**UUK information gathering, July 2018**

Name of Respondent: Professor Tim Jones

Position: Provost and Vice-Principal

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USS Employer: University of Birmingham

In the response to the UUK Survey on the 2017 USS valuation (given below in *italics)* which was provided in autumn 2017, we set out our position in relation to the affordability and sustainability of the proposals as follows:

**“*Please indicate your institution’s view on the statement that regular employer contributions should be no more than 18% of salary.***

***Moderately oppose – my institution might be willing to pay more than 18% in specific circumstances***

*Our strong preference is for an outcome to the valuation that maintains the existing employer contribution rate of 18%. However, we might support a small increase in employer contribution rates as part of a settlement including benefits re-structuring and modest employee contribution increases if this achieves a sustainable funding position, delivers greater flexibility for employers and employees, and enables agreement to be reached without extensive labour relations issues.*

***Does your institution believe that increasing member contributions beyond the current 8% of salary is likely to lead to more scheme members opting out?***

*We do not have a specific view as the answer depends upon the extent to which the contribution level increases and the perceived attractiveness of the ongoing benefits provision, including the level of employer contributions. We did not experience a significant rate of opt out among permanent employees when the most recent contribution rate increase was introduced. We would, however, anticipate that early career and more junior members of the scheme are more likely to consider opting out, due to affordability issues and having less cumulative accrued rights, if the member contribution rate rises significantly. For more senior members of staff, the diminishing value of the annual and lifetime tax allowances are likely to be more of a factor in any decision to opt out*.”

Our position remains unchanged. Consistent with the view we have held throughout, we would be prepared to pay modest and manageable higher contribution levels as part of a settlement including benefit reform and putting the USS scheme on a financially sustainable footing. An increase in employer contributions to 19.5% as part of a package of benefit reforms would be manageable, but an increase beyond 20% would be very challenging unless it were only a short term measure until 1 April 2020 or earlier, by when it would have to be replaced by a new set of reforms with lower employer contributions. This is especially the case when we are already experiencing significant increases in pay and remuneration costs as well as higher pay claims from Unions in the current national pay negotiations. Increases in employer contributions would significantly affect the Sector’s ability to invest for the future, especially in the student experience; and increases to levels of 24.9% would seriously threaten the sustainability of institutions and require major savings in other areas, putting jobs at risk. As indicated by PwC, the covenant risk has increased since 2016, a contribution level of 24.9% would result in the employer covenant value and security declining further. We are also concerned about the ability of staff to pay higher contributions rates rising to 11.7%.

We would argue strongly that the increased contributions required by Rule 76 should be phased to make them more manageable, noting this would see employer contributions rising to 19.5% on 1 April 2019 and then 22.5% from 1 October 2019 (resulting in 21% employer and 9.6% member contributions over 2019/20 overall). We would see the application of Rule 76 and these higher contributions as time limited and short term measures, which would need to be replaced by a more affordable and sustainable set of scheme changes, no later than 1 April 2020 and preferably earlier. However this would require the Joint Expert Panel to conclude its work by its own September 2019 timeline and then for the JNC to agree a set of sustainable scheme changes in time for them to be implemented. This timeline remains challenging.