

Dr J Grady
General Secretary
UCU
Carlow Street
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18 October 2021

Dear Jo,

2020 valuation of the Universities Superannuation Scheme (USS)

Thank you for your letter.

We are very disappointed that UCU is pressing ahead with an industrial action ballot over USS pensions. After a difficult 18 months, caused by the pandemic, students do not deserve any further disruption through strike action. They should not have to suffer because we do not like the fact that the regulatory constraints under which pensions must operate in the UK means costs must increase in the scheme or future benefits have to be reduced.

While employers appreciate that nobody wants to see a reduction in their future pension benefits, the alternative is worse - spiralling costs for employers and unaffordable contribution levels for members which would lead to more members being priced out of the scheme and lead to cost cutting; impacting jobs, the student experience and research.

Without changes to the scheme, the USS Trustee has confirmed that it will impose contributions rises from April 2022 to address the scheme deficit. This would cost employers an additional £206 million per year – equivalent to nearly 5,200 full-time university roles – in addition to the extra cost of employers providing a further £1.3 billion a year in covenant support to secure the guaranteed 'defined benefits' section of the scheme, which you have campaigned for.

The imposition of higher costs by the USS Trustee would reduce your members' pay considerably: a university staff member earning £40,000 per annum would be paying an additional £860 in pension contributions next year for the same benefits, with

The voice of universities

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contributions set to rise further for staff and employers every six months reaching 18.8% for members and 38.2% for employers by 2025.

To avoid such damaging increases, employers have had to propose changes to benefits. Under these proposals, university staff will still build up a good pension at current contribution levels. Such is the commitment of USS employers to the scheme that their contribution of 21.4% of salary is far higher than the average for other private sector schemes, which is 13% for employer and employee payments combined.

Employers met with UCU representatives on Tuesday, and further meetings are planned for the coming weeks. Universities UK is happy to consult employers if there is an alternative which UCU is able to formally propose at the Joint Negotiating Committee, the official forum for agreeing changes to the scheme. Universities UK has previously written to UCU to ask you to table and share alternative proposals but we still await a response from you. I also want to work with you to urgently progress longer-term reforms to address the scheme's high opt-out rate, by developing a lower-cost option for staff, progressing a governance review, and exploring alternative scheme designs (including conditional indexation). I hope that you will engage fully with this important work to modernise and improve the scheme.

The USS Trustee has stated that a 2021 valuation would make no material difference to the required contribution rate and while the deficit would be smaller due to recent market improvements, the cost of future service would in fact be higher. The Pensions Regulator has provided its views on this matter (and note it is the USS Trustee that has the power to decide whether to carry out a valuation).

There is risk that your misleading use of the 35% pension reduction claim may cause more members to make life-changing decisions to opt-out of USS and miss out on employer contributions towards their savings, the tax-free lump sum payment on retirement and valuable death in service benefits.

Last week, the USS Trustee published modelling which suggests that the impact could be a reduction in USS benefits at retirement of between 10% and 18% for a range of example members (not including State Pension). USS will be publishing a detailed modeller in the upcoming consultation, which scheme members can use to get an accurate answer depending on their individual circumstances. We encourage all scheme members to use this modeller when it is launched.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Jarvis', with a long horizontal flourish extending to the right.

Alistair Jarvis
Chief Executive