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YEARS

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6 March 2019

Dear Caitlin & Kym

Thank you for your letter dated 21 February 2019 regarding the USS position.

The University conditionally supports conclusion of the USS valuations' process consistent with the Joint Expert Panel (JEP) outcome. This will also allow JEP's phase two work to consider some of the longer term challenges for the scheme and its sustainability.

The University's support for the JEP recommendations is conditional upon better understanding of specific details for the 2018 valuation not yet confirmed by USS, particularly concerning contingent contributions and the applicable contribution rates.

Adoption of the JEP's recommendations requires consideration of the impact of the additional significant costs arising for members and employers. Accepting more risk softens this at first, but increases the likelihood of higher contributions in the future for employers and members.

I set out below some responses to specific points in your letter (using the same numbering as in your letter).

1. & 2. Aon is the actuarial adviser to UUK and not to the OU. We understand the challenge to USS around de-risking; gradual de-risking of the fund over time dampens volatility in the scheme's funding position and reduces the effect of a downside event such as a material fall in asset values. We understand that Dr Marsh's work presses the question on the optimal level of de-risking, and whether a material reduction in volatility is gained with specific de-risking approaches compared to not de-risking at all. This issue of the longer-term investment strategy for USS is one that JEP plans to take up in phase two of its work, and we support this given the significance of the issues it raises.

3. The University supports USS's test one as a means by which the overall level of reliance on employers can be measured. There are some issues in how test one has been applied, but if not used some other measurement mechanism of the overall quantum of risk would be required. Not only do we consider an approach without regard to the level of risk to be inappropriate, but is also unlikely to be acceptable to the Pensions Regulator. The Regulator's letter dated 11 December 2018 expects the trustee to have regard to "the reliance of the Scheme on the sector".

4. A potential delay in de-risking is a good challenge to USS's presentation of its proposed assumptions for the 2018 valuation, and the University does intend to raise this in the consultation through Universities UK (UUK).

5. The University feels the trustee's assessment of the covenant as "strong" in overall terms is appropriate. With regard to "scheme vs. sector growth", we are not convinced that the Regulator's views have been disproven as you suggest, though we do think it merits further work. Given the statutory remit of the Regulator, and the size and visibility of USS, it is not realistic to expect the Regulator's interest to diminish – we are aware the Regulator's corporate plan provides for increased proactivity in the light of various challenges to it over the last year or two.

6. We recognise your point on the comparison of the JEP proposals on a gilts+ basis, and will raise this in our consultation response.

7. The University does not consider UUK-nominated or instructed (or employer appointed) directors to be appropriate for UUK. As directors of the USS trustee company, these individuals are governed by trust law and must act according to the law in the interests of the scheme's beneficiaries. It is a matter for those individuals to decide how they discharge their responsibilities under the scheme.

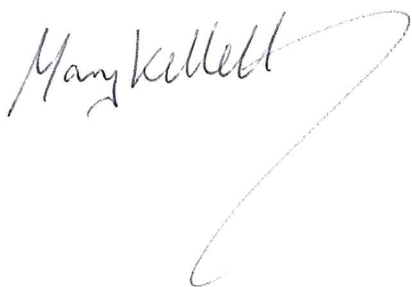
8. The University is presently engaged with UUK on the issue of contingent contributions, and will continue to consider new information as it is received.

9. It is not clear what a vote of no confidence would achieve, or what status it would have, in the governance arrangements of USS. We do, however, feel that JEP phase two should consider USS governance.

10. USS is seeking agreement to the introduction of a contingent contributions arrangement and so imposition of trigger contributions does not arise. Our understanding of the historic position is that UUK did not threaten to take USS to court.

The University will continue to fully engage with the consultations and debate through UUK, conscious of potential impacts upon employers and members. We hope that an acceptable conclusion for all stakeholders involved with USS on the 2018 valuation will be reached soon, prior to further discussion about the longer term position.

Yours sincerely

A handwritten signature in cursive script that reads "Mary Kellett". The signature is written in black ink and is positioned to the right of the typed name.

Professor Mary Kellett  
Vice-Chancellor