UCU NDC LETTER DATED 2 AUGUST 2019

KEY POINTS IN RESPONSE FOR USS EMPLOYERS

The valuation

'We call upon the university to publicly demand the implementation of the JEP recommendations in full.

'We call upon the university to publicly support a 26% contribution rate based on implementation of the JEP recommendations in full.'

The JEP has not – at any point – made any statements to even suggest that the 2018 valuation could be concluded with a contribution rate of 26% or less. To imply otherwise is misleading.

The JEP's first report maintained 'there are a number of different paths the USS Trustee could adopt to reduce the contribution rate to below 30%', and that their proposed solution illustrated one such path. The proposed outcome for the 2018 valuation should be considered as an alternative path, that has nonetheless brought the required contribution rate down substantially.

Employers have not made any 'vague allusions' to the 'requirements of The Pensions Regulator.' The Regulator itself set out its position in a letter of 15 May, in which it raised concerns over concluding the 2018 valuation with a contribution rate of 30.7%. UCU's Joint Negotiating Committee (JNC) representatives received this correspondence (which was subsequently published online), and also heard this position first-hand in an informal meeting with the Regulator itself. It is therefore unhelpful for UCU to suggest that employers have inaccurately communicated the position of the Regulator to justify a higher contribution rate. The fact is that the Regulator would prefer a higher level of contributions than 30.7% to fund current benefits and deficit recovery contributions.

If it were possible to conclude the valuation with a rate of 30% or lower, which would also satisfy the concerns of the Pensions Regulator and the USS Trustee, employers would of course want to achieve such an outcome: it is simply not in the interests of employers or members to pay higher contributions than are necessary. On this occasion, however, there are certain realities that render such a rate impossible while maintaining the current level of benefits. Alongside challenging economic conditions and the regulatory environment outlined above, the legal obligation and ultimate decision-making on contribution rates rests with the USS Trustee. Nonetheless, by carrying out a 2018 valuation to take the JEP's recommendations into consideration, the Trustee has been persuaded to put forward a much lower contribution rate.

Finally, the suggestion that Universities UK (and employers individually) have not pushed USS to implement all the JEP recommendations is wholly inaccurate. It is unthinkable that employers would agree to pay an additional £250 million each year into the scheme (and bear the consequences of doing so) without first exhausting every possible avenue to a lower rate. The fact that at very short notice employers agreed to challenging extra covenant supporting measures to bring the rate down from 33.7% to 30.7%, is further evidence of the lengths to which employers have gone to secure a lower contribution rate.

Contribution rates

'We are not prepared to commit on trust to further increases in contributions, nor are we prepared to agree to cost increases on the basis of a deeply flawed valuation that presents a healthy scheme as being in deficit. If our employers are, then we call for them to shoulder 100% of the unwarranted increases in contributions.'

The option proposed by employers ensures that pensions benefits for USS members remain at current levels with the additional costs shared 65% by employers and 35% by scheme members.

The Joint Expert Panel (JEP) was established jointly by UUK and UCU, and since its inception employers have been committed to a thorough examination of the valuation methodology. The JEP is close to completing its second report (due in autumn 2019), which will make recommendations in this area for the next valuation. Until the report is published, employers believe that Option 3 is the most preferable holding position for the scheme, as it involves the lowest contributions available for scheme members and employers, which maintains the current level of benefits.

We anticipate that all stakeholders will come together to consider the JEP's second report and agree a way forward for a valuable and sustainable scheme, with a valuation methodology that is accepted by all. It is disappointing that UCU does not believe that stakeholders will be able to exert influence over its implementation: the first report ultimately lowered contributions from 36.6% to potentially 30.7%, while retaining the current level of benefits.

UCU's statement that the contributions increases are 'unwarranted' should be viewed as an opinion, not a fact. The employers' opinion is that while the contributions increases are in themselves undesirable, they are reflective of the challenges currently faced by all schemes and are not out of the ordinary given the present regulatory environment. These additional contributions will allow the maintenance of benefits at current levels.

Employee/employer contribution rate split

'We call upon the university to acknowledge that the 65:35% cost sharing does not have to be applied.'

It is correct that it is ultimately for the JNC to decide how to split contributions; and, that they may take up to three months to continue deliberating. If at the end of those three months there is still no agreement, the default position is that 65:35 cost sharing will be applied as set out in the scheme rules. However, by that point the 1 October 2019 increases (from the 2017 valuation) will have come into effect – with a rate of 10.4% for scheme members, compared to the 9.6% rate employers have proposed.

UUK's proposal to split the increases 65:35 therefore takes into account the nuances of the situation: UCU has firmly committed to a 'no detriment' policy, and although employers have made clear that the contributions required under that scenario would be damaging, there is little sign that UCU is prepared to negotiate further. The pragmatic solution therefore is to fast-forward the process and conclude the 2018 valuation with a 65:35 split now, so that it can be implemented before the 1 October 2019 planned increases come into effect.

Employers have committed to covenant supporting requirements to allow the Option 3 proposal to be presented as a solution to the 2018 valuation. These commitments reduced the contribution rate by a further 3% (33.7% to 30.7%) and employers are proposing this reduction is shared with members.

Jobs or pensions?

'We call on the university to publicly rebuke Adam Tickell and Universities UK for this threat and to commit to a policy of no job cuts in response to the outcome of the USS dispute.'

There are over 340 participating employers in USS, and each will respond differently to increases in contribution requirements with many having had to do so for previous increases. It is also the case that some employers have more capacity to absorb these increases than others. However, it is clear that there would be implications at almost all institutions of such increases – whether those implications are in the form of changes to spending plans, delays in business projects, reductions in investments, changes in course provision and ultimately the risk of job losses – all of which would be damaging to the student experience.

Employers have responded to recent consultations by UUK to indicate their support for an outcome to the 2018 valuation in line with Option 3. This would involve employer contributions of 21.1% of salary – and higher contributions thereafter – but with an actuarial valuation as at 31 March 2020.

In terms of the financial implications for employers, the increase in contributions from 18% of salary (the rate payable up to 31 March 2019) to 21.1% of salary would represent an additional £250 million paid into USS by employers, every year. To put this into context:

- This extra contribution which employers have put forward to achieve a settlement to the 2018 valuation is equivalent to c. 5,500 full-time roles for a full-time USS member paid the scheme-average salary (of £42,659 as at 31 March 2017);

- This extra contribution is equivalent to the income which institutions collectively would receive for approximately 27,000 students each year (based on a tuition fee of £9,250 per year in England).

If the valuation was to be concluded under Option 3 but with UCU's 'no detriment' proposal applied, these figures would rise to:

- An additional £370 million each year; equivalent to c. 8,477 roles; and equivalent to the income that institutions collectively would receive for approximately 40,000 students.

Upcoming industrial action

'We call on the university to affirm that any settlement of the dispute will include full repayment of strike deductions with interest.'

Employees who take part in industrial action are in breach of contract, and employers are legally entitled to withhold pay as a result.

Regardless of whether the outcome of the industrial action is considered a success or not, employees are not entitled to any pay that is withheld for each day that they took part in strike action.

Let's talk about this

'We call on the management of our university to engage in open discussions with our local UCU branch around finding ways to settle this dispute that avoid reducing the quality of our pensions or increasing our contributions and avoids a dispute that will damage our institution. We believe these discussions should be reported to all university employees as thoroughly and quickly as possible as they proceed.'

UUK hopes that all USS scheme members – whether they belong to UCU or not – will recognise that the proposed outcome represents a fair and pragmatic conclusion to the 2018 valuation: it maintains current benefits and proposes to share the increase in costs in line with a solution that already exists in the scheme to solve any impasse that arises between the scheme's stakeholders.

Importantly, this outcome would supersede the more costly contributions increases currently scheduled for October 2019, and creates space for the JEP's second set of recommendations to be taken into account before the next valuation of the scheme in 2020.

The option proposed by employers ensures that pensions benefits remain at current levels with the additional costs shared 65% for employers and 35% for scheme members.

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