Two sides of the value for money coin

Sophie Smith takes a closer look at how the Universities Superannuation Scheme measures up against the competition following its recent value for money report

The Universities Superannuation Scheme (USS) is one of the UK's largest pension schemes, and one if its most well-known pension schemes, having been involved in a number of high-profile disputes in the higher education sector over recent years.

These tensions stemmed from recent changes to the scheme, intended to help avoid introducing "unaffordable" employer and employee pension contributions, after the 2020 scheme valuation found that scheme's deficit on a technical provisions basis ranged from £14.9 billion to £17.9 billion.

While there have since been improvements in the scheme's funding level, USS CFO, Dominic Gibb acknowledges that there have been "problematic valuations" in recent years, with the scheme also facing legal challenges from members who raised concerns around areas such as the scheme's approach as an asset owner, and whether it had spent too much money in running the scheme.

However, the USS trustee was keen not to shy away from these challenges, as Gibb agrees that the scheme "should be held accountable" by its members.

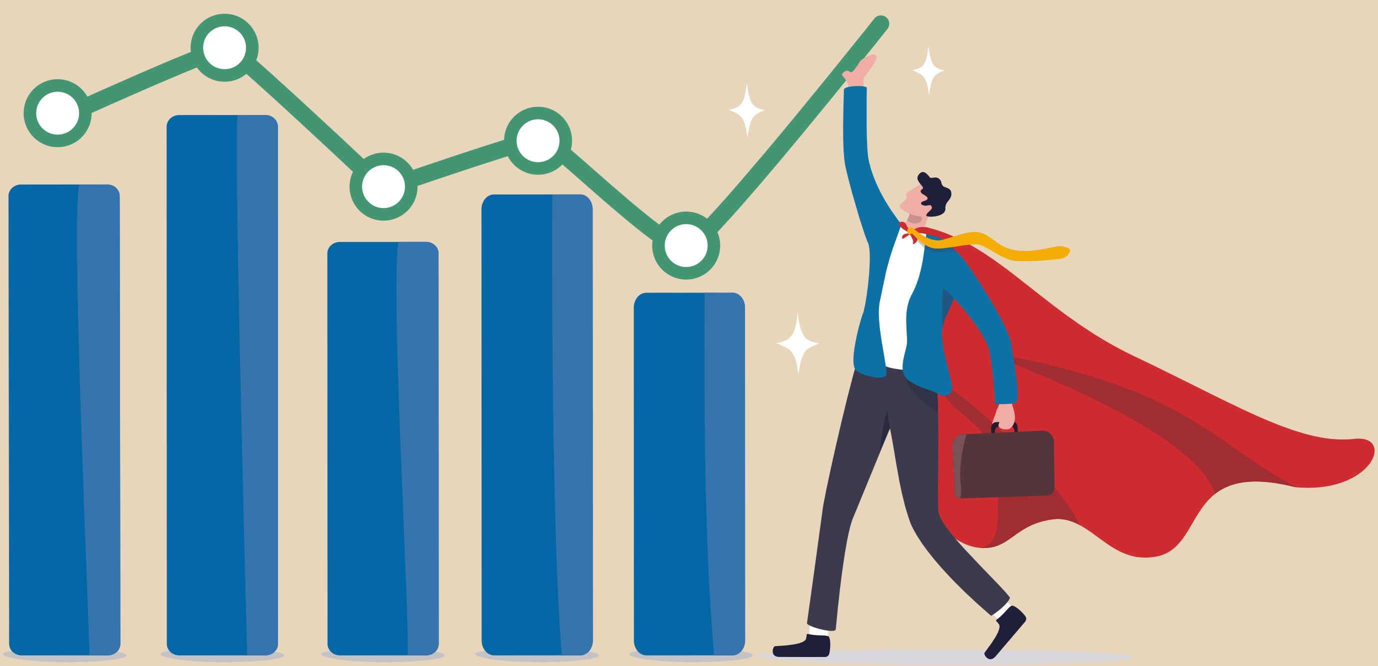
To help provide members with the full facts and allow them to make an informed judgement on the scheme, the USS set to work on a report to show the "two sides of value for money".

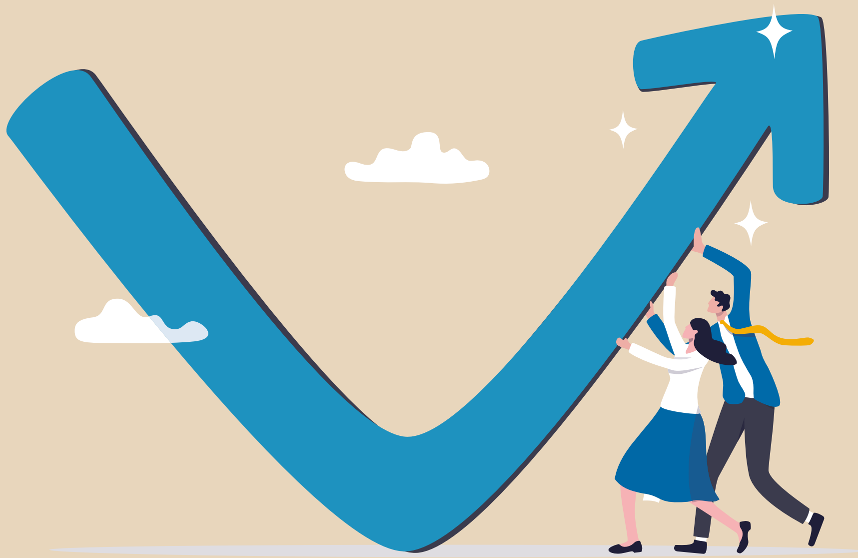
Showing another perspective

"We thought it would be useful to try and put out some facts and a deeper dive into how much it costs us to run the scheme, and to think about it from a value for money perspective, rather than just an absolute cost view," says Gibb. "You've got to look at what is in the members best interest; can you come up with a balance where you can add value and manage the solvency of the returns of the scheme, whilst also managing the cost base."

Gibb explains that the report also looks to take members through the thought process behind recent trustee decisions, clarifying that whilst members may not agree with the approach, they can at least understand the logic.

At a headline level, the report showed that the USS made £27.5 billion in investment returns for its DB fund over the past five years, while around £2.3 billion of its returns were value added by





its in-house investment team's decisions, net of costs. Independent analysis shows that costs in that time period were around £384 million lower than similar schemes.

The scheme was also able to introduce private market assets to its DC funds without charging members management fees.

Indeed, Gibb says that the USS is "much cheaper" in terms of investment, explaining that if pension schemes want to consider private market invest, or even active public market investing, using a third party at a certain size can be expensive.

"You've got the clout, and you can bargain with them, but private markets don't budge much on price, so it just ends up really expensive," he explains. "Doing it yourself, if you've got the capability, means you can tailor what you do to suit the needs of your scheme, and you can do it cheaper. That's a really important advantage that smaller schemes don't have."

Trusting trustees

"My biggest message to members is just to trust me. The people that work here care really deeply about the scheme. The vast majority are members of it, they joined because they think it has a social purpose as well as being an interesting job. It's really tough to see that people are unhappy with what we're doing, but everybody here is working their very hardest to try and serve members. We know that some people are dissatisfied with the outcomes of valuations or the changes that have happened, but it can be really hard to end up with the best possible outcome for members within the regulatory construct we're governed by. We are working hard and we really do care that members have a secure retirement."

USS CFO Dominic Gibb

Taking ownership

The benefits can also be more widespread, as Gibb says that this internal management has allowed the scheme to be quick to react to recent market conditions.

"At scale, you can create teams of genuine experts and that gives you an advantage over somebody that's forced to use third parties," he explains, continuing: "Market conditions recently have been really unprecedented, and although scheme solvency has got better, it's taken a lot of really active management because the market has been very volatile. Having a team of experts internally means that we can control liquidity; we can be very nimble and quick to react."

Gibb suggests that being a direct asset owner also allows for more direct engagement on key issues such as climate change, arguing that having control of its own assets give the scheme more ability to fulfil its net-zero commitment.

He explains: "We just moved a large portion of our liquid market equities into a passive investment that tracks an index which is 20 per cent below the overall average carbon emission in the market, so that immediately has a positive impact on the emissions of our investments.

"Where we actively invest, we are also able to directly influence investee companies as well, as we're able to vote on our stock, and we can influence in the private market space as we have seats on the board of a lot of businesses."

The scheme is keen to acknowledge the areas that have been more challenging too, as USS's value for money report found that the scheme was more expensive on the pension admin side. However, Gibb explains that while the investment process can benefit from economies of scale, this is much more difficult to achieve in terms of administration.

Striking a balance

Gibb also emphasises that some costs represent an investment in the scheme, with particular investments having been made into its governance and valuation process, and the front end that members interact with. "We've completely rebuilt all of our online functionality in order to be able to give members online access, e.g. to be able to let people receive annual statements electronically," he says.

In addition to this, Gibb points out that technology can represent a significant cost, explaining that the benefit changes to the scheme over time have made ensuring member statements are accurate a costly technological challenge.

"It's things like that where the trustee has to make a decision about how much to invest in the scheme," he says, stressing that despite the cost, this type of exercise can be very valuable to member experience, ensuring retirees experience a more seamless transition into retirement.

Written by Sophie Smith