

22 February 2018

Open letter to USS pension scheme members

Dear members of the Universities Superannuation Scheme,

With the prospect of further industrial action in the coming weeks, we wanted to take the opportunity to let you know what the Universities UK position is in this dispute over pensions, and also the basis on which we are asking UCU to engage in further talks. We wanted to make it clear that we have never refused to continue to try to find an affordable, mutually acceptable solution.

The challenge for the Universities Superannuation Scheme (USS)

The problem that we share as interested parties in USS is that to continue to offer current benefits, contributions would have to rise by approximately £1 billion per annum. The scheme has a £6.1 billion deficit and there has been an increase of more than a third in the cost of future pensions. Pensions law requires this increased cost to be addressed, and the Pensions Regulator and USS trustee need to agree a credible plan to address the increased deficit by this summer.

When valuing a pension scheme there are many assumptions to be made by the trustee and it is understandable that differences of view may exist. The USS trustee, informed by independent expert advice, has been guided by the laws and regulations governing private pension schemes, which include stringent requirements on how much risk is tolerable. Despite a prudent assessment by the trustee, the independent Pensions Regulator raised concerns about the level of risk in USS in September 2017.

Employers have a legal duty to ensure the pension scheme is compliant with the requirements of the regulator. We also have a moral duty to the members of the scheme, and to the employers whose joint contributions ensure the financial sustainability of the scheme, to take action.

The problem faced by USS and universities is not unique. Many trustees and employers are making the same difficult decisions across UK-funded defined benefit schemes. Only the government could guarantee the level of financial backing for a defined benefit scheme to achieve a sufficiently manageable level of risk, and USS is

The voice of universities

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not a government-backed scheme. The only options to address the funding challenges are to increase contributions to the scheme substantially or change the future benefit structure.

The consequences if employer contributions increase

Employers currently pay 18% of staff salaries to USS, double the average for defined contribution schemes in the UK. In Universities UK's consultation with employers the majority were clear that an increase in the employer contribution is simply not feasible. If an increase in employer contributions were to be imposed, funding would have to be found from elsewhere in university budgets – from teaching and research, from staffing costs and from student services. It could lead to widespread redundancies, hurting both staff and students. And there would be no guarantee that the scheme would be in a more stable place at the next valuation, leading to further cost increases, more significant reductions in future pension benefits, and more cuts.

Potential for further talks

Universities UK, as the representative of employers, has been in talks with the University and College Union (UCU) throughout 2017, and we have met more than 35 times since the start of 2017 to try to find a way forward. The benefit changes that are proposed address the current issues with the scheme and also ensure that the maximum amount of the employers' contribution goes towards members' benefits. It is the best solution for this valuation to ensure the sustainability of the scheme.

We are open to changing the scheme again to reintroduce defined benefits if economic and funding conditions improve. To that end we have been and continue to ask for further talks with UCU on the future of the scheme including:

- Exploring alternative models for risk sharing, which might provide higher certainty about retirement benefits to USS members. An example of an alternative scheme is collective defined contribution, which is currently not possible under UK legislation, although this may change in the future.
- Exploring a well-defined framework for the future re-introduction of meaningful defined benefit if economic and funding conditions improve.
- Exploring how deficit recovery contributions can be kept as low as possible, so that a greater proportion of employer and employee contributions supports future benefits.
- Engaging with stakeholders on the way that any investment de-risking is to be implemented by the USS trustee, for example to ensure that

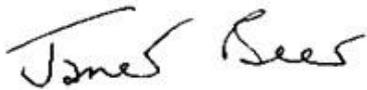
any specific portfolio de-risking approaches deliver the most benefit for the associated expected reduction in target return.

From the end of March a two-month consultation will begin, when you, as a member of USS, will be asked for your views. We would like to appeal to you to take the opportunity to put forward any proposals you feel may not have been sufficiently considered. We have sought independent expert advice at each stage of this process, but we are open to the possibility that we have not considered every possible angle.

In the meantime, we wish to continue to discuss any credible, affordable proposal; and even at this late stage, we are confident that employers would want to consider whether such a proposal could form the basis of a way forward.

If you would like to read the detailed briefing material that sets out our views and analysis in more detail, please visit the Universities UK [website](#).

Best wishes,

A handwritten signature in black ink that reads "Janet Beer". The signature is written in a cursive, slightly slanted style.

Professor Dame Janet Beer, President, Universities UK

A handwritten signature in black ink that reads "A. Jarvis". The signature is written in a cursive, slightly slanted style.

Alistair Jarvis, Chief Executive, Universities UK