# Is this the five minute argument or the full half hour?

Reading the latest blog post from USS CEO, Bill Galvin (https://www.uss.co.uk/how-uss-is-run/views-from-uss/addressing-the-facts-of-the-uss-valuation), I am reminded of the Monty Python sketch referenced in the title (https://www.youtube.com/watch?v=kQFKtI6gn9Y).

I would almost prefer it if Mr Galvin adopted the style of Dr Hastings Banda (https://www.youtube.com/watch?v=-ViNxSMoqTc. In practice, I am told that he sometimes does so when asked for information sufficient properly to undertake an independent assessment of the USS valuation or when confronted with inconvenient facts.

For now, I will just take issue with one statement in his latest post. The post claims to address some misapprehensions about the latest valuation exercise, although I think Mr Galvin is mainly taking aim at straw men. About half-way down he states, in a paragraph addressing the criticism that the valuation assumptions are too prudent: "Our updated funding assumptions – arrived at following a thorough, independent review – have actually reduced our liabilities. *Had we simply maintained the position from the 2014 valuation, the funding deficit would be almost twice what we estimate it to be today*" [my italics].

I am fascinated by this statement. I won't attempt to subject it to any numerical analysis, since there are no numbers in it, but it seems to pose a difficult question: `if that is the case, why does the latest valuation not give rise to an estimated surplus (or at least a deficit significantly smaller than the 2014 valuation estimate)?'

I'll explain what I mean.

The response to the estimated deficit in the last valuation was to 1) move to Career Average Revalued Earnings for future accruals; 2) to remove the link to future salary increases for pension already earned; 3) to cap salary for DB purposes; 4) to move to a DC scheme for earnings above the cap; 5) to increase contributions by both employees and employers.

The purpose of these changes was to render the scheme fully-funded within 15 years (see the March 2014 valuation report). Each of these moves reduced the actual liabilities of the scheme (not just their estimated values). Yet now, the CEO says that*, under more optimistic assumptions*, the liabilities require an increase in contributions to a level unsustainable by the employers. So what has changed? There seem to be three possibilities unrelated to more optimistic assumptions.

The first is that investment returns over the intervening three years have been significantly below those assumed in the last valuation.

The second is that actual liabilities of the scheme have risen unexpectedly.

The third is that the scheme is proposing to adopt an investment strategy which reduces returns.

I wonder which of these is the case?

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