UCU proposals for securing the future of USS following the 2020 valuation

University and College Union

Introduction

At the outset, it is vitally important to state that UCU contends that nothing in this paper should be read as indicating the UCU accepts the flawed methodology adopted by USS when valuing the fund and the 2020 valuation in particular.

Our members have told us that the cuts to their future benefits proposed by UUK in response to this flawed valuation are unacceptable to them. Once again, they find themselves having to take industrial action to express their outrage.

> At a time when scheme assets have grown from £66.5bn in 2020 to £92bn in the early months of 2022, UCU members cannot accept that the drastic cuts to their pension benefits proposed by UUK are necessary.

With the intention of mitigating the UUK proposals and protecting members' interests, this paper presents proposals for USS that are designed to open the way for constructive dialogue and to end the current dispute. It serves to support the JNC in its decision making by outlining the process and mechanisms that would enable the proposals to be adopted.

This paper provides:

- A brief critique of the UUK proposals;
- A summary note on the financial health of the pre-92 sector;
- An outline of our counter-proposals for negotiation.

It is appropriate to start by establishing important background and contextual matters that are integral to this valuation and JNC decision-making parameters.

We note that both our and UUK's actuaries have previously produced work highlighting the problematic nature of USS assumptions, in particular, around covenant support. To date USS has resisted UCU's repeated attempts to loosen the straitjacket of the 2020 valuation and continues to express an unfounded pessimism around post-valuation experience. It is a matter of genuine disappointment that USS did not adopt some of the UUK and UCU shared and progressive positions on the valuation methodology that emerged in the VMDF.

It remains our view that the unwillingness of USS Trustee to adopt the unanimous recommendations of the Joint Expert Panel has also narrowed the scope for reaching a common position on the valuation, the governance of the scheme and where much needed reform can take place.

UCU continues to have significant concerns about the pronounced role of the Pension Regulator throughout the 2020 valuation and their seeming blindness to the financial health and stability of the sector. That they insist on the same level of prudence here as in the few remaining DB schemes in the private sector, where organisations are less secure and prosperous, is anathema to us.

UCU's position remains that USS needs urgent and fundamental governance reform to re-set the control of the scheme in the interest of members and employers, and to reduce the role of independent trustees and the executive.

We are aware of the damage that continual dispute has to the morale of our members and their faith in the adequacy of USS pension provision. They see their colleagues in post-1992 institutions benefiting from, what they perceive to be, better pension arrangements and cannot understand the punitive prudence applied to them.

Critique of Employers' Proposals

UUK's proposals threaten the long term future of higher education as they disincentivise an already disenfranchised workforce from remaining in or seeking employment in, those institutions that offer it. Not only that but UUK proposals pose a serious risk to members' pensions, and therefore their wellbeing in retirement, and have significant consequences for those just starting their careers in the sector.

The UCU pensions modeller, developed by our actuarial advisors, First Actuarial, which has had over 20,000 hits, indicates just how much early- and mid-career members stand to lose if UUK proposals are implemented. This is specifically galling for members when seen in light of the growth both of the scheme's assets and the financial health of the higher education sector more generally.

The JNC will be aware of the outcome of the recent consultation by UUK on the proposals, in which a majority stated they would rather pay higher contributions than face these cuts.

The financial health of the Higher Education sector

HESA data for 2019/20 shows the total income for all UK universities is £42.4bn, and has risen by 58% during the previous 10 years. That's a total increase in income since 2009/10 of over £15 billion.

However, the same data shows that staff costs as a % of total expenditure have been falling for the past 10 years, reaching a new low of 51.4% in 2019/20. It is clear from university accounts that investment in higher education staff has been deprioritised in favour of investment in buildings and the accumulation of substantial reserves. These reserves now stand at £46.9 billion in 2019/20, more than triple the amount since 2009/10.

In June 2021, the Office for Students (OfS) released its report into university finances. The executive summary shows:

- Income will continue to grow in both the medium- and longer-term. Between 2020-21 and 2024-2025, strong domestic and international student recruitment is expected to generate increases in related income of 14.4% and 46.6%, respectively.

- Overall sector income is projected to increase from £34,666 million in 2018-19 to £40,730 million in 2023-24.

- Providers project a significant growth in aggregate student numbers by 12.3 per cent between 2020-21 and 2024-25.

- Universities and other higher education providers have been able to find efficiencies and reduce cash outflows in response to the financial risks of the pandemic.

- Virtually all universities and other higher education providers are managing the financial risks they face well. This means the likelihood of multiple providers exiting the sector due to financial failure is low.

https://www.officeforstudents.org.uk/media/19efb6a1-2c54-4643-a8d4-1616cdd0bdff/financial-sustainability-of-higher-education-providers-in-england-2021.pdf

The financial health of the sector has been further confirmed by the strong take-up of university places, following the release of A level results in August 2021.

UCU Proposals (Without Prejudice)

UCU proposals have been developed by the union's democratic structures and have taken a pragmatic view of the lack of progress in JNC discussions to find a negotiated agreement, the outcome of the UUK consultation on their proposals.

UCU expects it to be acknowledged the movement in our UCU position in making this offer.

They offer a genuine opportunity to break the cycle of repeated benefit cuts and dispute, and to work collaboratively with employers to secure the long- term stability and sustainability of the scheme through meaningful discussion and constructive negotiation.

UCU's primary aim in making these proposals is to retain a decent, guaranteed pension for members to protect their financial health in retirement. In so doing we believe that it is right that their employers continue to support the scheme and demonstrate their recognition of the importance of this decent pension to their current and future workforce.

UCU's proposal is as follows -

- A sensible valuation – specifically requiring UUK to call on USS to issue a moderately prudent, evidence-based valuation of the financial health of the scheme as at 31 March 2022

- A short term increase in contributions to the scheme to allow for constructive negotiations to take place in good faith to secure the longer-term stability and sustainability of the scheme, This will require employers to agree to provide the same level of covenant support as for their own proposals to facilitate a cost-sharing of current benefits throughout the 2022/23 scheme year, starting 1 April 2022 at 11% member/23.7% employer until 1 October 2022, and 11.8%/25.2% thereafter
- A longer term commitment to the future affordability of the scheme – this would require UCU and UUK to agree to commit to a mechanism that would ensure that, from April 2023, current benefits, or if not possible, the best achievable as a result of the call on USS to issue a moderately prudent, evidence-based valuation, are secured with a guarantee that contributions for employers will not exceed 25.2% and contributions for members will not exceed 9.8% from 1 April 2023 .

All three parts of this proposals require equal commitment from the JNC parties. In accepting these proposals, ALL stakeholders would be guaranteeing their commitment to pressing for and expediting a further valuation as well as working constructively towards a timetable agreed with USS.

Since making these proposals on 26th January 2022, the USS trustee has confirmed the steps that would be necessary to see the implementation of these proposals. This confirmation is limited to the statutory and regulatory elements within their remit. Therefore to aid consideration of these proposals we present below the additional actions and commitments necessary by both parties to operationalise these proposals and therefore resolve the current impasse and dispute.

	Proposal and commentary	Timing
1	"A sensible valuation – specifically requiring UUK to call on USS to issue a moderately prudent, evidence-based valuation of the financial health of the scheme as at 31 March 2022" There is much UCU and UUK already agree on in relation to valuation assumption – for example - the call shared by UUK and UCU for the scheme to return to the 65–67th percentile confidence levels of the 2014, 2017, and 2018 valuations, rather than remaining at the ramped up the confidence levels of the 2020 and indicative 2021 valuations. Like us, employers found it difficult to see the rationale for increasing prudence in the Trustee's confidence levels for the setting of the discount rate. Additionally, UUK's actuarial advisers, Aon made the case in their submission to the consultation on the 2020 valuation for a smoothing of future service contributions via a 10% corridor.	As soon as possible

2	"A short term increase in contributions to the scheme to allow for constructive negotiations to take place in good faith to secure the longer term stability and sustainability of the scheme. This will require employers to agree to provide the same level of covenant support as for their own proposals to facilitate a cost-sharing of current benefits throughout the 2022/23 scheme year, starting 1 April 2022 at 11% member/23.7% employer until 1 October 2022, and 11.8%/25.2% thereafter." USS Trustee has confirmed that this would require the following actions - • The resolution of the JNC dated 31 August 2021 (which recommended benefit changes in response to the rule 76.1 report with an effective date of 31 March 2020) is revoked no later than 28 February 2022 with current benefits being retained. AND • A replacement resolution of the JNC recommending changes in the rates of member contributions payable as set out below is made by a resolution of the JNC on or after the date of revocation referred to in the above point but no later than 28 February 2022 • Changes to the employer contribution rate would be implemented by the Trustee exercising its unilateral power under Rule 6.1 (subject to consultation with UUK on the SoC (together with any amendments necessary for other documents under the Pensions Act 2004)).	By 28th February 2022
3	"A longer term commitment to the future affordability of the scheme – this would require UCU and UUK to agree to commit to a mechanism that would ensure that, from April 2023, current benefits, or if not possible, the best achievable as a result of the call on USS to issue a moderately prudent, evidence-based valuation, are secured with a guarantee that contributions for employers will not exceed 25.2% and contributions for members will not exceed 9.8% from 1 April 2023" If a valuation outcome is known UCU and UUK to agree benefits reform based upon the new valuation using maximum contribution rates of 25.2% of pay for employers and 9.8% of pay for members. If a valuation still ongoing the capped rates of 25.2% and 9.8% would remain in place from 1 April 2023. The mechanism to ensure this would be implemented could be by means of a memorandum of understanding between UCU and UUK, as carried out by their JNC representatives. In the event that, USS costings of current benefits accrued from April 2023 cost greater than 35%, each of UCU and UUK will table proposals for a package of benefits that USS has costed at 35%, and will specify a member rate of 9.8% and an employer rate of 25.2%. If the two proposals differ, the	April 2023

	chair will decide between them by casting vote. If only one party tables such a proposal, the chair will enact it by casting vote. This provides each party with assurance that it will be possible for them to ensure that contribution rates of 9.8% member, 25.2% employer, come into effect from April 2023. If this is regarded as necessary, these instructions to the chair could be formalised by means of JNC resolution.	

The JNC are asked to note specifically the assurance given in this paper and at the meeting on 11th February, that UCU will commit to negotiating a short-term alternative package of contribution rates and benefit changes for the 2020 valuation if necessary, as long as it involves employers continuing to pay no less (and no more) than 25.2%. We regret the confusion that has been caused by misleading descriptions of this measure to employers.

Operating within the restrictions of the 2020 valuation, that we continue to reject, our proposals are a considered and affordable solution. They should be understood as a short-term measure that provides an opportunity to secure a long-term solution to the cost and design of the scheme and end the cycle of valuation/dispute that has plagued the scheme for too long.

We believe there is opportunity – if our proposals are accepted – to conduct all discussions in good faith, with the shared commitment to protect the integrity and sustainability of the scheme. In particular we remain committed to exploring scheme options for lower paid staff that would incentivise scheme membership and help protect members' financial health in retirement.

An agreement along lines of UCU's proposals would provide a settlement of the current dispute and a more collaborative environment in which to make progress in the exploration of the feasibility and promise of scheme design involving risk-sharing of benefits. Moreover, a 2022 valuation would not preclude implementation of conditional indexation via a 2023 valuation, should both parties agree that they wish to do so. As USS has indicated, the trustee could choose to perform annual valuations. The fact that such a valuation would make it possible to implement conditional indexation might provide strong justification for conducting a 2023 valuation a year after the 2022 valuation.

UUK have expressed a number of concerns that we wish to address.

As the 2018 and 2020 valuations demonstrate, it is neither unlawful nor contrary to the regulations to conduct a valuation more frequently than every third year. The trustee could decide at any time to conduct annual valuations.

In response to the worry that the scheme's funding position would worsen in the meantime if we preserved current benefits until April 2023 while conducting a new valuation:

(i) The high level of prudence of the 2020 valuation ensures that any short-term deterioration of market conditions would not be cause for concern.

(ii) The dual nature of the 2020 schedule of contributions which was submitted in September takes account of the funding needs of the scheme up to April 2023, at and after which point either a new valuation or an alternative package of benefit changes for the 2020 valuation will be in place.

(iii) Post-valuation experience since September reveals no deterioration in the level of funding of current benefits at present, in comparison with the valuation date. To the contrary, the scheme is currently funded to a high level. Hence UCU's rejection of UUK's claim that large cuts to member pensions are needed as a matter of urgency.

Employers have stated concern that a 2022 valuation would not be completed in time. In response, we first refer to two precedents:

(i) The 31 March 2017 valuation was originally scheduled for release for formal consultation at the end of June 2017. A draft of the valuation was released at around that time, which was very similar to the valuation that was released for formal consultation in early September. The time interval between the end of June and 1 April 2023 is 9 months.

(ii) The 31 March 2018 valuation was released for formal consultation on 2 January 2019. The schedule of contributions for that valuation was signed on 16 September 2019 — 8.5 months later.

Furthermore, if a 60-day consultation is required in order to implement listed changes involving cuts to benefits by 1 April 2023, there would be time for this, so long as JNC approves these changes by the end of September 2022. Such an end-of-September deadline for JNC approval is rendered feasible by the third point of our proposals, which narrows down points of disagreement by setting maximum parameters in advance of 25.2% and 9.8% for the employer and member contribution rates.

We are aware that UUK contend that it is unreasonable that employers are being asked to increase contributions and commit to same level of covenant support. Given that the generally less financially secure post-92 institutions are now paying 23.68% in employer contributions, the claims that 21.4% is at the very limits of sustainability for the pre-92 sector, and that a contribution rate 1.5 points above the rate the post-92 sector pays would devastate the pre-92 sector, lack credibility.

The 25.2% rate which would be required from October 2022 to April 2023 under UCU's proposals is below what has already been budgeted for. For the 2021–22 fiscal year, employers budgeted for a 2.6 percentage point increase in their contributions from 21.1% to 23.7% in October 2021, as this is the rate at which contributions were then scheduled to rise under the last valuation. Therefore the 23.7% level of employer contributions required to retain current benefits from 1 April to 30 September 2022 is no greater than what employers have already budgeted.

Our activists have been compiling information from the published accounts of their institutions and can clearly see the growing surpluses shown in these accounts. They cannot help but form the opinion that their employer puts profit before their wellbeing.

Conclusion

UCU is committed to resolving this dispute and our members have therefore reluctantly agreed that they will pay slightly more into the scheme in the short term.

We contend that the additional short term cost to employers is mitigated by taking into account the additional contributions they budgeted for from October 2021. JNC will note that these proposals contain a commitment to cap the cost of the scheme in the future.

In making these proposals, we ask that employers commit to the same level of covenant support that they have already stated they are willing to give (to their own proposals).

UCU are not condoning the overly prudent way that the USS has valued the scheme in 2020. Our members have been shocked at the "drastic haircut" proposed by UUK to deal with the pricing of benefits. We understand that the Pension Regulator has a huge influence over the scheme due to its size and see that it advocates an extremely cautious approach. However, we are genuinely disappointed that much of the good work carried out by the Joint Expert Panel and the Valuation Methodology Discussion Forum has seemingly been dismissed.

It has been very difficult, therefore, to develop counter proposals within the 2020 valuation but we genuinely believe that these proposals can work and offer our members a better short-term solution to conclude the 2020 valuation than those offered by UUK.

Not only that but they open the way for the parties to secure the future stability of USS. UCU therefore contends that employers have it in their gift not just to resolve the current dispute and avoid strike action and disruption to students, but also to work with us on a stable longer term outcome is possible. What happens now is dependent on their actions and willingness to value their staff.

The JNC should be in no doubt that, at this critical time, accepting these proposals would help end the current dispute.