

## USS Pension Scheme

March 2020

### Headline

On 3 February 2020 the University and College Union (UCU) [announced](#) 14 more days of strike action at 74 universities from Thursday 20 February. 52 universities were affected by strike action over the Universities Superannuation Scheme (USS) pensions dispute. The majority of these universities will also see strikes on a second dispute, relating to pay and working conditions, and a further 22 universities will be affected by strike action over pay and conditions only.

Universities UK is providing [resources](#) to help employers communicate with students and staff during industrial action and to minimise impact on students.

This briefing provides background and context on the USS dispute and sets out the efforts made by the affected universities to resolve the dispute satisfactorily.

### Summary

The University and College Union (UCU) has [been in dispute](#) with 69 universities over the latest valuation of the Universities Superannuation Scheme (USS) – the largest private sector pension scheme in the UK. Over 50,000 members of staff were balloted for strike action by UCU in opposition to the outcome of the 2018 valuation, which determined that an increase in contributions is required by the scheme to ensure benefits can be maintained at their current level.

The ballot was disaggregated, meaning that individual branches were required to meet the 50% turnout threshold in order for strike action to be held at their institution. The first ballot resulted in strike action in November and December 2019 in 60 universities. Re-ballots across both disputes took place in a further 37 institutions, closing on 28 January 2020. Fourteen more UCU branches became eligible to strike, including six on pensions.

Universities UK (UUK) is the nominated representative for over 340 employers participating in USS. UUK is responsible for determining a collective employer position to inform negotiations with UCU, who formally represent the scheme members. UUK is also responsible for communicating the views of employers to USS on a range of matters related to the management of the scheme.

UUK supports the outcome of the 2018 valuation. Following consultation, a majority of employers agreed to increase contributions to the level required by the USS Trustee (a total of 30.7% of salary) in order to keep benefits at their current level in the face of a challenging economic environment due to the freezing of tuition fee levels and uncertainty around the future immigration system and post-Brexit relationship with European programmes. This support was conditional on the increase being a short-term holding position while a longer-term solution to the rising costs of the scheme is found.

UCU does not support the valuation outcome, as they do not believe that an increase in contributions is justified, despite the scheme's benefits being retained. Their formal 'no detriment' policy states that reforms to USS's governance and valuation methodology will result in a more optimistic outlook for the scheme. As a result, they are unwilling to consider any contributions increases for maintaining benefit or consider changes to the benefit structure.

The USS is one of the most generous pension schemes in Europe. It remains a defined benefit scheme for most members, something which is now extremely rare in the private sector. The UCU position is that employees should have to pay no more than 8% of their salaries into the scheme, rejecting that employee contributions should rise by 1.6% to 9.6%, alongside a more significant increase for employers (from 18% to 21.1%). Any increases in the cost of scheme benefits is split under the scheme rules with employers paying 65% of the increase and employees paying 35%, a position endorsed in the Joint Expert Panel's recommendations. UCU demand that employers pay the entire increase cost whilst maintaining current benefits; this would take the employer rate to 22.7% of salaries, and potentially to 26.7% from October 2021.

However, in advance of the latest valuation of the scheme in March, an independent panel of experts chosen jointly by UCU and UUK published recommendations in December 2019 on how USS' valuation processes and governance could be reformed to secure the sustainability of the scheme. Since this report was published, UCU, UUK and USS have together been involved in 24 hours of discussions, which have focussed on building a common understanding on the future of the scheme, the upcoming valuation and governance issues. The talks are expected to continue at least until March.

Despite the encouraging progress of these meetings and the potential to positively influence the 2020 valuation, UCU decided to announce the intention to take a further 14 days of strike action from 20 February.

This briefing provides background and context on the dispute and sets out the efforts made by the affected universities to resolve the dispute satisfactorily. It also clarifies why UUK is unable to support UCU's positions.

## Additional background: chronology of developments

### The 2017 valuation and industrial action

The 2017 valuation of USS revealed that the cost of providing future pensions had grown to unsustainable levels, and the scheme's projected liabilities outweighed its projected assets, leading to a deficit. The total contribution rate at the time was 26% of salary, with employers paying 18% and members 8%. USS eventually calculated that total contributions needed to rise to 35.6% to maintain the scheme and tackle the deficit.

As a result, UUK, representing the scheme employers, put forward a proposal at the time to change USS from its present defined benefit/defined contribution hybrid (see the [Glossary](#) for definitions), to a wholly defined contribution scheme, to keep the contribution rate at 26% of salary.

This proposal was met with opposition by UCU and led to unprecedented strike action in the pre-92 higher education sector. Beginning in February 2018, 14 days of strike action eventually led to the withdrawal of the proposal by employers, and subsequent talks between UCU and UUK mediated by Acas in March.

A [Joint Expert Panel \(JEP\)](#) was then convened by UUK and UCU, to examine the 2017 valuation, and [make recommendations](#) for adjustments that could bring costs down while maintaining scheme benefits. As part of the agreement to establish the panel, UCU suspended the strike action.

The USS Trustee then [concluded the 2017 valuation](#) by implementing a 35.6% of salaries contribution rate from April 2020, with phased increases in April 2019, October 2019 and April 2020. The benefit structure of the scheme remained the same.

USS also agreed to carry out a 2018 valuation (two years earlier than the statutory requirement) to consider the recommendations made by the JEP, and incorporate latest market data, which had improved as of March 2018.

### The 2018 valuation

The [2018 valuation](#) resulted in a 30.7% contribution solution to supersede the much higher rates under the previous (2017) valuation. This solution is close to what the JEP recommended, and has preserved the current level of benefits at a lower price for both members and employers than the 2017 valuation backstop.

Employers supported this solution in May 2019 and proposed to pay the bigger share of the contributions increases. In August, the scheme's Joint Negotiating Committee, made up of UUK and UCU representatives, [decided](#) that the extra contributions should be split 65:35 between employers and scheme members, resulting in employers paying 21.1% of salary, and members 9.6%. This decision was made in line with the default in the scheme's rules, which state that contributions increases should be split 65:35 when UUK and UCU cannot agree a way forward.

The Pensions Regulator [made it clear](#) that it is concerned that the rate of 30.7% may be too low, and it is therefore at the limit of what they are prepared to accept. This solution is therefore the most viable route to maintaining member benefits while keeping the contribution increases to a minimum that is acceptable for USS and The Pensions Regulator.

## Re-ignition of the dispute

In May 2018 during the course of the 2018 valuation process, Dr Jo Grady was elected as UCU's General Secretary following the departure of the previous incumbent Sally Hunt. Dr Grady pledged her commitment to UCU's 'no detriment' position, which was subsequently adopted as formal policy by the union's Higher Education Committee. Although some senior UCU staff saw the 30.7% contribution rate with no change to benefits (which emerged from the 2018 valuation) as a good outcome, by 19 June 2019 UCU's leadership had formally commenced a trade dispute with 69 universities in the pre-92 sector, as the planned increase in contributions contravened the now formal 'no detriment' policy.

UCU balloted its members on the two disputes – pay and working conditions and pensions – in September and October 2019, leading to strike action in November and December 2019 in 60 universities. [UCEA reported](#) that the impact of the strikes was generally low, with only three in 10 UCU members taking part.

Despite the concerted efforts of employers to resolve the dispute (see below), UCU plans to take further strike action during February and March 2020.

## Why employers cannot support UCU's positions

In setting out the terms of their dispute, UCU stated their view that the current level of benefits can be maintained with an overall contribution rate of 26% or less. However, The Pensions Regulator has publicly made clear that it regards a 30.7% rate as at the limit of what is acceptable and does not account for the market experience post-March 2018 which has been poor. In short, a rate of 26% would involve taking far more risk than the USS Trustee or the Regulator is prepared to accept.

In response, UCU maintained that employers should pay the full cost of the increase to 30.7% and keep the member contribution at 8% of salary. Such an ask would have a serious impact on the financial health of many employers. A 22.7% salary employer contribution would equate to an extra £373 million per year, £123 million more than employers have already committed to additionally pay. Contributions at this level would be equivalent to the funding required for nearly 8,500 full-time average roles across the higher education sector. Most employers in the scheme would not be able to absorb increases at this level without material changes to their operating model, including reducing staffing costs.

Additionally, the scheme's rules set out that contributions increases should be shared 65:35 between employers and members by default if the scheme's stakeholders cannot agree a way forward.

Since the dispute began in 2017 UCU have consistently demanded that defined benefits must be maintained at their current level. The solution to the 2018 valuation meets this demand – there have been no changes to benefits but this has required a rise in contributions to fund them: the employers have agreed to pay the majority of this increase.

## Efforts employers have made to resolve the dispute

Since the strike action in 2018, the scheme employers have gone to great lengths to resolve the ongoing dispute. UUK proposed setting up the Joint Expert Panel to examine the valuation, and following consultation, supported the recommendations the panel made.

An extensive period of engagement with the USS Trustee followed, resulting in the 2018 valuation and a reduction in the overall rate from 35.6% of salary in the 2017 valuation, to 30.7% through the 2018 valuation.

UUK also spent considerable time and resource developing a credible 'contingent contributions' proposal to bring the required rate down even further – to 29.7% – although the USS Trustee ultimately did not accept this proposal.

Following consultation by UUK, the scheme employers also agreed to additional measures to ensure that the scheme's 'covenant' – or collective financial strength – continues to be regarded as strong in the Trustee and Regulator's view, to make the 30.7% rate acceptable. This involved agreeing to ongoing debt monitoring, prioritisation of USS as a creditor, and a moratorium on employers exiting the scheme.

These efforts were made in response to the firm view expressed by UCU that the scheme's benefit structure should be preserved, and in view of their demand for lower contributions, despite the prevailing economic conditions.

In August 2019, in recognition of the concerns raised by UCU over member contributions at 9.6% of salary, UUK offered to pay an additional 0.5% at the 2018 valuation, reducing the member contribution to 9.1% of salary, on the condition that UCU withdraw the ballot for industrial action. The offer, if accepted, would have been subject to consultation with the scheme employers, but UCU's Higher Education Committee chose to reject the offer, without consulting the wider union membership, leading to industrial action in November and December last year.

The JEP [published recommendations](#) to reform scheme governance and future valuations on 13 December 2019. It included a series of recommendations concerning the governance of the scheme, the valuation methodology, and the scheme's sustainability. Around the same time, UCU announced re-ballots in a further 37 universities across the two disputes, leading to 14 more universities with a mandate to take industrial action.

Throughout January 2020, UCU have taken part in discussions with UUK and USS to discuss reform to the USS pension scheme. The talks have been facilitated by the chair of the Joint Expert Panel, Joanne Segars.

The recent talks have been constructive and focussed on building a common understanding on the future of the scheme, the upcoming valuation and governance issues. The group has developed shared principles for the valuation, produced a draft scheme purpose, and have made a commitment to explore alternative valuation methods which might have the potential to reduce the cost of the scheme. There has also been enhanced visibility and engagement from the scheme's trustee.

The encouraging progress has been shared in [jointly published statements](#) and the talks are set to continue through February and March at least. Despite the progress of these meetings and the potential to positively influence the 2020 valuation and resulting contribution rate, UCU have decided to continue with further strike action from February.

## ANNEXE

### Timeline of key developments

#### 2017

- The 2017 USS valuation shows 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. UUK's actuaries Aon certify that this 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

- January: [Five meetings](#) take place between UCU, UUK and USS to discuss the future of the pension scheme.
- February: UCU announce 14 more days of strike action beginning on Thursday 20 February.

### Regular updates:

For regular updates, the website [www.ussemployers.org.uk](http://www.ussemployers.org.uk), and Twitter feed [@USSEmployers](https://twitter.com/USSEmployers) have both been created by UUK to increase transparency in the valuation process and to ensure both employers and scheme members are informed with the latest developments.

### For more information:

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