**USS Pensions – the issues**

**Introduction**

One of the matters about which UCU colleagues are taking industrial action relates to the USS pension scheme. Pensions are a complex matter and there is a great deal of misunderstanding around the issues with USS. This note summarises the relevant history and context.

**History**

A valuation of the USS pension scheme in 2017 revealed a significant deficit; the scheme’s liabilities had risen sharply because of changes in the economy and the external financial environment, and the basis for valuing the scheme had to take into account the increasingly prudent regulatory regime within which pension benefits are safeguarded. It is worth emphasising that - while some debated the scale of the deficit and how much risk should be accepted - the reality is that it is the USS Trustee that has legal responsibility for the level of risk in the scheme and for producing a plan to address the deficit which is acceptable to the Pensions Regulator.

During the autumn of 2017 the USS Trustee consulted with the 200+ employers who use the USS on the means of addressing this deficit. To ensure sustainability of the scheme (which is the core responsibility of the scheme’s Trustees), it was recognised that either a significant increase in contributions from employers and members would be required for sustainability, or a reduction in retirement benefits.

Since employers had over the preceding three years increased their contribution to the cost of running the scheme by the equivalent of 4% of their salary bill, many were (and are still) struggling with affordability. As a consequence of the feedback from most employers to their representative (Universities UK), it was proposed to reduce the risk to and costs of the scheme by “dialling down” the threshold for the defined benefits part of the scheme, switching emphasis to the existing defined contribution scheme, where pension benefits depend on investment returns.

The proposed change prompted industrial action by members of UCU in the spring of 2018 at most Universities (not including the University of Birmingham). The union’s objective was to maintain unchanged member benefits (“no detriment”). After a difficult series of strikes at many institutions and as a means of resolving the dispute, UUK and UCU agreed to nominate members of a Joint Expert Panel (JEP) to look at the underpinnings of the USS scheme and to propose alternative courses of action.

The JEP reported in the autumn of 2018, making a number of recommendations based on estimates which, in their view, would be sufficient to sustain current scheme benefits but with some increase in contributions. The USS Trustee incorporated the majority of these recommendations into a new 2018 valuation, taking into account changes in economic circumstances in the sector. There were a number of employer consultations through the early part of 2019, aimed at achieving a position whereby the Trustees and the regulator could be confident that, with a revised calculation of the size of the scheme’s deficit, it would be possible to provide unchanged benefits to members without undue risks to the scheme or its members. The University’s responses to these consultations can be found on the intranet alongside this note.

The final agreed position between employers and USS was that total contributions of 30.7% of salary would support unchanged pension benefits for a period until October 2021, whereupon actions in the light of a further valuation (dated March 2020) would be put in place. This is known as “Option 3”, selected from a range of options proposed by USS that were within an level of risk acceptable to them and the Pensions Regulator. Notably, employers during this process agreed to bear greater risk to strengthen the scheme’s covenant to prevent still higher contributions from both members and employers and worked hard to ensure that the final outcome kept costs as low as possible, within the limits of the law.

It was agreed that actions following the upcoming 2020 valuation would be further informed by another phase of the work of the Joint Expert Panel, the results of which are due to be available this autumn. This panel has members nominated by both employers and UCU.

The total contribution of 30.7% of salaries is as close as it was possible to get to the estimate made by the Joint Expert Panel in its initial work during 2018. Under the existing cost sharing arrangement (proposed by UCU some years ago as the basis on which the costs of any additional contributions are shared between employers and scheme members), the employers’ contribution rate rose to 21.1% and that for members to 9.6%. In essence, employers are paying 3.1% more than was the case until April 2018, while the contribution rate for members has risen by 1.6%. The total cost to employers of this change amounts to around £250m; at UoB this is £6m, funded in large part from student fees.

**The Current Dispute**

*Given that pension benefits have been preserved in unchanged form, the key element of the previous dispute with UCU, what is the point of the current proposed strike*?

UCU asserts that the scheme valuation has not incorporated all of the recommendations made by the Joint Expert Panel, thus overstating the need for a higher level of contributions from either employers or members. However, UUK’s independent actuaries are very clear that the valuation has come as close as it can to the JEP calculations, and it is apparent that anything more would have implied a level of risk to the scheme which would not have been acceptable to the Trustee, who have the legal responsibility for the level of risk, and would not have passed muster with the Pensions regulator. The economic and financial outlook remains highly uncertain, given the vulnerability of sector funding to the outcome of the General Election and to Brexit; risks have grown rather than diminished. It should also be remembered that - unlike some unfunded public sector schemes like the Teachers’ Pension Scheme (TPS) - USS is a fully funded private scheme, tightly regulated, where assets need to be sufficient to pay all future benefits. Member benefits in an unfunded public sector scheme are paid from tax revenues at the point when they are due for payment, which is a very different model.

UCU separately asserts that, since employers have accepted a need for higher contributions, they must pay the increase in cost in its entirety. This is an additional demand to the original objective of unchanged benefits (“no detriment”). Despite this, employer representatives made an offer to UCU at the Joint Negotiating Committee of USS which would have resulted in member contributions being capped at 9.1%. This was turned down by UCU and it is not clear whether this offer could have in any case been accepted by those employers for whom contributions are at the very limit of affordability.

It is noteworthy that UCU conducted a ballot on USS at less than 70 institutions, thus excluding many USS employers. There is a mandate for industrial action in 52 of these institutions; it is not at all clear how this matter will be resolved since the action is selective and any resolution would need to be national.

The financial logic of the proposed industrial action is questionable: the cost of the additional pension contributions to a person in USS earning the average salary of £45k per annum is, after tax, around £480 per annum. The cost to that same member if they heed the current call for eight consecutive days of strike action would be approximately £960, thus negating any potential financial benefit over the two year period during which these new contribution rates apply.

**The University’s Position**

As is very clear from our responses to USS consultations, which have been led by a sub-group of our Council, the University of Birmingham wants to be able to provide a good, affordable and sustainable pension offering to the nearly 6,000 staff eligible for membership of USS. We were very supportive of Option 3 as an outcome that enables pension benefits to remain in unchanged form for a period during which the JEP and others can propose methods of ensuring that we can sustain such an offer for the future. We have agreed to fund our share of the additional cost – that is £6m per annum - which means lower investment elsewhere in the University in additional staff and support for students and facilities. But we believe that UCU’s demands are unrealistic in the current climate for the sector, given that employers have already provided the bulk of the funding for the core UCU demand - which was to protect current pensions benefits. It also breaks with the long-standing cost-sharing principle of USS, which UCU themselves proposed.

More information and background can be found at [www.ussemployers.org.uk](http://www.ussemployers.org.uk).

As a final point, our 2018/19 Accounts, due for publication in December, will demonstrate the extent of the impact of USS on our financial position, and the shared exposure across the sector, to the risk associated with the Scheme’s deficit. Accounting rules mean that universities need to recognise a liability in their accounts for their respective contributions to the USS recovery plan. As a consequence, Birmingham and many other USS institutions will be reporting a major financial deficit this year.