

USS Pension Scheme

March 2021

This briefing provides the background and context of the 2020 USS valuation and sets out the next steps before the valuation is expected to be concluded under the regular timetable by the end of June 2021¹.

Summary

On March 3 2021 the USS pension scheme [published](#) its latest valuation report, which sets out the increase in contributions needed to maintain benefits at current levels, and address the scheme's growing deficit.

The USS Trustee set out three possible pricing scenarios for maintaining the current level of benefits based on different levels of covenant support:

- **Scenario 1** – a total contribution rate of **56.2%**, based upon the current covenant support, in effect the status quo.
- **Scenario 2** – a total contribution rate of **49.6%**, based upon the package of covenant support measures that UUK illustrated employers might be willing to collectively support based upon consultation feedback.
- **Scenario 3** – a total contribution rate of **42.1%**, based upon a further strengthened package of covenant support measures identified by the trustee.

The price currently stands at 30.7%, with employers shouldering most of the costs (21.1% of salary) and is due to rise to 34.7% under the 2018 valuation, albeit a conclusion to the 2020 valuation was expected prior to those increases coming into effect.

The high prices that the USS Trustee has now set for current benefits are well above the levels of affordability for employers and scheme members, who are at risk of being priced out of the scheme.

Employers understand that the USS has a deficit and that a high number of staff opt out as the contributions are too expensive for them. It is vital that contributions to the Scheme are affordable for staff and employers alike and therefore reform is necessary.

¹ The expected conclusion deadline (June 2021) will almost certainly be missed, due to the three-month delay in the USS Trustee setting a price for current benefits to commence negotiations and subsequent consultation with eligible scheme employees.

The assumptions used by the USS Trustee seem to seriously undervalue the collective and enduring financial strength of the university sector, which includes some of the world's leading universities.

Employers are disappointed with the value that the USS Trustee has placed on UUK's illustrated covenant support package, which was developed in line with the USS Trustee's ask to mitigate risks over employers exiting the scheme, and rising levels of debt in the higher education sector.

To date the USS Trustee has not yet provided a clear and reasoned justification for its rejection of UUK's illustrated measures, or the much higher levels of covenant support it says are needed. It is entirely within the gift of the USS Trustee to determine that the package suggested by UUK secures a strong covenant rating as employers believe it should.

At the close of the 2018 valuation, the USS Trustee raised concerns in relation to covenant following Trinity College Cambridge's decision to buy-out of the scheme. For some reason, the USS Trustee has placed considerable, and we believe wholly disproportionate, weight on this one employer leaving the scheme. We are not aware that any other employer has any desire to leave USS, both because they are committed to a portable pension scheme that benefits employees and because the costs of leaving are unaffordable.

There has been a delay in the USS Trustee confirming the price of current benefits, while it has had discussions with The Pensions Regulator. The USS Trustee has now set out higher prices than it previously thought necessary.

On behalf of 340 USS employers, UUK has now [written](#) to the USS Trustee expressing concerns that the scheme is facing an unnecessary and unjustified level of reform and urging it to review its decision to set the very high prices to maintain current benefits. Additionally, UUK has [written](#) to The Pensions Regulator (TPR) questioning its influence on the valuation.

This announcement now commences a three-month window of negotiation between UUK (representing sponsoring employers) and UCU (representing scheme members) on how to address the latest valuation outcome. Following the decision made by the Trustee on the series of prices, together with information on the effect of potential reforms, UUK will be launching a consultation with the 340 scheme employers in late March and in April on options for reforming the scheme.

Background

The Universities Superannuation Scheme (USS) - the main pension scheme for university staff and the largest private sector pension scheme in the UK - is currently going through a valuation. At least every three years the USS Trustee is required to carry out an actuarial valuation. During a valuation, the USS Trustee assesses the scheme's assets and liabilities to ensure it has sufficient funds to pay promised benefits, and also that contributions into the scheme cover the cost of benefits that might be promised in future.

The last two valuations have each been very challenging, revealing a funding deficit – where the value of the liabilities exceeds the assets – and significant increases in the cost of future defined benefits (DB). In recent years, the cost of providing DB pensions in the UK has risen because people are living longer, and the economic

environment has been challenging with long-term low interest rates and a weak outlook for investments, generally, in the future.

The Pensions Regulator, which supervises pension schemes that provide defined benefits, has also made very clear that the risk in USS needs to be managed. Since the last valuations were undertaken, the Pension Schemes Act 2021 has passed through parliament. The act strengthens the regulatory framework and the Pensions Regulator's powers to protect DB pension scheme benefits and measures to ensure they are safe and secure.

In recent years, employers have increased contributions and shouldered most of the increase in costs. There has been a 50% rise in the rate of employer contributions into the scheme over the last decade (from 14% to 21.1% of salary). Since 2017, employers have also been paying more for current benefits, increasing from 26% to 30.7% and is likely to increase again. Employers cannot afford to increase their level of contributions any further, without diverting money from other budgets, with consequences for jobs, teaching, and student experience. Member contributions also increased from 8% to 9.6% leading to industrial action to protect current benefits.

The USS Trustee decided to undertake a valuation at 31 March 2020 due to concern over the funding levels of the scheme. This valuation revealed a further worsening of the scheme's funding position, with estimates that the deficit of the scheme could be as high as circa £18 billion. This means additional contributions will be needed to get the funding back on track or the benefits on offer need to change.

During this valuation, Universities UK (UUK) has been working collaboratively and productively with the University and College Union (UCU) and USS to explore alternative approaches to the valuation that could make the difference in finding a fair and lasting solution.

Since January 2020, UUK has attended 17 Tripartite meetings with UCU and USS to discuss reform to the Scheme. The talks were facilitated by the chair of the Joint Expert Panel, Joanne Segars. The encouraging progress from the meetings has been shared in continuing [jointly published statements](#).

UUK, along with the USS Trustee also set up a Valuation Methodology Discussion Forum (VMDF) In January 2020 for the purpose of providing input and feedback on the Trustee's broad methodology approach for the 2020 valuation. The forum also aimed to support the overall valuation process and discuss how the methodology could be altered to better suit the unique nature of the scheme. Following a number of productive meetings, the USS Trustee removed the 'Test 1' measure of risk appetite from the methodology – a sticking point in previous valuations – and also introduced a Dual Discount Rate, which is more appropriate for a scheme of USS' size and structure.

In September 2020, USS consulted UUK on the technical provisions - key aspects of the valuation, including the methodology and the assumptions You can read the response of employers on the [USS Employers website](#). This, in turn, determines the contributions needed to pay pensions and other benefits promised to members.

Next steps

UUK will be holding further discussions with the USS Trustee and The Pensions Regulator urging them to further consider the value of the measures employers have illustrated to support a strong covenant reconsider the outcomes presented, and to publish clear reasoning for the much higher level of contributions.

Following the decision made by the Trustee on the series of prices, together with information on the effect of potential reforms, UUK will be launching a consultation with the 340 scheme employers in late March and in April on options for reforming the scheme.

UUK expects that the consultation will run for a minimum of seven weeks to allow careful consideration of these important matters, and to allow local engagement with members and governing bodies where appropriate. If UCU, representing scheme members, and UUK representing employers, don't reach an agreement on increased contributions – which is likely given that both parties have suggested that the current contributions are at the limit of the financial commitment they would wish to put into the pension scheme, it would be necessary to consider options for reforming future benefits to keep the scheme affordable and sustainable. It should be noted that members' pensions built up before the valuation date are protected by law and won't be affected by any changes.

Universities UK is providing [resources](#) to help employers to communicate with their staff ahead of consultation with all staff in February and March.

The Joint Negotiating Committee (JNC), which is made up of an equal number of representatives from UUK and UCU will then meet to determine how any increase to the overall contribution rate should be shared between members and employers. They will also decide whether any changes should be made to benefits or the structure of the scheme, this includes any covenant support measures and related reform options. This decision will be followed by an employer consultation with those employees and representatives affected by any recommended changes.

The statutory deadlines for filing the valuation with The Pensions Regulator is 30 June 2021. This date will almost certainly be missed.

Timeline of key developments

2017

- The 2017 USS valuation showed that the scheme's deficit and cost of future pensions has grown to unsustainable levels, requiring much higher contributions.
- Employers put forward a proposal to change USS from a defined benefit/defined contribution hybrid, to a wholly defined contribution scheme.

2018

- February-March: Unprecedented strike action in the pre-92 higher education sector, orchestrated by the University and College Union (UCU). Proposal withdrawn.
- May: A Joint Expert Panel (JEP) is convened by Universities UK (UUK), representing employers, and UCU, on behalf of members.
- September: The JEP examines the 2017 valuation and makes recommendations for adjustments that could bring costs down.

2019

- January: The USS Trustee concludes the 2017 valuation by implementing a 35.6% of salaries contribution rate from April 2020, with interim increases in April 2019 and October 2019. The benefit structure of the scheme remains the same.
- USS agrees to carry out a 2018 valuation to consider the recommendations made by the JEP.
- May: USS proposes a 30.7% contribution solution to the 2018 valuation, to supersede the timetabled backstop increases under the previous valuation, but with a new 34.7% backstop due in October 2021. UUK's actuaries Aon certify that the 30.7% solution is largely in line with the JEP's first report, and retains current levels of benefits at a lower price for both members and employers than the backstop.
- June: Employers support the solution as the most viable route to maintaining member benefits while keeping the contribution increases to the minimum that is acceptable for USS and The Pensions Regulator.
- September: UCU begin industrial action ballot in opposition to the required increase in member contribution from 8.8% to 9.6% of salary.
- October: Ballots for industrial action over pay and conditions and pensions closes.
- November–December: UCU takes 8 days of strike action over pay and conditions and the USS dispute from 25 November until 4 December.
- December: Following the end of the strikes, the second report of the Joint Expert Panel is published, which makes recommendations for the future of the scheme. UCU re-ballots 37 more institutions on either or both pay and pensions.

2020

- Since January 2020, UUK has taken part in 17 Tripartite meetings with UCU and USS to discuss the future of the Scheme. The talks were facilitated by the chair of the Joint Expert Panel, Joanne Segars. The encouraging progress from the meetings has been shared in continuing [jointly published statements](#).
- January 2020: the USS Trustee set up a Valuation Methodology Discussion Forum (VMDF) for the purpose of providing input and feedback on the trustee's broad methodology approach for the 2020 valuation, to support the overall valuation process.
- February: UCU undertake 14 more days of strike action between 20 February and 13 March.
- April: UUK and UCU issue [joint position statement](#) on key issues relating to USS.
- June: While the USS dispute remains live, UCU decided not to go ahead with re-ballots initially scheduled for June due to the Covid-19 pandemic.
- In September 2020, USS consulted Universities UK (UUK), on the technical provisions - key aspects of the valuation, including the methodology and the assumptions. You can read the response of employers on the [USS Employers website](#).

- At the time of writing the USS Trustee has published its prices(s) for current benefits, which commences a three-month window of negotiation between UUK (representing sponsoring employers) and UCU (representing scheme members) on how to address the latest valuation outcome.