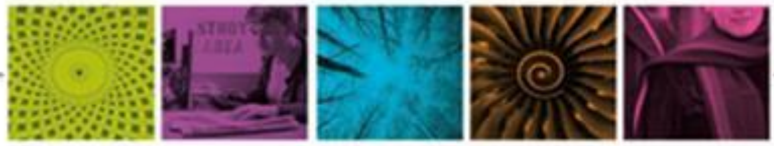

UoB Briefing

13 December 2017

Universities Superannuation Scheme (USS)

Dear colleagues,

Following my recent messages about proposed reforms to the main pension scheme for academic and related staff in the sector, the USS, I wanted to share the latest updates. This briefing covers updates on the timetable, proposals around cost-sharing between employers and employees, and the latest Universities UK (UUK) response to University and College Union (UCU) alternative modelling approach.

Timetable

Meeting as the USS Joint Negotiating Committee (JNC), Universities UK (UUK) – for the employers – and the University and College Union (UCU) – for individual members of USS – had agreed to reach a decision on proposed benefit reform by 30 November. However, towards the end of November, UCU requested a delay until March 2018. The USS Trustee has agreed to extend the deadline for a decision until 18 December. Any longer a delay in finalising the proposal would jeopardise the completion of the valuation process by June 2018, as required by the Pension Regulator. Once the proposal has been decided, a statutory consultation with individual members has to take place, and the USS Trustee must then consider the feedback provided during the consultation before making any final decisions to present to the Pensions Regulator.

Cost-sharing

USS Rule 76.4 sets out arrangements for cost-sharing (between employers and individual scheme members) if a decision on benefit reform is not achieved in the JNC.

The USS trustee has made all stakeholders aware that if the JNC does not reach agreement on 18 December, it will have to begin a formal process set out under scheme rule 76.4. This involves a default position to address the funding challenge, which works as follows:

- The 1% Defined Contribution (DC) match is removed
- All employer contributions to Defined Contribution above the current salary threshold are removed (subject to consultation)
- The cost of residual benefits is then split 35:65 between members and employers respectively

In practice and as a minimum (based on the sequential actions noted above), employers would have to pay contributions of 24.11% of salaries (up from 18%) and member contributions would have to rise to 11.29% of salaries (up from 8%). These considerably higher contributions would be paid towards benefits that will be unattractive to employees earning above the salary threshold (due to the proposed removal of DC benefits, in line with the rules but subject to consultation) and unaffordable for many members unable to pay higher contributions. It would also require a fundamental review of the ability of employers to then pay contingent contributions as a means of supporting the quantum of risk taken in the overall USS funding approach. There would need to be considerable engagement with the USS trustee about the precise impact of it imposing employer contributions at this level on the overall funding approach.

UUK is clear that this outcome must be avoided, as it would have very severe consequences for employers and employees, and ultimately for the future of the scheme itself. We believe that all parties recognise the harm that would be caused by such a course of action, and anticipate a decision of the JNC on 18 December to avoid the risk of this occurring, and will keep employers updated on any developments.

UCU modelling of outcomes

UCU recently issued a **press release** describing its analysis of member outcomes under the UUK proposal, which suggests that members could be £200,000 worse off under the UUK proposal compared to current benefits. We believe that UCU's analysis is unhelpful, and is likely to mislead employees as to the difference between the existing USS and UUK's proposals.

UUK has commissioned Aon to model member outcomes under its more detailed proposal, and will share this modelling with institutions in December. We recognise the need to have this information available as soon as possible, and once prepared, UUK will issue communications for employers to share with members as required. However, in the interim:

- To maintain the current level of USS pension benefits would require an additional 11% of salary – this is simply unaffordable for many institutions and employees. Maintaining the existing scheme benefits would also leave the level of risk to which employers are exposed at unacceptable levels, risking the future businesses of USS participating employers. UUK believes that its benefit reform proposal would offer a sustainable and affordable solution as well as attractive pensions to employees.
- Just a week ago UCU claimed that members would only receive 20% of their current benefits under our proposal, but these latest figures from UCU suggest this is closer to 70%. We are concerned that publishing figures, without setting out the context or assumptions made, such as the rate of investment return, is highly misleading for USS members. In UCU's press release:
    - There is no mention of the rate of investment return assumed on Defined Contribution (DC) investments – this is fundamental
    - The modelling does not take account of the proposed employer subsidy of investment charges, which will improve outcomes considerably
    - The analysis assumes lower employer contributions to DC savings than UUK believes would be provided
    - There is no recognition of the range of decumulation options that will be provided for members drawing DC funds (some of which exist already with the Investment Builder product) – the single comparator is lifetime pension, using an expensive index-linked annuity figure to convert DC funds.

It is also important to be clear about the significant differences between USS and the Teachers' Pension Scheme (TPS). TPS is a statutory, unfunded scheme backed by the UK taxpayer. In contrast, USS is a private sector scheme directly backed by higher education institutions. This means USS employers bear the risk if there isn't enough money to deliver the promised benefits. If employer contributions to USS were to increase, it could mean some employers have to use money earmarked for teaching or research to pay pension benefits, and some institutions may even face closure.

Further information

Further information about the 2017 USS valuation is available on the **intranet**.

Professor Tim Jones
Provost and Vice-Principal

13 December 2017