FIVE KEY QUESTIONS: USS PENSIONS

INTRODUCTION

The recent decision to reform Universities Superannuation Scheme (USS) benefits that build up from 1 April 2019 is unwelcome but necessary. The USS pension scheme has a deficit of £6.1 billion, and the cost of future pensions benefits has increased by one third since 2014. Pensions law requires a plan to be in place to address the deficit by 30 June 2018, to ensure the scheme remains sustainable.

No easy solution presents itself, but action is necessary. It would cost close to £1 billion extra each year to maintain current benefits, which would have had to be split 35:65 between members and employers if reforms are not agreed. Such increases in contributions would be unaffordable for both employers and employees.

We understand that the proposed changes concern those affected. Information is being put forward in the discussions which is misleading or inaccurate. This sets out answers to five key questions scheme members are asking employers.

Pensions law requires that the USS valuation concludes by 30 June 2018. This means that by then there must be a full consultation with members and their representatives on proposed benefit reform and a consideration of responses.

1 ARE THE FUNDING CHALLENGES TO USS BEING OVERSTATED?

The USS trustee (USS) is legally obliged to set the required contribution rate for the scheme's benefits every three years. This must be undertaken independently and objectively, based on actuarial advice.

A valuation requires assumptions about the future to be made by USS. There can be different methods used to set assumptions and there are many inputs which have to be assessed. The law requires that USS takes a prudent approach. Given the strength of the 350 employers backing the scheme, USS is able to (and indeed does) take a greater level of risk than in most pension schemes in the UK.

It is both inaccurate and misleading to suggest that USS is being overly prudent in its approach. The assumptions have stretched USS to the very limit of what it would find acceptable, and in fact, the independent Pensions Regulator and USS advisors, PwC, have expressed very real concerns about the level of risk the scheme is bearing.

The reform at this valuation is to ensure the sustainability of USS so that it can continue to provide attractive pension benefits to you and to future generations.

2 CAN THE BENEFIT REFORMS BE RECONSIDERED?

Pensions law requires that the USS valuation concludes by 30 June 2018. This means that by then there must be a full consultation with employees and their representatives on proposed benefit reform and a consideration of responses.

It is inaccurate to suggest that UUK refused to negotiate at the Joint Negotiating Committee (JNC). The University and College Union (UCU) and UUK have met over 35 times to discuss the 2017 valuation, and the deadline for making a decision was extended twice. During this period, UCU has unfortunately been unable – or unwilling – to alter its position. By contrast, UUK modified its original proposal in January 2018.

After months of discussions, the JNC, the formal and legally established forum for deciding on changes to USS, reached a decision on proposed benefit reforms, subject to consultation with affected employees and their representatives.

UUK has made clear that the arrangements at this valuation will be reviewed at the next valuation in 2020. This is further emphasised through a clear commitment by UUK in the proposal adopted at the JNC to explore a framework to reintroduce defined benefits in future if the scheme's funding position sufficiently improves, or to consider other ways that risk can be shared between employers and employees in providing good pensions.

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3 WILL MEMBERS LOSE UP TO £200,000 IN RETIREMENT DUE TO THESE REFORMS?

This figure is being quoted without any indication of the assumed level of investment return, which is probably the most important assumption in any calculations. Despite our requests to UCU for these details they have not been forthcoming. What we do know is that the figure relates to an example where someone, not currently a member of the scheme, retires on an annual salary of over £100,000 in today's terms, so it is certainly not a normal career profile.

Critically, this illustration also fails to recognise that, in a world where there is no change to pension benefits, there would be an enormous increase in cost for employers (an additional 7.6% contributions) and employees (an additional 3.8% contributions) to maintain current benefits. This would have far-reaching consequences and would lead to pressures on higher education institutions and not least on jobs.

It is true to say that benefits built up in the future will be lower. UUK commissioned its own modelling from its advisor Aon, and this work suggests that under the proposals, and including standard state pension entitlements, current members should continue to receive retirement incomes equivalent to 80–90% of those that would, hypothetically, have been received under the current benefits. In addition, during the employee consultation (starting 19 March) a benefit modeller is available so that you can better understand the impact of the changes on you.

4 IS DEFINED BENEFIT (DB) BETTER THAN DEFINED CONTRIBUTIONS (DC)?

DB and DC scheme configurations are very different, and have different attributes.

DB is attractive because it offers a promised formula for the calculation of benefits to members, however, in difficult and unpredictable economic circumstances such promised benefits can be extremely expensive to provide. It is also difficult to give employees flexibility over their pension savings. The risks for employers in providing DB can be substantial, because they stand behind the promise.

With DC schemes, members build up a fund based on how much both the member and the employer contribute, and on the investment returns those contributions generate. It can offer excellent outcomes for members, especially if investment returns are good. DC also offers greater flexibility and choice to employees in terms of how they wish to save for their retirement and drawdown their retirement savings. With significant employer contributions, a low-cost option for scheme members, the investment charge subsidy paid by employers and investment strategies that can deliver strong growth for members, the USS DC offer will be very attractive.

In addition, employers have committed to maintaining the current death and incapacity benefits. Employers recognise the importance of providing comprehensive cover for employees, and for their families and other beneficiaries in these situations.

5 IS IT TRUE THAT EMPLOYERS WILL PAY LESS TOWARDS USS PENSIONS?

Employer contributions towards USS pensions are very high at 18%, and will remain at this level. Saving enough for your pension is very important, and we want to be able to offer good pensions to you now and in the future.

Employers will continue to pay 18% of salaries towards USS. This includes a proposed contribution of 13.25% of salaries directly to your DC pot. This is almost double the average employer contribution to DC in the private sector. The rest of the employer contribution will go towards death and incapacity payments, deficit recovery contributions, and scheme running costs.

The reform at this valuation is to ensure the sustainability of USS so that it can continue to provide attractive pension benefits to you and to future generations.

FURTHER INFORMATION

We hope employees recognise that pension benefit changes are necessary to put the scheme back on a secure footing. We want to do our best to explain the proposed changes, and the reasons for them, in a fair and balanced way. Employers will be launching a 64-day consultation on the proposed changes on 19 March. This is the opportunity for members and their union representatives to express their views on the proposals, so that any potential modifications can be considered.

Information on the scheme, including reasons for the proposed changes, is available on the UUK and USS websites:

- http://www.universitiesuk.ac.uk/policy-and-analysis/Pages/pensions.aspx
- https://www.uss.co.uk/how-uss-is-run/valuation