

How will changes to USS benefits affect scheme members?

On 31 August 2021 the Joint Negotiating Committee (JNC), the official forum which decides on changes to the USS pension scheme, voted to take forward a proposal developed by employers to meet the rising costs of future benefits.

On 3 September 2021, the USS Trustee accepted the JNC's decision and will now conclude the 2020 USS valuation with the following changes to be implemented from April 2022, subject to a statutory consultation with employees eligible to be in the scheme.

- Lowering the salary threshold - the level at which defined benefits (where members are promised a set amount of pension benefits) are paid up to - from £59,883.65 to £40,000
- Reduction in the accrual rate (the proportion of salary a member receives annually as a pension in retirement) from 1/75ths to 1/85ths
- Capping increases in benefits at 2.5% CPI (Consumer Price Index, a recognised way of measuring inflation) even if inflation is higher than this level.
- Salary contribution rates: 9.8% member and 21.4% employer, up from 9.6% and 21.1%

Other elements would remain unchanged, including:

- 20% contributions to members' Defined Contribution (DC) accounts over the salary threshold. DC pension savings depend on how much scheme members and their employers contribute, the level of charges applied, and how well the pension scheme's investment fund has performed
- Payments to your dependents in the event of your death, or to you if retire early because of ill health.

The USS Trustee's pricing of the proposal is 31.2% of salary (9.8% for members, 21.4% for employers.)

The changes to benefits are now subject to a formal 60-day consultation with members, expected to start in November.

Benefits members have accrued to April 2022 are safe and protected, and will not change.

Employers understand that changes to benefits are difficult for scheme members, but without reform both members and employers face escalating costs.

It is important to remember that the USS Trustee's formal assessment of the scheme's deficit and cost of future pension benefits means no change is not an option, and the employers' proposal is currently the only alternative to harmful and unaffordable rises in contributions.

Will pension benefits be cut by 35% as UCU suggest?

It's not true that staff in the scheme are facing a cut in their pension of 35%. This is based on a very specific member example, which doesn't take into account the valuable DC section of the scheme. When DC benefits are factored in to the UCU example, the projected reduction drops to 23% - but this is still a specific interpretation, and the impact will vary depending upon a range of circumstances and assumptions for the future. Using the method UCU used to calculate this figure, their own suggestion for changes - which they mention in press releases but didn't put to a vote at the JNC - would result in a 27% reduction in benefits.

The official modelling provided by USS suggests that when benefits already accrued and the value of DC benefits is taken into account, the impact will be a reduction in USS benefits at retirement of between 10% and 18% for a range of example members (not including State Pension). These figures will vary depending on assumptions used for the future.

USS will be publishing an official modeller when the statutory 60 day consultation launches in November 2021, which scheme members can use to get an accurate answer depending on their individual circumstances, including age, projected salary growth, different rates of inflation, amount of years in the scheme, and retirement age. All scheme members are encouraged to use this modeller when it is launched.

A note on the illustrations

The illustrations in this document are based on [modelling provided](#) by the USS Trustee to show how the proposed reforms would affect three different scheme members, which they have published ahead of the consultation in November, when individuals will be able to get a breakdown of the impact of the proposals on them.

The example illustrations assume a retirement age of 66 and exclude State Pension.

A 2.5% increase cap would also apply to benefits once in payment based upon the proposal, in line with the statutory minimum increase.

The defined contribution pension members will receive in retirement will depend on future investment returns and annuity/drawdown rates applying at that time.

Assumptions used

Assumptions used were confirmed by both UUK and UCU for use to help the JNC understand the potential impacts on members.

- CPI Inflation - 2.5% (consistent with Statutory Money Purchase Illustrations (SMPI))
- Pay growth - CPI+1.5%
- Salary Threshold increases by 2.5% each year
- Investment returns for members' Investment Builder funds are those used for Statutory Money Purchase Illustrations in 2021 Annual Member Statements, assuming members are invested in the USS Default Lifestyle Option with a Target Retirement Age of 66. The nominal (inclusive of inflation) rates for the funds that are blended in the lifestyle options are:

Growth	Moderate	Cautious	Liquidity
4.77%	4.15%	3.38%	1.78%

- Investment management costs are not included
- The retirement age for all examples is 66 - no late or early retirement factors are applied to past and future service (this will affect all benefit structures equally)
- All USS benefits are converted to income at retirement
- DB lump sums are converted using the current reverse commutation factor for a 66-year-old (3.22%)
- DC is converted to income using an assumed sustainable withdrawal rate of 3.5%
- While CPI Inflation is set at the 2.5% cap, USS has included a revaluation adjustment that assumes that on average the excess of CPI over the cap is 0.35% per annum. This is based on the adjustment to the CPI curve used by the Trustee as at 31 March 2020, as requested by UUK (noting that the Trustee's use of this deduction for funding purposes applied to a different underlying inflation assumption)
- No other pension provision that members may have is included, including State Pension
- The figures used in the following illustrations have not been rounded up or down whereas in the published USS modelling the projected impact percentages have been rounded to 10%, 16% and 18%

If the benefit changes are blocked, all members face paying much more to receive the same benefits.

The USS Trustee recently concluded a consultation with employers on a Schedule of Contributions, which sets out the member rates that will apply to members if no benefit changes are made at this valuation.

1 April 2022 to 30 September 2022: 11.0% of Salary
1 October 2022 to 31 March 2023: 12.9% of Salary
1 April 2023 to 30 September 2023: 13.9% of Salary
1 October 2023 to 31 March 2024: 15.0% of Salary
1 April 2024 to 30 September 2024: 16.0% of Salary
1 October 2024 to 31 March 2024: 17.1% of Salary
1 April 2025 to 30 September 2025: 18.1% of Salary
1 October 2025 onwards: 18.8% of Salary

Each of the following illustrated personas show how the first four of these increases would impact members in 2022 and 2023.

All contributions increases shown are illustrative and do not take tax into account, as this will be different according to each member's individual circumstances.

Persona 1

Aria has been in the scheme for 3 years.



Age

37

Earns

£30,000 pa

Current USS pension at retirement

£17,250

With proposed changes

£14,550

Estimated reduction to annual USS pension in retirement

-15.7%

Figures shown do not include State Pension



Aria

**Salary
£30,000**

**UUK proposal
-
includes change
to benefits**

Costs without change to benefits

	UUK proposal - includes change to benefits	Costs without change to benefits			
		April 2022	October 2022	April 2023	October 2023
Monthly contribution (£)	£245	£275	£323	£348	£375
Monthly contribution (%)	9.8%	11%	12.9%	13.9%	15%
Extra costs per month (£)	No increase	+£30	+£78	+£103	+£130

Additional cost in 2022 if benefit changes are blocked

£645

Additional cost in 2023 if benefit changes are blocked

£1,395

All contributions increases do not take tax into account which will differ according to each member's individual circumstances.

Persona 2

Bryn has been in the scheme for 8 years.



Age

43

Earns

£50,000 pa

Current USS pension at retirement

£24,800

With proposed changes

£20,300

Estimated reduction to annual USS pension in retirement

-18.1%

Figures shown do not include State Pension



Bryn

**Salary
£50,000**

	UUK proposal - includes change to benefits	Costs without change to benefits			
		April 2022	October 2022	April 2023	October 2023
Monthly contribution (£)	£408	£458	£538	£579	£625
Monthly contribution (%)	9.8%	11%	12.9%	13.9%	15%
Extra costs per month (£)	No increase	+£30	+£78	+£171	+£217

Additional cost in 2022 if benefit changes are blocked

£1,075

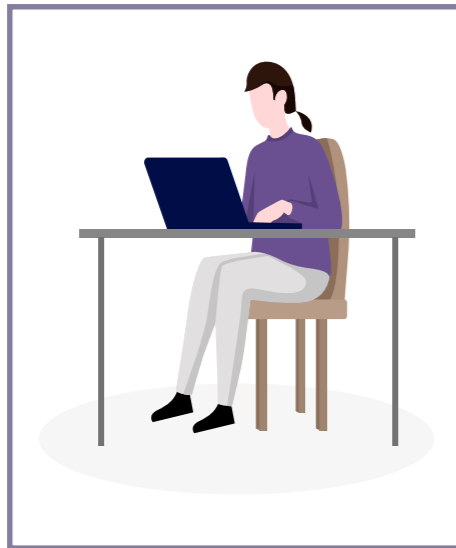
Additional cost in 2023 if benefit changes are blocked

£2,325

All contributions increases do not take tax into account which will differ according to each member's individual circumstances.

Persona 3

Chloe has been in the scheme for 18 years.



Age

51

Earns

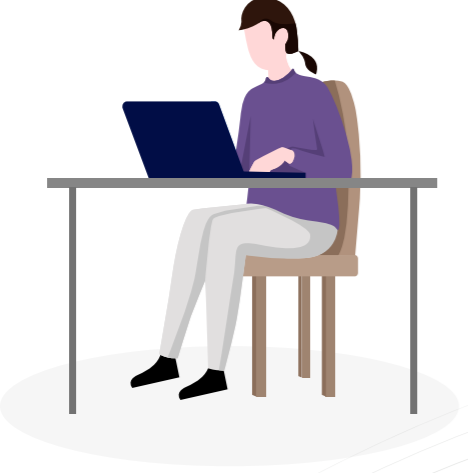
£70,000 pa



Estimated reduction to annual USS pension in retirement

-10.4%

Figures shown do not include State Pension

 Chloe	Salary £70,000	UUK proposal - includes change to benefits	Costs without change to benefits			
			April 2022	October 2022	April 2023	October 2023
	Monthly contribution (£)	£572	£642	£753	£811	£875
	Monthly contribution (%)	9.8%	11%	12.9%	13.9%	15%
	Extra costs per month (£)	No increase	+£70	+£181	+£239	+£303
Additional cost in 2022 if benefit changes are blocked			£1,505			
Additional cost in 2023 if benefit changes are blocked			£3,255			

All contributions increases do not take tax into account which will differ according to each member's individual circumstances.

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