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

21 November 2022

We are saddened to be here again – facing industrial action over USS pensions. Employers and UCU share the goal of a secure, valuable, and affordable retirement income for university staff. It is these dedicated and talented staff that enable us to carry out our world-leading teaching and research, and we want to continue working with the union and USS representatives to give them the best possible retirement benefits.

But at the same time, we cannot deny economic realities. Realities that mean only **one in ten Defined Benefit schemes** (that guarantee pensions) in the UK **remain open** to new members – the USS is one of these.

Not only is the USS a rarity in that regard, it remains one of the **most attractive private pension schemes in the country**.

The employer contributions of 21.6% of salary are around **three times higher than the average employer contribution rate** among the FTSE 250 companies. Indeed, the average *total* (i.e. employer and employee) contributions in other private sector pension schemes are 12%-14%.

Employer salary contributions to the USS have risen by 54% since 2009 and are far higher than in most other private sector schemes.

So, what has happened? Let me briefly take you back…

Following the 2020 valuation, the USS Trustee, which runs the scheme, calculated that pension contributions as high as 56% of salary would be required to ensure there was enough money in the scheme to fund past pension promises and to continue to pay for future benefits.

Action needed to be taken if employers and scheme members alike were to avoid the imposition of such expensive increases from the USS Trustee. Knowing neither employers nor scheme members could easily afford to pay much higher contributions, a package of changes was developed. This included significant long-term financial commitments to support the scheme by employers (called covenant support) worth the equivalent of £13bn per annum in contribution terms, increased contributions (up to 21.6% of pay from employers and 9.8% from members), and changes to the future benefits which would be built-up in the scheme, and to avoid unaffordable increases in contributions.

Without these reforms, members would have been paying at least 11% of pay from April 2022 (up from the current level of 9.8%) and 11.8% of pay from October 2022, with all USS participating employers having to find at least the means to pay 23.7% of contributions from April 2022 (up from the current level of 21.6% of salary), and 25.2% from October 2022 – and would have been due to increase again in April 2023.

And remember there are 340 employers in the scheme, many of them not universities, but smaller charities and research institutes that could be crippled by such cost increases.

Meanwhile many employees may have been forced to reconsider membership of the scheme and potentially opt-out (at present there is no alternative to USS for USS eligible employees). This may have been exacerbated with current cost-of-living pressures.

The proposed package of reforms was ultimately implemented from April 2022 and this concluded the 2020 valuation of the scheme.

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 was not the answer. Our proposals provided a viable and affordable solution to a difficult situation – and employers also decided to pay for the deferral of the introduction of a 2.5% cap on inflationary increases to future benefits - used in many other pension schemes - until at least 2026, in response to member concerns.

You probably also know – and the union have been keen to highlight - that the USS Trustee’s regular monitoring of the scheme suggests its funding position has recently improved, and that the cost of future benefits might have reduced. This has been helped in part by the reforms implemented and the substantial employer covenant support package.

This is clearly welcome news, but the USS Trustee has made clear that these monitoring reports are not comparable to a full valuation, which is a deeper and more comprehensive assessment of the scheme’s financial health and therefore the reports should only be viewed as a broad direction of travel and not as an actual outcome. The funding position is also fragile, reflective of the broader economy and the global prospects for growth. The USS Trustee has said that, given the high volatility of the financial markets, it does not believe there are grounds to alter contribution levels or benefits ahead of the next full valuation - scheduled for 31 March 2023. It emphasises the danger of setting a precedent for corrective action in the future when a funding position changes - for example if the recent short-term improvements were reversed.

Employers though want to work collaboratively with UCU to find ways to fast-track the next valuation so that any positive changes for scheme members can be delivered as quickly as possible. We’re already working with UCU ahead of the next valuation, including through a newly established technical forum looking at some of the detailed aspects and assumptions to feed into that. Work also includes production of an accelerated valuation timeline, exploring scheme redesign and ways of making the scheme more flexible and appealing to staff by, for example, allowing them to pay lower rates of pension contributions for a short time period.

It is therefore disappointing that despite this collaboration the union has decided to push for industrial action.

And of course, it is students who stand to suffer. We understand that strike action is the last thing students want after the disruption they have faced because of the pandemic and from previous industrial action.

This may be a worrying time for them, they may feel anxious about possible disruption. But I would send this message; universities are well prepared to mitigate the impact of any industrial action on students' learning, and we are all working hard to put in place a series of measures to ensure this.

The specific approach will be different at different universities, but we know from speaking to institutions impacted that measures commonly deployed include:

Providing replacement teaching, specific tutorials and access to online resources, changing assessments where necessary to ensure they reflect the learning that has taken place and extending deadlines. Libraries, computer rooms, students services and IT support will be available throughout the industrial action.

Universities will also keep regular and open communications going with students throughout this period to update on anything that may be affected by the strike action and let them know how they will be supported during this time.

To put this into context though; there are over 200,000 members in the USS pension scheme and only 24,239 (of 47,567 balloted by UCU) voted to strike. This means only around 1 in 10 of those in USS voted to take strike action.

We sincerely hope UCU will reconsider this action. It is not too late for it to be averted. We continue to talk to the union in an attempt to reach an agreement. In relation to the pensions dispute, the most productive thing we can do for scheme members is to work constructively together moving forward to ensure a sustainable scheme for the future.

Professor Steve West CBE, President of Universities UK and Vice-Chancellor of UWE Bristol

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