USSEmployers

Communications update: Latest Q&As, response to UCU, and revised messaging

June 2021

This Q&A is intended to help employers answer questions that they receive about the latest developments of the 2020 USS valuation. If there are any other matters or questions that you would like answered or further information, please email pensions@universitiesuk.ac.uk.

Latest Q&As

1. Why don't employers push USS to scrap the 2020 valuation in favour of one at March 2021?

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 USS Trustee has assured employers that current economic conditions will be taken into account before the 2020 valuation is finalised, but made clear that it must proceed with a 2020 valuation – irrespective of whether a 2021 valuation takes place – with total contributions escalating in October 2021 from the current level of 30.7% of salary towards at least 42.1% and possibly as high as 56.2% without benefit reforms.

2. What does The Pensions Regulator's latest intervention mean for the UUK proposal?

The USS Trustee has published a letter received from the Pensions Regulator which makes clear the regulator's concerns that the UUK proposal cannot be afforded without higher contributions. However, it is for the USS Trustee to make its own decisions and we as yet see no evidenced reason why the UUK package put forward shouldn't be acceptable to both The Pensions Regulator and the USS Trustee at current contribution levels. This is also the view of our expert actuarial advisers. We will continue to press the USS Trustee and The Pensions Regulator to achieve a fair price for the considerable additional covenant support measures employers are offering to keep a hybrid Defined Benefit/ Defined Contribution scheme alive and to secure a good level of defined benefits.

3. Are employers willing to pay higher contributions until conditional indexation can be implemented?

Employers are already paying higher contributions than ever before. Employers are keen to develop a viable model for Conditional Indexation, however, there are difficult legal and technical matters to overcome before conditional index could be implemented, which could take years to resolve. UUK has proposed the establishment of a joint member/ University and College Union (UCU), employers, and USS working group to collaboratively design a Conditional Indexation model for consultation. If we can jointly develop a model that is acceptable to all parties, we would want to implement this as soon as practically possible. Without a resolution to this 2020 valuation, escalating contributions rates for both employers and members starting in October 2021, and increasing further from April 2022, would see staff leaving the scheme in their droves and lead to cuts in teaching, research, and jobs at many institutions as employers would be forced to pay extraordinarily high pension costs and have to find this money from elsewhere in their budgets.

UUK responses to UCU's statement:

- We would be very willing to consider alternative, feasible and affordable proposals from the UCU to tackle the scheme's financial challenges – so far the union hasn't put forward any possible solution. Unfortunately, no change is not a viable option.

- We hope the union will work with us and suggest ways of tackling the immediate financial challenges to avoid ruinous contribution increases, and to explore longer-term changes, including a governance review, flexible options for members and those currently priced out of the scheme and conditional indexation.

- We disagree with the UCU's claim that UUK has not been upfront about possible changes to benefits. The impact of the UUK proposal and the risk of taking no action to resolve the scheme's financial challenges are clearly stated on the USS Employers website and we have also published modelling to give examples of how benefits could change for people on different salary levels:
  - https://www.ussemployers.org.uk/news/uss-employers-back-changes-pension-scheme
  - https://www.ussemployers.org.uk/news/employers-respond-ucus-benefits-modeller
  - http://www.ussemployers.org.uk/sites/default/files/field/attachemnt/USS-March-2020-valuation-Aon-report-April2021.pdf

- A full consultation with members would follow any recommended solution to the 2020 valuation with clear and detailed information as to what this would mean in terms of contribution costs and benefits to members - and to reassure them that their pension benefits built up to the date are unaffected and secure.

Messaging for employers to use in their internal communications

The USS pension scheme is currently going through a valuation - an assessment of its financial health, carried out at least once every three years.

Long-term factors - rising life expectancy, low interest rates, expected investment returns - have made pension schemes more expensive to run and Covid-19 has made their financial outlook worse.

The USS Trustee, which runs the scheme on behalf of employers and members, calculates there is a large deficit and so it wants much more money in salary contributions from employers and staff to make sure there is enough money in the scheme to keep pension promises (a legislative requirement) and even more money to continue to provide the same level of pension promises in the future.

Universities cannot afford a higher contribution rate, without diverting money from elsewhere within their budgets, which has consequences for jobs, teaching, and the student experience, and many staff will not want to pay in more themselves.

USS is a one-size-fits-all scheme with all scheme members having to pay the same amount (9.6% of their salary). This has led to one in five staff dropping out of the scheme, put off by the high contribution rate. This means they are missing out on money from their employer towards their future and are prevented from getting valuable life cover and other benefits.

Following a recent consultation with 340 employers in the scheme, USS employers are proposing reforms to avert unaffordable contribution levels for members and employers.

Without changes to the scheme, employers and scheme members face escalating contribution rates: for employers, from the current level - 21.1% of salary – to 23.7% in October 2021 and at least 28.5% next year.

Similarly, members would see their payments rise from 9.6% of salary, to 11% in October 2021 and reach at least 13.6% next year – and risk pricing more and more members out of the pensions scheme.

UUK's proposals include maintaining a mix of Defined Benefit/Defined Contribution benefits, giving members the choice of opting for a new lower contribution rate for different benefits, a governance review, and fully developing a potential move to conditional indexation - which pegs a part of annual pension provision to the performance of scheme funds – and consulting with members on this possibility.

To prevent costs escalating UUK is suggesting that the balance of benefits between DB and DC need to be adjusted so that less guaranteed benefit is provided. Another way of looking at this is acknowledging that we will all have to work a little longer to get the same level of guaranteed pension as before (in a similar manner to the state pension) to reflect that on average we are living a little longer and guaranteed pensions have become much more expensive, but of course, this could be offset by good investment returns and flexibilities provided for those members also contributing to the Defined Contribution part of the scheme.

It is too early to say how exactly pension benefits will change in this valuation. Several factors will influence this, including the approach taken by the USS Trustee, the support measures employers can provide, and the response of scheme members and the union.

It is really important to remember that pensions built up to date are safe and can't be changed retrospectively. Employers have made that promise and will keep it – what we are saying is that it has become much more expensive to provide that same promise in the future (for both employers and members) and perhaps it is better to change that promise for the future rather than price more and more members out of the scheme and force employers to divert more and more money towards pensions and impacting other areas of the business – jobs, student experience etc…

UUK is keeping up the pressure on the USS Trustee and The Pensions Regulator to reconsider their approach to the valuation, indeed they have recently, positively evolved their assumptions following representation by UUK. UUK is consulting further with employers to see if they are able to offer even further levels of support to the scheme (known as covenant support) to give members the best possible level of pensions benefits for current contribution levels. The level of support provided to the scheme needs delicate balancing as it will have other financial impacts on employers, which in turn could affect both employees and the student experience. In many ways this covenant support should be considered in a similar way to increasing contributions – and indeed that is exactly how the USS Trustee has valued it.

The University and College Union, representing scheme members, should work with employers and suggest ways of tackling these immediate financial challenges to avoid escalating and ruinous contribution increases, and to explore longer-term changes, including a governance review, a flexible option for members and conditional indexation through the suggested establishment of a joint member/

University and College Union (UCU), employers, and USS working group to collaboratively design a proposal.

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