USSEmployers

COMMUNICATIONS UPDATE

August 2022

- The 2020 valuation of the Universities Superannuation Scheme (USS) was finalised in April 2022 with changes implemented that avoided huge and unaffordable cost increases for both employers and staff, which would have put jobs at risk and done lasting damage to the quality of teaching and research at UK universities.

- Employers have repeatedly said that their current contributions to the pension scheme – which rose to 21.6% of salary in April (including 0.2% to delay the introduction of the CPI 2.5% cap on pensions increases) – are among the highest in the country and at the very limits of collective affordability and sustainability. USS remains among the relatively few private Defined Benefit pension schemes in the UK still open to new members and still offering valuable guaranteed benefits.

- It would be irresponsible of UUK to try to undo the reforms as that would gamble on the recent short-term improvements in funding being sustained at a time of considerable volatility, and risk leaving employers and staff paying much more at a time of great economic uncertainty.

Without the necessary reforms, the USS Trustee confirmed through the 2020 valuation that members would be paying at least 11% of pay (up from the current level of 9.8%) and rising to 11.8% from October 2022. All USS employers would have to find ways of paying 23.7% of salary in contributions, an increase of 2.1%, rising to 25.2% from October 2022.

- According to the USS Trustee's regular monitoring, the funding position of the scheme has improved, and the cost of future benefits has reduced, helped in part by the reforms which have been implemented. This is very good news, but the position is fragile.

- The USS Trustee was clear in its Accelerated Year-end Review 2022 briefing that, given the volatility of the financial markers, it does not believe there are grounds to alter contribution levels or benefits ahead of the next full valuation (scheduled for 31 March 2023).

- UUK representatives continue to meet regularly with UCU, both informally and formally, in the hope that by working collaboratively we can accelerate the next valuation, to deliver any improvements to scheme members as soon as possible.

- There is a real risk that this latest industrial dispute may prevent collaboration and impede efforts to accelerate the next valuation and to deliver improvements to scheme members as quickly as possible. If benefits can be improved, and/or contributions reduced, in a sustainable and affordable way through the 2023 valuation, then this is something we would all wish to do.

- Any industrial dispute could also delay progress on important work to redesign the scheme, improve its governance, and reverse the high member opt-out rate by introducing a lower-cost option for members.

Q AND A

1. *Why doesn't UUK push for a more prudent valuation?*

- Over recent valuations UUK has put strong pressure on USS in relation to the valuation methodology and assumptions, which included employers backing a significant commitment to provide covenant support to the scheme.

- This includes setting up a Joint Expert Panel to independently review the valuation approach, and participating in 11 valuation methodology discussion forum meetings alongside UCU for the most recent valuation.

- This is also demonstrated by the Pension Regulator's comments for the 31 March 2020 valuation, where the assumptions ultimately adopted were described by the Pensions Regulator as being at the limit of legal compliance.

- On defining prudence, we are not sure what UCU means, since the union has not provided further details or how its proposed approach can be demonstrated as compliant with legislation (if it results in a less prudent approach than currently adopted by the USS Trustee). We have asked for clarification, and look forward to engaging with UCU and the USS Trustee as soon as possible on the March 2023 valuation.

2. *Could UUK not put more pressure on USS to restore benefits?*

- In light of the more positive funding outlook emerging since the completion of the 2020 valuation in April, UUK has repeatedly urged the USS Trustee to consider ways of delivering short-term improvements to the scheme.

- Nothing can be done to re-write the outcome of the 2020 valuation after the valuation has been completed without the agreement of the USS Trustee, which carries the legal responsibility for delivering the defined benefit pensions promises. As such, undoing the benefit changes implemented following the 2020 valuation at a time of high volatility (even if this were legally possible) would only increase the risk of contributions rising considerably for both member and employers and outside of the mandate provide to UUK by employers.

- The USS Trustee itself has said that the volatility of the current financial situation provides no solid ground for decision making ahead of a new and full valuation, which is scheduled for March 2023. This volatility is highlighted by the fall in asset values between November 2021 and June 2022 of £15bn (from £93bn to £78bn).

- Employers want to work collaboratively with the union to fast-track the next valuation to deliver improvements to scheme members as quickly as possible.

3. *Did UUK make misleading claims on the impact of the April 2022 scheme changes on members?*

- The employer proposal secured a viable and implementable solution to the 2020 valuation, which retains a significant element of defined benefit within the future pensions earned by members.
- UUK has not made misleading claims. It was entirely reasonable for UUK to conclude in headline terms - using the example personas developed by USS itself to show the impact – that reductions in retirement benefits will be in the range of 10-18%. We emphasise, these were the very figures prepared by the USS Trustee based on a range of personas illustrated. So far, the impact on members has been limited due to the delay in introducing the CPI 2.5% cap – and this is something that might be further delayed should this positive funding position prevail through the 2023 valuation.
- UUK has consistently said that scheme members should use the USS modeller to check the possible impacts in their specific circumstances.
- As mentioned above, employers have responded to the major concern of rising inflation by agreeing to defer the application of the 2.5% inflation cap up to and including the increase due in 2025.

More detail in our letter to UCU on the changes

4. *What's happening with the workstreams and what's UCU's position and involvement in these?*

- The door is open to UCU to participate fully in each of the workstreams, on lower-cost pension saving, on alternative scheme designs, and on a governance review of USS.
- We have progress with UCU in some areas, for example on the lower-cost saving option where joint meetings have taken place within the Joint Negotiating Committee (although the group has not reached any joint solutions at this stage).
- It is not clear whether UCU representatives have been given authority to participate in the discussions on alternative scheme designs – the matter was discussed at a political level by UCU earlier in the year but the position is

unclear – but nevertheless their involvement is welcomed when they are able to do so.

- On governance, we have repeated our sincere wish that UCU participates actively in the review (see the letter from Chris Hale to Dr Jo Grady dated 2 August 2022), but once again this is a matter for UCU.

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