Statement from Universities UK (UUK) - the representative for 340 employers in the USS pension scheme

Embargo: 11:30am
30 November 2021

It is deeply frustrating to be facing industrial action over USS pensions. Employers and UCU share the goal of a secure, valuable, and affordable retirement income for university staff. But despite a great deal of constructive work between employers, the USS Trustee and UCU, a small minority of staff seem determined to strike in protest at economic conditions they do not like, and a regulatory regime that universities are powerless to change.

Only 1 in 4 USS scheme members are UCU members. Out of fifty thousand ballots mailed out, only twenty thousand were cast in favour of strike action. This puts support for pensions strikes among UCU members at 40%, which accounts for less than 10% of the 203,000 active scheme members in USS.

The remaining 90% of the scheme's members can make their voices heard through the current consultation, which could result in changes to the employers' proposal. We want to hear from the silent majority and are encouraging them to respond before the deadline on 17 January 2022.

It is also important to note that only 37 of 340 USS employers are facing strike action. UUK takes its mandate for negotiations from all 340, who pay the same level of contributions and have jointly given significant financial backing to the scheme worth £1.3 billion a year – which has made a critical difference in being able to retain a valuable guaranteed DB element in the proposal.

Employers have repeatedly made clear that contributions of 21.4% are at the limit of what they can collectively afford without significant cost cutting in other areas, and this is the case for universities as well as the smaller charities and research institutes that participate in the scheme.

If reforms are blocked, employers and members face a punishing contributions escalator, rising every six months to completely unaffordable levels – 38.2% of salary for employers, and 18.8% of salary for members by 2025. To put this in perspective, for employers, every additional 1% of salary is equivalent to nearly £90 million. Increasing contributions by these amounts would be hugely damaging to students. Departmental budgets and investment in facilities would face heavy cuts, and many employers would become insolvent. We must stay resolute in the face of these strikes. Students' education and thousands of jobs depend on it.

The financial challenges USS faces have existed for decades and will persist unless changes are made. Interest rates have been at record low levels and people are living much longer than when the scheme was set up in the 1970s. As a result, the scheme's liabilities are increasing at a greater rate than assets and the cost for providing future guaranteed benefits has increased significantly. Despite a recovery in assets since March 2020, the scheme's long-term trajectory means there is a chance pensions cannot be paid in full in future. This finding was recently verified independently by academics from Imperial College in a paper for the National Institute of Economic and Social Research.

Despite this consensus, UCU continues to deny that the cost of providing a defined benefit pension has risen. This is at odds with reality. 9 in 10 DB schemes that were once open to new members are now closed because of increased costs. Over 92% of people paying into pensions in the private sector are in defined contribution schemes – and to put this in perspective about 1 in 3 members continuing to build up defined (guaranteed) benefits in the private sector are in USS – and we have worked extremely hard to keep it this way through this proposal.

While employers think the USS Trustee could take a less prudent approach, The Pensions Regulator has said that the assumptions USS uses are at the very limit of compliance with pensions law – and has publicly stated that the contribution for our proposal should be even higher. The USS Trustee therefore cannot use more optimistic assumptions to generate a more desirable valuation.

Changes to the scheme are therefore necessary. Until UCU acknowledges this it will be impossible to resolve the dispute and students will continue to suffer. It is unrealistic to expect that strike action against 37 employers will somehow lead to fundamental reform of the way pensions are regulated in the UK.

It is never an easy decision to change people's pensions – no-one wants to do this – but ignoring the problem and hoping it will go away is not the answer.

In their campaign against benefit changes, UCU have used a misleading figure of a 35% reduction in benefits. This only refers to changes to future defined benefits. It fails to account for the future DC benefits members will receive and does not acknowledge there will be no change to previously accrued benefits. The 35% figure is therefore focused on just one of three parts of members' pension benefits. Furthermore, it completely ignores the significantly higher and unaffordable contribution rates to keep the scheme the same.

Typical reductions to members' USS benefits <u>at retirement</u> will be in the 10-18% range, as illustrated by examples provided by USS. Because an individual's pension's decisions are hugely important we encourage all scheme members not to be influenced by the figures circulating and instead consider their own circumstances and use the modeller USS has provided to see how the changes will impact them.

In any case, it is not feasible to meet UCU's demands. They are calling for another valuation and want scheme members to pay in 11% of salary while this takes place, up from 9.8%. To our understanding they have not consulted their members, or the wider scheme membership, on their appetite for increased contributions, so this is a significant and untested assumption. But even if scheme members would accept a rise in their contributions, employers have said they cannot – without significant knock-on effect I mentioned earlier. It is also difficult to see how another valuation could be completed by October 2022 – when further increase would be due. The various stages and consultations take many months to prepare and carry out.

Above all, The USS Trustee has made clear that there would be no material difference in the required contribution rate under a 2021 valuation (in fact the USS Trustee's analysis indicates it would be slightly higher than now). Ultimately it is the USS Trustee that decides on these issues.

The reforms being consulted on keep USS as one of the most attractive private pension schemes in the country. The 21.4% of salary employer contribution (which is up by 3.4% from 18% since the dispute started) is over two and half times the average for FTSE 100 companies, and the benefits members will receive in retirement are far higher than the average for occupational pension schemes in the UK. Department for Work and Pensions figures reveal the average pension paid by workplace schemes in 2020 was just under ten thousand pounds a year. Under modelling published by USS, a scheme member aged 43 who earns £50,000 a year who has been in the scheme for eight years is projected to receive more than double that per year in retirement.

UCU should be honest about what they really want. During negotiations they developed their own proposal for benefit changes that were a welcome shift away from their 'no detriment' position. But this proposal was never formalised or put to a vote; nor was it made public until after negotiations had concluded. We are also not clear whether UCU's wider membership was consulted on the proposals. Nonetheless, UUK repeatedly offered to share alternative proposals with employers, and that offer remains. We wrote to UCU on 7 September to clarify this, but to date we have received no reply.

Exactly why UCU refused to inform universities about their proposal, we may never know. But it is notable that two of UCU's pensions negotiators who are members of the influential UCU Left faction publicly undermined the proposal by expressing strong opposition to it in a blog post. Indeed, there is a pattern of checks on the UCU leadership by UCU Left, who are affiliated with the Socialist Workers Party. Recently, their considerable influence in local branches enabled them to overrule Dr Jo Grady's preferred strategy for re-ballots and strike action in 2021–22.

With such divisions in UCU's decision-making bodies, it is difficult to see how a negotiated settlement over USS could ever be possible. The overall strategy seems to be to keep striking until there is a valuation with an outcome they like, and in the meantime, attempt to force employers to pay all of the significantly increased costs (which is clearly not feasible). This not only reneges on the 65:35 cost-sharing arrangement that is baked-in to the scheme's rules, but also represents a continued 'kicking of the can down the road' at students' expense.

UCU's perpetual appeals to a 'flawed' valuation methodology and demonisation of both employers and the USS Trustee is nothing more than a smokescreen for their ideologically entrenched opposition to corporate finance, and unwillingness to accept any risk in their own retirement planning – something which the vast majority of the working population has no choice over.

The current dispute started in 2017 when the scheme's increased costs led employers to consider changing USS to a fully DC scheme, which is the norm in the private sector. But following strike action orchestrated by UCU in 2018, employers listened. A number of significant commitments have been made to ensure a significant DB proportion of the scheme can remain open, including unprecedented covenant commitments and an increase in contributions.

But the limit of affordability has now been reached. In light of this, UCU members must realise that the outcome achieved at this valuation is not only fair, but also the best possible result under the circumstances. The sustainability of the scheme has been secured, and employers want to work with UCU to develop lower cost options to help those currently opting-out due to affordability or suitability of benefits, and also to explore alternative designs that could deliver better outcomes in the future – including conditional indexation. This vitally important work will also be hindered if strike action continues.

Universities are well prepared to mitigate the impact of any industrial action on students' learning. While the specific approach will be different at each university, wherever possible this is likely to include replacement teaching and resources, the retiming of assessments and access to wider student support services for anyone affected. All universities will also be working to regularly update students about what is happening.

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