Goldsmiths
UNIVERSITY OF LONDON

Response to the JEP2 Consultation

27 February 2020

This is Goldsmiths' response to consultation with Universities Superannuation Scheme (USS) employers on the recommendations presented by the second report from the Joint Expert Panel.

If has been agreed by the College's Senior Management Team and approved by the chair of College's Finance and Resources Committee, which is a Committee of independent members of Council. This response therefore represents the approved position of the College.

More details of the context for this consultation, and the Joint Expert Panel's work, can be found at: ussemployers.org.uk/news/second-report-joint-expert-panel-published

1. What are your views on the introduction of a scheme purpose statement, and do you agree that such a statement can be useful?

We support the introduction of a scheme purpose statement. A clear articulation of purpose serves to concentrate the minds of key stakeholders when making those key decisions which have long-term implications for the Scheme

We believe that the wording for such a statement proposed by the JEP is an appropriate starting point. It is right to emphasise the importance of trust and confidence in the Scheme, both of which have been questioned in recent years. It is also appropriate to emphasise the long-term nature of the Scheme given its importance to our staff reward package.

2. Do you believe it helpful to set out valuation principles, and what are your views on the principles as proposed by the JEP?

For the same reasons as given in answer to Q1, we believe that a clearly articulated set of valuation principles is helpful. However, to make an obvious point, the statement only has value if all parties adhere to it in good faith. It would be helpful to better understand what might happen if one or more of the parties is perceived to have deviated from the statement of principles.

It is right that the legal and regulatory boundaries that frame the valuation should be recognised, but it is important to be aware that some of the regulatory boundaries are seen by some Scheme members to be at best excessively restrictive/cautious and at worst politically/ideologically motivated. For this particular principle to hold, a much better communication of the regulatory challenges will need to be disseminated.

We consider it essential that the USS Trustee be a signatory to the statement of valuation principles for it to be effective in practice.

3. Do you have any further comments on valuation principles or the JEP2 report's section 6?

As a general observation on section 6, we welcome the implicit recognition that UUK, UCU and the USS Trustee each have an obligation to work in good faith and in the best long-term interests of the Scheme.

4. Do you believe that the scope of the areas of governance considered has been appropriate, and if not which additional areas do you believe would be helpful to be reviewed?

We believe that the scope of the areas of governance considered is appropriate.

5. What are your views on the specific recommendations as they apply to the trustee board, to the JNC, to UUK and to UCU?

In our view the specific recommendations are sensible. It is clear that all parties need to change how they approach the Scheme valuation process if trust is to be restored in the Scheme.

We are particularly supportive of the proposed measures that facilitate greater up-front engagement such as the joint valuation forum. Time is tight in completing a valuation to the statutory deadline and there is little opportunity for the type of meaningful consultation and challenge that employers and members would probably welcome. Early engagement is therefore critical.

The proposal regarding the Steering Committee is worthy of further consideration so that stakeholders can engage more meaningfully and collaboratively on issues that affect the long-term health and sustainability of the Scheme.

6. Do you have any additional comments on valuation governance or the JEP2 report's section 7?

The key issue of governance is understanding and managing power and accountability. In a situation where the Trustee sets the pricing of Scheme benefits and the JNC is left to work out how the price should be paid, the Trustee enjoys a considerable degree of power. In our view, the perceived remoteness of the Trustee Board and poor communications that failed to engage a non-technical audience have together created a sense that there is an accountability deficit within the Scheme. This in turn has undermined trust in the Scheme. We are supportive of moves to reduce this deficit.

7. What are your views on the outlook for the scheme being that it is an ongoing scheme, and also the various references by the JEP to it staying open?

It is clear that many stakeholders, particularly Scheme members, consider the Scheme to be robust in the sense that it is growing, relatively immature, cash-flow positive and with a strong employer covenant. While the Higher Education sector has been subject to increased marketisation in recent years, it is still largely free from the commercial imperatives of shareholder value maximisation that have driven the closure of most private sector defined benefit schemes.

Notwithstanding the current Scheme deficit, which is particularly affected by the existence and continuing expectation of low interest rates, we are of the opinion that – taking a long term view – the JEP's central belief that the Scheme is an open, ongoing one, is appropriate when considering matters of valuation.

8. In relation to risk appetite, what would employers find helpful in order for them to better understand the risk and reward trade-offs in USS?

It would appear from our own lived experience that there is a fundamental lack of understanding among some stakeholders, especially Scheme members, as to what the level of risk in the Scheme is and how that risk is managed. There is a widely held belief that Test 1 encourages a level of risk appetite that is not dissimilar to that adopted by a closed scheme in run off mode. Is this perception correct? If it is correct, is it appropriate to run the Scheme on this basis? As a starting point, many employers would probably find it helpful to be provided with a clear narrative that unpicks the myth and folklore around these points so that they can better address the questions of Scheme members.

From a more employer-centric approach, the primary concern is, to put it crudely, whether they are at risk of paying in additional contributions. While it is acknowledged that pension costs are certain to be high to maintain a Scheme that is attractive to members, they have now reached a level that is not sustainable for many employers and certainly not for institutions such as Goldsmiths which remain under extremely tight financial constraints. If the assumption of greater risk increases the risk of higher employer contributions, then likelihoods and probabilities need to be explained and understood unambiguously such that a quantitative analysis of financial exposure can be undertaken.

We are reassured that some of the proposed enhancements to the Scheme's governance arrangements will allow matters of risk to be better debated, challenged and understood.

9. Do you agree that the JEP's proposals regarding a dual discount rate approach warrants further analysis and examination?

We agree that it warrants further analysis and examination.

10. Do you have any additional comments on potential approaches to the 2020 and future valuations or the JEP2 report's section 8?

No.

11. Are you concerned with the level of opting-out of USS, and if so what do you believe the principal reasons for it are?

The JEP states that the opt-out rate is higher than for other comparable schemes. As a responsible employer committed to ensuring its employees are appropriately rewarded for their contribution to the institution, it is a concern that the opt-out rate is as high as it is. A significant number of employees within the sector are missing out on a valuable employment benefit. We have not undertaken any specific research into the issue but accept that the most likely reasons do relate to the cost of the Scheme and the growing complexity of employment relationships (e.g. part time working, associate lecturers, fixed term contractors etc.). It is not feasible to mitigate the impact of these costs to employees through us, as the employer, shouldering a greater burden of the contributions.

12. Do you support the recommendation that further analysis is undertaken on the option of tiered member contributions?

We are supportive of this. As a participant in the LGPS, this is an arrangement which already covers a sizeable number of our employees.

13. Do you support the recommendation that further analysis is undertaken on flexible options for members, for example lower cost saving options?

It would be sensible to explore such options given the concerns expressed around the current "one size fits all" approach.

14. Do you have any additional comments on the needs of USS members or JEP2 report's section 9?

No.

15. Do you support the view expressed by the JEP on the issue of mutuality within USS?

It should be made clear at the outset that Goldsmiths is a net beneficiary of mutuality so our strong support for it must be seen in this context.

Throughout previous consultations we have repeatedly stated our support for mutuality. It is clearly to the benefit of the Scheme as a whole even if some employers believe that they are unfairly shouldering a larger burden by effectively subsidising and risk-mitigating the Scheme for smaller members (many of whom may be their competitors). We would continue to appeal to the collaborative and supportive ethos of the Higher Education sector in mounting a defence of the concept of mutuality.

16. Do you have any additional comments on mutuality within the scheme or the JEP2 report's section 10?

No.

17. Are there any other issues that you would like to see considered to inform the approach to the 2020 and future valuations?

No. We would reiterate the need for all parties to work swiftly, in good faith and with an open mind to ensure the long-term sustainability of the Scheme. The economic environment is uncertain and interest rates are low – neither helps the position of the Scheme. But with assets under management of £67.4 billion and a long tail of liabilities, it should be possible to take a sufficiently long-term view when considering options for the Scheme.