

USSEmployers

GOVERNANCE REVIEW OF USS CONSULTATION BY UUK ON THE PLANNED APPROACH

July 2022

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Introductory letter

Dear Colleague

In the coming months we plan to undertake a review of USS governance. In this consultation, we invite and welcome your views on the approach which should be taken for the review, and the matters which you would like to see included in its scope.

In recent years the USS governance structure, and the USS Trustee and stakeholder bodies that have operated within it, have come under enormous pressure as funding difficulties have emerged and as changes to contributions and benefits have needed to be considered. The governance structures themselves have largely withstood all these challenges. The scheme itself remains one of the very best in the private sector and retains strong elements of defined benefits at its core. It has a major place in the UK pensions landscape and operates in legal and regulatory compliance across a vast range of activities from scheme administration, fund management and investment.

The complexities of the scheme have increased substantially in recent years, and the expectations of employers and members of those who are involved in the scheme and who make decisions have grown. A review of the governance structures at this time is entirely sensible and appropriate. The review is not however a forum to re-run the events of the last few years. The focus is on the governance structures which exist and - under the leadership of an independent chair who we hope and expect will have the confidence of all parties - it will be for the Review Group to find how the USS Trustee and the stakeholder bodies can operate within the most appropriate governance structures to enable the best decisions for members and employers, and for the continuance of good workplace pension provision within the higher education sector.

The aim of this consultation is to help us to set off in the right direction with the review, to involve all the key people and to include the important matters within its scope. Through this consultation we invite and look forward to receiving your thoughts and comments and thank you for your continued engagement with these important issues.

Best wishes

Chris Hale

Interim Chief Executive

(1) INTRODUCTION

UUK wishes to initiate an independent review of USS governance. USS was established in 1974 and, whilst rates of contributions and benefits have changed in more recent times as a result of funding challenges, there have been few significant changes to the scheme's governance arrangements.

It is notable that ahead of the legal founding of the scheme the primary stakeholders¹ worked for many years to agree the central elements of the scheme's governance. The final arrangements embedded in the scheme's rules and constitution were therefore carefully decided, achieving a fine balance between relevant interests and finding acceptable ways to comply with pensions law and regulation. Many of these governance arrangements remain unchanged since the scheme's inception. This is unremarkable for an entity such as a defined benefit pension scheme; the central powers and authorities within the scheme are not intended to be changed on a regular basis. However, other elements of the scheme's form and structure have changed - take for example the scheme's scale and status which has grown almost beyond recognition - and importantly the landscape within which it operates.

The perception of governance and its importance has also evolved. Governance activities grab more attention, and are more prominent in dialogue about the scheme, and the expectations of employers and members of those who make decisions under the scheme, and who are involved in its management and administration, have grown. For many reasons, a review of the scheme's governance seems appropriate and arguably overdue.

We are at the beginning in terms of planning the review, and through this consultation UUK seeks the views of employers on the approach to be adopted. We have set out some specific questions to which we welcome your responses, although we welcome thoughts and inputs in any form. At this stage we are keen to hear the range of views and work through them as the review team is assembled, as we finalise the terms of reference, and as the review gets underway.

In terms of what we mean by governance, and how we can recognise good governance structures and behaviours, there are sources of reference such as the [Good Governance Institute](#) for governance in the broader context, and from the [Pensions Regulator](#) (amongst other sources) for the specific pension scheme context - and these and other sources will be available to the Review Group if it considers them useful context for the review and for the interested parties.

¹ The Committee of Vice Chancellors and Principals (CVCP, led by Sir Douglas Logan from the University of London), and the Association of University Teachers - the predecessor representative bodies of Universities UK and the University and College Union - along with Government representatives

(2) PARTICIPATION IN THE REVIEW

It is proposed that the review is led by an independent Chair², who has appropriate skills and standing to build confidence in the review and to lead and guide an open and transparent process of examination and consideration. We want the Chair to have control and autonomy to undertake the review as he/she/they thinks fit, albeit within the broad ambit which is set out by UUK in and following this consultation and which will form the terms of reference. It will not be an easy role to fulfil, however we plan to engage with the UCU and with the USS Trustee about the prospective Chair, who we hope will be an individual who can build consensus and cohesion around what can be (to some extent at least) difficult and emotive issues. No appointment, or even informal invitations of interest, have been made at this stage. With this consultation the possible terms of the review are starting to form, and UUK welcomes inputs from employers as to the experience and capabilities which should be sought from the Chair.

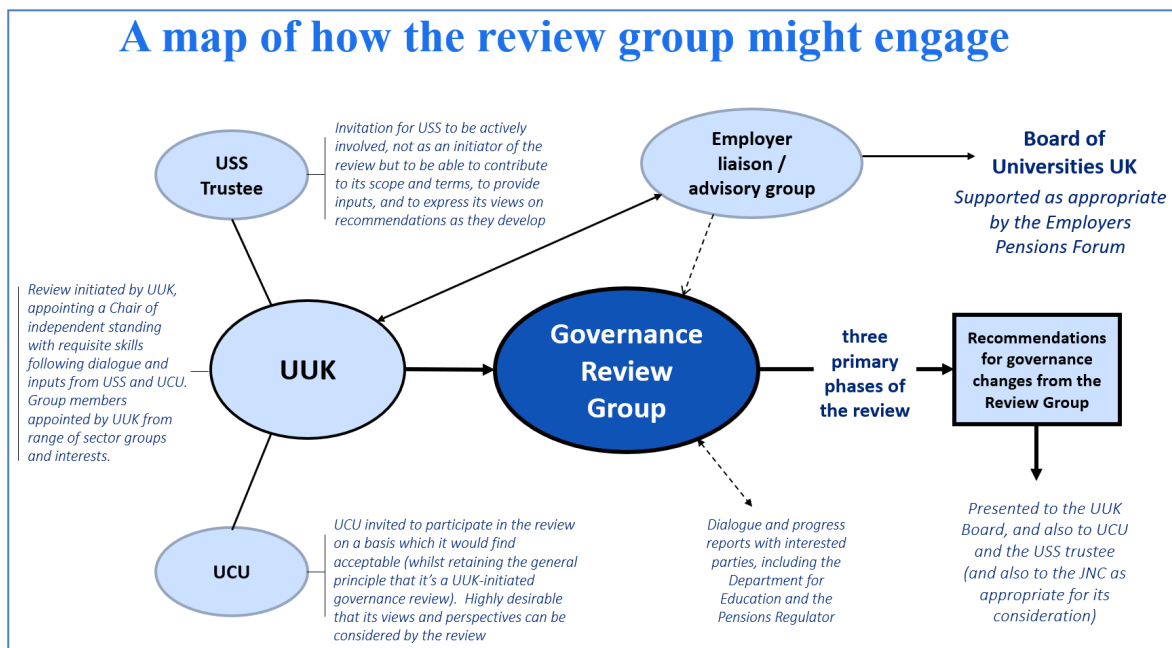
The review will be based on terms of reference and scope which has been formed by UUK in conjunction with scheme employers, after having considered the guidance and views of the USS Trustee and UCU. The Chair will be supported by a Review Group, the members of which will be appointed by UUK - and it is hoped that Review Group meetings will include attendance from USS Trustee and UCU representatives (their attendance and participation will be as far as they feel they are able).

We believe that the active participation of both the USS Trustee and UCU will enhance the review because they both have a central involvement in the scheme and can bring unique views and perspective to the review. We would not expect any party to have a veto over whether any recommendations can be made by the review, with the Independent Chair being encouraged to be searching about all aspects of scheme governance (and not least those elements which are within the domain of the employers).

UUK would like to create a dedicated support group - an employer liaison group - which can receive briefings from UUK on the progress of the Review Group itself, and which can also provide inputs for its consideration as the review progresses. We would like employers that have a particular interest in these issues to consider nominating any individuals who they would wish to participate in the liaison group (further details below); we plan to hold briefings and exchanges with the liaison group periodically using an online format to enable broad participation. The thoughts and inputs from the liaison group will be reported to the Board of Universities UK (and as appropriate to the Employers Pensions Forum which supports it on pensions issues). The following illustration (Figure 1) shows the inputs and interactions which are planned for the Review Group.

² Note that it may be considered appropriate to appoint more than one Chair to lead the review, to share the duties, and to broaden the experience and skills which will guide the review; this should be considered by employers and your views on this would be welcomed (and please read references to “Chair” in this paper as including the option of more than one).

Figure 1



(3) WHAT WILL THE REVIEW GROUP BE ASKED TO DO?

At a primary level, the request of the Review Group is to prepare a report setting out recommendations for how the scheme's governance can be improved. This report is to be presented to UUK, with a copy for the scheme's Trustee board and for the JNC. The Review Group's recommendations will not in themselves have any authority or right to be implemented, but the plan would be firstly for UUK to be able to consider the recommendations and consult on them with employers. UUK would then hope to open-up discussions with UCU and the USS Trustee to find the areas of common ground that can enable support, and as appropriate then bring them forward for discussion in the JNC (assuming that the JNC is willing), at the USS Trustee board and within the leadership boards of other affected bodies as appropriate. And we would of course hope to have additional exchanges with the USS executive, and/or with UCU leadership and its team, as considered helpful.

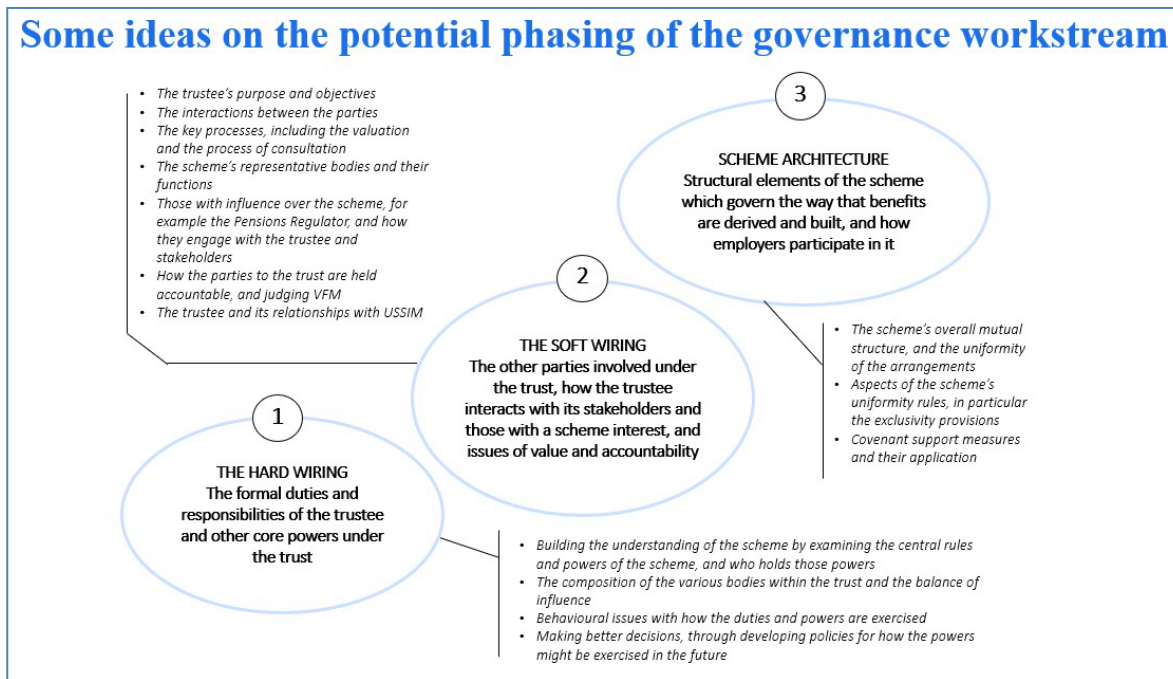
We plan to provide further details to the Review Group to guide its work (following the feedback to this consultation), to set out the areas on which it might focus in specific phases of its work, and to provide a list of segments which it will be invited to include. Further details are set out below in sections 4 and 5 below.

(4) THREE PHASES OF THE REVIEW

We think it might be helpful to separate the review into three overarching phases. These phases are planned to divide what is a very broad range of issues, and so that any recommendations can be brought forward for consideration without having to wait for the entirety of the review to be completed. We also think it sensible, at the outset, to invite employers and the USS Trustee and UCU to identify their priorities so that this

can be considered in finalising the phases, and within each phase in determining an appropriate detailed sequence and plan to address the issues. In this way we hope that we can sharpen the work of the Review Group, and deal with specific areas sooner if that can help the review overall to make progress. The potential three-phase formulation for the review is shown in more detail in Figure 2 which is set out below, and this is then followed by further explanation of the ground that might be covered in the three phases.

Figure 2



We recognise that the Review Group will need some flexibility with phasing as the review progresses. For example, things may take longer than planned, areas of overlap may need attention which might for example mean bringing forward later subject areas, and there is the regular scheme cycle of events which may affect deliberations (for example the next actuarial valuation). In setting out the three-phase approach, and the ten segments below in section 5, we hope to give the group some initial structure but ultimately it will be for the Review Chair and group members to decide on pace and sequence.

These three phases in Figure 2 can be more fully explained as follows:

Phase	Explanation
1	<p>The formal duties and responsibilities of the Trustee and other core powers under the trust (which we refer to as the 'hard wiring')</p> <p>We believe it is important for the Review Group to start with the formal elements of the scheme's governance, providing a firm foundation for the group's work overall. It will also allow the group to provide clear analysis of these provisions and to examine the balance and distribution of decision-making powers amongst the various parties involved in the scheme. The Review Group can build on the collective understanding of the USS governance provisions, but we also hope it can go further by setting out its view on how effectively these core elements work in</p>

	<p>practice, how they are exercised and importantly how decisions are explained and communicated. The group may also like to examine how the development of policies which are made available to stakeholders could better guide and inform UUK, UCU and others as to the basis for decision making.</p>
2	<p>The scheme in operation, the key governance processes, how the parties work together, and issues of value and accountability (the 'softer wiring')</p> <p>We believe that this might be the most significant phase of work for the group, building on the clarity which has been gained on the formal governance processes of the scheme. This phase will look at communication between the parties to the trust and how they work together, how decision making is discussed and discharged between them, and some of the particularly difficult areas - including the actuarial valuation process - and whether they can be improved. It will look at the scheme's representative bodies and how they meet their duties and responsibilities, their effectiveness, and whether other representation models might work better in a modern USS. This phase will also look at those with influence over the scheme - for example the Pensions Regulator - and how it interacts with parties to the scheme, and issues of value and accountability (which should include how the USS Trustee demonstrates its effectiveness, how it spends fund monies and how it is held to account).</p>
3	<p>The broader construct of the scheme and how it governs the way that benefits are derived and built-up - and how employers participate in this structure ('scheme architecture')</p> <p>These might not be traditional governance aspects of the scheme, but they are important factors and influences on the way that the scheme is governed, and we believe that employers would like them to be included in this review. We think this phase should include consideration of the scheme's overall mutual structure and the uniformity of the present arrangements (and this should include analysis of the scheme's terms from the perspectives of employer and member participation rules, of contributions and of benefits). These are each substantial issues, and in the time available the Review Group may only be able to identify the challenges in headline terms and guide the stakeholders on any specific resolutions which should be followed-up. There will also be a need to ensure alignment between any recommendations and initiatives in this area and the emerging proposals from the three post-valuation workstreams (and notably those on lower cost saving options, and on alternative scheme designs).</p>

(5) FURTHER SEGMENTATION OF THE REVIEW

Within the three-phase approach, we believe there are several specific governance segments which the group might want to focus on, and we illustrate those in Figure 3 and add further explanation in the table.

Figure 3



1	<p>The purpose and objectives of the Trustee</p> <p>There is a broad statement of purpose for the Trustee set out in the articles of association of the Trustee company³, and this has remained unchanged since the scheme’s inception. The statement makes clear that the individuals who are to benefit from any pension scheme run by the Trustee company are “university teachers or other staff of comparable status”, and for their “wives, children, dependents or connections ...”. In its second report the Joint Expert Panel (JEP) looked at the issue of the purpose of the scheme and its report recommended that “A restatement of the purpose of the scheme [should be] agreed by all Stakeholders”. The group might wish to look at the JEP’s work in this area and encourage the development of a purpose statement which can encompass the Trustee and stakeholders, and which can have real application in formal terms⁴. The group might also wish to look at the balance between how the Trustee might see its purpose and objectives for the scheme as set out formally and informally in scheme documents, and the legal and regulatory priorities which are set for example within the UK DB funding regime, master trust regulation etc.</p>
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³ Article 1A states: “To undertake and discharge the office of Trustees of any superannuation scheme, pension scheme, widows’ and orphans’ scheme, provident or pension fund, or other fund, scheme, trust, club or association, and whether contributory or non-contributory, now or at any time hereafter established or carried on solely or primarily for the benefit of university teachers or other staff of comparable status of universities and similar establishments, or for the wives, widows, children, dependents or connections of any such persons and in particular shall act as the Trustee of the Universities Superannuation Scheme intended to be constituted under irrevocable trusts by the universities of the United Kingdom for the benefit of university teachers and other staff of comparable status.”

⁴ From the tripartite talks which followed the publication of the second and final JEP report a purpose statement was developed which is “To provide a financially secure future and retirement for scheme members and their families, and support the long-term needs of the HE sector.”, [available on the USS Employers website](#). The USS Trustee also developed its own purpose statement, aligned with the above, which is “Working with Higher Education employers to build a secure financial future for our members and their families”.

2	<p>The Trustee’s legal duties and powers under the trust and under the Trustee company’s articles of association (formal powers)</p> <p>This would be within the proposed phase one of the Review Group’s work, and we believe that the group will wish to identify the existing powers available to the Trustee and offer its views on the relevance and importance of those powers, and potentially why they are framed as they are and the alternative formulations which might exist, and which might be credible. This will need to include an analysis of where formal powers expressed in the trust are necessary to align with statutory requirements for registered pension schemes generally, and where that is not the case. The focus will be on explanation and consideration of the balance of powers and where they are located, rather than on seeking to relocate or redefine fundamental elements of the scheme.</p>
3	<p>The nomination and appointments process, and the issues of representative bodies and their role in representation</p> <p>We envisage that the group will wish to look at these rules and processes, and importantly how they have evolved over time and particularly how they have been influenced (and been modified) by the master trust regulations. The group is likely to want to look not only at the nomination and appointments processes for the Trustee board itself (for stakeholder and for independent nominees), but also for the Joint Negotiating Committee and for the Advisory Committee. The group might also wish to look at the processes undertaken by UCU and UUK in identifying, preparing and nominating individuals who take up their USS appointments across all committees, to see if those processes can be improved. Finally for this segment, we believe that the group will want to look at the broader responsibilities of representation undertaken by UCU and UUK under the scheme and how effectively those duties are discharged. This was something identified by the JEP and might include how the duties of representation have changed over time and at different representation models which could lead to more effective representation of members and employers.</p>
4	<p>The powers of the JNC relative to those of the Trustee</p> <p>This is linked to the specific valuation issues discussed in segment 5 below, however the group may think it appropriate to look at the overall balance of powers between the JNC and the Trustee. For example, there are certain ‘check and balance’ powers which exist for the JNC in relation to defined activities of the Trustee, and do those remain appropriate and/or would they benefit from some modification given the modern USS which now exists and how external law and regulation has developed to, in some cases, further strengthen existing powers? There is also the issue of the way that the master trust regulations impact upon the powers in relation to appointing procedures for certain directors (linked to segment 8) and the group might consider this worthy of some analysis.</p>
5	<p>The actuarial valuation process, and the specific duties and responsibilities under the trust</p> <p>The USS valuation process has been under the spotlight in recent years, and this is an area that the group is likely to consider important. This is not just about</p>

	<p>where the relative powers and authorities lie under the trust (for example under current rules the Trustee decides following consultation on matters such as the actuarial assumptions and on the recovery plan) - of course these are important issues - but also how the process works in a modern context. This context includes the fact that valuation decisions are usually iterative, need close engagement between the JNC and Trustee, normally involves the Pensions Regulator and its wish to play an active role, and the need under the Pensions Regulator's integrated risk management approach to take account of covenant decisions, risk bearing etc.</p>
6	<p>Accountability, and holding the Trustee to account</p> <p>The Trustee has specific obligations under trust and company law to account for its decisions including how it spends fund monies in the running of the trust. It publishes detailed information each year on its finances, on issues of remuneration and reward / incentive structures, and how its fund managers have delivered on the fund's investments. The group may wish to look at how the Trustee is accountable and whether the existing processes are fit for a scheme like USS, and who the Trustee should be accountable to and how that job of holding accountability is fulfilled.</p>
7	<p>The Trustee board's structure and composition, and powers over appointment</p> <p>The present board is made up of no fewer than 10 but no greater than 12 directors, with four individuals nominated by UUK, three nominations made by UCU (including the pensioner director) and no fewer than three, but no more than five, independent directors appointed by the Trustee board itself. In recent times there have been five such independent appointments, and this appears the new norm within an overall group of 12. The group may wish to consider whether the balance of nominations is right, whether the overall number is appropriate for a modern USS, does the independent appointment process work effectively, is the pensioner director an appropriate designation within the board and/or should greater use of specific designation take place? The group might also look at the way the Trustee has created sub-committees to fulfil its broad range of responsibilities, and whether there are potential improvements to be gained (recognising that of course this is ultimately a matter for the USS Trustee to decide).</p>
8	<p>The effect of the master trust regulations, and other external pensions governance changes</p> <p>The USS defined contribution (or USS investment builder) section was created in 2016 with the scheme becoming hybrid in nature from that point - which resulted in the scheme becoming subject to the master trust regulations. These regulations are intended for generally large DC workplace pension solutions⁵ for multiple, non-associated employers so that they can satisfy their auto-enrolment duties, however USS's hybrid design meant that the Trustee needed to ensure compliance for USS and must continue to do so. The requirements are wide-ranging, however the governance-related elements which exist should</p>

⁵ For example, schemes such as NEST, the People's Pension, and the large master trust solutions offered by the large insurers (with Legal and General, Standard Life and Aviva being amongst the largest)

	<p>be considered by the Review Group, to look at how they affect the powers available to the stakeholder bodies under the trust. The group may also wish to look at other changes which impact the scheme's governance, for example to the Companies Act which has an effect on the Trustee as a private limited company.</p>
9	<p>USS Investment Management Limited (USSIM) and its relationship with (and under) the Trustee</p> <p>USSIM is a wholly owned subsidiary company of the Trustee company, providing fund investment and advisory services (including on issues of external investment manager selection and appointment). The Trustee operates a broad policy which looks to invest funds in-house through its FCA⁶-regulated entity USSIM wherever the capability exists at appropriate cost, and this policy is implemented by USSIM in its role as adviser and appointee of investment managers. There is a close relationship between USSIM and USS Limited, which delivers considerable efficiencies for the fund overall. This is an important area of overall scheme governance, and the Review Group may wish to examine this relationship and its effectiveness, and how the governance challenges are managed.</p>
10	<p>The scheme's exclusivity rule, and other provisions which control the choices available to employers and members that participate in the scheme</p> <p>This work is expected to form part of phase three of the group's review and is likely to involve consideration of the scheme's exclusivity rule which states that USS must be offered as a workplace pension to the exclusion of other schemes, and examine the benefits of this provision but also the risks and opportunities which might exist if this restriction were lifted. The group might also wish to look at the collective employer support for the covenant measures and how that has supported the overall funding plan but also added a further strand to the collective, mutual approach to funding. There might also be a focus on the uniformity of the benefit rules, and again what risks and opportunities would arise if some levels of local flexibility were available to employers in terms of the USS benefit offering which they choose to provide to their employees.</p>

(6) INPUTS TO THE REVIEW GROUP

We hope that employers will feel able to provide their inputs to the Review Group once it has commenced its work (and indeed to engage with the planned employer liaison group, see below), and we expect that the group will want to spend considerable time talking with and listening to employers and other interested groups. This notably includes from UCU as the representative voice of members, and through UCU we hope the Review Group can gain views and comments on scheme governance from the wider scheme membership (and there may be ways in which the USS Trustee can assist in gaining these wider views). Some of the following might also be helpful in guiding

⁶ [The Financial Conduct Authority](https://www.fca.org.uk/), the conduct regulator for around 51,000 financial services firms and financial markets in the UK

the group to the key issues:

The Joint Expert Panel (JEP)

In its reports from September 2018 and December 2019 the JEP identified several governance-related issues which deserved further consideration, which are summarised as follows:

The JEP's first report from September 2018	
1	The valuation process is fundamental, and all parties must be involved and must together work to gain the support of employers and members
2	The framing of questions for employers on funding / valuation issues is crucial, and can influence decision making
3	Consultation periods have been short, affecting the ability of employers to discuss issues fully and widely
4	The role of scheme members in the valuation process needs to be looked at
5	We need to look at the way that valuation-related data and other information is made available more widely by the Trustee

The JEP's second report from December 2019	
1	The valuation process and its governance are a particular area of importance in the scheme and should be reviewed
2	Relationships with the Trustee and the stakeholders, visibility of the board directors and valuation-related structures are areas of concern
3	The JNC does not operate as effectively as it might, and the JNC is encouraged to look at this
4	The representative roles undertaken by UUK and UCU, and their effectiveness, is an area for review

Whilst broader scheme governance was not a central focus for the JEP within its terms of reference, it did identify some areas which the Review Group might address, and we would like the group to review the governance-related findings of the JEP and offer its own insight and expertise on these areas. The group might also look at the [shared valuation principles](#) which were developed in the tripartite talks which followed the publication of the second JEP report.

Comments and views expressed previously by employers

As employers will be aware, there have been numerous consultations in recent years on USS and on valuation-related issues, and UUK has been able to capture a considerable range and depth of comment and perspective from employers. We expect that the Review Group will wish to consider some of these views, which have in many cases linked directly to governance-related issues, and we would plan to make them available to the group in an anonymised form. To give a flavour, attached at [Annexe A](#) is a sample of the range of comments provided as part of consultation responses undertaken in the last two years, which we believe will be a valuable input for the group (to be supplemented by the comments made by employers to this consultation).

Employer interviews

In order to build the context available to the Review Group as it begins its work, we plan to appoint an independent specialist to carry out a series of interviews with interested employers. We expect that the interviews will be based upon a series of set questions, which will allow the interviewer to question and probe more fully the areas where specific concerns lie and the potential solutions which employers themselves have identified. If you would like to put your name forward for one of these interviews, then please send your details to the UUK pensions team at pensions@universitiesuk.ac.uk. There will be a limit on the number of interviews which our specialist will be able to undertake, however we will do our best to accommodate your request and most importantly ensure that the Review Group can hear the widest possible range of views from across the employer community.

Employer liaison group

We plan to establish an employer liaison group which will meet periodically as the review is undertaken, to act as a sounding board for UUK and for the Review Group itself on specific issues which relate to the review, and also to enable UUK to provide updates and feedback to employers. We envisage that we will hold meetings of the group online, which will hopefully prove to be convenient but also allow a broader level of participation amongst employers. If you would like to put your name forward for participation in the liaison group, please send your details to the UUK pensions team at pensions@universitiesuk.ac.uk by no later than 15 August 2022. Once again, we will do our best to accommodate as many employers as possible on the group.

Domestic and International learning and comparators

USS does not have a standard DB pension scheme governance model. This is largely because the scheme itself has specific characteristics which make it different to most schemes, for example in terms of the particular sector in which it operates (higher

education), the non-associated multi-employer nature of its employers, and the collective funding model through which its DB benefits are delivered. But it is not completely unique. There are a small number of schemes in the UK which have similar (but not identical) governance structures, and indeed there are interesting examples overseas (for example in Canada). The Review Group might think it helpful to look at the governance models of these schemes to see if they might offer potential improvements from the current arrangements, but also for example as the scheme grows and develops, and also recognising the planned workstream which is set to look at alternative scheme designs (for example conditional indexation) which themselves require specific governance considerations.

(7) EXPECTATIONS FROM THE REVIEW

Some of the issues which will be discussed by the Review Group relate to entrenched provisions within the rules and other formal documents; these are the central threads of the scheme's fabric. They have remained largely unchanged in some cases for decades and it would be wrong to expect the Group to secure wholesale changes to these terms given the legal importance of the present balance of power and interests within the trust and the legal tests which would need to be satisfied for the Trustee and/or others to make changes which might alter and potentially diminish those powers under the trust.

We also recognise that it's important for the USS Trustee to take appropriate measures to ensure that the trust, as a hybrid pension scheme, complies with the governance laws for UK pension schemes generally (whilst also acknowledging the particular characteristics and uniqueness of USS, and of the higher education sector employers as scheme sponsors). Nevertheless, we hope that despite the difficulty of achieving fundamental alterations to the scheme's core powers and authorities, all relevant parties to the scheme will engage with the Review Group and help it to examine these central powers - as well as all of the other aspects of governance where changes can be made, and improvements gained.

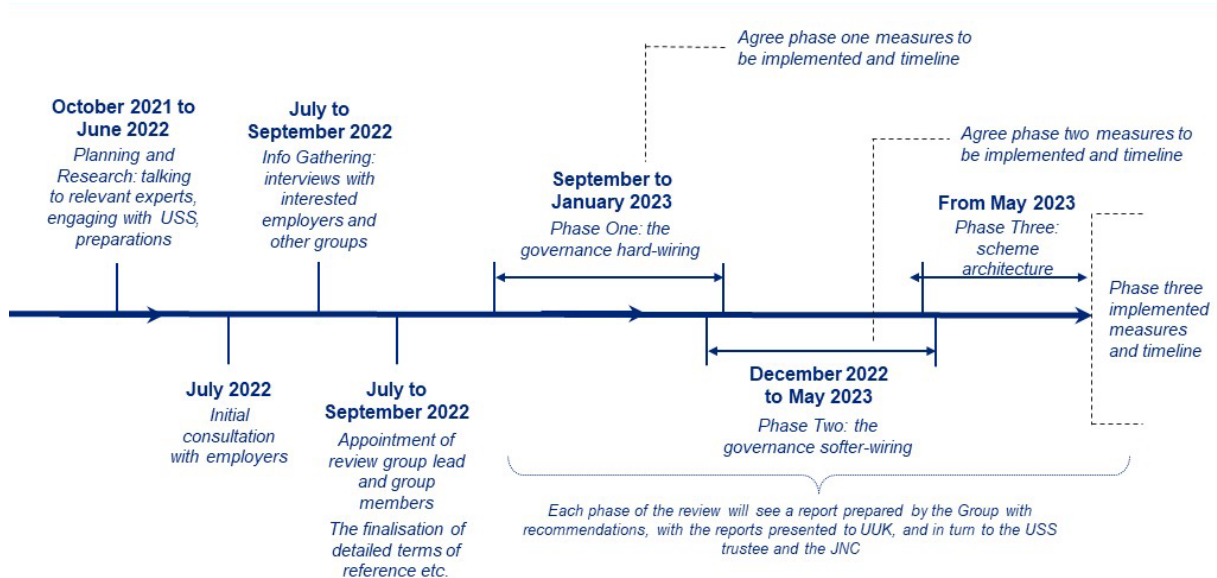
There may of course be different views on whether particular recommendations of the Review Group should be implemented, and indeed as to the roles and responsibilities of the different parties. Some recommendations may require changes to the scheme rules, and this will require the consent of both the JNC and the Trustee. Some recommendations may relate to one entity only and ultimately be a matter for that entity to decide upon.

We hope all parties will though engage constructively with any recommendations made by the review. The group's review will help to improve the scheme's governance overall, build the understanding of the provisions (whether they actually prefer or support a particular formulation), increase the awareness of all parties of where the difficulties lie and the views that are held, and above all secure a more open and effective governance package and improve the perception amongst all employers and members of the scheme and the way it functions.

(8) TIMELINE

The following illustration (Figure 4) shows an indicative timeline for the initiation of the review and undertaking the proposed three phases:

Figure 4



(9) QUESTIONS FOR EMPLOYERS

We welcome the comments and views of employers on the approach to the review, and on USS governance more generally, which should be sent to Universities UK no later than Monday 15 August 2022 (by email to pensions@universitiesuk.ac.uk). You may submit your comments in the form you decide, however we have set out below a number of specific questions which you might use in framing your comments, and which might be useful to us as well as we undertake our analysis. We plan to provide the Review Group with your general comments on USS governance as it begins its work (we would make these available anonymously); we think this will be an extremely useful basis for its discussions.

Questions on the approach to the review

1. What are your comments on the planned approach to the governance review set out in this paper?
2. Are there aspects of the review which need to be included, or removed, or further emphasised?
3. What skills do you believe are most important in identifying the review Chair, and Review Group members?
4. Do you agree with the proposed three-phase approach, and the ten segments

overall, and/or would you like other phases and segments included? Which areas would be your priority, and which might be addressed earliest?

Initial questions on USS governance more generally

5. What do you understand by the term governance, and should we specify what it is for the purposes this review?
6. Do you believe there are weaknesses in USS governance, and if you do which do you believe are the problem areas, and why?
7. What would 'better' look like to you in terms of USS governance (please be as specific as possible)?
8. Which areas of governance are the most contentious in your view, and do the solutions lie in changes to governance terms and/or processes, or is it more that some of the issues are themselves difficult / contentious?
9. Which areas of governance have been managed least effectively, or indeed most effectively?
10. How would a better actuarial valuation process work?
11. Does the JNC, and the scheme's negotiating machinery more widely, operate effectively - and if not which systems and processes do you believe would operate more effectively?
12. What do you believe would be more effective representation models within the scheme for employers and/or members?
13. Are there any governance risks or other issues which have not been identified in the paper, which you believe the Review Group should be made aware of?

(10) SUMMARY AND CONSULTATION DETAILS

USS is one of the largest workplace pension schemes in the country providing valuable and secure pension savings for many thousands of people who work, or who have previously worked, in the UK higher education sector. It has grown substantially in recent times, in terms of its membership, and of the assets and liabilities which are managed. The scheme's governance was established in a different era. And yet despite difficult times more recently for the scheme and its stakeholders as funding challenges have emerged (as they have for most schemes which are DB in nature), the governance rules have remained legally resilient and allowed important and sometimes unwelcome decisions to be reached. But a review of USS governance is overdue, and the proposed Review Group, led by an independent Chair, can look fully and impartially at the range of governance activities which are undertaken by the USS Trustee and the scheme stakeholders, and recommend sensible and acceptable changes which can improve governance for members and employers alike. We welcome your views and comments on the proposed approach to the review which is set out in this document; you should submit these by Monday 15 August 2022 at the latest, by email to UUK

Annexe A

Sample of the range of comments provided to UUK as part of consultation responses undertaken in the last two years.

The development of a scheme purpose statement can have relevance and authority within the scheme's formal structure and be a guide and steer for the scheme's Trustee and stakeholders. It should identify "long-term sustainability" and "affordability" as key components of purpose, and when developed this can become a statement of intent which helps in terms of strengthening trust and shared understanding.

Trustee accountability needs to be increased, and for example that the appointment of independent directors should be reviewed and should be the responsibility of stakeholders.

The Trustee appears to have a heavy focus on de-risking the scheme, rather than on the long-term nature of the scheme.

The role of UUK in dealing with USS should be passed to UCEA, and that the role of UCU should be reviewed to make USS more representative.

The level of trust in the Trustee board has been damaged, also due to the board being perceived by some as remote with their messages being mediated by the USS executive.

Respondents emphasised that the relationship between the Trustee, UUK and UCU must be improved.

Changing the current governance structure is crucial to ensure that the valuation principles work in practice.

The JNC is currently not fully functioning, and it needs to receive greater support in order to better perform its role.

There are doubts regarding the current JNC Chair's casting vote option, and some argue that this option should be reconsidered (if not that the casting vote should be removed).

A valuation sub-committee of the Trustee board should be created, with strong links to the JNC; this would improve the valuation process.

There is concern regarding UCU and the way in which members are represented, particularly the majority of members who are not members of a trade union (or who are members of another trade union). Additional resources may be required to improve member representation, as well as careful consideration of how this could be achieved (ie elective roles, liaison groups, engagement and surveys etc.).

There is a need to better understand short and long-term risks in relation to USS, and the trade-offs between different funding approaches and what these might entail for the scheme and for employers / members.

The focus of the scheme should be on providing value for money for members, and on long-term sustainability.

Employers hold mixed views on mutuality, with some only able to support it subject to it not endangering the sustainability of the scheme. Those who support it tend to strongly endorse it, and to highlight the dangers of sectionalisation for the long-term sustainability of the scheme.

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