



UoB Briefing

5 February 2018

Proposal to reform USS Pensions

Dear colleagues,

You will be only too aware that Universities Superannuation Scheme (USS) pensions developments have been taking place over a period of some months. As these have unfolded at a national level, the University has been in regular contact, through regular UoB Briefing emails, to keep you informed.

I would like to take this opportunity to summarise why the reform of the USS is necessary, what the reform proposals are, what happens next, and where you can find further information.

Professor Tim Jones

Provost and Vice-Principal

Why is reform of the USS Pensions necessary?

The 2017 valuation of the USS showed a significant rise in the cost of future service benefits, which has risen by over a third since the previous valuation in 2014. USS's funding deficit has also increased to approximately £7.5 billion.

Defined benefit (DB) pension schemes have become increasingly expensive due to slower and more unpredictable economic growth and lower investment return expectations. Over the last decade employers have paid almost 30 per cent more towards USS benefits. However, at this valuation employers are not in a position to sustain even higher contributions, and it is believed that many members would struggle with higher contributions too.

These funding problems must be addressed so that the scheme remains sustainable and members' benefits continue to be secure. The status quo is simply unacceptable on many fronts, not least from a pensions law perspective, but also under any generally acceptable actuarial approach or indeed from the risk perspective of the scheme's employers.

On 23 January a proposal to make changes to USS was decided on by the Joint Negotiating Committee (JNC).

What are the proposals?

The main elements of the proposal are summarised below

Employer contributions

- Employers will continue to pay a contribution of 18 per cent of salaries towards USS (this includes contributions of 13.25 per cent made directly to members' defined contribution (DC) accounts as well as investment charges and past service deficit charges), and it is proposed that this important commitment is extended from March 2020 to March 2023.

Member contributions

- Members will continue to pay 8 per cent of salaries towards USS.
- A new option is being proposed that would allow members to pay less (4 per cent is proposed), whilst still benefitting from the full employer contribution of 18 per cent.

Main benefit change

- The JNC proposal is to change USS so that members earn DC benefits on all of their salary from April 2019. Currently, DC benefits are only earned on salary over £55,550, with defined benefits (DB) earned on salary below the threshold.
- DC and DB benefits are quite distinct, and both have their advantages.
- In a DC scheme, members have individual saving pots (or funds) that both they and their employer pay into. At retirement, members draw their pension savings from their fund, which consists of all of the contributions paid in plus the investment returns that have been earned. They can then choose whether they wish to take out all their retirement savings as a lump sum, or to opt for alternative options such as a pension (known as an annuity) or drawdown (where cash is drawn from the fund periodically).
- More information on the difference between DB and DC pension schemes can be found on [Universities UK's website](#).
- It is important to understand that entitlement to defined benefits (whether in the final salary section or the career average section of USS), which have accrued will not be affected by this proposal. The proposals will only affect future benefits once it comes into effect.

A valuable DC

- The DC offer proposed would represent exceptional pension provision, containing important and valuable enhancements, and all delivered using the existing USS Investment Builder.
- Employer contributions directly to members' DC accounts is proposed to be 13.25 per cent of salaries. To put this into context, this is almost double the median employer contribution rate to DC savings by employers generally in the private sector.
- USS employers would fully subsidise investment charges – meaning that more of your money is invested to grow your pension savings – and in addition, USS's DC investment funds continue to perform strongly.
- One of the most attractive features of the JNC's proposal is that it opens up new choices for members on how they might use their pension savings, and when these savings can be drawn. DC pension saving offers much greater freedom and choice over their financial options as they move from work into retirement.

Death and incapacity benefits

- Death and incapacity benefits will not be changed. They will continue to be awarded on a defined basis to provide certainty to members and their families in the most challenging of circumstances

Longer-term USS

- Defined benefits, or alternative scheme structures, could be re-introduced in future if the scheme's funding situation improves.

What happens next?

USS employers, including the University of Birmingham, will consult all scheme members and affected employees on the proposed changes. This consultation is scheduled to start on 19 March 2018 and will last at least 60 days. More details on this consultation will be available in the coming weeks and employees are encouraged to respond to this consultation so that all views can be reflected in any final reforms that are decided on.

Any agreed changes would come into effect no sooner than 1 April 2019 and would only apply to benefits built up from that point onwards by active members (people currently paying into the scheme).

Benefits already earned by both active and deferred members are protected by law and in the scheme rules. Benefits already being paid to retired members are not affected.

How can I find out more?

More information on the USS reform proposals are available on [Universities UK's website](#) and the [USS website](#). Further background and detail can also be found on the [staff intranet](#)