusts and auto enrolment schemes in the higher education sector. While there was a significant minority of institutions which supported a full move to DC in the earlier Universities UK consultation, there was a strong sense from the majority of employers that it would be appropriate to maintain a core element of defined benefit (DB) in order to retain an attractive scheme, help with retirement planning, and to maintain a feature which is valued by many scheme members. However, the concept of a hybrid scheme with core CRB to a Salary Threshold, coupled with DC provision on salary above the Salary Threshold, received broad employer support. This type of scheme can be implemented such that the overall growth of the guaranteed DB liabilities would over time be limited, giving the USS Trustees and the Regulator confidence that these benefits would remain affordable in relation to the financial strength of the sector over the long term, and the growth of DB liabilities would remain proportionate to the employers' covenant.

16 July 2014 [from creation date in Doc properties]: USS "An Integrated Approach to Scheme Funding". UUK circulated this for comment along with their consultation doc I mentioned in previous tweets https://www.pensions.admin.cam.ac.uk/files/uss_integrated_approach_16072014.pdf

28 July 2014 [date of creation of document I'm linking to]: "EPF briefing on the Universities Superannuation Scheme (USS) - July 2014". Includes discussion of new section of USS that will provide DC benefits (see pp. 4-5) https://www.sussex.ac.uk/webteam/gateway/file.php?name=uss-funding-position-and-potential-benefit-reform.pdf&site=302

- The provision of a DC section enables greater risk to be shared between the employers and the employees, as the benefits payable from the DC pot are not guaranteed. By focusing the largest proportion of DC benefits on those USS members earning the most, the intention is to share the greatest risk with those who can afford to bear that risk while ensuring that all employees retain a minimum core DB pension.

29 July 2014: "A novel contribution - opinion piece by the EPF Chair", Anton Muscatelli (http://www.universitystory.gla.ac.uk/biography/?id=WH1232&type=P) https://www.employerspensionsforum.co.uk/epf-news/novel-contribution-opinion-piece-epf-chair. Includes this extracted section.

This is not a cost-reduction exercise. Employer contributions will not fall below their current level of 16 per cent and are likely to increase. Without such action, it will be more difficult for USS employers to manage their resources and to prevent job losses in response to rising pension costs.

These Employers Pensions Forum proposals are the subject of an employer consultation on funding and benefits that runs until September. The results will provide context for the USS trustees to consider the outcome of the 2014 triennial valuation, and a statutory consultation with all USS employers will take place in the autumn.

The outcome of the consultation on benefit reform – together with the USS' plans to fund the scheme – will shape the proposal that the employers will submit formally to the USS Joint Negotiating Committee later this year. The JNC consists of an equal number of employer and UCU representatives and we are committed to continuing dialogue with our UCU colleagues in the period before the JNC decides on future scheme benefits. As is required by statute, employers will also consult their employees before any scheme changes, and their views will be taken into account by USS trustees.

It is vital to re-emphasise that USS pensions are safe and are backed by robust employers. Any pensions already in payment or deferred in the scheme will not be affected at all by any changes implemented in the future, and past service accrued rights are protected by law.

Whatever changes are eventually agreed, the Employers Pensions Forum and the employers will do everything they can to ensure that the USS remains an excellent pension scheme for current and future members.

Professor Anton Muscatelli is Vice-Chancellor and Principal of the University of Glasgow and Chair of the Employers Pensions Forum.

For Science & Technology Studies (#sts) people, it's in September 2014 that things start getting particularly interesting. #ucustrike #USSstrikes

On 11 August 2014 [I'm also interested in the timing of all of this; August is right in the heart of academic research time], EPF put out a document called "Latest Q&As on the USS". That document is stored here: https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epf-ussqa.pdf #ucustrike #ussstrike

Question 9 of this (original) https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epf-ussqa.pdf document of Q&As asked: "What are the issues with longevity and will they really impact on USS?" And here is the answer (as presented on 11 August 2014):

Q9. What are the issues with longevity and will they really impact on USS?
Yes, longevity issues do impact on USS. Current longevity patterns are significantly different to those when the scheme was set up in 1974. Then it was expected that a USS pensioner retiring at age 65 would live for 6 to 8 years in retirement so the cost of the scheme and the contribution rates were set on this basis. By 2014 the anticipated length of retirement is around 30 years, so USS pensions will need to be paid for a significantly longer period than they have in the past and this has increased the cost. Increasing longevity was a factor that impacted on the last valuation of USS in 2011 and this trend has continued such that in the 2014 valuation the scheme actuary is advising a further increase in the longevity assumption to reflect continuing improvements in life expectancy.

9 September 2014: Jane Hutton, professor of statistics at U of Warwick, sends a letter to EPF to 'point out the gross errors in life expectancy' [as represented in EPF's response to Qu. 9] https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/employerspf9sep2014.pdf #ucustrike #USSstrikes

The Employers Pensions Forum,
Woburn House,
20 Tavistock Square,
London
WC1H 9HU

Dear Madam or Sir

The Employers Pensions Forum (EPF) has produced a Copyright questions and answers sheet about the proposed changes to USS.

I attach a figure which plots the life expectancy given in Q9 of this sheet against the life expectancy provided by the Office for National Statistics (ONS). EPF states that in 1974, 'our' life expectancy was half (49%) that of the general public, but in 2014 it is 1.4 to 1.6 times greater! ONS has an increase of 1.3 to 2.3 years for each decade; USS has an increase of 5.8 years for each decade.

If you wish to check these, please see http://www.ons.gov.uk/ons/rel/lifetables/historic-and-projected-data-from-the-period-and-cohort-life-tables/2012-based/stb-2012-based.html

I find it difficult to believe that my late friend Geoffrey Heywood, first Chairman of the International Association of Consulting Actuaries, would have allowed such a gross under-estimation of life expectancy for 1974 when USS was set up. He was very proud of his involvement with USS, having written the report commission by the Joint Consultative Committee which included a proposed outline for USS.

I find it difficult to believe that the actuaries have only recently considered the impact of changes in life expectancy (as well as variable interest rates) because I remember discussing this with my father, James M. Hutton (Jimmy Hutton), who was Chairman of the International Association of Consulting Actuaries in 1986, before he retired, i.e before 1988.

I wish to know how the figures for life expectancy were reached. I shall, of course, request the relevant information directly from the USS actuary, Ali Tayyebi, of Mercer.

With regard to the statement in Q8 that the proportion of active members is reducing, the phrase '*also* nearly 100,000 deferred members' implies that obscures the fact that the percentages you give includes these members. In fact, the proportion of pensioners increased from 17.3% in 2010 to 18.4% in 2013, and decreased to 18.3% in 2014. The proportion of deferred members has increased from 31.1% in 2010 to 33.0%.

What are the predicted proportions for the next thirty years? Of the deferred members, what is the distribution of accrued service, in terms of eightieths?

This question and answer sheet leads me to question the reliability of the Employers Pensions Forum.

Yours sincerely

Professor J L Hutton
Department of Statistics, The University of Warwick, Coventry, CV4 7AL.
Cc. Miss L Murrain, Pensions Manager, The University of Warwick

25 Sept 2014: @Dennis_Leech argues that @timeshighered's reports on USS 'tend to imply that statistics show a funding deficit as if the USS' assets and liabilities are objective scientific truths when in fact they are based on theories'

Views on pensions depend on principles

https://www.timeshighereducation.com/comment/letters/views-on-pensions-depend-...

https://www.timeshighereducation.com/comment/letters/views-on-pensions-depend-on-principles/2015907.article

Your reports on the Universities Superannuation Scheme tend to imply that statistics show a funding deficit as if the USS' assets and liabilities are objective scientific truths when in fact they are based on theories.

There are two principles on which defined-benefit pension schemes are organised: pay-as-you-go (which is used throughout the public sector, including the Teachers' Pension Scheme) and funding (which is used for smaller pension schemes offered by private sector employers in the risky marketplace).

How we think about the USS depends on which of these principles we apply. Viewed as a PAYG scheme, the USS appears to be financially strong with an annual surplus of more than £1 billion a year, a strongly performing investment portfolio and growing membership. The deficit figures you quote come from regarding the USS as if it were the other type of scheme, one belonging to a small company that must be prudently managed against the likelihood of the firm failing. But to apply that approach to the whole pre-92 higher education sector covered by the USS is to misuse a theoretical model by applying it in circumstances it was not designed for and in which it will cease to work. We have heard a lot about economic models failing in the financial crash of 2008; we have the same issue today with pensions.

Journalists should follow the advice of Ha-Joon Chang when he says "economics is too important to leave to the experts". Rather than taking on trust the opinion of someone styled as a pensions expert (as frequently happens), you should get them to justify in detail what assumptions they are making, and recognise that the whole issue of the state of the USS is in fact highly controversial.

Dennis Leech
Professor of economics
University of Warwick

Dennis Leech's (@Dennis_Leech's) blog, if you haven't yet read it, is a remarkable archive on what's happened in relation to USS pensions over the last few years blogs.warwick.ac.uk/dennisleech/ #ucustrike #USSstrikes

By 2 Oct 2014 (see Jane Hutton's account: (https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/):

EPF change their Q&A for 9, but do not change date that appears on the document (This still reads 11 August 2014, though the document name is epfqa2014oct2.pdf) https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epfqa2014oct2.pdf #ucustrike #ussstrike

Compare the 2 Q&As for Question 9 (the first from 11 August 2014 https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epf-ussqa.pdf; the 2nd from October 2014 https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epfqa2014oct2.pdf, **though the doc still says 11 August 2014**) #ucustrike #ussstrikes

Q9. What are the issues with longevity and will they really impact on USS?
Yes, longevity issues do impact on USS. Current longevity patterns are significantly different to those when the scheme was set up in 1974. Then it was expected that a USS pensioner retiring at age 65 would live for 6 to 8 years in retirement so the cost of the scheme and the contribution rates were set on this basis. By 2014 the anticipated length of retirement is around 30 years, so USS pensions will need to be paid for a significantly longer period than they have in the past and this has increased the cost. Increasing longevity was a factor that impacted on the last valuation of USS in 2011 and this trend has continued such that in the 2014 valuation the scheme actuary is advising a further increase in the longevity assumption to reflect continuing improvements in life expectancy.

Q9. What are the issues with longevity and will they really impact on USS?
Yes, longevity issues do impact on USS as they do on all defined benefit pension schemes. This is one reason why the costs of defined benefits pensions schemes have been increasing.

But though the specific data (i.e. evidence) on life expectancy were gone, EPF did not change any of the conclusions presented in their Q&As. (Jane Hutton: 'The conclusions drawn remained, with no indication that a change had been made' https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/)

With contested evidence removed & no date change on the doc made, it's hard to be confident that EPF was following its own advice given 3 days earlier (29 Sept 2014): https://www.employerspensionsforum.co.uk/epf-news/communications-briefing-uss-ucus-ballot-industrial-action

#factualclearandconcise

Communications Briefing on USS: UCU's ballot for industrial action

29 September 2014

This communications briefing has been prepared by Universities UK (UUK) and the Universities and Colleges Employers Association (UCEA) to support HE institutions in communicating with their staff as the University and College Union (UCU) ballots its members about industrial action relating to potential changes to the USS.

UUK, on behalf of the USS employers, is seeking to ensure that USS remains a sustainable, attractive and affordable pension scheme for all members, both current and future. Future benefit changes are inevitable, but any changes proposed will be designed both to address the substantial deficit in the scheme and mitigate the risk that contribution rates will become unaffordable for both employers and employees. With significant complexity surrounding the process for change in USS, the content of sector communications needs to be factual, clear and concise.

On 9 October 2014, EPF released two documents.

The first was "Proposed Changes to USS – Myths, Misconceptions & Misunderstandings".

The author listed in doc properties is Alistair Jarvis https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/proposed-changes-to-uss-myths-misconceptions-and-misunderstandings.pdf #ucustrike #ussstrikes

Employers
Pensions
Forum
for Higher Education

Proposed Changes to USS – Myths, Misconceptions and Misunderstandings

Many of the comments and claims that have been made against the case for necessary reform are based on misunderstanding or misinterpretation of the facts. Here we address some of the more common myths, misconceptions and misunderstandings (Ms).

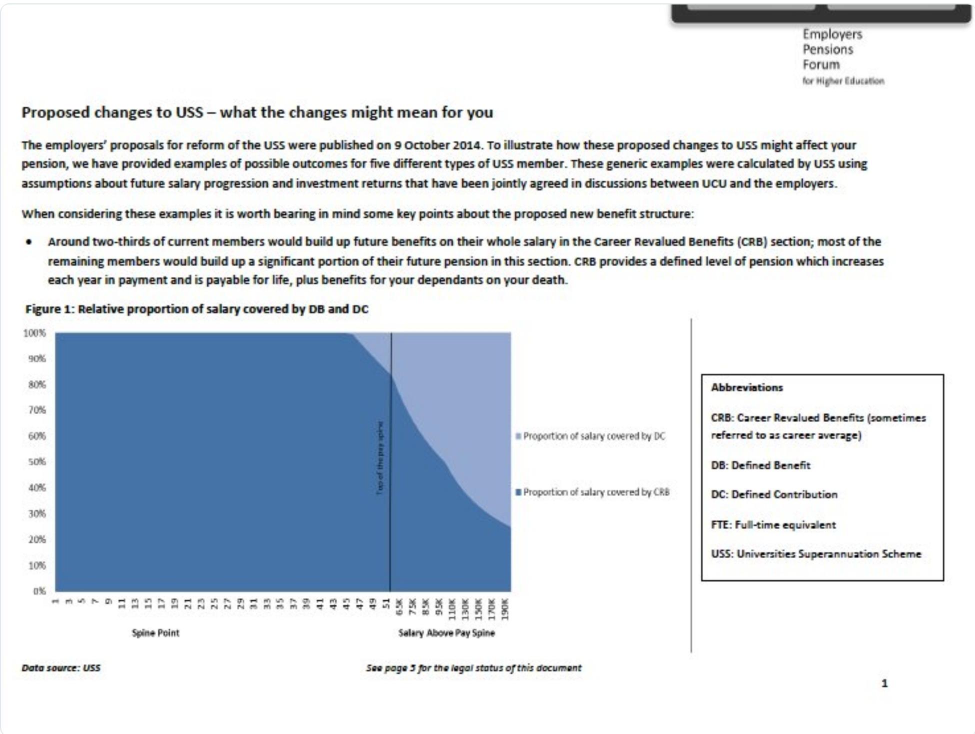
[Brief aside:

Factual, clear & concise ... myths, misconceptions & misunderstandings ...

Honestly, the #STS papers could almost write themselves]

The 2nd EPF document published on 9 October was "The Employers' Proposals for Reform of USS: A Summary for USS members" [different author name in doc properties] The doc stresses the proposals are "not a cost cutting exercise." https://www.sussex.ac.uk/webteam/gateway/file.php?name=uss-employers-proposals-for-reform---summary-for-members-9-oct-2014.pdf&site=302 #ucustrikes #USSstrikes

21 October 2014: EPF publishes "Proposed changes to USS – what the changes might mean for you", which provides "examples of possible outcomes for five different types of USS member" https://www.employerspensionsforum.co.uk/sites/default/files/documents/what_proposed_uss_changes_might_mean_for_you_21_oct_2014.pdf #ucustrike #ussstrikes



Employers
Pensions
Forum
for Higher Education

Proposed changes to USS – what the changes might mean for you

The employers' proposals for reform of the USS were published on 9 October 2014. To illustrate how these proposed changes to USS might affect your pension, we have provided examples of possible outcomes for five different types of USS member. These generic examples were calculated by USS using assumptions about future salary progression and investment returns that have been jointly agreed in discussions between UCU and the employers.

When considering these examples it is worth bearing in mind some key points about the proposed new benefit structure:

- Around two-thirds of current members would build up future benefits on their whole salary in the Career Revalued Benefits (CRB) section; most of the remaining members would build up a significant portion of their future pension in this section. CRB provides a defined level of pension which increases each year in payment and is payable for life, plus benefits for your dependants on your death.

Figure 1: Relative proportion of salary covered by DB and DC

Abbreviations

CRB: Career Revalued Benefits (sometimes referred to as career average)

DB: Defined Benefit

DC: Defined Contribution

FTE: Full-time equivalent

USS: Universities Superannuation Scheme

Data source: USS

See page 5 for the legal status of this document

1

21 October 2014 is a busy day for UK pensions. Over in Parliament, there are a number of witnesses called for the Pension Scheme Bill (see also:

Felicity Callard
@felicitycallard

Replying to @felicitycallard
On 21 October 14, The provisional programme of witnesses for House of Commons Public Bill Committee considering Pension Schemes Bill is announced. Both Aon Hewitt and Towers Watson are witnesses parliament.uk/business/news/…
12:23 PM - Mar 7, 2018

Pension Schemes Bill evidence programme announced - New…
Public Bill Committee hears evidence from Tuesday 21 October
parliament.uk

See Felicity Callard's other Tweets

): https://publications.parliament.uk/pa/cm201415/cmagenda/ob141021.htm

■ **Pension Schemes Bill**

Further to consider the Bill

Witnesses: Mark Boyle, Chair, and Stephen Soper, Interim Chief Executive, The Pensions Regulator (until no later than 9.30am); Alan Rubenstein, Chief Executive, Pension Protection Fund, David Geale, Director of Policy, and Christopher Woolard, Director of Policy, Risk and Research, and a member of the Executive Committee, Financial Conduct Authority (until no later than 10.15am); Michelle Cracknell, Chief Executive, The Pensions Advisory Service, Caroline Rookes, Chief Executive Officer, and Jackie Spencer, Propositions Manager, Money Advice Service (until no later than 11.00am)

The Boothroyd Room,
Portcullis House
8.55am (public)

■ **Pension Schemes Bill**

Further to consider the Bill

Witnesses: David Pitt-Watson, Executive Fellow, London Business School and Royal Society of Arts, Stefan Lundbergh, Head of Innovation, Cardano Risk Management, Hilary Salt and Derek Benstead, First Actuarial, and David Fairs, Chair, Association of Consulting Actuaries, and Partner, KPMG (until no later than 3.00pm); Martin Lowes, Consultant, Aon Hewitt, Sue Lewis, Chair, Financial Services Consumers Panel, and Jim Bligh, Head of Public Services, Confederation of British Industry (until no later than 4.00pm)

The Boothroyd Room, Portcullis House
2.00pm (public)

... TBC, probably tomorrow morning; I need to go & eat. Meanwhile:

Josephine Cumbo @JosephineCumbo

BREAKING: Agreement has been reached in #USS dispute.

Statements to follow.

7:01 PM - Mar 12, 2018

198 237 people are talking about this

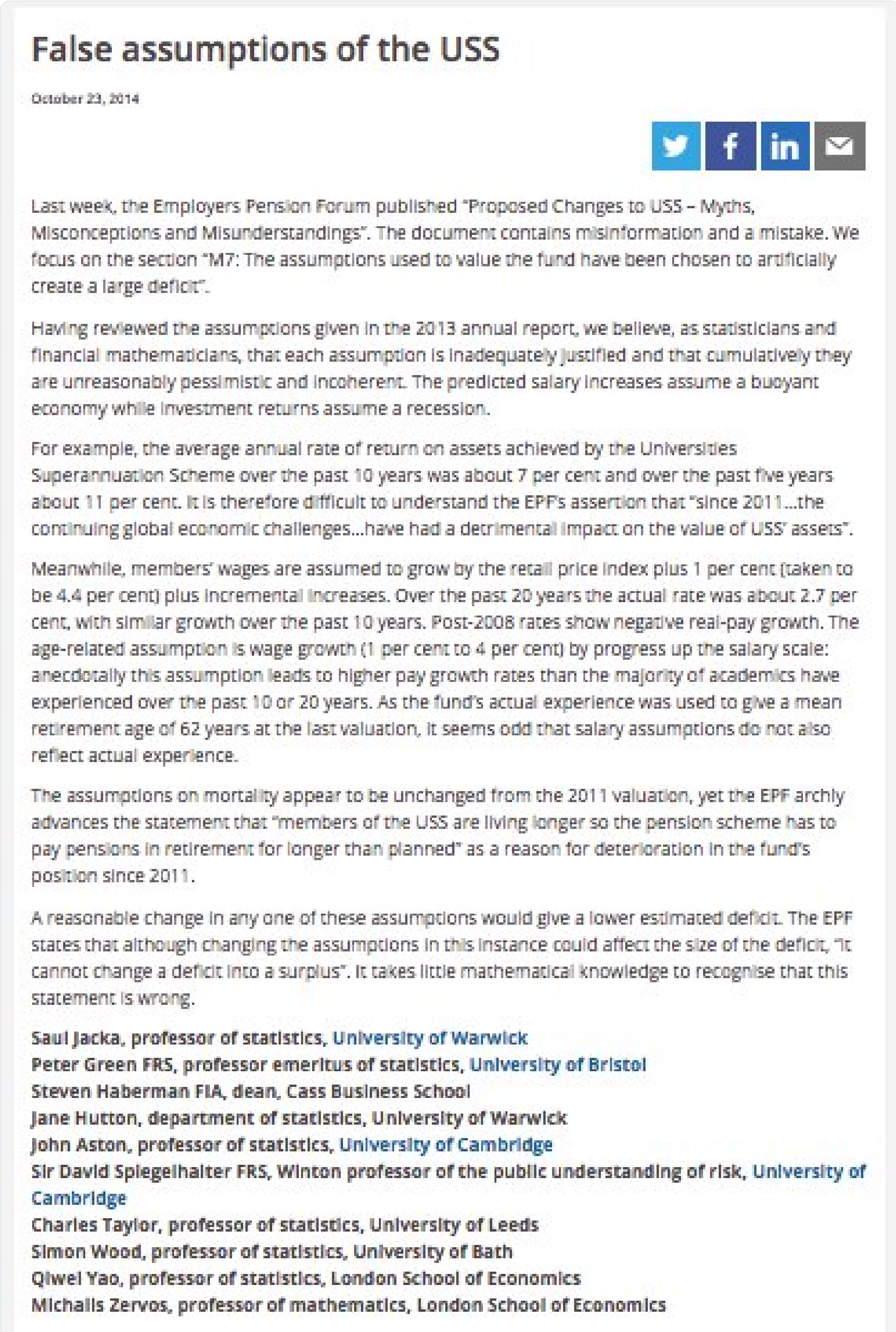
#ucustrike #ussstrikes

25 Oct 2014: @timeshighered published letter by leading UK academic actuarial scientists, which stated that EPF's "Proposed Changes to USS – Myths, Misconceptions & Misunderstandings" "contained misinformation & a mistake".

False assumptions of the USS

https://www.timeshighereducation.com/comment/letters/false-assumptions-of-the-us…

https://www.timeshighereducation.com/comment/letters/false-assumptions-of-the-uss/2016525.article
#USSStrikes #ucustrike



False assumptions of the USS

October 23, 2014

Last week, the Employers Pension Forum published "Proposed Changes to USS – Myths, Misconceptions and Misunderstandings". The document contains misinformation and a mistake. We focus on the section "M7: The assumptions used to value the fund have been chosen to artificially create a large deficit".

Having reviewed the assumptions given in the 2013 annual report, we believe, as statisticians and financial mathematicians, that each assumption is inadequately justified and that cumulatively they are unreasonably pessimistic and incoherent. The predicted salary increases assume a buoyant economy while investment returns assume a recession.

For example, the average annual rate of return on assets achieved by the Universities Superannuation Scheme over the past 10 years was about 7 per cent and over the past five years about 11 per cent. It is therefore difficult to understand the EPF's assertion that "since 2011…the continuing global economic challenges…have had a detrimental impact on the value of USS' assets".

Meanwhile, members' wages are assumed to grow by the retail price index plus 1 per cent (taken to be 4.4 per cent) plus incremental increases. Over the past 20 years the actual rate was about 2.7 per cent, with similar growth over the past 10 years. Post-2008 rates show negative real-pay growth. The age-related assumption is wage growth (1 per cent to 4 per cent) by progress up the salary scale: anecdotally this assumption leads to higher pay growth rates than the majority of academics have experienced over the past 10 or 20 years. As the fund's actual experience was used to give a mean retirement age of 62 years at the last valuation, it seems odd that salary assumptions do not also reflect actual experience.

The assumptions on mortality appear to be unchanged from the 2011 valuation, yet the EPF archly advances the statement that "members of the USS are living longer so the pension scheme has to pay pensions in retirement for longer than planned" as a reason for deterioration in the fund's position since 2011.

A reasonable change in any one of these assumptions would give a lower estimated deficit. The EPF states that although changing the assumptions in this instance could affect the size of the deficit, "it cannot change a deficit into a surplus". It takes little mathematical knowledge to recognise that this statement is wrong.

Saul Jacka, professor of statistics, University of Warwick
Peter Green FRS, professor emeritus of statistics, University of Bristol
Steven Haberman FIA, dean, Cass Business School
Jane Hutton, department of statistics, University of Warwick
John Aston, professor of statistics, University of Cambridge
Sir David Spiegelhalter FRS, Winton professor of the public understanding of risk, University of Cambridge
Charles Taylor, professor of statistics, University of Leeds
Simon Wood, professor of statistics, University of Bath
Qiwei Yao, professor of statistics, London School of Economics
Michalis Zervos, professor of mathematics, London School of Economics

.@timeshighered letter states 'the assumptions on mortality appear to be unchanged from the 2011 valuation, yet the EPF 'archly advances the statement that "members of the USS are living longer so the pensions scheme has to pay pensions in retirement for longer than planned"'

.@timeshighered letter focuses its criticisms on section M7 of the "Myths, misconceptions & misunderstandings" document written by Alistair Jarvis [that is name of author as listed in document properties]. This is attached below. https://www.pensions.admin.cam.ac.uk/files/changes_to_uss_-_myths_misconceptions_and_misunderstandings_9_oct_2014_65464.pdf. #USSstrikes #ucustrike

M7: The assumptions used to value the fund have been chosen to artificially create a large deficit

Valuing a pension scheme is an inexact science, as it is necessary to make predictions about future events, such as salary increases, life expectancy and investment returns. This is the job of the USS Trustees and, with the help of their professional advisors, they have modelled a wide range of possible outcomes, always bearing in mind that they are required to act prudently. While the Trustees changing the assumptions in this instant could affect the size of the deficit, it cannot change a deficit into a surplus. The deficit is sizeable and persistent and benefit reform is unavoidable, and expected by the Pensions Regulator.

28 Oct 2014: Cambridge University reports on "The future of the Universities Superannuation Scheme". Chair of Pensions Working Grp notes 'inconvenient' timing of UUK/USS consultation & the 'rather inadequate information' provided http://www.admin.cam.ac.uk/reporter/2014-15/weekly/6363/section8.shtml #USSstrikes #ucustrike

Against this background, USS and Universities UK launched a consultation exercise in July, an extremely inconvenient time of year and with too short a period before responses were required. Rather inadequate information was provided about the tests to be applied for financial stability, or about different possible structural benefit models. This was a consultation with employers, not employees; employees will be formally consulted by USS at a later stage once proposals are finalized.

Nevertheless, although this was a consultation with employers, even before the proposals were published, the PWG agreed to set up a small consultative Pensions Advisory Group which included three members of Council, a staff member from Cambridge Assessment and a postdoc. This group could not, of course, be regarded as a substitute for a full staff consultation, but it provided a very useful and well-informed forum for the development of our ideas and PWG is grateful to all the members of the Pensions Advisory Group for their constructive engagement.

We also shared information and draft responses with Oxford and some other universities, and we included the College Bursars' Pensions Group in our discussions. While there are nuanced differences between the various responses, the broad thrust of all of them is similar. The response from PWG to UUK makes clear that it does not represent the formal response or position of the University.

In short (and you can read the details on the web), our response queries the basis of the assessment of liabilities, and the rate and extent of de-risking of the investment portfolio, but we accept that change is required. USS did move to a CRB scheme for new members in 2011 in order to reduce risk, but the predicted deficit continues to increase. We agreed that, in the circumstances, the structure of a Defined Benefit Career Averaged pension provision up to a certain threshold, and a DC provision above that threshold is a sensible approach, especially given the adverse tax implications of a large DB pensions pot. Recent and proposed changes in the way that DC pensions pots can be accessed without recourse to annuities, and (unlike USS pensions) can be passed on to family on the pensioner's death, will also make this route more attractive to many.

As a result of the responses received by employers across the sector, UUK have revised their original proposals in a direction that the PWG regards as positive. Cambridge cannot opt out of or modify the scheme that finally emerges. When a scheme is agreed, it will involve the employers increasing their contribution to 18%, in addition to increased National Insurance contributions which will come in from 2016.

Late Oct/early Nov 2014: UUK sends out its consultation document on the USS actuarial calculation. Here's page 1 of UUK 2014 Consultation questions

(For confirmation of date: Warwick received its on 4 Nov 2017: see p.5 of pdf https://www.whatdotheyknow.com/request/440689/response/1086738/attach/3/FOI%20Request%20F027.17%2018%20Response%20to%202014%20Consulation.pdf)
#USSstrikes #ucustrike

UUK Consultation questions 2014

These questions are extracted verbatim (i.e. including typographical errors) from the response of King's College London to this consultation, and so their accuracy in relation to the original communication from UUK cannot be guaranteed.

See:
https://www.whatdotheyknow.com/request/440680/response/1101829/attach/3/427.17%20Annex%20A%202014%20Consultation.pdf?cookie_passthrough=1

1. What is the maximum level of contributions that you could sustainably afford to pay, without causing material financial strain to your institution ?

Comments

2. What are your views on the EY [analysis that 21% is affordable across the sector, in the context of your institution ?

(i) Funding Council submissions are prudent in terms of what cash is really available

(ii) Capex programs could be reduced

(iii) Significant cost savings could be achieved (e.g. staff cost and operating cost savings, headcount reductions, and procurement and other non-academic savings?)

Comments

3. If 21% contributions were required, please indicate the relevant areas where your institution would need to consider making significant operational cost savings (and indicate the level of difficulty of so doing).

Comments

4. If ultimately a contribution rate of 21% is decided on by the USS (following consultation), would this impact on your institution's plans for 'sustainable growth' (which could mean plans to grow your institution in size, retain its current positon, or ability to manage any decline in size)?

Comment

5. Based on the information currently available, do you support a 15 year recovery period (as opposed to a longer period that would achieve slightly lower contributions in the shorter term) ?

Comment

6. Are you comfortable for deficit contributions to continue to be expressed as a percentage of payroll (rather than alternatives, such as a pound amount being allocated to each institution, which may become preferable for institutions that are expected to grow in size relative to their peers)?

7. Do you believe that current benefits are valued by staff?

8. Do you agree that benefits should be reduced to keep employer contributions appropriate (subject to appropriate agreements and scheme member consultation)?
Comment

9. Do you support the de-risking proposed in the engagement paper, even if the consequential increase in the cost of the scheme results in more radical benefit changes being made?

Here's page 2 of UUK 2014 Consultation questions

(note that these are all extracted verbatim from King's College London's response to consultation, and so accuracy in relation to original UUK communication cannot be guaranteed; see https://www.whatdotheyknow.com/request/440680/response/1101829/attach/3/427.17%20Annex%20A%202014%20Consultation.pdf?cookie_passthrough=1
#ussstrikes #ucustrike

UUK Consultation questions 2014

These questions are extracted verbatim (i.e. including typographical errors) from the response of King's College London to this consultation, and so their accuracy in relation to the original communication from UUK cannot be guaranteed.

See:
https://www.whatdotheyknow.com/request/440680/response/1101829/attach/3/427.17%20Annex%20A%202014%20Consultation.pdf?cookie_passthrough=1

Comment

10. Have you got any university assets (such as buildings, historic book collections, land) that you would be prepared to pledge to the USS, to provide protection in "bad outcomes"?

Comment

11. The USS consultation asks a specific question "Do you believe that a further review of the overall mutual funding approach within USS is necessary?". Sectionalisation of USS could operate at a number of levels, with differing degrees of control and risk for employers, and loss of the ebenfits of mutuality. The benefits of sectionalisation would not be shared equally and there would be winners and losers – as well as (potentially significant) extra costs. We would like to gauge your interest at different potential approaches to sectionalisation. Would you support the following aspects of sectionalisation of USS?

Comment

12. If increases are needed to member contributions, do you support a flat increase being applied to all scheme members equally (rather than e.g. an approach where higher earning members subsidise lower earning members)?

Comment

13. Do you support redefining the salary link for past service benefits (so that benefits earned to date are linked to increases in CPI inflation rather than to scheme members' salary increases, which reduces the funding deficit by around £6-7Bn).

Comment

14. Would you prefer to focus primarily on extending CRB for all, leaving more radical changes for a later date

Comment

15. Would you be prepared to have a lower scale than the existing CRB for all, in order to maintain employer contributions at or around the current 16% of pay figure

Comment

16. Do you support the following changes to future benefits, if needed to keep contributions affordable.

Comment

17. Should there be a limited menu of benefit designs inside USS such that individual institutions can set their own benefit packages from the menu.

Comment

18. Would you prefer scheme members to have different benefit options linked to different scheme member contributions

Comment

19. Do you have any comments on our draft responses to the USS's consultation (i.e. as set out in UUK Cover Note, of 21 January 2014), or any other points you'd like us to make in our response to the USS ?

Look closely at syntax of Qu. 14 in 2014 UUK consultation

On my reading [feel free to suggest other readings!], this implies that 'radical changes' (DC/DC-type benefits) are indeed planned (or at least anticipated) by UUK 'for a later date'
#ussstrikes #ucustrike

14. Would you prefer to focus primarily on extending CRB for all, leaving more radical changes for a later date

Comment

4 Nov 2014: UUK publishes "USS: Consultation on Technical Provisions and Recovery Plan"
http://www.lancaster.ac.uk/hr/Payroll/files/USSTechProvisions%20ConsultationUUK.pdf

NB Note how many of my links are not to UUK website, but to other sites; what are UUK's policies for storing documents on its own website?]
#ussstrikes #ucustrike

4 Nov 2014: This UUK doc is cover note accompanying formal consultation consultation document received on 30 Oct 2014 from USS. (Is this available anywhere?) Employers invited to submit their comments – via UUK – to consultation document by 28 Nov 2014.
http://www.lancaster.ac.uk/hr/Payroll/files/USSTechProvisions%20ConsultationUUK.pdf

4 Nov 2014: The UUK cover note contextualises the consultation, indicating how it draws on 'a number of exchanges of documents and conversations that have taken place to date, on the valuation process' (http://www.lancaster.ac.uk/hr/Payroll/files/USSTechProvisions%20ConsultationUUK.pdf p.2)

> 4. The Consultation is part of the formal dialogue between the trustee and employers as part of the 2014 actuarial valuation. It builds on a number of exchanges of documents and conversations that have taken place to date, on the valuation process, notably:
>
> (a) the December 2013 USS Engagement Paper (*Scheme funding within USS, an engagement with Universities UK*), which set out the trustee's conclusions on the covenant assessment carried out by Ernst & Young (EY), and which sought answers from employers on questions relating to the development of a Financial Management Plan;
>
> (b) the March 2014 response from Universities UK to the questions posed in relation to the Financial Management Plan, drawing on the responses to a Web Survey (prepared by Aon Hewitt on behalf of UUK) representing almost 90% of the active membership of USS;
>
> (c) the July 2014 USS paper (*An Integrated Approach to Scheme Funding*) which set out some guiding principles and specific tests which the trustee had developed in relation to the Scheme's future funding and benefits;
>
> (d) the October 2014 papers from Universities UK setting out proposed changes to Scheme benefits, which have been shared with the trustee.

4 Nov 2014: The UUK cover note indicates that UUK asked Aon Hewitt to review consultation doc & that Aon Hewitt raised 3 principal areas of technical comment on trustee proposals, including on demographic assumptions (http://www.lancaster.ac.uk/hr/Payroll/files/USSTechProvisions%20ConsultationUUK.pdf pp. 2–3) #ussstrikes #ucustrike

> 5. Universities UK has asked its adviser, Aon Hewitt, to review the Consultation document. Aon Hewitt has not had a long period of time since the receipt of this document, as we wished to ensure its early distribution to institutions in order to respond, as USS has requested, by the end of November 2014, but Aon Hewitt has raised a number of issues which are set out below. In a number of cases we are awaiting responses from USS to our enquiries (and responses are due shortly), but have decided to circulate this paper to employers, rather than awaiting those responses.
>
> 6. Aon Hewitt raised three principal areas of technical comment on the trustee proposals:
>
> (i) the inflation risk premium (IRP - which is applied to market implied RPI inflation) is proposed to be reduced from the 2011 valuation assumption – not just from 0.3% pa to 0.2% pa, as indicated in the December 2013 Consultation, but to 0.1% pa after a period of 20 years. Aon Hewitt believes that the case for the reduction in the IRP is not well made;
>
> (ii) the assumption proposed for CPI inflation (0.8% pa lower than RPI, as described on page 25) is not consistent with the current Statement of Funding Principles which states that, other than the discount rate, and longevity assumptions, all assumptions will be chosen on a "best estimate" basis. The best estimate assumption for the RPI/CPI gap is stated on page 33 to be 1.0% pa;
>
> (iii) other "demographic" assumptions are stated as being best estimate, but at first glance there is little backing evidence that these assumptions have been validated as such. The key areas here would be the base case longevity assumptions, and percentages of beneficiaries on death,
>
> 2
>
> but there are a number of other assumptions where further information has been requested from the trustee but was not available in time for this circulation.
>
> While these might seem rather dry discussions, the cumulative potential effect could be to alter the liability by an amount measured in billions of pounds, and so these areas are worth exploring further, particular in the context of ensuring an employer contribution rate within a 16-18% envelope.

7 Nov 2014: Employers Pension Forum publishes expanded set of "Myths, Misconceptions and

Misunderstandings"; author listed in document properties in Alistair Jarvis
https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/ussmyths7nov2014.pdf #USSstrikes #ucustrike

> Employers
> Pensions
> Forum
> for Higher Education
>
> **Proposed Changes to USS – Myths, Misconceptions and Misunderstandings**
>
> Many of the comments and claims that have been made against the case for necessary reform are based on misunderstanding or misinterpretation of the facts. Here we address some of the more common myths, misconceptions and misunderstandings (Ms).
>
> This document has been updated on 7th November to include additional facts (M9 to M18) and a link to a further explanation by USS of its valuation assumptions (added to M7).

Again, I urge the #STS community to get cracking on how these documents, (& the letters commenting on them), employ terms such as facts, misunderstandings and myths

OK, we're now up to the 2nd week of November 2014.

Another **HIATUS** as the London march is soon to start
https://uculondonregion.files.wordpress.com/2018/03/london-region-march-2.pdf

More as soon as I can
#ussstrikes #ucustrike

Jane Hutton (https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/) argued that the expanded set of alleged "Myths, Misconceptions & Misunderstandings" did not fulfil its 'stated aspiration "to include additional facts"' (see highlighted passages below) https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/ #usstrikes #ucustrike

> An expanded set of alleged Myths, Misconceptions and Misunderstandings was published on 7 November 2014, which appears to include a mixture of the highly disingenuous, the unfortunately misleading and the downright erroneous, contrary to the stated aspiration 'to include additional facts'. For example, two statements in response to my 9 September letter were false. Professor Saul Jacka and I wrote ***'Mistakes and misinformation'*** to Professor A

17 Nov 2014: Jane Hutton & Saul Jacka https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/jacka/ ltr to Anton Muscatelli (at that point Chair of USS EPF) detailing what they argued was 'the highly disingenuous, the unfortunately misleading & the downright erroneous' #USSstrikes #ucustrike
https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epfletter17nov14.pdf

Dear Professor Muscatelli

Proposed Changes to USS –Myths, Misconceptions and Misunderstandings

We refer to the recent (7 November 2014) online publication by the Employers' Pension Forum (EPF) with the title above.

We refer to paragraphs using the numbering in that document. We distinguish between the "headline" in bold, clearly intended to be taken as a *myth, misconception or misunderstanding* and the "gloss" below intended to sooth, explain and dismiss the headline.

One of us (Hutton) originally pointed out the false statement in the original USS Q&A published by the EPF on 11 August 2014 and then stealth edited on or about 9 September 2014.

Whilst many of the headings and glosses seem reasonable to us, the latest Q&A appears to us to also contain a mixture of the highly disingenuous, the unfortunately misleading and the downright erroneous, contrary to the stated aspiration 'to include additional facts' as we shall outline below.

M8 Whilst the headline, *The changes will clearly lead to a two-tier system at UK universities* is indeed fallacious, since a two-tier system already exists, the gloss is a triumph of misdirection. It addresses the differences in funding rather than benefits. We note that the existing two-tier system was in part instituted by the changes made to USS during the last panic of 2011.

M12 Headline**:** *For longer-standing members of the pension scheme, final salary benefits are facing the axe.* This seems to us to be neither a myth nor a misconception but simply the unvarnished truth. The employers' proposal is that our accrued final salary benefits will instead be based on salary at April 2016 and there will be no further final salary benefits. That clearly signifies the demise of "final salary benefits". The gloss admits that the statement is true, not a myth, misconception or misunderstanding.

17 Nov 2014: Hutton & Jacka ltr to Anton Muscatelli. Read whole letter. Phrases include: 'the [EPF] gloss is a triumph of misdirection'. Note strong critique of M17 (on life expectancy; see earlier tweets) https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/ussmyths7nov2014.pdf #ucustrike #ussstrikes https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epfletter17nov14.pdf

M17 *The assumptions made about life expectancy are flawed*.

The gloss states "It was brought to the attention of the Employers Pensions Forum (EPF) that a Q&A relating to longevity contained information that required clarification." This statement is incorrect. The fallacy is that the information required "clarification". The "information" required *correction* because it was wrong!

Quick check: today (15 March 2018), it seems same document "Myths, Misconceptions & Misunderstandings" [author in doc properties: Alistair Jarvis] critiqued by Hutton & Jacka still on EPF website (pls check that I haven't overlooked any changes EPF made) http://www.employerspensionsforum.co.uk/sites/default/files/documents/changes_to_uss_-_myths_misconceptions_and_misunderstandings_7_nov_2014.pdf

The original EPF news item (11 November, 2014) linking to that "Myths, Misconceptions & Misunderstandings" document (critiqued & Hutton & Jacka) is still there https://www.employerspensionsforum.co.uk/epf-news/briefings-uss-myths-misconceptions-misunderstandings

Home › EPF News Share

Briefings on the USS - Myths, Misconceptions & Misunderstandings

11 November 2014

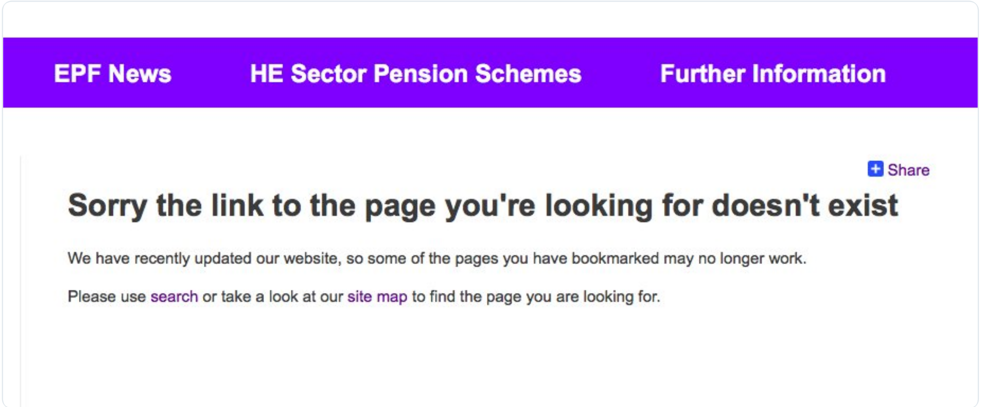
This updated factsheet addresses some more of the myths, misconceptions and misunderstandings about the USS and changes to the scheme:

USS changes - Myths, Misconceptions & Misunderstandings

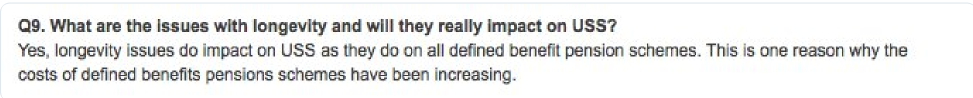
But I can no longer find EPF news item of 20 May 2014 linked to in the EPF "Myths, Misconceptions & Misunderstandings" document":

'The full set of Q&As can be accessed by everyone at http://www.employerspensionsforum.co.uk/en/EPF-News/news.cfm/20may14'

[Pls check; I might have missed it] #ucustrike #USSstrikes



10 November 2014: EPF publish news item on their website: "Latest Q&As on the USS". They include a Q&A on the "issues of longevity" https://www.employerspensionsforum.co.uk/epf-news/latest-qas-uss



Q9. What are the issues with longevity and will they really impact on USS?
Yes, longevity issues do impact on USS as they do on all defined benefit pension schemes. This is one reason why the costs of defined benefits pensions schemes have been increasing.

Ah! Now located the EPF news item of 20 May 2014 "Latest Q&As; on the USS" https://web.archive.org/web/20140729041008/http://www.employerspensionsforum.co.uk/en/EPF-News/news.cfm/20may14.

Thanks to @mpdavies pointing me to wonders of the internet archive Wayback Machine archive.org/web/

#ussstrikes #ucustrike

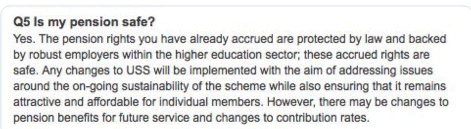
20 May 2014 EPF news item ("Latest Q&As") https://web.archive.org/web/20140729041008/http://www.employerspensionsforum.co.uk/en/EPF-News/news.cfm/20may14 appears to be almost the same [someone, please check carefully!] as 10 Nov 2014 "Latest Q&As on the USS" https://www.employerspensionsforum.co.uk/epf-news/latest-qas-uss #ucustrike #ussstrike

CORRECTION
Actually, I'm wrong. The previous tweet is *not* correct. The 10 Nov Q&As are significantly longer than 20 May 2014 Q&As (which are no longer on EPF site), and there are some distinct changes in phrases, that I'll point to in the next tweet #ucustrike #ussstrikes

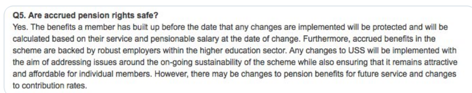
e.g. Change in how Question 5 is posed (the answer remanis the same):

Qu 5 in 20 May 2014 (i.e. in doc no longer on EPF website) https://web.archive.org/web/20140729041008/http://www.employerspensionsforum.co.uk/en/EPF-News/news.cfm/20may14) is:
"Is my pension safe?"

Qu 5 in 10 November 2014 as: https://www.employerspensionsforum.co.uk/epf-news/latest-qas-uss
"Are accrued pension rights safe?"



Q5 Is my pension safe?
Yes. The pension rights you have already accrued are protected by law and backed by robust employers within the higher education sector; these accrued rights are safe. Any changes to USS will be implemented with the aim of addressing issues around the on-going sustainability of the scheme while also ensuring that it remains attractive and affordable for individual members. However, there may be changes to pension benefits for future service and changes to contribution rates.



Q5. Are accrued pension rights safe?
Yes. The benefits a member has built up before the date that any changes are implemented will be protected and will be calculated based on their service and pensionable salary at the date of change. Furthermore, accrued benefits in the scheme are backed by robust employers within the higher education sector. Any changes to USS will be implemented with the aim of addressing issues around the on-going sustainability of the scheme while also ensuring that it remains attractive and affordable for individual members. However, there may be changes to pension benefits for future service and changes to contribution rates.

Tracing the history of USS EPF (Employers Pension Forum) employerspensionsforum.co.uk. Anyone else fancy checking https://web.archive.org/web/*/http://employerspensionsforum.co.uk/ (thanks @mpdavies) for changes to the web pages? #USSStrikes #ucustrike #twitterstorians

11 November 2014: EPF publish news item announcing the "Myths, Misconceptions & Misunderstandings" document [which, from doc properties, was created/modified on 7 November 2014]
https://www.employerspensionsforum.co.uk/epf-news/briefings-uss-myths-misconceptions-misunderstandings
#ussstrikes #ucustrike

19 November 2014: Jane Hutton, in her uss section of her website
https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/ reports that Anton Muscatelli (then chair of USS EPF) sends an email to Jane Hutton & Saul Jacka, responding to their letter of 17 November 2014
#ussstrike #ucustrike

From: The Principal <principal@glasgow.ac.uk>
Sent: 19 November 2014 15:38

<snip>

Dear Professors Jacka and Hutton

Thank you for your letter of 17 November regarding the document titled `Proposed Changes to USS: Myths, Misconceptions and Misunderstandings'.

I am pleased that you felt many of the headings and glosses were reasonable but I acknowledge you have concerns over a number of points and am therefore passing the letter to our advisers and to USS (although I recognise you have copied the Chairman of USS on your letter).

Best regards

Anton

Professor Anton Muscatelli FRSE AcSS
Principal and Vice-Chancellor
University of Glasgow

Jane Hutton interprets Anton Muscatelli's email of 19 November 2014 as follows:

'In my opinion, this email seems to suggest that the errors come from the USS Trustee.'
https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/
#ussstrike #ucustrike

18 November 2014 [sorry, slightly out of order]: Dennis Leech posts a piece to his Warwick University blog titled "The intellectual basis for the neoliberal regulatory regime for DB pensions"
https://blogs.warwick.ac.uk/dennisleech/monthly/1114/ #ussstrikes #ucustrike

November 18, 2014

The intellectual basis for the neoliberal regulatory regime for DB pensions

The methodology that is used for the valuation of pension schemes in the UK is based on theoretical financial economics. The paper that argued for this approach to be applied to pensions is by Exley, Mehta and Smith: The financial theory of defined benefit pension schemes, published in 1997. It is a very long paper and has been hugely influential.

A critique of it (together with a very readable account of actuarial principles) can be found in the attached paper by Simon Carne simoncarne_truth.pdf.

It argues essentially that the approach to pension scheme valuation traditionally used by actuaries leads to inconsistencies relative to a strict use of market prices. The theory is that no one individual actuary can know the prices of assets better than the market.

This is logically flawed because it is a circular argument. The market consists of many human beings all of whom must behave in the way that is being criticised: that is, they must strive to do better than the market in order for the market to work. If all market participants all simply acknowledged that they could never beat the market, and decided to follow it, as this paper recommends, then market prices would become arbitrary and the theory would collapse.

A second criticism is that the argument is entirely in terms of *a priori* deductive theory and there is no consideration given to the empirical evidence to support it - that is, whether it actually seems to work in practice. Faced with the commonplace evidence that asset prices are very volatile - because their supply and demand depend on many other factors besides the theoretical model of the expected present value of future earnings - one cannot avoid being highly sceptical. The theory is offered as being based on fundamental economic principles which one would expect to lead to robust values that would vary only when parameters of the model change, rather than varying when those parameters do not change.

The effects of economic and political shocks that are essentially due to other factors can be much more important in explaining the volatility - thereby undermining the theory. Irrational factors that reflect herd instinct by investors can cause large swings in asset values that are nothing to do with a rational judgement about the expected future return on those assets.

Dennis Leech : 18 Nov 2014 02:06 | Comments (0) | Report a problem

The 2 papers Dennis Leech mentions https://blogs.warwick.ac.uk/dennisleech/monthly/1114/ follow:

1. Exley, Mehta & Smith, 1997, The financial theory of defined benefit schemes, British Actuarial Jnl
https://www.cambridge.org/core/journals/british-actuarial-journal/article/financial-theory-of-defined-benefit-pension-schemes/9655AB6962D8516723BFD29BB485163D

Also available here: http://www.actuaries.org.uk/research-and-resources/documents/financial-theory-defined-benefit-pension-schemes

[#ussstrikes](#) [#ucustrike](#)

B.A.J. **3**, IV, 835-966 (1997)

THE FINANCIAL THEORY OF DEFINED BENEFIT PENSION SCHEMES

BY C. J. EXLEY, B.Sc., F.I.A., S. J. B. MEHTA, M.A., F.I.A. AND A. D. SMITH, B.A.

[Presented to the Institute of Actuaries, 28 April 1997]

ABSTRACT

Increasingly, modern business and investment management techniques are founded on approaches to measurement of profit and risk developed by financial economists. This paper begins by analysing corporate pension provision from the perspective of such financial theory. The results of this analysis are then reconciled with the sometimes contradictory messages from traditional actuarial valuation approaches and the alternative market-based valuation paradigm is introduced. The paper then proposes a successful blueprint for this mark-to-market valuation discipline and considers whether and how it can be applied to pension schemes, both in theory and in practice. It is asserted that adoption of this market-based approach appears now to be essential in many of the most critical areas of actuarial advice in the field of defined benefit corporate pension provision and that the principles can in addition be used to establish more efficient and transparent methodologies in areas which have traditionally relied on subjective or arbitrary methods. We extend the hope that the insights gained from financial theory can be used to level the playing field between defined benefit and defined contribution arrangements from both corporate and member perspectives.

KEYWORDS

Asset/Liability Modelling; Pensions; Market Value; Economic Value; Funding; Risk; Minimum Funding Requirement; Defined Benefits; Stochastic Model; Asset Allocation; Derivatives; Term Structure; Assessed Value

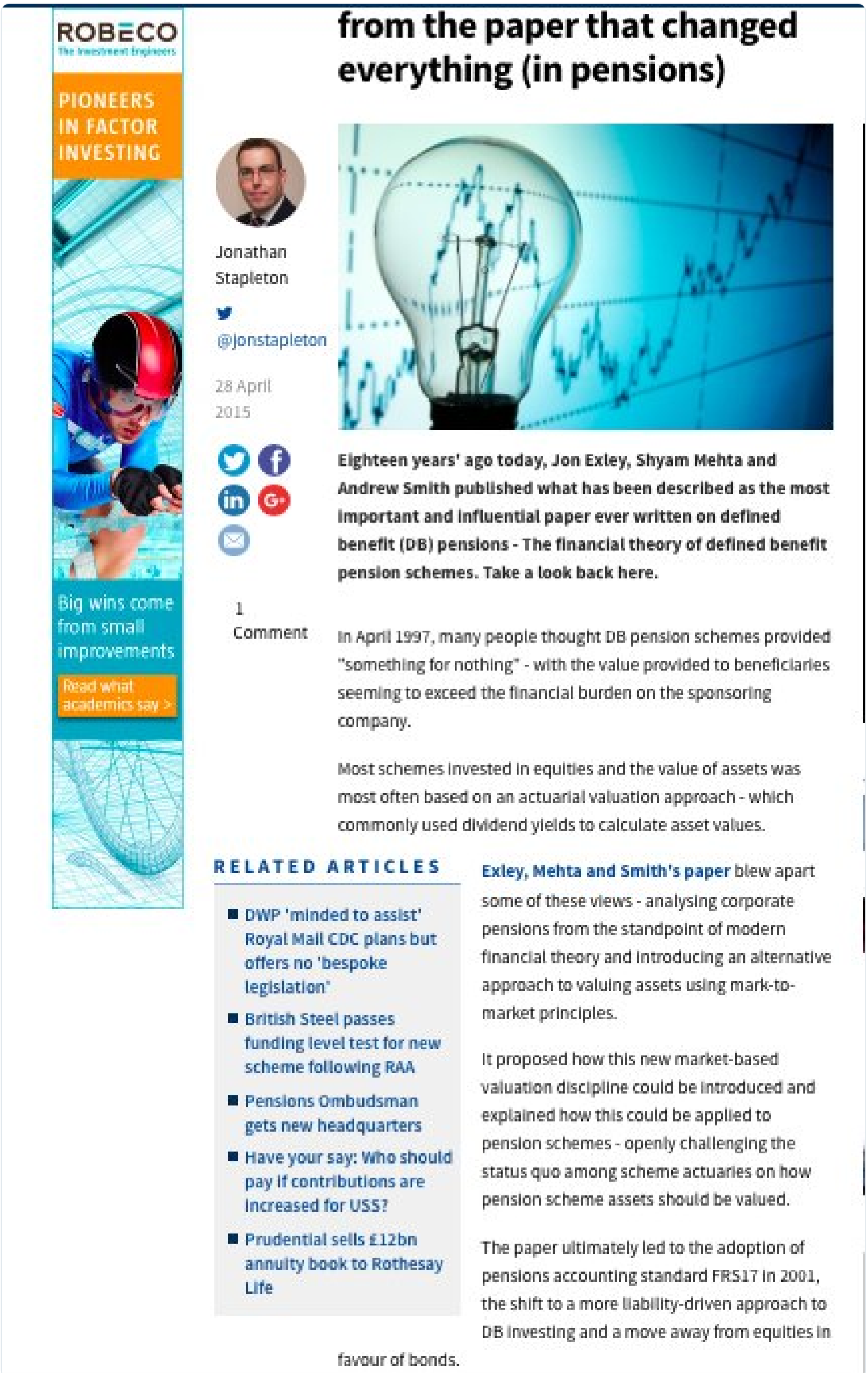
Here is an assessment of influence of the Exley, Mehta & Smith paper by Jonathan Stapleton in @ProfPensions in 2015:

"The financial theory of DB pension schemes - 18 yrs on from the paper that changed everything (in pensions)"

The financial theory of DB pension schemes - 18 years on from the pap…
Eighteen years' ago today, Jon Exley, Shyam Mehta and Andrew Smith published what has been described as the most important and influential paper ever written on defined benefit (DB) pensions - The fi…
https://www.professionalpensions.com/professional-pensions/news/2406090/the-fin…

https://www.professionalpensions.com/professional-pensions/news/2406090/the-financial-theory-of-db-pension-schemes-18-years-on-from-the-paper-that-changed-everything-in-pensions

#ussstrikes
#ucustrike



from the paper that changed everything (in pensions)

Jonathan Stapleton
@jonstapleton
28 April 2015

1 Comment

Eighteen years' ago today, Jon Exley, Shyam Mehta and Andrew Smith published what has been described as the most important and influential paper ever written on defined benefit (DB) pensions - The financial theory of defined benefit pension schemes. Take a look back here.

In April 1997, many people thought DB pension schemes provided "something for nothing" - with the value provided to beneficiaries seeming to exceed the financial burden on the sponsoring company.

Most schemes invested in equities and the value of assets was most often based on an actuarial valuation approach - which commonly used dividend yields to calculate asset values.

RELATED ARTICLES

- DWP 'minded to assist' Royal Mail CDC plans but offers no 'bespoke legislation'
- British Steel passes funding level test for new scheme following RAA
- Pensions Ombudsman gets new headquarters
- Have your say: Who should pay if contributions are increased for USS?
- Prudential sells £12bn annuity book to Rothesay Life

Exley, Mehta and Smith's paper blew apart some of these views - analysing corporate pensions from the standpoint of modern financial theory and introducing an alternative approach to valuing assets using mark-to-market principles.

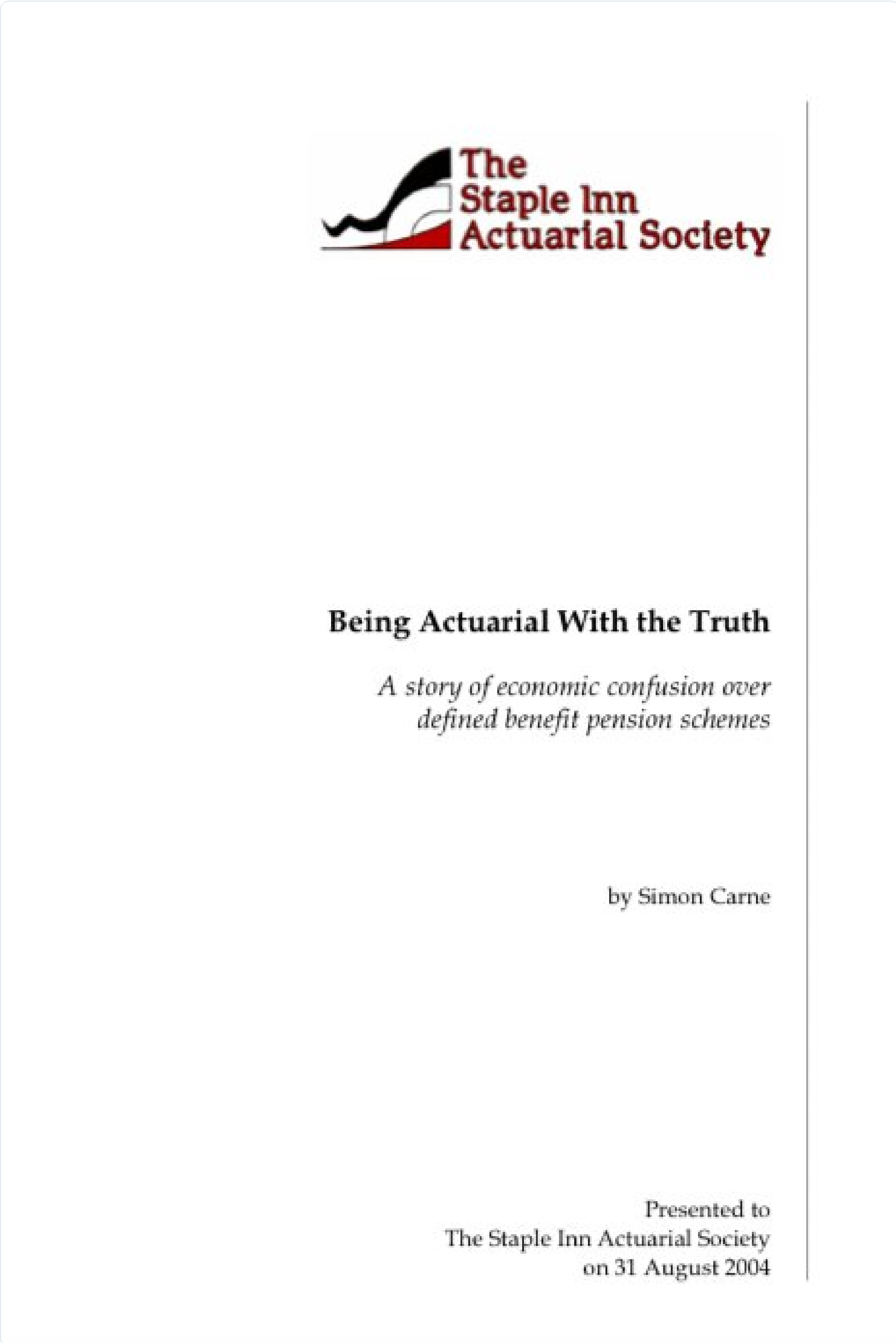
It proposed how this new market-based valuation discipline could be introduced and explained how this could be applied to pension schemes - openly challenging the status quo among scheme actuaries on how pension scheme assets should be valued.

The paper ultimately led to the adoption of pensions accounting standard FRS17 in 2001, the shift to a more liability-driven approach to DB investing and a move away from equities in favour of bonds.

The second paper Dennis Leech mentions https://blogs.warwick.ac.uk/dennisleech/monthly/1114/:

2. Simon Carne, 2004, Being Actuarial With the Truth: A story of economic confusion over defined benefit pension schemes http://blogs.warwick.ac.uk/files/dennisleech/simoncarne_truth.pdf

#ucustrike #USSstrikes



The Staple Inn Actuarial Society

Being Actuarial With the Truth

A story of economic confusion over defined benefit pension schemes

by Simon Carne

Presented to
The Staple Inn Actuarial Society
on 31 August 2004

The account of Carne presenting "Being Actuarial With The Truth" to the Staple Inn Actuarial Society meeting on 31 August [unclear which year]: http://www.theactuary.com/archive/old-articles/part-5/sias-meeting-3A/

Sias meeting:

Being actuarial with the truth – a story of economic confusion over defined benefit pension schemes

A packed Staple Inn Actuarial Society meeting on 31 August, at which Simon Carne presented his paper, 'Being actuarial with the truth', provided an excellent opportunity to debate issues on the funding of defined benefit pension schemes.

Themes

The paper asked us to consider the purpose of our calculations – are we asking the right questions and stating clearly what these are? Are we careful that all parties have the same understanding of terms like 'risk' and 'valuation'?

What was the paper about?

Simon Carne started the meeting by reminding us of the six main points that he made in his paper. These were:

1. It is not possible to guarantee that pensions will be paid. This is common-sense macro-economics.
2. Any such 'guarantee' can and will fail at some point. So, rather than chasing something unattainable, it makes more sense to share failures more fairly.
3. Simply, bonds are not the solution. They do not match final salary liabilities. Increasing demand for bonds will lead to increased supply, funding companies to buy back their own shares. As a result, bonds will become riskier and ultimately more equity-like.
4. What actuaries refer to as 'valuations' are actually budgeting exercises, not really valuations in the 'lay' use of the term.
5. The expected returns and therefore the contributions required by a pension scheme depend on its investment strategy.
6. Actuarial calculations are easier to communicate as projections than as reductions to present values.

The discussion

Many of the speakers welcomed the paper as well written and as a new approach to looking at familiar issues. Indeed, a number of speakers admitted that they wished they had written the paper themselves. To quote, '10 out of 10, clients can relate to it'. It was also suggested that the paper provided insights that are valuable to actuaries working outside of pensions.

The paper achieved much in establishing that communications problems lie at the core of the profession's debates in the pensions area. Simon's solution, point 6 above, was commonly accepted. Of course, decisions will still be required on how to project returns on assets.

There was a consensus that the current poor state of funding in UK defined benefit pension schemes is a result of a number of factors, the main ones being:

- contribution holidays and benefit improvements in the 1980s and 1990s;
- poor equity performance since 2000 combined with pension schemes holding mismatching assets;
- increases in taxes on pension fund assets;
- increasing longevity; and
- strengthening of early-leavers' rights, particularly deferred revaluation, limiting vesting periods, and minimum transfer values.

It was contended that it is dangerous to assume that equities will outperform bonds over any particular period. Views varied on whether 100 years of data are enough to credibly decide this. Note that, for example, 100 years can only be split into five independent 20-year periods.

Are 'values' of liabilities independent of the assets used to back them? This question could have been designed to create confusion. There was inevitably some discussion of the appropriateness of different assets for matching pension liabilities. Clearly a majority of those attending believed that Simon's points 4, 5, and 6 were both relevant and valid.

One speaker highlighted the point in the paper that, because pension funds can take a longer-term view, they can expect to gain the uncertainty premium associated with investing in equities, and that this makes sense according to financial economics. Further, the value of an asset to its owner is not necessarily its market value – the market value may not be 'sensible'. However, there were also contrasting views over whether if arbitrage opportunities existed, pension fund liabilities would be traded with a market price being established.

The end

Simon Carne responded to a number of comments that had gone before, including that he is not anti-financial economics and that, in his opinion, he has a lot more in common with some people apparently opposing his ideas than they themselves realise.

The usual bottle of Champagne was up for grabs for the best contribution by a younger member, or a guest. The small number competing for this should encourage those looking young enough (in the eyes of the chairman) to speak as there is a good chance of being rewarded.

The full paper can be found at www.sias.org.uk/papers/truth.pdf.

20 November 2014: Warwick University "Report on USS Pension Valuation" from the "Working party on pension valuation" https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/icwpuss.pdf

Report on USS Pension Valuation

Working party on pension valuation

November 20, 2014

1 Executive summary

In response to a request from central College, a working group, containing expertise in Mathematical Finance, Statistics, Actuarial science and experience in decision making for large external pension funds, was drawn together from the Departments of Mathematics and Physics [1]. We have analysed the available data, created and investigated modelling scenarios and extracted historical data from College accounts.

The broad conclusions, that we shall justify within the main text and back up with detail in appendices, are that:

1. We are witnessing sensitivity of the actuarial model to basic key assumptions and not volatility of the deficit itself. We explore this by creating a model that contains the essential details and then demonstrate the sensitivity of actuarial valuations of (any) defined benefit scheme to assumptions about future discount rates driving assets performance and future liabilities variables (investment returns, salary increases, CPI, RPI). Any defined benefit pension scheme, not just the USS one, will behave similarly given the USS assumptions.

2. This sensitivity to actuarial assumptions then drives one to query whether the USS assumption are reasonable or overly pessimistic? Looking at past investment returns and past salary increases gives an indication of this. Some quite controversial assumptions have been made and we will go into detail regarding assumptions about gilts reversion on the asset side and general salary increases (without promotions) being RPI +1% on the liabilities side [1] page 26. The conclusion is that more scenarios should have been presented and a sensitivity analysis presented; crudely speaking one would expect confidence intervals, variance or error bars to give an indication of the range of estimates: Giving a single value as *the* deficit with a few alternatives based on past reports is insufficient to form an informed opinion. Indeed with a slightly different set of assumptions it is not difficult to produce a scheme in surplus. In Appendix B we show anonymised sensitivity studies taken from a different large pension scheme and the College must request similar data and studies.

3. Not enough evidence is shown about the actuarial models being applied in conjunction to key Macroeconomic and Mathematical Finance concepts. We would like to see a discussion on the possible effects of yields reversion on gilts and on the impact of current economic factors, such as Quantitative Easing (QE), on current assumptions. One further point worth more discussion is the consistency of the assumptions between the asset and liability sides. To have both assets growing slowly and liabilities growing rapidly requires evidence and justification based on fundamental factors of the economy to ensure that the stress tests are consistent and not biased.

20 Nov 2014: Warwick Uni Report concludes: "Our analysis leads us to conclude that the valuation of the decit is potentially
flawed & that certainly further work is required to answer the points made in the executive summary." https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/icwpuss.pdf #ucustrikes #ussstrikes

3 Recommendations

Our analysis leads us to conclude that the valuation of the deficit is potentially flawed and that certainly further work is required to answer the points made in the executive summary. To conclude:

1. What is required from the USS is that they present a range of scenarios, and carefully justify any key assumptions made, both in terms of macroeconomics and in modelling terms. We have discussed, of necessity briefly, specific scenarios within this report, and demonstrated sensitivity and precedent for the chosen scenarios, and we would expect a professional valuation to do likewise. At present the analysis seems crude at best, we would be interested (and surprised) to see analysis that refutes any of the points we have made. Appendix B shows some typical data projections of modelling taken from an actuarial report of a different large pension scheme, the USS must have undertaken similar modelling and the College must request access to the actual actuarial reports.
2. The salary assumptions of RPI +1% within the USS valuation must be vigorously challenged. Accepting this as an implicit assumption within the model will lead to never-ending industrial discord as every future wage negotiation will have this as the starting position of Union and staff negotiators. The argument will go that the employers cannot have it both ways: An assumption of RPI +1% for the pension, and then make offers of RPI or less. It should clearly be consistent between real salaries and pension assumptions and so it is dangerous to accept this assumption.

Much of this report, doubtless, has a negative tone. However, we conclude with a notable piece of good news: the pension fund is apparently being managed well with the assets growing above market averages. We show the asset change in table 3. One notable fact is that, in order to create the asset change value used for the USS valuation you need to go back to 2001 and 2002 to include those negative values in order to get the average down towards the 5.2%, dropping to 4.6 %, the value used within the valuation.

20 Nov 2014: Warwick Uni Report was initially for internal use only & prepared for Imperial College London. Membership of the working group (largely from mathematics dept) & distribution list attached. #ucustrike #ussstrikes https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/icwpuss.pdf

3.1 Membership of the working group

This report was prepared for Imperial College London by an internal working party primarily drawn from the Mathematics Department:

Damiano Brigo: Professor of Mathematical Finance, co-Head of Mathematical Finance, and formerly Managing Director at Fitch Ratings (a global rating agency).
Richard Craster: Head of Mathematics Department and Professor of Applied Mathematics
Axel Gandy: Reader in Statistics with expertise in Statistics in Finance, Reliability and Computational Statistics
Jordan Nash: Head of Physics Department and Professor of Physics with experience of pension schemes elsewhere.
Andrew Walden: Professor of Statistics with expertise in Time Series and formerly with BP in a group advising upon predictive decision making.

3.2 Distribution list

This report is designed to provide key technical information and analysis to inform College opinion and strategy. It is currently not for open distribution.

Distribute to: Tony Lawrence (Director of Financial Management), Louise Lindsay (Head of HR), Muir Sanderson (CFO), James Stirling (Provost).

27 Oct 2014: [end of 2014 is v busy; sorry re chronological order] UCU HEC report that employers submitted their proposals for a hybrid scheme to USS JNC at its meeting that week, & attach proposal.

It's worth reading in its entirety; plus see p.7. http://blogs.warwick.ac.uk/files/dennisleech/ucuhe234.pdf

It will be noted that in looking at their Tests, the Trustees take no account of any Defined Contribution benefits that are introduced. These pose no obligation risk on the employers – in effect, risk is borne fully be members. As such, the Trustees exhibit a marked preference for DC benefits over DB benefits. In coming up with the final package of benefit proposals, the bias towards DC has influenced the thinking of the employers, but is balanced by the need to deliver solid reliable core benefit that addresses the retirement needs of the majority of members.

22 November 2014 [date from doc properties]: Jane Hutton & colleagues write to Martin Harris, chair of the USS Trustee Board, 'to express serious concerns about the assumptions underpinning the estimation of the USS pension fund deficit' https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/usstrusteesdeficit21nov2014.pdf #ucustrike

Sir Martin Harris
Chairman of the Trustee Board
Universities Superannuation Scheme
Royal Liver Building
Liverpool
L3 1PY

Dear Professor Harris, Members of the USS Trustee Board

Estimating the USS pension fund deficit

We are writing as professors of statistics, financial mathematics or actuarial science. Our primary expertise is in the evaluation and modelling of data, for which the quantification of uncertainty and the critical appraisal of model assumptions are central.

We are writing to express serious concerns about the assumptions underpinning the estimation of the USS pension fund deficit, as detailed in the Oct 2014 document 'USS: 2014 Actuarial Valuation: A Consultation on the proposed assumptions...' (henceforth 'the AV consultation'). For each of our concerns the difference between what is assumed and what we believe to be reasonably justified (on the basis of available information) might appear relatively small (1 percent here, fractions of a percent elsewhere). Nevertheless, as you are well aware, it is in the nature of compound interest and discounting calculations that such changes of a few percent can jointly and cumulatively produce very substantial changes in the estimated state of a fund. The table in section C.5 of the AV consultation makes these sensitivities very clear.

21 Nov 2014: Dennis Leech blog: "Somebody has to pay for de-risking. The [USS] trustees want it be members. Arguably since the whole need for de-risking stems from the privatisation and marketisation agenda of David Willetts the government should pay ..." https://blogs.warwick.ac.uk/dennisleech/monthly/1114/

November 21, 2014

Universities should not agree to abolish final salary pensions

The UUK proposal to end final salary pensions for existing members is a very radical move that will effectively breach the contract that staff entered into when they started their careers: the entitlement to a pension that is a decent and predictable fraction of their earnings when they retire.

Even though the Hutton report into public sector pensions recommended moving defined benefit pension schemes over to the career average principle, it was clear that was a long-term aim and should not be applied retrospectively to exisitng members. It said: "Maintaining the link to final salary for the purposes of calculating the value of a person's accrued rights under the existing schemes will however ensure fair treatment for those who have built up rights in these schemes..."

What the UUK proposed originally is that members of the final salary (FS) section of the USS should be moved to the CRB section for future accrual after the changeover date (proposed I think April 2016). Their salary at that point - instead of their final salary at reitrement - would be used as the basis of the pension. Their service would be counted against that salary. For example someone with 20 years' service would get a pension of 20/80 times their salary in 2016. This would then be uprated for inflation based on the consumer price index during the years until retirement. This is unfair as Hutton says. This has not happened with the changes in the Teachers Pension Scheme which is continuing to honour the final salary principle for existing members although new members are in the CRB section.

It is also unfair in another sense: that it is making members pay with their pensions for one of the consequences of university privatisation, a coalition government policy motivated solely by ideological dogma that they do not benefit from, and for which there was no democratic mandate.

This is clear from the UUK document "UUK's proposals for modifications to the USS benefits" submitted to the USS JNC (circulated as an appendix to UCUHE234.pdf, circulated to UCU branch officers on 27 October 2014) in which the reduction in liability that results from removing the final salary link to past service is to be used to offset the additional deficit from 'de-risking' due to privatisation.

Ending the final salary link to past service for existing members is calculated to save £6 billion. That is almost the same as the increase in the deficit that is due to de-risking.

But the policy of de-risking is a choice that the trustees are making as a result of structural changes in higher education associated with the coalition government's privatisation agenda (a policy that nobody voted for) that does not in any way benefit the members.

The existing policy of the USS is to invest in assets that will produce an income in the long termto match the long-term liabilities of pensions. This is a good principle if the university sector has an indefinite time horizon as a public service.

But that has been changed and now universities are seen as just companies in the market. The regulation of their pensions comes under the same umbrella as for a private company that could go bust or be taken over. Therefore the pension scheme must be accounted for on the balance sheet like any other assets and liabillities. Logically it would then make sense to split up the USS among its member institutions, which is on the cards.

Under this approach the pension scheme must be fully funded at all times to ensure that it will be possible to pay the pensions even when a university goes bust. At present that is not the case so the trustees plan to move to this situation gradually over 20 years by selling assets that bring a high return - mainly equities - but whose market prices are volatile due to the irrational stock market and buying government bonds - gilts. That is a strategy of playing it safe.

Somebody has to pay for de-risking. The trustees want it be members. Arguably since the whole need for de-risking stems from the privatisation and marketisation agenda of David Willetts the government should pay to ensure the pensions guarantee. In other privatisations such as the post office the government have taken on the pension liabilities.

The proposals are grossly unfair and it is hoped that the employers and our negotiators will be able to agree to reject that part of the document.

24 Nov 2014 [from doc properties]: U Warwick "Response to Consultation on Technical Provisions Assumptions Proposed by USS" [available through Neil Davies' FOI request]. Worth reading all their response. https://www.whatdotheyknow.com/request/440689/response/1086738/attach/3/FOI%20Request%20F027.17%2018%20Response%20to%202014%20Consulation.pdf #ussstrikes #ucustrike

4. Mortality Improvement

   We note that Aon Hewitt have already commented on the demographic assumptions that "there is little backing evidence that these assumptions have been validated as such". We would concur with this conclusion and would add that there is now a considerable body of opinion that the improvements in longevity seen the last three decades will not continue. In any event, we believe that 1.5% is too pessimistic and that the Office for National Statistics' projection of 1.25% is an appropriately prudent number to use. We therefore propose that the assumption should be reduced from 1.5% to 1.25%.

5. RPI and Inflation Risk Premium

   The market derived price inflation rate in the Consultation Document is 3.6%. We therefore understand that RPI is set at 3.4% in the valuation (being 3.6% less 0.2%, being the inflation risk premium). Given current rates of inflation and the increasing concern about the possibility of deflation in a number of major western economies, we believe this is too high even for long term purposes. We therefore propose that an RPI rate of 3.1% would be more appropriate. We recognize that a rate of 3.1% is materially below what other schemes are using at present for valuation purposes and what the corporate sector is using for accounting purposes. However, we do not believe that 3.1% is overly optimistic given the future medium term outlook for the global economy.

   Aon Hewitt has already commented on the reduction of long term Inflation Risk Premium from 0.3% in 2011 to 0.1% (in year 20 and beyond) for the purposes of the 2014 valuation. We believe that 0.2% is appropriate.

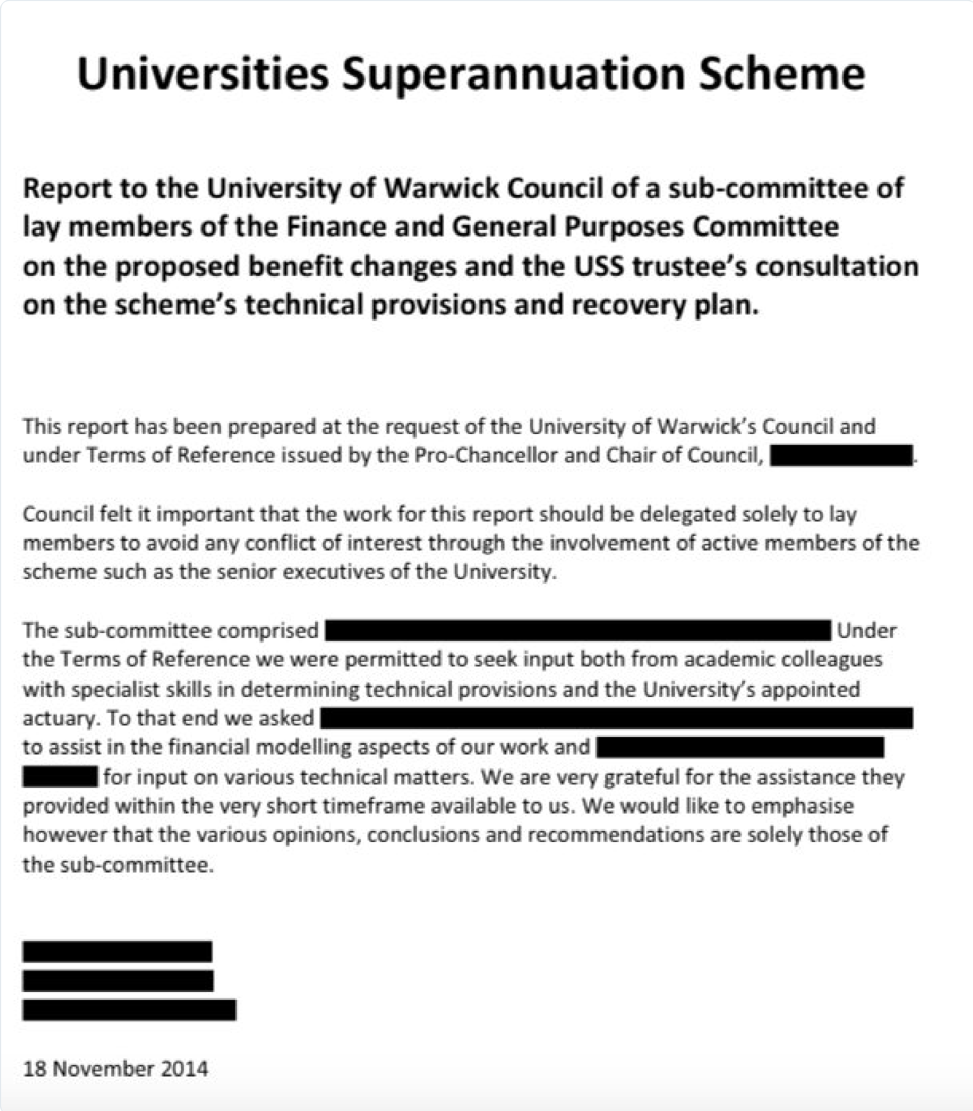
We would therefore request that the technical provisions be remodelled adopting a more reasonable approach. We would expect to see the deficit greatly reduced and hence the requirement for benefit reform to be moderated significantly. In the light of this we would make the following additional recommendations:

6. That the breaking of the final salary link for accrued benefits should not be pursued.

7. That the £50,000 threshold for the CRB section be removed if the financial impact of doing so is acceptable to employers. Should this prove unacceptable then the CRB threshold be increased to spine point 51. We would also request that the financial impact of movements in the threshold be made available to employers to support this modelling.

8. That if the scheme's funds' investment performance results in a surplus that might reasonably be expected to be maintained in the future, consideration should be given at that point to appropriate improvements in benefits and/or reductions in contributions.

U Warwick's response to FOI request is fascinating. As well as actual consultation response sent to UUK, they include report of sub-cttee of lay members of Finance & General Purposes Cttee & discuss need to avoid conflict of interest https://www.whatdotheyknow.com/request/440689/response/1086738/attach/3/FOI%20Request%20F027.17%2018%20Response%20to%202014%20Consulation.pdf #ussstrikes #ucustrike



Universities Superannuation Scheme

Report to the University of Warwick Council of a sub-committee of lay members of the Finance and General Purposes Committee on the proposed benefit changes and the USS trustee's consultation on the scheme's technical provisions and recovery plan.

This report has been prepared at the request of the University of Warwick's Council and under Terms of Reference issued by the Pro-Chancellor and Chair of Council, [redacted].

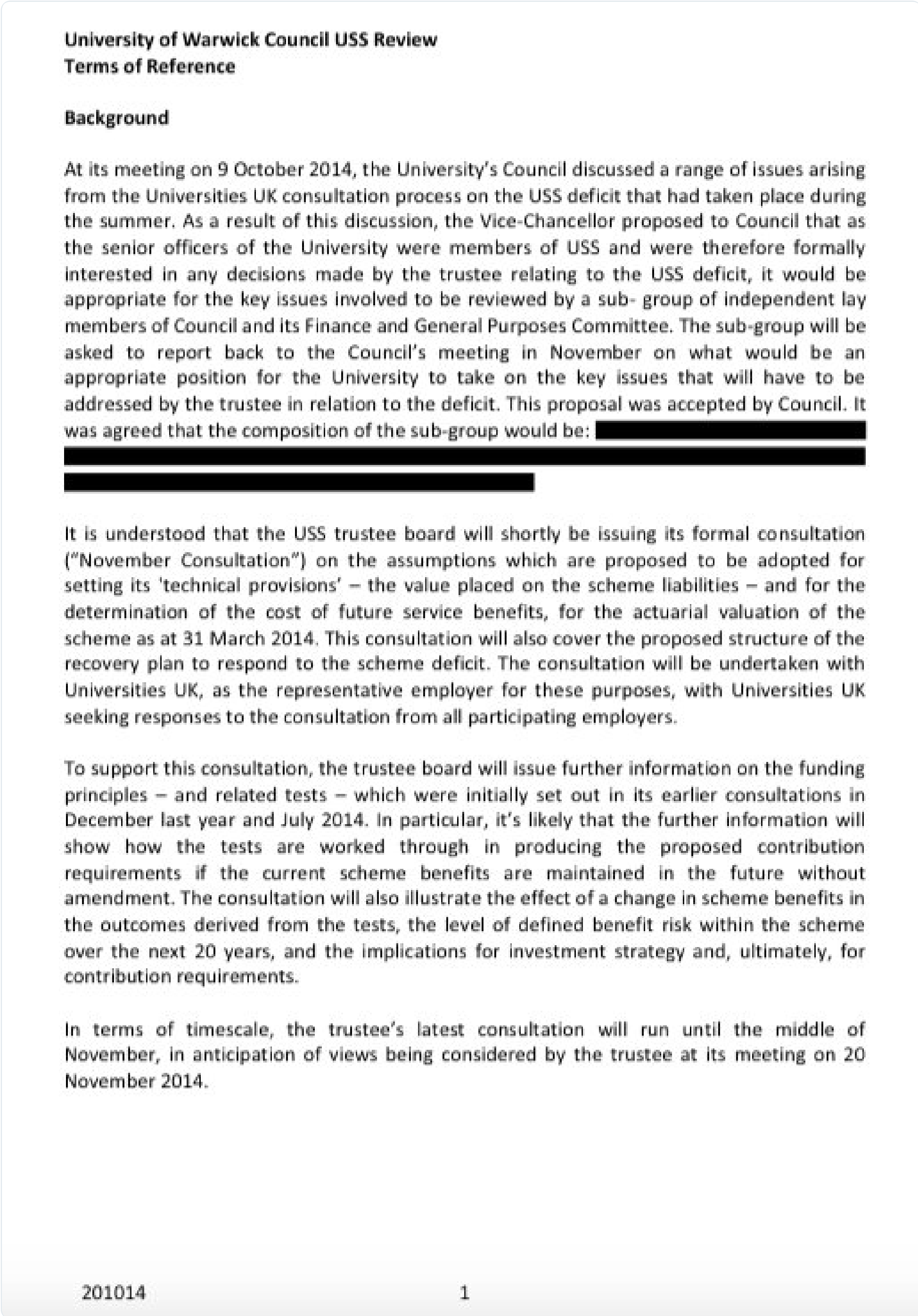
Council felt it important that the work for this report should be delegated solely to lay members to avoid any conflict of interest through the involvement of active members of the scheme such as the senior executives of the University.

The sub-committee comprised [redacted] Under the Terms of Reference we were permitted to seek input both from academic colleagues with specialist skills in determining technical provisions and the University's appointed actuary. To that end we asked [redacted] to assist in the financial modelling aspects of our work and [redacted] for input on various technical matters. We are very grateful for the assistance they provided within the very short timeframe available to us. We would like to emphasise however that the various opinions, conclusions and recommendations are solely those of the sub-committee.

[redacted]

18 November 2014

The U Warwick Council USS Review ToR notes that the VC [Nigel Thrift, I assume?] requested that key issues be discussed by independent lay members of Council & Finance & General Purposes Cttee (because of COI issues) https://www.whatdotheyknow.com/request/440689/response/1086738/attach/3/FOI%20Request%20F027.17%2018%20Response%20to%202014%20Consulation.pdf cc @gailfdavies #ussstrikes #ucustrike



University of Warwick Council USS Review
Terms of Reference

Background

At its meeting on 9 October 2014, the University's Council discussed a range of issues arising from the Universities UK consultation process on the USS deficit that had taken place during the summer. As a result of this discussion, the Vice-Chancellor proposed to Council that as the senior officers of the University were members of USS and were therefore formally interested in any decisions made by the trustee relating to the USS deficit, it would be appropriate for the key issues involved to be reviewed by a sub- group of independent lay members of Council and its Finance and General Purposes Committee. The sub-group will be asked to report back to the Council's meeting in November on what would be an appropriate position for the University to take on the key issues that will have to be addressed by the trustee in relation to the deficit. This proposal was accepted by Council. It was agreed that the composition of the sub-group would be: [redacted]

It is understood that the USS trustee board will shortly be issuing its formal consultation ("November Consultation") on the assumptions which are proposed to be adopted for setting its 'technical provisions' – the value placed on the scheme liabilities – and for the determination of the cost of future service benefits, for the actuarial valuation of the scheme as at 31 March 2014. This consultation will also cover the proposed structure of the recovery plan to respond to the scheme deficit. The consultation will be undertaken with Universities UK, as the representative employer for these purposes, with Universities UK seeking responses to the consultation from all participating employers.

To support this consultation, the trustee board will issue further information on the funding principles – and related tests – which were initially set out in its earlier consultations in December last year and July 2014. In particular, it's likely that the further information will show how the tests are worked through in producing the proposed contribution requirements if the current scheme benefits are maintained in the future without amendment. The consultation will also illustrate the effect of a change in scheme benefits in the outcomes derived from the tests, the level of defined benefit risk within the scheme over the next 20 years, and the implications for investment strategy and, ultimately, for contribution requirements.

In terms of timescale, the trustee's latest consultation will run until the middle of November, in anticipation of views being considered by the trustee at its meeting on 20 November 2014.

Other responses to the FOI request re the 2014 UUK consultation on USS are rather more tightlipped. Here is one (v characteristic) page of the response from KCL #ucustrike #ussstrikes https://www.whatdotheyknow.com/request/440680/response/1101829/attach/3/427.17%20Annex%20A%202014%20Consultation.pdf?cookie_passthrough=1

Comments

[redacted]

[redacted]

[redacted]

3. **If 21% contributions were required, please indicate the relevant areas where your institution would need to consider making significant operational cost savings (and indicate the level of difficulty of so doing).**

[redacted]

Comments

[redacted]

4. **If ultimately a contribution rate of 21% is decided on by the USS (following consultation), would this impact on your institution's plans for 'sustainable growth' (which could mean plans to grow your institution in size, retain its current positon, or ability to manage any decline in size)?**

Cardiff University 'no longer hold a
copy of the response' to the 2014 USS valuation consultation, but have however 'requested a copy from
@UniversitiesUK which we will
forward once received'. Not sure how quickly they'll be able to get to that.

Response to the 2017 and 2014 UUK USS valuation consultations - a Fr…
Please provide a copy of your University's response to the 2017 and 2014 UUK USS valuation consultations. Yours faithfully, Neil Davies

https://www.whatdotheyknow.com/request/response_to_the_2017_and_2014_uu_6…

https://www.whatdotheyknow.com/request/response_to_the_2017_and_2014_uu_6#incoming-1079498

Dear Neil

I am writing in response to your Freedom of Information request dated 24 October 2017 in which you requested information regarding the University's response to the 2014 and 2017 UUK USS valuation consultations.

Please find attached the response to the UUK USS valuation consultation for 2017. With regards to the 2014 UUK USS valuations we no longer hold a copy of the response, however have requested a copy from UUK which we will forward once received.

I trust this information satisfies your enquiry. The University has a Freedom of Information Complaints Procedure should you feel dissatisfied with this response or the way in which your request was handled. Complaints must be made in writing and must set out why you believe the University has not met its obligations under the Freedom of Information Act. You may email your complaint to [1][email address] where it will be forwarded to the Director of Strategic Planning and Governance who will be responsible for overseeing the review.

If you remain dissatisfied following the outcome of your complaint, you have the right to apply directly to the Information Commissioner for consideration. The Information Commissioner can be contacted at the following address: Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF.

Here is U Exeter's response (p. 1 of 2) to the 2014 UUK consultation on the USS valuation -- in letter form https://www.whatdotheyknow.com/request/440676/response/1073346/attach/3/USS%20TP%20Consultation%20Response%20November%202014.pdf?cookie_passthrough=1 #ussstrikes #ucustrike

UNIVERSITY OF EXETER

HR SERVICES

Northcote House
The Queen's Drive
Exeter
EX4 4QJ

Telephone (01392) 722028
Fax (01392) 723414
Email a.johnson@exeter.ac.uk
Web
www.exeter.ac.uk/staff/employment/abouthr/

Mr Tony Bruce
Universities UK

By email to Tony Bruce at pensions@universitiesuk.ac.uk

27 November 2014

Dear Mr Bruce

USS Consultation on Technical Provisions

We refer to the UUK emails inviting institutions to contribute to the consultation on the draft USS Technical Provisions and to the UUK cover notes of 4 November and 21 November 2014.

Overall, we consider the proposed Technical Provisions to be reasonable. We also do not demur from the draft response prepared by Aon Hewitt for UUK. We recognised that the issues under debate in the Technical Provisions consultation are highly technical and that actuaries will have a range of views on what is appropriate which will influence the size of the deficit. What is important is that the representatives of the USS Trustee, UUK on behalf of the employers and UCU seek to come to a consensus which all accept is reasonable and justifiable to the Pension Regulator.

It has been pointed out to us, by Professors in Finance in this institution, that many of the assumptions proposed by USS are on the conservative end of what is reasonable. As such, they have suggested to us that there is scope to move some of these assumptions to create some "headroom" for changes to the employers' proposals for benefit changes so that a compromise can be reached with UCU in the USS Joint Negotiating Committee.

We are not best qualified to comment on whether or not this is valid argument but it is clear to us that UUK (and/or USS) need to be engaging with these concerns and responding to them. If we are to avoid finding ourselves facing further industrial action in the new year then it is essential that UUK can demonstrate that all alternatives have been carefully considered and costed and, if rejected, the reasons why they have not been taken forward. This reasoning needs to be made available to scheme members both in accessible format and in technical detail for experts such as our Professors in Finance.

Looking at the detail of the draft Technical Provisions, we would make the following comments:

- the assumption that CPI = RPI - 0.8% (moving from the previous assumption of CPI = RPI – 1.0%) is reasonable in our view, taking account of research[1] that CPI typically runs at 0.7% below RPI but that the difference in the future may be higher.
- UUK should take every opportunity to challenge the USS assertion (and the conclusions of the Ernst and Young covenant review which underpins this assertion) that "the majority of employers would be able to pay contributions of up to 25% of salaries". Indeed the remainder of this sentence – that contributions at this level would require "changes to operating models"

Here is part of U Birmingham's response to the 2014 UUK consultation on the USS valuation signed by Provost & Vice-Principal Adam Tickell: the section on 'Key Features' https://www.whatdotheyknow.com/request/440691/response/1088384/attach/3/2014%20consultation%20doc%20redacted.pdf?cookie_passthrough=1 #ussstrike #ucustrike

Key Features

We have commented for many years on the USS investment strategy and the assumptions underpinning USS actuarial valuations and our concerns over the approach being taken. We therefore welcome USS now sharing their philosophy on scheme funding as it provides an element of transparency that has previously been lacking. We do still though have concerns regarding the assessment of the covenant undertaken by Ernst and Young. We feel the assessment showed a lack of understanding of the sector's need to hold reserves to fund capital programs required to support institutional development at a time of increasing competition in the market. We understand the need for an integrated approach and the statements on governance and monitoring accord with the approach we take to our own SAT.

The FOI response from U Leeds re their response to the 2014 UUK consultation on the USS valuation shows the structure of the UUK Web survey, designed & hosted by Aon Hewitt on behalf of the EPF #ucustrike #ussstrikes https://www.whatdotheyknow.com/request/440681/response/1074091/attach/2/USS%20Web%20Survey%20App%201.pdf?cookie_passthrough=1

Appendix 1

Final UUK Web Survey on USS, designed and hosted by Aon Hewitt on behalf of the Employers Pensions Forum.

Universities UK

Employers Pensions Forum for Higher Education

AON Hewitt

Web survey on Universities Superannuation Scheme (USS) - February 2014

Page 1 of 21

Welcome to the UUK Web Survey, designed and hosted by Aon Hewitt. This survey is intended to inform the response that UUK gives to USS on their engagement in relation to the Financial Management Plan, in the lead-up to the triennial actuarial valuation to take place as at 31 March 2014. This is a significant consultation process, since the valuation is projected to show a substantial deficit – a figure of £13.1 billion is quoted in the USS engagement paper – and significant changes to benefits and/or substantial increases in contributions are likely to result. We urge you to read and discuss with your colleagues the USS paper, and the UUK covering note most carefully, before submitting your responses.

The web survey has been designed to take no longer than 15 minutes to complete, once you have discussed and know your conclusions. If you would prefer you can submit a paper copy directly to Aon Hewitt, who will input your responses.

If you have any questions then please contact Tony Bruce, Emelda Conroy, or Richard Paul.

U Leeds response to 2014 UUK web survey, showing 2 Q&As:

1. On extending CRB or – note that same phrase -– 'leaving more radical changes for a later date?'
2. On potential changes to future benefits if needed to keep contributions affordable

https://www.whatdotheyknow.com/request/440681/response/1074091/attach/2/USS%20Web%20Survey%20App%201.pdf?cookie_passthrough=1 #ussstrikes

14. Would you prefer to focus primarily on extending CRB for all, leaving more radical changes for a later date?

○ Strongly support CRB for all
● Support CRB for all
○ Neutral
○ Prefer more radical change immediately
○ Strongly prefer more radical change immediately

Insert optional comments here

15. Would you be prepared to have a lower scale than the existing CRB for all, in order to maintain employer contributions at or around the current 16% of pay figure?

○ Strongly Agree
○ Agree
○ Neither agree nor disagree
● Disagree
○ Strongly Disagree

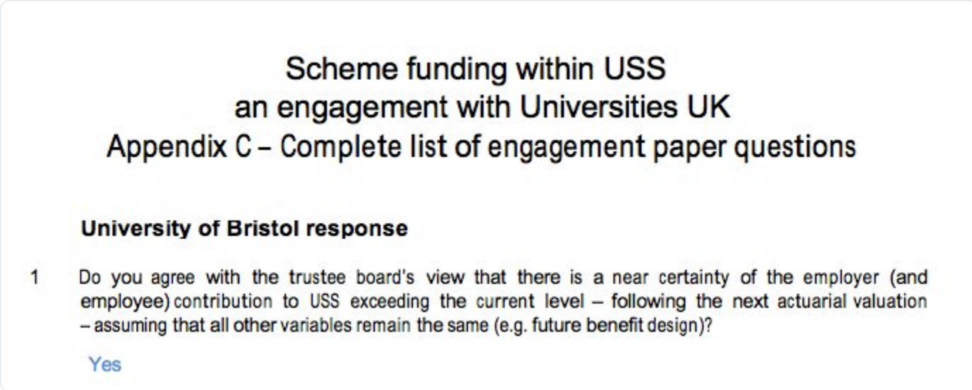
Insert optional comments here

16. Do you support the following changes to future benefits, if needed to keep contributions affordable?

	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
CRB? (i.e. move existing final salary members on to CRB scale)	○	●	○	○	○
Reduced CRB? (i.e. CRB but with a reduced accrual rate, meaning level of benefits being earned is reduced)	○	○	○	●	○
Hybrid DB/DC? (i.e. DB up to a capped salary plus a DC top up on salary above the cap)	○	○	○	●	○
Pure DC?	○	○	●	○	○
Collective DC? (i.e. target CRB benefits at fixed cost for employers, and increases to benefits are dependant on performance of fund)	○	○	○	●	○

Insert optional comments here

U Bristol's response to FOI request re 2014 UUK consultation shows structure & questions posed in "Scheme funding within USS: an engagement with Universities UK | Appendix C - Complete list of engagement paper questions" #ussstrikes #ucustrike
https://www.whatdotheyknow.com/request/440690/response/1075475/attach/3/2014%20USS%20Consultation%20Response%20Redacted.docx?cookie_passthrough=1



Scheme funding within USS
an engagement with Universities UK
Appendix C – Complete list of engagement paper questions

University of Bristol response

1 Do you agree with the trustee board's view that there is a near certainty of the employer (and employee) contribution to USS exceeding the current level – following the next actuarial valuation – assuming that all other variables remain the same (e.g. future benefit design)?

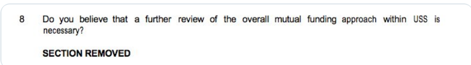
Yes

U Bristol's 2 responses to FOI request re 2014 UUK consultation (after a request made for transparency; see:

Response to the 2017 and 2014 UUK USS valuation consultations - a Fr…
Please provide copies of your University's responses to the 2017 and 2014 UUK USS valuation consultations. Yours faithfully, Neil Davies
https://www.whatdotheyknow.com/request/response_to_the_2017_and_2014_uu_22

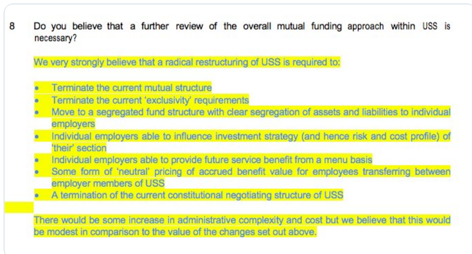
https://www.whatdotheyknow.com/request/response_to_the_2017_and_2014_uu_22
) are interesting to compare.

Redacted
https://www.whatdotheyknow.com/request/440690/response/1075475/attach/3/2014%20USS%20Consultation%20Response%20Redacted.docx?cookie_passthrough=1
Unredacted
https://www.whatdotheyknow.com/request/440690/response/1091810/attach/3/2014%20Scheme%20Funding%20within%20USS%20Dec%202013%20Appendix%20C%20questions%20to%20complete%201%201.docx?cookie_passthrough=1 response to question 8 #ucustrike #ussstrikes



8 Do you believe that a further review of the overall mutual funding approach within USS is necessary?

SECTION REMOVED



8 Do you believe that a further review of the overall mutual funding approach within USS is necessary?

We very strongly believe that a radical restructuring of USS is required to:

- Terminate the current mutual structure
- Terminate the current 'exclusivity' requirements
- Move to a segregated fund structure with clear segregation of assets and liabilities to individual employers
- Individual employers able to influence investment strategy (and hence risk and cost profile) of 'their' section
- Individual employers able to provide future service benefit from a menu basis
- Some form of 'neutral' pricing of accrued benefit value for employees transferring between employer members of USS
- A termination of the current constitutional negotiating structure of USS

There would be some increase in administrative complexity and cost but we believe that this would be modest in comparison to the value of the changes set out above.

You can see which universities/colleages have & haven't responded to the FOI request re 2014 UUK consultation on USS valuation by going here:

Make and browse Freedom of Information (FOI) requests
https://www.whatdotheyknow.com

https://www.whatdotheyknow.com
& searching under 2014 AND UUK AND USS #ucustrike #ussstrikes

26 Nov 2014: Dennis Leech reports that Imperial College publicly oppose the USS reform proposals (https://blogs.warwick.ac.uk/dennisleech/monthly/1114/)

The link provided no longer works; is this public opposition statement available elsewhere? https://workspace.imperial.ac.uk/college/Public/pdfs/PDFS/Imperial%20response%20to%20UUK%20on%20USS%20technical%20provisions_final.pdf
#USStrikes #ucustrike

November 26, 2014
Imperial College publicly oppose the USS reform proposals

Imperial College London have now publicly opposed the UUK proposals for changes to the USS. They say firmly:

> We are concerned that ... you risk recommending a major downgrading of one of our employees' most important benefits based on numbers which are as likely to be modelling artefacts as a reflection of the underlying economic reality.

See the full statement at

https://workspace.imperial.ac.uk/college/Public/pdfs/PDFS/Imperial%20response%20to%20UUK%20on%20USS%20technical%20provisions_final.pdf

Dennis Leech : 26 Nov 2014 00:05 | Tags: Pensions Uss; | Comments (0) | Report a problem

27 Nov 2014: "Response by the London School of Economics Pensions Advisory Group to USS Consultation on Technical Provisions and Recovery Plan" https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/lse-pensions-advisory-group-onuss-27nov2014.pdf #ucustrike #ussstrikes

27 November 2014

Response by the London School of Economics Pensions Advisory Group to USS Consultation on Technical Provisions and Recovery Plan

Here, as requested, are our comments on "the underlying assumptions which will be used to complete the formal valuation and more broadly the trustee's approach as set out in the Statement of Funding Principles."[1] The views expressed are those of the LSE's Pensions Advisory Group.

The Group accepts that the scheme is facing an important challenge and that there is a need to find an equitable and stable solution. We are also clear that suggesting alternative valuation assumptions is not by itself a solution and needs to be supplemented with further measures.[2] We would, however, like a solution to be founded on assumptions that reflect the genuine funding realities of the pension scheme. We find unconvincing the explanations of some of these assumptions and would welcome indications of why other options were rejected or not considered.[3]

We begin by noting that we share the concerns about the valuation assumptions that have been voiced by the professors of statistics, financial mathematics, and actuarial science (hereafter 'the statisticians') in their letter to the Trustee, which we have attached as an appendix to this letter.

27 Nov 2014: Jane Hutton reports that she still has not received a reply to the letter she wrote to the USS EPF pointing out the gross errors in life expectancy on 9 September 2014 https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/ #ucustrike #ussstrikes

I wrote to EPF point out the gross errors in life expectancy on 9 September 2014. I have not received a reply to this letter as yet (27 Nov 2014). However, by 2 October 2014, the errors had been deleted, but the date of the document had not been changed.

28 November 2014: The USS EPF puts out a USS valuation webcast by its actuary, setting out "the principles and processes that drive USS's formal valuation" https://www.employerspensionsforum.co.uk/epf-news/uss-valuation-webcast

The webcast link is now broken

Home › EPF News

Share

USS valuation webcast

28 November 2014

The USS actuary Ali Tayyebi, has recorded a short webcast in which he sets out the principles and processes that drive USS's formal valuation. His presentation provides some basic information about how pension scheme funding works and the valuation process in general – it does not, however, refer to any scheme specifics.

To view the video click here.

I *think* that brings us to the end of November 2014. Maybe tomorrow I'll reach the end of the year 2014

#youcanbuthope
#ucustrike #ussstrike

19 Sept 2014: [OUT OF CHRONOLOGICAL ORDER!]

I forgot to embed important slides from AHUA [senior university managers] conference, where shift to the 'more radical solution' of DC/DC-type benefits is explicitly posed by USS & EPF.

Felicity Callard
@felicitycallard

19 September 2014: Here are slides from presentation "USS Update – AHUA Conference, 19 Sept. 2014". AHUA is the representative body for senior University managers in UK & Ireland. As far as I can see, the AHUA does not go back to conferences before 2016 ahua.ac.uk/event-type/con…

1:23 PM - Mar 13, 2018

Conferences Archives - Association of Head…
The AHUA holds two conferences each year which are member only events. They are hosted by member institutions and are an excellent
ahua.ac.uk

4 See Felicity Callard's other Tweets

#ucustrike #ussstrike

19 September 2014: AHUA conference (for senior university managers) happens with presentation from USS & JNC; see end of this thread where slides are also inserted not in chronological oder. Or here:

Felicity Callard
@felicitycallard

19 September 2014: Here are slides from presentation "USS Update – AHUA Conference, 19 Sept. 2014". AHUA is the representative body for senior University managers in UK & Ireland. As far as I can see, the AHUA does not go back to conferences before 2016 ahua.ac.uk/event-type/con…

1:23 PM - Mar 13, 2018

Conferences Archives - Association of Head…
The AHUA holds two conferences each year which are member only events. They are hosted by member institutions and are an excellent
ahua.ac.uk

4 See Felicity Callard's other Tweets

Late Oct/early Nov 2014: [OUT OF CHRONOLOGICAL ORDER]

I forgot to thread in p. 2 of UUK consultation questions [p.1 in correct chronological order]. Qu. 14 is: "Would you prefer to focus primarily on extending CRB for all, leaving more radical changes for a later date."

UUK Consultation questions 2014

These questions are extracted verbatim (i.e. including typographical errors) from the response of King's College London to this consultation, and so their accuracy in relation to the original communication from UUK cannot be guaranteed.

See:
https://www.whatdotheyknow.com/request/440680/response/1101829/attach/3/427.17%20Annex%20A%202014%20Consultation.pdf?cookie_passthrough=1

Comment

10. Have you got any university assets (such as buildings, historic book collections, land) that you would be prepared to pledge to the USS, to provide protection in "bad outcomes"?

Comment

11. The USS consultation asks a specific question "Do you believe that a further review of the overall mutual funding approach within USS is necessary?". Sectionalisation of USS could operate at a number of levels, with differing degrees of control and risk for employers, and loss of the ebenfits of mutuality. The benefits of sectionalisation would not be shared equally and there would be winners and losers – as well as (potentially significant) extra costs. We would like to gauge your interest at different potential approaches to sectionalisation. Would you support the following aspects of sectionalisation of USS?

Comment

12. If increases are needed to member contributions, do you support a flat increase being applied to all scheme members equally (rather than e.g. an approach where higher earning members subsidise lower earning members)?

Comment

13. Do you support redefining the salary link for past service benefits (so that benefits earned to date are linked to increases in CPI inflation rather than to scheme members' salary increases, which reduces the funding deficit by around £6-7Bn).

Comment

14. Would you prefer to focus primarily on extending CRB for all, leaving more radical changes for a later date

Comment

15. Would you be prepared to have a lower scale than the existing CRB for all, in order to maintain employer contributions at or around the current 16% of pay figure

Comment

16. Do you support the following changes to future benefits, if needed to keep contributions affordable.

Comment

17. Should there be a limited menu of benefit designs inside USS such that individual institutions can set their own benefit packages from the menu.

Comment

18. Would you prefer scheme members to have different benefit options linked to different scheme member contributions

Comment

19. Do you have any comments on our draft responses to the USS's consultation (i.e. as set out in UUK Cover Note, of 21 January 2014), or any other points you'd like us to make in our response to the USS ?

OK back to where we were: i.e. start of December 2014.

2 Dec 2014 [from doc properties]: UCU submits a "Report to the USS paper: 2014 Actuarial Valuation" prepared by First Actuarial [date on doc says Nov 2014] #ucustrike #ussstrikes
http://blogs.warwick.ac.uk/files/dennisleech/ucu_usstrusteeconsultationresponse_nov14.pdf

1 INTRODUCTION

STATUS OF THIS DOCUMENT

1.1 This document has been prepared as a response to the USS document "2014 Actuarial Valuation: A consultation on the proposed assumptions for the scheme's technical provisions and recovery plan". Whilst the document has been compiled by First Actuarial at the request of UCU, it has been produced as the outcome of a number of internal UCU discussions, earlier responses to papers including the USS paper on de-risking and discussions with USS and UUK and their actuarial advisers. It seemed helpful to have a single source document for all of this material.

Reminder: The "Report to the USS paper: 2014 Actuarial Valuation" was responding to the USS 2014 Actuarial Valuation; A Consultation on the Proposed Assumptions for the Scheme's Technical Provisions & Recovery Plan" (Oct 2014) https://blogs.warwick.ac.uk/files/dennisleech/2014_actuarial_valuation_technical_provisions_consultation_paper.pdf #ucustrike #ussstrikes

USS
UNIVERSITIES
SUPERANNUATION
SCHEME LIMITED

Universities Superannuation Scheme

2014 Actuarial Valuation

A consultation on the proposed assumptions for the scheme's technical provisions and recovery plan

October 2014

The First Actuarial report, in its response to the USS paper, stresses that the introduction of the 3 tests was made at a 'very late stage' – & see highlighted passages below (from p. 3) http://blogs.warwick.ac.uk/files/dennisleech/ucu_usstrusteeconsultationresponse_nov14.pdf #ussstrikes #ucustrike

CHRONOLOGY OF THE DISCUSSIONS

1.2 USS published its approach to the valuation almost a year ago. Initial thinking was developed following the issue of the USS paper "scheme funding within USS: an engagement with Universities UK" in December 2013. This raised issues about the potential increases in the cost of benefits following the 2014 valuation and proposed an approach of derisking within the scheme.

1.3 Following this, there were discussions between UCU, USS and the institutions. In July 2014, USS produced a further paper "An integrated approach to scheme funding" which set out three tests which had been developed by USS to analyse scheme risk over time. Opportunities for meaningful consultation on the associated paper were limited. Whilst the three tests have been introduced into the valuation process at a very late stage, USS now claim these are the bedrock on which their valuation methodology is founded and any proposals on future benefits are being measured by their ability to meet the three tests. Similarly when the institutions have raised questions about the specific assumptions used in the valuation, the response has been that changing assumptions mean proposals would not then meet the three tests.

1.4 This chronology given above is important in that it demonstrates how, when challenges were made to the original methodology, USS have moved to an insistence that it is the three tests which are important. It should be noted that USS have said on a number of occasions that the tests would be used in a sensible and pragmatic way – the following quotes provide examples:

- "The tests are a guide and a reference for the trustee and for stakeholders in finding sustainable long-term funding solutions – they are not intended to provide a single and formulaic answer" (in the July document on an integrated approach to scheme funding)

First Actuarial report states: 'discussion is hampered by a lack of figures in the consultation document & a lack of any broader analysis' (p 4). Where there are 'additional data which would shed light on issues', it has raised questions – see Appendix A.
http://blogs.warwick.ac.uk/files/dennisleech/ucu_usstrusteeconsultationresponse_nov14.pdf

first

APPENDIX A: QUESTIONS FOR USS

RELIANCE ON THE COVENANT

Q1. Please would the trustee provide further information as follows?

Figures to illuminate the text of the consultation paper, giving the results of your analysis as originally prepared.

A reworking of the analysis, on the premise that reliance on covenant indicator is amended as described, to include the revised technical provisions basis, valuation results and the implications for benefits and investment strategy.

Q2. Unfortunately, there are no numbers to further and explain and illuminate the dynamics of what is happening here. Please would the trustee provide the numbers to go with the words?

SPECIFIC VALUATION ASSUMPTIONS PROPOSED BY USS

Q3. Could USS provide full details of all the demographic experience analyses they have completed?

AN ONGOING VIEW OF THE SCHEME

Q4. What studies have been done to investigate asset income uncertainty?

Q5. What cash flow planning has the trustee done to investigate their exposure to disinvestment risk and asset income volatility?

Q6. What has the trustee done to plan their investments to meet the expected liability cashflows?

Q7. We would ask the trustee to engage with their in house investment team to discuss the nature of the scheme's asset income: its dependability (or otherwise) and prospects for income growth. Page 11 of the consultation document mentions a projection of the scheme's cashflows. We would ask that the trustee share their cashflow projections to enable an analysis of the USS from a cashflow position on an ongoing basis.

INVESTMENT STRATEGY AND BENEFIT SECURITY

Q8. What investigations has the trustee done to compare and contrast the different main asset classes, to see which is most likely to improve benefit security over a 20 year time horizon? If they have done work which conflicts with our conclusions, please would they share it?

first

FURTHER COMMENTS

Q9. What investigations have been carried out by the trustee to compare and contrast the range of contributions and funding level outcomes from investment in gilts and investment in equities, over the 20 year time period over which there is visibility of robust employer covenant and positive cashflow for USS?

2 December 2014: UUK's "Response to the USS Consultation". UUK is 'prepared to work within the trustee's risk framework & accompanying 3 tests', but is concerned about 'overall level of prudence' assumed in the valuation process. #ussstrikes #ucustrike
https://www.employerspensionsforum.co.uk/sites/default/files/documents/uuk_response_to_the_uss_consultation_on_technical_provisions_and_recovery_plan_-_2_december_2014.pdf

Universities UK

Response to the Universities Superannuation Scheme Consultation on Technical Provisions and Recovery Plan

2 December 2014

1. Introduction

1.1 This note sets out Universities UK's response to the USS consultation document on the *2014 Actuarial Valuation: A consultation on the proposed assumptions for the scheme's technical provisions and the recovery plan* (October 2014), as part of the actuarial valuation process as at 31 March 2014.

1.2 We appreciate the effort and diligence that has been applied by the trustee (and their advisers) in the valuation discussions to date, and look forward to further engagement with the trustee company in the final stages of the valuation process.

1.3 Our overall view is that we are prepared to work within the trustee's risk framework and accompanying three tests, but we do have significant concerns about the overall level of prudence that is being assumed in the valuation process. Failure to address this concern of excessive prudence has caused a number of institutions to challenge the underlying methodology and rationale for the assumptions adopted. We have been keen to understand what flexibilities may be available within the trustee's risk framework and, working with our advisers Aon Hewitt, have identified several areas where we ask the trustee to make changes, such that our current proposal for benefit reform would satisfy test 1, while avoiding the most prudent interpretation of the tests. The changes we are proposing are credible and reasonable, but would avoid an approach that is considered excessively prudent by the sponsors, to the potential detriment of all scheme stakeholders.

1.4 At this point we are still awaiting responses to some questions we have posed to the USS, particularly around potential areas where prudence is incorporated into the assumptions and where this prudence may not be transparent. We do not wish to hold up the process unnecessarily, but do ask for responses in due course. And, as we will come on to explain, we ask that the trustee removes any unnecessary margins for prudence in the final valuation results.

1.5 We are pleased to report that our consultation with employers has drawn a substantial response, with many institutions providing comprehensive responses. Responses were received from 54 of the participating institutions, which together employ more than 75% of the active members in the USS.

2 Dec 2014: UUK's "Response to the USS Consultation" https://www.employerspensionsforum.co.uk/sites/default/files/documents/uuk_response_to_the_uss_consultation_on_technical_provisions_and_recovery_plan_-_2_december_2014.pdf notes good response from consultation, 'with many institutions providing comprehensive responses'. 54 of the participating institutions responded. Cross-check some here: https://www.whatdotheyknow.com/search/UUK%20USS%202014/all

1.5 We are pleased to report that our consultation with employers has drawn a substantial response, with many institutions providing comprehensive responses. Responses were received from 54 of the participating institutions, which together employ more than 75% of the active members in the USS.

2 Dec 2014: UUK's response to USS consultation states that 'sheer range of responses' to consultation – & previous consultations as part of valuation framework – means 'majority view will not satisfy all employers'. https://www.employerspensionsforum.co.uk/sites/default/files/documents/uuk_response_to_the_uss_consultation_on_technical_provisions_and_recovery_plan_-_2_december_2014.pdf #USSstrikes #ucustrike

1.6 The sheer range of responses to this consultation – and previous consultation exercises as part of the valuation framework – means that the majority view will not satisfy all employers, and indeed some structural aspects of the USS (such as the exclusivity clause, and the lack of control over benefits and investment strategy at an individual institution level) are causing real concern for some. In our response to the March consultation exercise we said we would welcome a further review of mutuality and potential sectionalisation. The diversity of institutions' views expressed in recent consultations makes it imperative that this review takes place sooner rather than later. We suggest that this review commences as soon as the 31 March 2014 valuation process is completed.

2 Dec 2014: UUK's response to USS consultation
https://www.employerspensionsforum.co.uk/sites/default/files/documents/uuk_response_to_the_uss_consultation_on_technical_provisions_and_recovery_plan_-_2_december_2014.pdf.
Whole document is an important read. It can, as mentioned, be read alongside those responses from individual universities/colleges available through FOI requests
https://www.whatdotheyknow.com/search/UUK%20USS%202014/all
#ucustrike #USSStrike

9 Dec 2014: Employers Pension Forum (EPF) announces "UUK Response to the USS consultation on Technical Provisions and Recovery Plan - 2 December 2014" https://www.employerspensionsforum.co.uk/epf-news/uuk-response-uss-consultation-technical-provisions-and-recovery-plan-2-december-2014

Home › EPF News Share

UUK Response to the USS consultation on Technical Provisions and Recovery Plan - 2 December 2014

09 December 2014

This document sets out Universities UK's response to the USS consultation document on the 2014 Actuarial Valuation: A consultation on the proposed assumptions for the scheme's technical provisions and the recovery plan (October 2014).

The USS document sets out the principal underlying assumptions which the trustee proposes to use to determine the value of the scheme's liabilities as part of the actuarial valuation process as at 31 March 2014. This is the first of a series of statutory consultations which the USS trustee must complete during the current triennial valuation process.

UUK Response to the USS consultation on Technical Provisions and Recovery Plan - 2 December 2014

18 Dec 2014: [we're reaching holiday period; things winding down] Bill Galvin, Group CEO of USS writes to Jane Hutton & Saul Jacka https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/ussreplysssj.pdf -- responding to the letter they had sent to Anton Muscatelli on 17 Nov 2014
https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epfletter17nov14.pdf
#ussstrike #ucustrike

USS
UNIVERSITIES SUPERANNUATION SCHEME LIMITED

Professor Jane L Hutton and
Professor Saul Jacka
Department of Statistics
The University of Warwick
COVENTRY
CV4 7AL

Your ref
Our ref BG/JMR
Date 18 December 2014

Dear Professor Hutton and Professor Jacka

Thank you for your November 2014 letter addressed to the trustee board regarding its assumptions for the actuarial valuation of the scheme. The trustee has now received the response from Universities UK to its formal consultation on the assumptions, and we assume that your comments will also have been fed into Universities UK to be taken into account. However, we felt it might also be useful to respond directly on some of the factual points you have raised in an attempt to provide further explanation, and to clarify any areas of potential misunderstanding.

Taking your comments in turn:

You comment that the estimate of future investment returns is unduly pessimistic relative to USS's historic approach. In fact for the 2005 and prior valuations the scheme's past service liabilities were valued using an assumption of gilt yields with no assumed outperformance above that level. It was only at the time of the 31 March 2008 valuation that an outperformance assumption (of 1.7% per annum) was included for calculating the deficit.

You express concern that gilt yields are currently particularly low due to quantitative easing by the Bank of England. We think it important also to note that the base gilt yield the trustee is referencing is derived from long-dated gilt yields, in line with the duration of the scheme's liabilities. Those long-dated yields already take into account any market expectation for yields to increase (for example, following a reversal of the quantitative easing policy). The trustee takes the view that it is not appropriate to try to 'second-guess' the economic markets by assuming a yield which is higher than that determined by the market (incorporating its expectations of any future increases). The trustee thinks it also important to note that since the valuation date (31 March 2014), rather than any signs of gilt yields increasing there have in fact been further reductions.

There has been much comment regarding the trustee's approach to setting the initial discount rate, which has been characterised by some as a 'gilts plus' approach. For clarity, although the discount rate is ultimately *expressed* as outperformance relative to gilts (for example, to enable comparisons to be more easily drawn for example with other schemes), the trustee's approach is based on a 'first principles' analysis, using data from different independent sources. This analysis starts with consideration of expected performance of each of the asset classes held in the fund. The expected performance of each of the various asset classes is weighted according

Head Office: Royal Liver Building, Liverpool L3 1PY Tel: +44 (0)151 227 4711 Local: 0845 068 1110 Fax: +44 (0)151 236 3173
Email: postbox@uss.co.uk Website: www.uss.co.uk
Registered in England & Wales No [illegible] Registered Office: Royal Liver Building, Liverpool L3 1PY

If you go back to Nov 2014 in this thread, you'll see that Hutton & Jacka's letter was framed as a strong critique of the "Myths, Misconceptions & Misunderstandings" document (7 Nov 2014; author from doc properties is Alistair Jarvis) put out by EPF https://www.employerspensionsforum.co.uk/sites/default/files/documents/changes_to_uss_-_myths_misconceptions_and_misunderstandings_7_nov_2014.pdf

For example, see Hutton & Jacka's critique of M14 in the "Myths, Misconceptions & Misunderstandings" document, which they frame around the EPF's representation of the USS Trustees https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epfletter17nov14.pdf

M14 *These changes are an unnecessary assault on our pensions.* The first sentence of the gloss is “Reform of the USS benefit structure is both necessary and urgent.” As we mentioned, the last major changes were in 2011 in contemplation of the previous triennial valuation. Given that experience in the interim has been entirely positive: investment returns well above those assumed; pay rises at or below RPI; and no significant changes to mortality, we are strongly of the opinion that to advocate such radical change at the next valuation represents a signal failure of the Trustees and Actuary to control the pension fund suitably.

The final sentence of the gloss is “In addition, it is *highly likely* [our emphasis] that the trustees would need to impose further contribution increases following future fund valuations.”

If this is not untrue then it implies that something is appallingly wrong with the Trustees’ understanding of actuarial valuation: a position which it hardly seems reasonable of the EPF to take.

The valuation is claimed (and required) to be a prudent and therefore pessimistic assessment of the value of assets and the cost of liabilities. To assert that it is highly likely to have proved optimistic – the only reason why “the trustees would need to impose further contribution increases following future fund valuations” – would be laughable if the consequences were not so serious.

USS letter is long; read in its entirety. Note how questions of misunderstanding/fact circulate through all correspondence in this controversy. (This ltr includes 'factual', 'misunderstanding', 'not correct', 'supporting data', 'correctly observe'.) https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/ussreplysssj.pdf

USS letter https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/ussreplysssj.pdf considers question of longevity improvements (screen shot 1), which Hutton & Jacka had raised in their letter to USS EPF https://warwick.ac.uk/fac/sci/statistics/staff/academic-research/hutton/uss/epfletter17nov14.pdf (screen shot 2)

The trustee can reassure you that it has considered a substantial amount of supporting data before proposing an increase to the future rate of longevity improvements. The proposed long term improvement rate of 1.5% per annum is consistent with the experience of improvement in UK male longevity over the past 55 to 60 years. As statisticians, we are sure you will agree that one year of slightly reduced observed life expectancy is not statistically significant compared to the long-term observed historic trend. The trustee recognises that there are many different views as to how much improvement there can or will be in the future, but notes that while there are arguments that improvements will slow down (through developments such as obesity, or diminishing rates of ceasing smoking), there are also arguments – such as improvements in cancer treatments, or developments of ‘statins’ to improve cholesterol – that improvements could continue at least at the same rates as have been observed.

M17 *The assumptions made about life expectancy are flawed.*

The gloss states “It was brought to the attention of the Employers Pensions Forum (EPF) that a Q&A relating to longevity contained information that required clarification.” This statement is incorrect. The fallacy is that the information required “clarification”. The “information” required *correction* because it was wrong!

The next sentence: “The intention behind the Q&A was simply to describe general improvements in longevity in the UK, however due to a drafting error the Q&A read as if it was describing improvements in life expectancy specifically for USS members.” is a highly misleading statement. No UK group [except perhaps specially selected impaired lives] reaching age 65 in 1974 had life expectancy as low as 6-8 years. Conversely, no UK group [of non-impaired lives] reaching age 65 in 2014 had life expectancy as high as 30 years (even the optimistic actuarial assumptions of S1NA with mortality improvements of 1.5% p.a. gives life expectancies of c22-24 years).

We note from the recent CMI working paper 63: “Tables 4 and 6 show that updating the Core parameters for Initial Rates of Mortality Improvement, to reflect the addition of a further year's observations on England & Wales population mortality experience, has resulted in **decreases** in projected cohort expectation of life values for males and females across all ages. The **falls** in expectation of life values tend to **increase** **with increasing age**, in part due to the falls in mortality at older ages in 2012 shown in Table 1.”

We are deeply disappointed by what seems to us to be a document replete with incorrect information.

Yours etc.

Prof. J L Hutton

Prof. S D Jacka

There ends my collection of things (official lit, grey literatures, weblinks, newspaper/magazine articles etc.) currently in my "What happened around pensions, USS & UUK in 2014?" folder. Many of the threads continue into 2015 (which will be new thread). #hurrah #ussstrikes

But a couple of provisos & reflections before I end.

1. A timeline, and the Twitter thread format, cannot but imply certain kinds of implied causality/linking between items. You (& I) should be wary of this. *More research is needed*.

2. There are obviously many things missing -- those I know about because they are referred to (but which I haven't yet located), those that provide much wider context for what was happening in 2014 (thanks for the discussions @WillViney), & those I don't yet know at all.

3. My research is on the 20th/21 century psy disciplines. I didn't really know anything about pensions before the strike started. So there are bound to be errors, misinterpretations, faulty assumptions. PLEASE LET ME KNOW so things can be corrected #ussstrike #ucustrike

4. I haven't really 'discovered' anything myself; rather I have spent a long time searching, gathering, collating

sources & archival insights that many others have taken the care to keep (& also to write about in various places). This thread displays the labours of many others

5. It should go without saying that my own disciplinary backgrounds (#notallgeographers, #STS, #psychosocial studies, #histpsych) have inflected what and how I have presented things. #interdisciplinary #ucustrike #ussstrike

6. But my main aim was always to serve #ussstrike #ucustrike. i.e. bring together docs & possible connections that could be used, in multiple ways, by many of us, as we work out how we reached point of pensions (& university) crisis in 2018. #ucustrike #ussstrike END OF THREAD