

COUNCIL

USS Review Working Group

Meeting room 1, Primary Care Building, Woodstock Road, 11.00 am – 12.30 pm

Minutes of the meeting of 17 July 2018

Present: Professor Richard Hobbs (Chair), Mr Charles Alexander, Professor Danny Dorling, Mr Julian Duxfield, Professor Fabian Essler, Mr Jaya John

In attendance: Ms Jan Killick, Mr Russell Powles (Aon), Mr Stephen Rouse, Professor Anne Trefethen

Apologies: Professor Gordon Clark, Sir Andrew Dilnot, Professor Cecile Fabre, Professor Sam Howison, Professor Jane Humphries, Mr Giles Kerr

1. Welcome

The Chair welcomed the new attendees to the group. Mr John had been appointed from the Oxford Research Society. Professor Trefethen was attending as an observer. From Michaelmas Term she would have additional responsibilities as the Pro Vice-Chancellor covering personnel related matters.

2. Conflicts of interest

All except two members of the group present and the Aon representative, were members of USS. One member's partner was also a member of USS.

There were no other conflicts of interest declared.

3. Minutes of the previous meeting

The group confirmed its previous decision that the minutes and papers would be published under Single Sign On as it wanted its work to be transparent and open. However, information labelled confidential might need redaction in part or whole before it was published. Subject to one minor change, the minutes were agreed.

4. Matters arising from the minutes

Matters arising from the minutes were covered as separate agenda items.

5. Announcement from the USS on cost sharing

The group noted the announcement from USS issued on 22 June 2018 did not contain the most up to date information on mortality. Professor Dorling pointed out that although the Government's White Paper had mentioned increased longevity, the Office for National Statistics had reported earlier in June a significant slowdown in the long-term improvement in mortality.

The removal of the 1% match, an option taken up by around 25% of University members, was noted as reduction in pension provision.

6. UUK seeking views on USS Trustee's proposals

The group noted that the paper from UUK was confidential and so agreed it should be excluded from publication online.

Professor Essler asked how UUK would use the responses from employers. Ms Killick responded that some information would be used by UUK in formulating views for its representatives on the Joint Negotiation Committee when considering matters such as implementing rule 76.4 and it would also inform UUK when discussing funding matters with USS.

As Mr Kerr was not present to explain the financial impact of an increase in employer contribution a very high-level summary note had been prepared to cover this. The note tabled illustrated the forecast cash inflow from operating activities and the reduction in cash inflow with the estimate cost of increase of 24.9% employer contributions. The result was that the requirement set by Council for the University to have a minimum financial surplus which enabled replacement to be incorporated would not be met with the increased pension costs.

Professor Howison had observed in advance of the meeting that it would be possible for University to meet the increased pension costs and it may be at the cost of capital projects and/or increased student fees.

Mr Alexander noted that agreeing the level of affordability was a complicated question and that there were many trade-offs embedded. From a college perspective what might be affordable for some would difficult for other colleges.

The group recognised that the trade-offs in meeting any increased contribution requirements would be a matter for consideration by Council and the Planning and Resource Allocation Committee.

The group considered each of the points raised by UUK and agreed that the response would be finalised by circulation and submitted before 19 July. (post meeting note: the final response has been attached to the minutes).

Action JK

7. Option – cease participation in USS and pay buy out costs

The group noted that the cost of the section 75 debt of around £2.7bn due if the University ceased to participate in USS was calculated on very cautious basis and it would not necessarily be earmarked for the benefit of University members. It was agreed that this option was clearly not in the University's interests and would not be recommended to Council as an option to pursue further.

8. Options for increasing pension provision – agree items to prioritise for legal advice

Mr Duxfield suggested that only option 4 (continue to participate in USS and top up members benefits in a defined contribution arrangement with member contributions only) was likely to be acceptable under the USS exclusivity clause. However, the group wanted certainty that the other options were not permitted. It was agreed that oral advice would be obtained on all options (including self-invested personal pensions (SIPPs) under option 4) and having obtained that view a written opinion that could be shared with University and College employees would be sought. Legal Services would be asked to help frame the question appropriately.

Action JD/JK

9. Other options – alternative compensation for loss of expected future pension

Ms Killick tabled a draft paper illustrating the financial impact for various options from employee and employer perspective. The group asked that the information be re-presented in a more consistent way for consideration at the next meeting.

Action JK

10. Possible scenarios for modelling DC type top up

Mr Powell presented an outline for modelling that could be done to illustrate the effect of additional defined contribution top up in a range of scenarios. Prof Hobbs commented that at this stage it was not clear what level of equivalent benefit ought to be considered as there were no benefit changes currently proposed.

Professor Essler observed that a defined contribution (DC) top up would transfer risk to members up to retirement and that there would be a range of outcomes. At retirement the modelling proposed assumed that an open market annuity would be provided. Professor Hobbs highlighted that in practice there would be other options available such as drawdown or taking the DC pot as a lump sum, with part of the lump sum tax free.

The proposal presented covered different DB salary caps and low, moderate and high investment returns so as to illustrate the sensitive of the outcomes to these variables. There were other variables that would affect the outcome eg salary and inflation and at this stage it was agreed to limit the elements to be varied. It was also agreed that the modelling report should make clear why certain assumptions had been suggested eg salary of £72k being a proxy for the salary of a titled associate professor, including college housing allowance and salary of £47k to be above the threshold of £42k from the March Acas proposal, the Consumer Prices Index (CPI) was representative of the inflation measure under the USS rules and the Government's inflation target was 2% CPI.

The group asked Aon to prepare the modelling of the scenarios outlined for review at the next meeting.

Action RP

11. USS Pensions internal communication outline

Mr Alexander noted that the email sent to USS members at the University was not available to College only members of USS and he had requested that Colleges forward the information to College only members.

Mr Rouse reported that the revamped webpage had had 1,500 visits from 1,100 unique users and that the USS review working group page was the most popular. The email announcement on 9 July had been opened by around 4,500 individuals (just under half the recipients). To date 60 had booked for the September open forum, 32 in October and 36 in November. He planned to send reminder invitations nearer the time. It was agreed to invite a representative from USS to the sessions as it had been helpful to have Ms Duffield at the previous forum.

Action JK

The group asked that when publishing its papers and minutes that a summary box be included online so that employees could more readily understand the issues and any decisions.

Action SR

12. Remuneration and pension scheme comparisons

As discussed previously the group noted that international comparisons were not straightforward. The paper presented UK pension comparisons and would be marked as

such. Mr Duxfield offered to discuss international comparisons and explain the ways in which the University reacted to matters of comparable remuneration packages at the next meeting.

Action JD

13. Any other business

The group agreed to Mr Duxfield's suggestion that representatives from UUK be invited to attend the next meeting.

Action JD

There was no other business.

14. Next meeting

The next monthly meeting: Thursday 30 August 2018, 11.00 am – 12.30 pm, venue tbc

The meeting closed at 1.00pm

USS Review Working Group

UUK – information on USS Trustee’s proposal under Rule 76.4

The University’s Council has established the USS Review Working Group ("the Group"). One of the roles of the Group is to respond to consultations from Universities UK on behalf of the University of Oxford.

The Group met on 17 July 2018 to consider, amongst other matters, the confidential Briefing paper for USS Employers from UUK on the USS Trustee’s proposal under Rule 76.4. The paper set out 7 areas UUK would welcome employers’ views on the proposed approach.

The proposed response drafted by the Group on behalf of the University submitted to UUK is as follows:

1. Ability of employers to make higher contributions
2. Phasing of contribution increases – 21% 2019/20, then 24.9% in 2020/21

Based on a review of high level financial analysis, the University could afford to pay the proposed increases in contributions in the short term but these additional costs would require difficult decisions involving financial priorities to be made by departments, faculties and the appropriate University committees and Council.

In the longer term the University would require further details and analysis on the consequential impact and so is unable to comment at this time on the longer-term ability to sustain contributions at a higher level.

3. Phasing of employer contributions in 2019 /20 – 19.5% for six months from April 2019, 22.5% from October 2019

The University had no strong preference for implementing a phased approach. A phased approach would add unnecessary complexity (both communications and administrative). In contrast, phasing would be more cash flow beneficial to the University in the very short-term. The phasing may allow time for any changes that might result from the JEP/JNC process to be adopted.

4. Impact of higher contributions on members:
2019/20 8.8% for six months from April 2019, 10.4% from October 2019, followed by 11.7% from April 2020

Phasing could be beneficial as it would allow members to plan for the stepped increase and allow members to assess the impact on their personal finances over the short-term.

The University felt increased contributions may lead to increased member opt-out rates particularly for those earlier in their careers and on fixed term contracts. This was likely to be a small effect and the majority would pay the increase, although it had limited data available to support this view.

5. Removal of employer contribution on salary above the threshold (Rule 76.5)

The University would prefer to maintain employer contributions above the salary threshold as this would maintain the same standard of pension provision for those currently earning above the threshold.

6. Broader implication of materially higher employer contributions

The University agreed it was premature to consider the broader implications around collective support at this stage.

7. 12 month implementation period

The University did not have a strong view on the implementation period for any scheme changes but noted having clarity over timescales was important.