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A FLAWED VALUATION: THE LAYPERSON'S GUIDE TO MY FINDINGS ON USS'S 'TEST 1'

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A flawed valuation: the layperson's guide to my findings on USS's 'Test 1'

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This is a USSbrief that belongs to the OpenUPP (Open USS Pension Panel) series.

In March 2017, I made a **series of three short videos** on USS's now infamous 'Test 1'. I hadn't fully prepared what I was going to say, but wanted to get across something that appeared to be a harmful inconsistency in how the Test was framed, and to make a suggestion for how it could be fixed. It is in that inconsistency that I found USS's '**large and demonstrable mistake**', exposed last week.

The motivation for Test 1 has always been framed in terms of ensuring a 'safe harbour' for the scheme, known as 'self-sufficiency', remains within reach in 20 years' time. Such a safe harbour is a way of mothballing the scheme, of putting it into a stable end state ready for closure. To reach this safe harbour requires a higher balance of assets than one would normally hold to back the promised benefits. Test 1, so USS claimed, was designed to make sure the gap wasn't unbreachable.

But the Test was flawed. Rather than look at the expected value of the assets at Year 20 (and how this compared with the cost of self-sufficiency), Test 1 lazily looked at a related but not identical concept, that of the expected cost of the promised benefits. The reasoning was that at Year 20, USS will ensure that the scheme will be fully funded, and this means the assets will precisely cover the benefits. But here USS made a significant oversight: the assets might not just equal the promised benefits, but exceed them. Test 1 might flag up a problem *even if one doesn't exist*.

The **figures I calculated**—now confirmed, subject to minor tweaking, by USS—showed that one would indeed be expected to find a surplus of assets at Year 20, even on their prudently adjusted assumptions. Not only that, but this surplus is expected to be substantial, and means the assets will be well within affordable reach of self-sufficiency. The 'de-risking' of assets and huge increase in costs that Test 1 mandates is not necessary to fulfil its stated purpose. If the scheme continues unchanged, self-sufficiency remains well within reach. Not only that, but the deficit evaporates and the future service costs return to their current level.

My analysis of the crooked logic of Test 1 has been known to those at USS for over eighteen months (indeed, Bill Galvin, the Group CEO of USS, **commended me on the videos** in correspondence). I have asked for the numbers relevant to the Year 20 position repeatedly over the past year, but until last week had **been rebuffed every time**. Had USS made these calculations and kept them to themselves? Or, since Test 1 'does not require the projection of assets based on current contribution rates', had USS really not 'sought to confirm these figures', as they told me in August this year?

Either way, there are now huge questions hanging over the judgement of those at USS, who have resisted transparency over their valuation.

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The author, **Dr Sam Marsh**, is president of **University of Sheffield UCU branch**, an elected national negotiator on USS pensions and a member of UCU's Superannuation Working Group. He has published other briefs addressing USS's Test 1. These comprise:

- **#USSbriefs32** 'Understanding "Test 1": a submission to the USS Joint Expert Panel'
- **#USSbriefs45** 'A talkthrough of a model of the USS valuation'
- **#USSbriefs51** 'Addendum to understanding Test 1: a submission to the USS Joint Expert Panel'
- **#USSbriefs55** 'Response to David Miles' analysis of the role of Test 1 in the USS valuation'