I don’t speak boilerplate!
A light-hearted look at USS terminology (boilerplate)

Health warning: Immersion in boilerplate is bad for your mental and physical health. It can suck you into believing all sorts of impossible things, such as in neo-liberal economics and that good DB (defined benefits) pensions are not affordable. You need to resist this.

Don’t worry if after reading this boilerplate still does not make sense. This can be a sign of excellent mental health.

Self-sufficiency: The ability to pay out all current and future pensions if all the employers become bankrupt together. This would require something like total financial collapse or catastrophic climate change, in which case pensions would probably not be our main worry. However, USS is still not allowing divestment from high carbon activities which increase the likelihood of climate change.

Valuation: an attempt every three years to use flawed arguments and assumptions to show that USS is in crisis. The underlying basis is requiring self-sufficiency, though it would be more logical to look at cash flows. It involves treating a long term scheme based on a large sector as a short term scheme involving only one employer.

Technical provisions: the assumptions used in calculating the valuation. Some of these assumptions are totally cut off from reality e.g. that investments are based on gilts, which have low and volatile interest rates. However, two thirds of investments have much higher, more stable interest rates. Other assumptions involve the sort of inconsistencies you would hople a first year student would know to avoid e.g the inflation updating used for liabilities such as salaries is CPI + 2%, but the inflation updating for assets is only CPI + 0.9%. They should be the same.

Short term reliance: no-one, including USS is really sure what this means. USS is trying to define it as a short term measure of long-term self-sufficiency, which is nonsensical. The sensible short term measure of how USS is doing would be cash flow i.e. difference between income and expenditure, which is large and positive. There is no legal obligation to take short term reliance into account. However, USS is proposing to do this and use poor short term reliance as a pretext to impose contribution increases, benefit reductions or additional valuations.

Risk: the likelihood USS investments will not perform as well as expected, leading to a need for increased contributions.

Derisking: investment in gilts which have low rates of returns in order to reduce risk. This will reduce income and therefore increase the ‘deficit’, leading to increased deficit contributions and possibly reductions in benefits. This could lead to a downward spiral of increasing deficit, increasing contributions and reducing benefits and increasing derisking until there is an enormous deficit and USS pensions are worthless. Interestingly gilts are more volatile than other forms of investment such as bonds and equities, so derisking does not even reduce ‘risk’.

Prudence: the assumption that to date USS has had no strategy for avoiding risky investments and therefore needs to use derisking to do this. It does not seem credible that a large and successful scheme like USS does not already have a strategy in place for avoiding risky investments.

Reckless prudence: the use of investments based on very low interest rate volatile gilts (see derisking). It is so excessively prudent that it leads to a reduction in action, increasing deficit and contributions.

Retirement builder: PR term for the defined benefits (DB) career average related scheme. The posh name is probably trying to hide the fact that benefits for salaries over a thereshold have been moved out of DB and that there are threats of this threshold being reduced unless we take action.

Investment builder: PR term for the defined contributions (DC) part of the scheme. The posh name is concealing the fact that this part of the scheme is totally uncertain and might not be worth a lot. Would you be better putting your money and the employer contributions under your mattress?

Crisis: created by USS using an outdated and incorrect methodology to show that a scheme with over £60 billion of assets and positive cash flow every year is having problems. This notion of crisis has been taken up and made worse by the media.