UoB Briefing

25 January 2018

Proposal to reform USS Pensions

As you will be aware from previous UoB Briefings, the 2017 valuation of the Universities Superannuation Scheme (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.

These funding problems must be addressed so that the scheme remains sustainable and member 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.

As a result, on 23 January a proposal to make changes to USS was decided on by the Joint Negotiating Committee (JNC). USS employers, including the University of Birmingham, will consult with scheme members and affected employees.

Information on the background to this decision and the JNC benefit reform proposal can be found on the **intranet**.

Proposal

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 defined contribution (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, which 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 will be consulting with all scheme members and affected employees on the proposed changes for at least 60 days. This consultation is scheduled to start on 19 March 2018. 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.

Further information

More information on the benefit reform proposal and Q&As about the USS valuation are available on **Universities UK's website**. Further background and detail can also be found on the **staff intranet**.

Professor Tim Jones
Provost and Vice-Principal

25 January 2018