

# USS: a story of faith-based risk management

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9 May 2019

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USS

# USS: recent history

- Pre-2011: Final salary;
- 2011 valuation: Final salary section closed to new entrants; career average scheme introduced;
- 2014 valuation: Final salary closed to new accrual; hybrid scheme (CARE up to £55k, DC above) for all;
- 2017 valuation: Move to close DB section entirely led to major industrial dispute in Higher Education.



**Report to the USS paper:  
2014 Actuarial Valuation  
A Consultation on the proposed  
assumptions for the scheme's technical  
provisions and recovery plan**

Link: [Report to the USS paper: 2014 Actuarial Valuation, First Actuarial, November 2014](#)

# First Actuarial's 2014 report

The report contained critiques of

- ongoing vs closed schemes;
- the role of trustees as distinct from that of regulators;
- 'gilts-plus' approaches to setting discount rates;
- de-risking, and the potential for a 'vicious circle';
- USS's risk-management approach, particularly 'Test 1'.

## CONCLUSIONS

4.38 The “reliance on covenant” test proposed by the trustee appears to be the foundation of the its strong demands for lower risk/lower return investment and lower benefits. The measure, as proposed by the trustee, is deeply flawed, for the following reasons:

- The opening amount, of perhaps £6.6bn, is much less than the available support from the employers which, following the covenant advice, can be relied upon to be £10bn over 20 years. In extremis, the available support is up to £35bn (see paragraph 4.26).
- The reliance on covenant calculation is unsound:
  - It is structured to worsen with time as there is turnover from the final salary to the CRB sections
  - It is inadequately inflated to reflect the potential for economic growth built into the projection of the liabilities
  - It is the unreliable difference of two large numbers

The screenshot shows a YouTube interface with a search bar at the top containing the text "USS: Understanding Test 1". Below the search bar, a playlist of three videos is displayed. Each video entry includes a duration label on the left, a title, channel information, view count, upload time, and a brief description.

Duration	Title	Channel	Views	Time Ago	Description
6:29	USS: Understanding Test 1, Part 1	Sheffield UCU	2.3K	2 years ago	Sheffield UCU's Communications Officer, Sam Marsh, explains the basics concepts needed to understand USS's Test 1. Part 1 of ...
7:47	USS: Understanding Test 1, Part 2	Sheffield UCU	980	2 years ago	Following on from the basic concepts in Part 1, this video discusses self-sufficiency and the 'reliance on covenant' metric which ...
4:40	USS: Understanding Test 1, Part 3	Sheffield UCU	832	2 years ago	This video discusses alternatives to USS's Test 1, in particular an attempt to redefine the 'reliance on covenant' metric. Part 3 of 3 ...

Link: [Understanding Test 1 \(video playlist\), Sam Marsh for Sheffield UCU, March 2017](#)

# REPORT OF THE JOINT EXPERT PANEL

September 2018

Link: [Report of the Joint Expert Panel, September 2018](#)



	Assets	Technical provisions liabilities	Self-sufficiency liabilities
<b>Projected Year 20 values (no de-risking)</b>	£78.2bn*	£59.2bn*	£81.0bn
<b>Projected Year 20 values (September de-risking)</b>	£74.6bn*	£71.0bn	£81.0bn
<b>Projected Year 20 values (November de-risking)</b>	£71.0bn*	£71.0bn	£81.0bn

\* Calculations based on USS cashflow data; other data as stated by USS

Source: Discussion document for the University of Sheffield  
USS Working Group, Sam Marsh, October 2018

# USS's valuation rests on a large and demonstrable mistake

When corrected there is no deficit as at 31 March 2018 and no need for detrimental changes to benefits or contributions



Michael Otsuka [Follow](#)

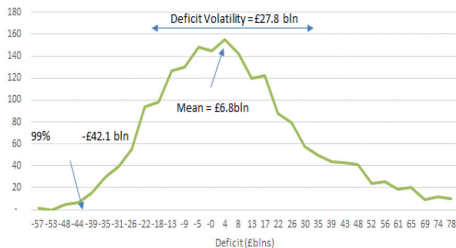
Oct 13, 2018 · 7 min read

*[UPDATE 29 Oct: Here I provide further documentation, via reference to statements and a graph in a May 2018 video by their Chief Risk Officer, that USS has made a large and demonstrable mistake regarding Test 1.]*

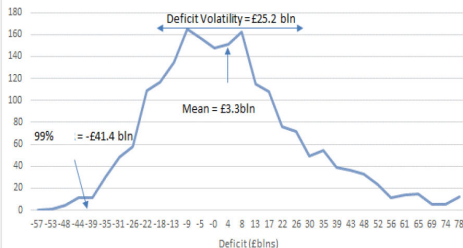
Link: [USS's valuation rests on a large and demonstrable mistake, Mike Otsuka, October 2018](#)

## 10 Year Horizon:

No De-Risking Self Sufficiency Deficit Distribution  
10 Year Horizon



Early De-Risking Self Sufficiency Deficit Distribution  
10 Year Horizon



Source: USS presentation to Imperial, November 2017

# More information

Sheffield UCU's 2014 valuation resources:

<http://ucu.group.shef.ac.uk/campaigns/pensions/disputed-2014-valuation-of-uss/>

Sheffield UCU's 2017 valuation resources:

<http://ucu.group.shef.ac.uk/campaigns/pensions/uss-2017-valuation-resources/>

USSbriefs: <https://medium.com/ussbriefs>

Twitter: [https://twitter.com/Sam\\_Marsh101](https://twitter.com/Sam_Marsh101)