

## **Proposal to reform USS Pensions**

A proposal to make changes to USS has been decided on by the Joint Negotiating Committee (JNC) in order that it can be consulted upon with scheme members and affected employees. Information on the background to this decision and the JNC benefit reform proposal is outlined below.

### **1. The 2017 USS valuation**

Every three years the USS trustee is required to carry out an actuarial valuation. During a valuation, the USS trustee assesses the scheme's assets and liabilities to ensure it has sufficient funds to pay promised benefits, and also that contributions into the scheme cover the cost of benefits that might be promised in future.

The last two valuations (in 2011 and 2014) have each been very challenging, revealing a funding deficit – where the value of the liabilities exceeds the assets – and significant increases in the cost of future defined benefits (DB). The USS trustee was required to undertake a valuation at 31 March 2017. This valuation revealed a further worsening of the scheme's funding position:

- A substantial past service deficit of £7.5bn existed, having grown from £5.3bn as at March 2014.
- The cost of providing current future service benefits had risen by over a third since the last valuation

Around the world DB pension schemes have become increasingly expensive due to slower (and more unpredictable) economic growth and lower investment return expectations. Over the last decade employers have paid almost 30% more towards USS benefits. However, at this valuation employers are not in a position to pay even higher contributions, and it is believed that many members would struggle with higher contributions too. Employers have made clear that increasing employer contributions beyond the current 18% is not affordable or sustainable, with employers reiterating that this would necessitate significant budget cuts elsewhere and the diversion of funding away from employers' core missions.

This funding problems must be addressed so that the scheme remains sustainable and that members' benefits continue to be secure. The status quo would be simply unacceptable on many fronts, not least from a pensions law perspective, but also under any generally acceptable actuarial approach or indeed from the risk perspective of the scheme's employers.

Universities UK, as employer representative, and the University and College Union (UCU), as member representative, have met over 30 times to discuss possible solutions to the outcome of the 2017 valuation. This engagement was through the Joint Negotiating Committee, as well as other formal and informal meetings.

### **2. Benefit reform proposal**

On 23 January, the USS JNC<sup>1</sup> decided on a proposal to reform future scheme benefits which will now need to be consulted upon with scheme members and affected employees. Any

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<sup>1</sup> USS is governed by a clear set of scheme rules. Any changes to these rules need to be decided on through the JNC. The JNC brings together an equal number of representatives from Universities UK and the University and College Union. The JNC has an independent chair who oversees discussions between employer and member representatives, and can choose to cast a deciding vote if agreement

changes to benefits will only affect pensions earned after a future implementation date (suggested to be 1 April 2019), and no changes will be made to the pension you have already earned retrospectively.

The JNC proposal was first tabled by Universities UK. Both Universities UK and UCU tabled proposals to the JNC in December 2017. Following negotiations in December and January, employers revised their first proposal and UCU did not. On 23 January the JNC voted for employers' revised proposal.

A more detailed outline of the benefit reform proposal is available [on Universities UK's website](#) together with the rationale for the proposed changes, but the main elements of the proposal are summarised below.

#### Employer contributions

- Employers will continue to pay a contribution of 18% of salaries towards USS, and it is proposed that this important commitment is extended from March 2020 to March 2023.

#### Member contributions

- Members will continue to pay 8% of salaries towards USS.
- A new option is being proposed which would allow members to pay less (4% is proposed), whilst still benefitting from the full employer contribution of 18%.

#### Main benefit change

- The JNC proposal is to change USS so that members earn defined contribution (DC) benefits on all of their salary from April 2019. Currently DC benefits are only earned on salary over £55,550, with defined benefits (DB) earned on salary below the threshold.
- DC and DB benefits are quite distinct, and both have their advantages.
- In a DC scheme, members have individual saving pots (or funds) that both they and their employer pay into. At retirement, members draw their pension savings from their fund which consists of all of the contributions paid in plus the investment returns that have been earned. They can then choose whether they wish to take out all their retirement savings as a lump sum, or to opt for alternative options such as a pension (known as an annuity) or drawdown (where cash is drawn from the fund periodically).
- More information on the difference between DB and DC pension schemes can be found on Universities UK's website.

#### A valuable DC

- The DC offer proposed would represent exceptional pension provision, containing important and valuable enhancements, and all delivered using the existing USS Investment Builder.
- Employer contributions directly to members' DC accounts is proposed to be 13.25% of salaries. To put this into context, this is almost double the median employer contribution rate to DC savings by employers generally in the private sector.
- USS employers would fully subsidise investment charges – meaning that more of your money is invested to grow your pension savings – and in addition USS's DC investment funds continue to perform strongly.
- One of the most attractive features of the JNC's proposal is that it opens up new choices for members on how they might use their pension savings, and when these

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between both parties cannot be reached. Both Universities UK and UCU have to agree to the appointment of the independent chair.

savings can be drawn. DC pension saving offers much greater freedom and choice, and employers want to give members much greater flexibility, and control, over their financial options as they move from work into retirement.

#### Death and incapacity benefits

- Death and incapacity benefits will not be changed. They will continue to be awarded on a defined basis to provide certainty to members and their families in the most challenging of circumstances – this is another important measure in building genuinely exceptional future pension provision.

#### Longer-term USS

- Defined benefits, or alternative scheme structures, could be re-introduced in future if the scheme's funding situation improves.

### **3. Next steps**

USS employers will be consulting with all scheme members and affected employees on the proposed changes for at least 60 days. This consultation is scheduled to start on 19 March 2018. More details on this consultation will be available in the coming weeks and employees are encouraged to respond to this consultation so that all views can be reflected in any final reforms that are decided on.

Universities UK has a number of [Q&A's on its website](#) that you might find helpful for further information on USS and the valuation.