



UoB Briefing

20 September 2019

Dear Colleague,

I am writing to update you on matters relating to the USS pension scheme, in particular the conclusion of the 2018 valuation of the scheme. As you may be aware, two unions (UCU and Unison) have declared a dispute and are balloting their members for industrial action. I thought it would be helpful to provide some insight into what is a national rather than a local issue and to set out the University's position which has been very positive in its support for an outcome which sustains attractive pensions for staff. We hope that this national issue can be resolved without recourse to strike action, which would have a damaging impact on students and perceptions of higher education, and would encourage staff to explore all the information in detail and think carefully before voting.

The University's position

The University has set out its position through a series of responses to USS employer consultations. These can be viewed on the intranet (2017 -

<https://intranet.birmingham.ac.uk/finance/pensions/USS/2017-USS-valuation.aspx>

and 2018 - <https://intranet.birmingham.ac.uk/finance/pensions/USS/2018-USS-valuation.aspx>) and were approved by a Sub-Group of the University's Council. The Vice-Chancellor is not a member of this Sub-Group and does not take part in any discussions around USS to avoid any potential conflict with his role as the current Chair of the USS Trustee Board.

Discussions around the scheme's valuation have taken place over the past two years. Throughout, the University has consistently advocated a need to find a long term sustainable funding model for USS, which provides a balance of affordability of contributions, ongoing benefits and risk. The Higher Education (HE) sector continues to see growing levels of uncertainty over financial sustainability as a result of the capping of home undergraduate

tuition fees, the recent review of Post-18 education and funding; as well as Brexit and considerable political uncertainty.

Joint Expert Panel

You will recall that there was a dispute in the early part of 2018 around the change to benefits arising from the outcome of the March 2017 valuation exercise. Universities supported the formation of a Joint Expert Panel (JEP) - consisting of representatives nominated by UUK and UCU - to examine options which would help resolve the dispute around the future of the scheme, specifically finding a route to preserve current scheme benefits (the key UCU demand of “no detriment” in the preceding dispute). There was, however, a need to meet statutory requirements of the 2017 valuation which resulted in a contribution increase in April 2019, with further sharp rises planned to take effect in October 2019 and April 2020 (under rule 76.4 of the USS scheme). It was believed that further valuation work, incorporating the work of the JEP, would create an acceptable outcome which would avoid the full increases in cost due in October 2019 and April 2020.

The proposals made by JEP were taken forward by USS through a new valuation exercise dated March 2018. Along with other employers in the sector, we have agreed with and supported measures to conclude the current valuation exercise under the so-called “Option 3”. Details of what this implies can be found in the University’s responses to consultations (referenced above) and on the USS employers website (see link at end of this email). Option 3 is as close to the JEP recommendations as is possible. To get to this position, which retains current pensions benefits in full, joint contributions to the scheme will rise this October to 30.7% of salary and will stay at that level for a further two years, giving time and space for the JEP to complete the next phase of its work and for USS to undertake a further valuation of the scheme as at March 2020. Under the Scheme’s established cost sharing rule the increase in contributions will be shared 65:35, meaning that employer contributions will rise to 21.1% of salary and member contributions will rise to 9.6%.

Contribution Rate (%)	Pre Apr 2019	April 2019	Oct 2019*	April 2020*	Approved proposal
Member	8.0	8.8	<i>10.4</i>	<i>11.4</i>	9.6
Employer	18.0	19.5	<i>22.5</i>	<i>24.2</i>	21.1
TOTAL	26.0	28.3	<i>32.9</i>	<i>35.6</i>	30.7

*Italics denotes contribution rates which would otherwise come into effect

Critically, if this proposal had not been passed by the Joint Negotiating Committee (JNC) of USS at a meeting in late August, and agreed by the USS Trustee Board on 12th September and the Pensions Regulator, members and employers would have faced very steep hikes in contribution rates next month and in April 2020 because of the Scheme’s backstop arrangement under Section 76.4. This is demonstrated in the table above. Without this agreement, staff contributions would have increased to 10.4% of salary in October 2019 and

11.4% in April 2020, which reflects the cost of keeping pensions benefits unchanged. **The arrangement agreed by JNC means that, for someone earning the average of all those in the scheme, the same level of benefit will be achieved for £815 less than would otherwise have been the case.** If members of the USS pension scheme would like to calculate how much they will pay (before tax) in each of these scenarios, USS have created an online [2018 valuation contributions calculator](#).

We should recognise that the Trustees ultimately have legal obligations to ensure the sustainability of the scheme by putting in place a sustainable plan to address the future funding of USS at a level of risk which is acceptable to the Pensions Regulator. If current benefits are to be retained this means contributions have to increase.

The current dispute

So what is the current dispute about, given that we now have a solution which guarantees unchanged benefits? UCU's demand in 2018 was for "no detriment" to pensions benefits, but this demand has now been extended to the entire cost of preserving those benefits falling on employers. It is important to note that the proposal for employee contribution rates of 9.6% is only 0.5% higher than the JEP work indicated would be a fair outcome using assumptions appropriate at that time. Furthermore, UUK representatives to the USS JNC made an offer in August, subject to consultation with employers and UCU members, to increase the employer share of additional contributions by an additional 0.5% in return for the cancellation of the current strike ballot in nearly 70 universities, including Birmingham. This would have had the effect of limiting member contributions to 9.1% (in line with the original JEP proposal and a small rise of 0.3% from the current contribution level of 8.8%), but this offer was rejected by UCU. The final agreed proposal therefore reverted to the 65:35 share. **UCU is in effect asking its members to consider taking strike action over what could have been an additional contribution rate of only 0.3%.**

The increase in employer contributions to 21.1% (from 18% last April) also presents a considerable financial challenge for universities. Nationally, it equates to employers paying an extra £250 million per year into the scheme at a time when future funding for universities remains very uncertain. At Birmingham it represents an increase of more than **£6 million** per annum, money that will no longer be available to support key priorities in research, education and the student experience.

We hope that this national issue can be resolved without recourse to strike action which would have a damaging impact on students and perceptions of higher education. I hope you will agree that the University has been very positive in its support, through its consultation responses, for an outcome which sustains attractive pensions for staff.

For more information please see the USS website - <https://www.uss.co.uk> and the USS Employers Forum website - <https://www.ussemployers.org.uk/>

With best wishes,

Professor Tim Jones

Provost and Vice-Principal

