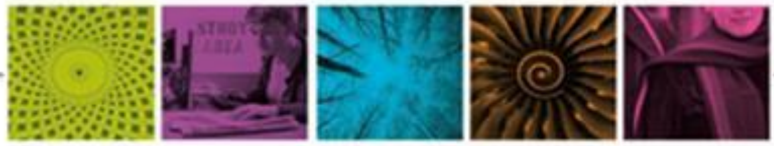

UoB Briefing

18 January 2018

USS update

Colleagues will recollect that, in December, the deadline for reaching agreement in the Joint Negotiating Committee (JNC) between the universities and members of USS was extended to 23 January 2018. The two sides are trying to find a way forward to address a substantial scheme deficit arising from the 2017 actuarial review.

Universities UK (UUK) proposal

The universities (represented by UUK) had previously proposed that the threshold for the accrual of defined benefit (DB) be reduced to zero and that, at least for a period until the economic conditions allow, all pension accrual should be on the basis of defined contribution (DC). The universities would maintain contributions at their existing level of 18 per cent.

The objective of UUK's proposal is to ensure that USS remains sustainable in the long-term. This is critical to secure accrued benefits and so that employers can offer valuable pension benefits now, but also in the future. The proposed new arrangements will still be very good pension provision.

UUK's proposal involves employers making a high contribution to DC savings, but also with a specific employer-funded subsidy of investment management charges and with full DB-style cover for members who suffer death in service or incapacity. Employers also propose allowing members to pay lower contributions than the current eight per cent. This means more employees could afford to save for their pension, and provides more options for members to choose how much they save.

UUK has asked USS to model what level of DB benefits could be afforded for the current contribution rate at this valuation. Even if some DB was maintained at this valuation, the level of DB that could be afforded would be very low.

DC does not offer the same guaranteed outcome that DB does but DC does have advantages to members, such as the greater flexibility and choice it offers. Maintaining even a small level of DB would restrict the ability to realise the benefits of DC, whilst accruing only a very small amount of guaranteed pension. It would also require higher contributions towards the scheme's deficit rather than maximising the contributions paid to benefit members' future service. For this reason, employers believe that a DC-only offer at this valuation is the best offer for members, maximising the contributions towards future service and giving additional flexibility.

New University and College Union (UCU) Proposal

UCU, on behalf of scheme members, has now proposed as follows:

- Members should increase their contributions from 8 per cent to 10.9 per cent
- Employer contributions should rise to 23.5 per cent
- The accrual rate for service in the Career Average DB section be reduced from the current 1/75ths to 1/80ths

- The salary threshold for Career Average DB accrual should remain unchanged at £55,550 (index linked)
- The 1 per cent match should cease to apply

Defined contributions above the salary threshold and the employer subsidy of investment charges would remain unchanged

UUK does not support UCU's current proposal as:

- It requires scheme members to pay much more for a reduced pension benefit
- It does little to reduce the high levels of risk in the scheme
- There would be a high likelihood of further benefit change in the near future

It would mean increases in employer contributions to unaffordable levels at a total cost of around £500 million every year; this would necessitate large cuts to budgets in other areas such as teaching and research, and could put many jobs at risk

Next steps

Once agreement has been reached in the JNC on 23 January, there will be a wide consultation lasting two months. A final decision on the reform of USS must be taken by the USS Trustees by the end of June 2018. It is currently suggested that any changes to the scheme would be brought into effect from April 2019.

Further background and detail is available.

Professor Tim Jones
Provost and Vice-Principal

18 January 2018