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Financial Times Letters October 7th 2017

“USS was warned in 2006 but has learnt no lessons”

Sir, If the Universities Superannuation Scheme’s investment strategy and investment performance is so good, why is its record of managing its assets, liabilities and deficit so bad? (“Head of universities pension fund defends investment strategy”, October 2).

In 2007 USS had a £2.5bn surplus — £30.1bn assets and £27.6bn liabilities, on an FRS 17 basis, required for all private sector pensions. By 2017, although assets had doubled to £60bn, liabilities had almost tripled to £77.5bn, giving USS a whopping £17.5bn deficit. This must be paid by higher university contributions, inevitably squeezing teaching and research.

Despite USS’s denials, the root cause of the £20bn deterioration over 10 years — a £2.5bn surplus to a £17.5bn deficit — is its aggressive long-term bet that equities would outperform boring bonds. In 2007 USS’s strategic asset allocation was just 10 per cent in fixed and index-linked bonds, even though pensions in payment were about 40 per cent of liabilities. The bet has not paid off, and the deficit has just got worse.

In 2007 USS could have chosen to switch from equities to bonds to lock in its surplus, but decided to keep on betting. Anyone who thinks this is being wise after the event should read John Plender’s article of May 29 2006, “Pension fund punt could undermine UK universities”, a clear warning to USS. And USS does not seem to have learnt any lessons — in March 2017 it held just 10 per cent of assets in “liability hedging gilts” to match its pension liabilities.

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