USS MODELLER AND UCU FIGURES

In recent days USS has launched a modeller on the USS consultation website.

We remain concerned about the misleading 35% cuts figure UCU continues to promote. UCU have also claimed the figures that UUK have used in communications are incorrect or deliberately misleading, and we strongly refute this.

The information set out below should help to give an accurate, fair explanation of the benefit changes.

In summary, the 35% cuts figure that UCU are promoting is misleading, because it refers only to the changes to future defined benefits (DB). It fails to acknowledge the future defined contribution (DC) benefits which members will receive. It also fails to acknowledge that there will be no change to previously accrued benefits. Therefore, the 35% figure is focused on just one of three parts of members pension benefits. It also fails to acknowledge the very significant additional contributions that would be necessary to prevent a cut to future defined benefits. A fuller explanation is included below.

We would ask employers to encourage all members and eligible employees to use the modeller to see the potential impact of the changes upon them individually, based on their own data and circumstances.

In response to significantly higher costs to maintain current benefits, employers are proposing to slow down the rate at which the DB within the scheme build up (what is sometimes referred to as the 'guaranteed element' of the benefits). It is therefore expected that the guaranteed element that members will build up in the future will be less under the proposed changes than would otherwise be the case. For example, a member earning £60k would currently have all their benefits built up on a guaranteed DB basis. Under the proposal, however, this member would build up DB benefits on salary up to £40k, with a 20% contribution to their own DC pension saving on salary above the £40k threshold.

The modeller allows members to adjust the assumptions to reflect different levels of inflation, salary increases and investment returns, as well as adjustments to the retirement age. This allows members to consider the changes through a variety of circumstances as they think suitable (or they can choose the default). Importantly, the modeller takes into account the pension benefits members have already built up in the scheme to date, which we emphasise are unaffected by the proposed changes, but are shown as part of the overall illustration.

UUK has worked with the USS Trustee to provide members and employers with an indication of the impact the JNC's proposals will have on total USS benefits at retirement. This includes benefits already build up in the scheme as well as future benefits, and includes all parts of the scheme (both the DB and DC elements). For the DC element, members have the choice to see what their benefits might be through income drawdown, cash, or if an annuity was purchased. Members also have the option to see their pension income both with and without the state pension, as we believe this is helpful information for retirement planning purposes – for example, if members wished to make additional pension saving.

Generally speaking, those who are closest to retirement will see the smallest effect; those further away will see a bigger effect. For example, on one hand, a member with one year of membership and 40 years until retirement would see a much different impact on their expected retirement benefits compared with, on the other hand, a member who has had 40 years of membership and is retiring next year.

You could use, as a guide, the broad assumption that there might be a 1% reduction in benefits overall for the individual above who is closest to retirement, and around 25% for the member who is farthest away (we think that 25% is UCU's narrative when looking at benefits overall, not just the guaranteed element, and also looking at future benefits only). It is not unreasonable for us to conclude in headline terms, based on the 'middle of the road' personas developed for typical scheme members, that reductions in retirement benefits will be in the range of 10-18%. But we emphasise that we encourage members to consider their own circumstances when using the modeller.

What we don't think is reasonable is using a headline of cuts being 35%. This is misleading and potentially damaging to members. One only needs to dig a bit deeper into the smaller print and nuance to see that UCU states that the headline refers to **future 'guaranteed benefits'**, although that detail is lost or omitted in some presentations of the headline. In some circumstances, UCU also adjusts the parameters – for example, to use the DC fund on an annuity basis, which produces outputs which are likely to get much closer to the upper range of c25%. As such, in much of the UCU commentary, member benefits built up prior to any changes are ignored, and so too is the valuable DC element.

The modeller also shows indicative costs to members should the proposed changes not come into effect. If no changes are made, contributions will increase further from April 2022 and every 6 months after that, until the member rate ultimately could reach 18.8% of pay in April 2025. It is expected that members would also wish to factor these increased contribution rates into their considerations. In short, the proposal to change benefits to slow the rate at which DB are built up in the future is intended to reduce costs; if we do not make these changes, then contributions must rise to damaging and unsustainable levels.

The consultation is about members and their representative bodies understanding the impacts of the proposed changes, and having the opportunity to feed in their views if they believe there is a different way to look at the pensions challenges presented by the USS valuation. There is no easy option available. But members may wish to feed back on their preferences for adjusting the levers within the hybrid model, or indeed if they would prefer to pay more for higher levels of the more expensive DB benefits (less of a reduction), or other modifications they might consider more attractive.

It is also worth saying that the modeller assumes that the proposed changes last forever. There is a valuation every three years – and one of the areas we are keen to explore is conditional benefits, perhaps in the form of conditional indexation – so this possibility is also worth factoring into considerations.