USS Review Working Group
11.00 am to 1.15pm, Thursday 30 August 2018
Venue Meeting Room 6 Wellington Square (sandwich lunch provided)

Agenda

1. Apologies for absence and welcome

2. Conflicts of interest declarations

3. Minutes of previous meeting –17 July 2018

4. Matters arising from the minutes

5. Employer consultation on cost sharing contribution changes (for information a copy of the consultation document is attached to the agenda)

6. Modelling of examples of defined contribution type top up (paper from Aon)

7. Effect of cost sharing rule on contributions (paper)

8. Legal advice (paper or oral update)

9. Communication update, including Oxford open forum on USS on 18 September (discussion. The slides from previous forum are attached for information)

10. Update from UUK (Mary Lambe, Senior Policy lead - Pensions and Brendan Mulkern, pension consultant in attendance)

11. Update from USS (Mel Duffield, Head of Pensions Strategy and Insight and Jeff Rowney, Head of Funding Strategy in attendance)

12. Any other business.

Date of next meeting – Tuesday 25 September 2018, 10.00 to 11.30, Rooms 1 and 2, Wellington Square

Attendees:
Professor Richard Hobbs (Chair)
Mr Charles Alexander
Professor Gordon Clark
Professor Danny Dorling
Professor Fabian Essler
Professor Cecile Fabre
Professor Sam Howison
Mr Jaya John
Mr Giles Kerr
Sir Andrew Dilnot
Professor Jane Humphries

Apologies:
Mr Julian Duxfield

In attendance:
Ms Jan Killick
Mr Stephen Rouse
Mr Russell Powles, Aon
Ms Judith Finch, Conference of Colleges

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

IMPORTANT INFORMATION

USS EMPLOYER CONSULTATION

NOTICE OF STATUTORY CONSULTATION BY EMPLOYERS IN RELATION TO USS

BACKGROUND

Based on an extensive assessment, and discussion with employers (via Universities UK (UUK)) and the Pensions Regulator, the USS trustee's 2017 valuation has determined that the cost of continuing to offer the benefits currently provided by the scheme – and repair a £7.5 billion deficit in relation to pensions already earned – has increased by £900 million a year.

The USS trustee has, therefore, concluded that, in order to maintain the scheme's current level of benefits and features and address the deficit, the combined contribution rate required in total from members and employers needs to increase by 11.4%, from 26% of salaries today to 37.4%.

For more information from the trustee about the valuation, members, eligible employees and member representatives should visit the dedicated pages on USS website: www.uss.co.uk/2017valuationupdates

SUMMARY OF PROPOSED CHANGES

This document sets out proposed changes to USS contributions that will affect you:

Member contributions to increase from 8% to 8.8% of salary from 1 April 2019

Further increases to member contributions to be phased in at 1 October 2019 (10.4% of salary) and 1 April 2020 (11.7% of salary)

Employer contributions would also increase at the same dates

The employer match would be removed from 1 April 2019. Members who have opted to pay 1% match contributions would continue to do so, unless they elect to cease paying via My USS

8% of member contributions from salary above the salary threshold would continue to be saved in the USS Investment Builder, with the excess supporting the benefits of the USS Retirement Income Builder.

THE JOINT NEGOTIATING COMMITTEE (JNC)

The JNC is made up of five representatives from the University and College Union (UCU) (the body that represents USS members), five representatives from UUK (the body that represents employers) and an independent chairperson, as defined under the USS rules.

Under the USS rules, the JNC is responsible for deciding how any increase in the cost of the scheme is to be addressed: either by increases to the rates of contributions and/or by benefit changes.

The JNC has discussed potential changes to the scheme's future benefit and contribution structure in response to these challenges.

It proposed benefit changes in January 2018, but after further discussions between UUK and UCU, it agreed to withdraw those proposals and no replacement has yet been put forward.

THE JOINT EXPERT PANEL (JEP)

The JNC withdrew its proposals and UUK and UCU separately agreed to set up a Joint Expert Panel (JEP) to assess the 2017 valuation.

The JEP has been meeting since May – completely independently of the JNC – to analyse the basis of the valuation and hear from the trustee, other experts, scheme stakeholders, and the Pensions Regulator.

The JEP expects to deliver its report on the 2017 valuation to UUK and UCU in September 2018 which is expected to inform JNC discussions which will follow shortly after.

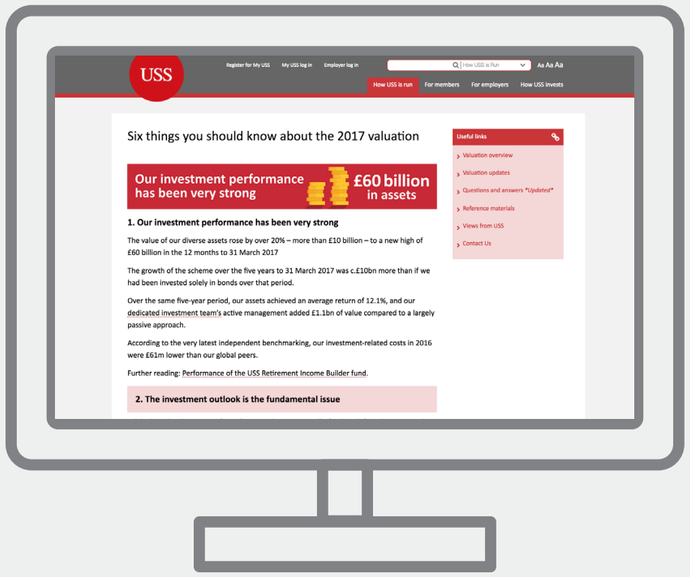
Based on the JEP's findings, the JNC may propose changes to benefits and/or contributions which, subject to due diligence by the trustee, would then be subject to a further consultation by employers.

For more information from the trustee about the withdrawn JNC proposals, members, eligible employees and member representatives should visit: https://www.uss.co.uk/withdrawn-changes

FUNDING USS BENEFITS

While it is engaging constructively with the JEP, the trustee still has a statutory obligation to complete the 2017 valuation – and the deadline for doing so passed on 30 June 2018. The Pensions Regulator has made clear to the trustee and the scheme's stakeholders that the trustee is expected to present a credible plan for completing the process as soon as reasonably possible.

In order for it to do that, the trustee must be able to demonstrate to the Pensions Regulator that the scheme is sustainable: that it has sufficient funds to pay the pensions promised, or a credible plan to recover any shortfall. It must also conclude on the contribution requirements for future pension promises.



For more information from the trustee about the cost of providing the current level of benefits, members, eligible employees and member representatives should visit: https://www.uss.co.uk/6-things

COST SHARING

The cost sharing process was introduced through the JNC in 2011 (and amended in 2014) at the request of UUK and UCU (via the JNC). Under the scheme rules, it is a process for dealing with the JNC not reaching a decision on benefit and/or contribution changes, where a funding shortfall has been identified, as is now the case.

Furthermore, having now missed the statutory deadline for completion of the valuation, the trustee has been informed by the Pensions Regulator that it should present a credible plan for completing the process as soon as reasonably possible. The trustee cannot, therefore, wait for the outcome of the JEP process to complete the valuation: the JEP is expected to produce a report to UCU and UUK in September 2018, which is expected to inform subsequent JNC discussions. Any changes to benefits and/or contributions arising from a JNC decision thereafter would be implemented by USS as soon as practically possible, but the USS trustee believes it could take around 12 months to introduce from the point of a JNC decision, depending on the complexity of the changes.

For these reasons and in the absence of a decision by the JNC, the default cost sharing process under the scheme rules will run in parallel with the work of the JEP and the implementation of any subsequent JNC decision.

At a headline level, the proposal is that contributions from members and employers would increase from 26% of salaries (8% member and 18% employer) to 37.4%.

However, the rules also provide that the trustee must determine the extent to which it is necessary to reduce the 1% employer matching contribution to the USS Investment Builder to accommodate the necessary increases to the employer aggregate contribution rate. The required increase to the contribution rate (to 37.4%) means that the employer match would be completely removed (with effect from 1 April 2019). This reduces the combined contribution rate required from 37.4% to 36.6%.

Should it be removed, any members who currently take the match would continue to make their 1% additional contributions to the USS Investment Builder, but employers would no longer match those contributions from 1 April 2019. Any members that wish to stop making the 1% additional 'match' contribution can do so using My USS.

Under cost sharing, the increase from the current contributions of 26% is ultimately to be split 35:65 between members and employers respectively – but please see the "Changes to USS" section on page 4 for more detail on how it is proposed this would be implemented in practice from 1 April 2019 onwards.

CONTRIBUTIONS TO BOTH SECTIONS OF USS ARE AFFECTED

THE USS RETIREMENT INCOME BUILDER

When employees become members of USS, they automatically join the USS Retirement Income Builder, the defined benefit (DB) section of USS. It provides members with a set level of retirement income, based on their salary during each year of membership of the scheme and how long they have been members.

Every year, members earn 1/75th of their salaries (up to a threshold*) and their benefits are calculated and 'banked'. They are then increased, broadly in line with inflation, each subsequent year (including in retirement).

On retirement, members will also receive a tax-free lump sum worth three times the amount of their annual USS Retirement Income Builder pension.

*The salary threshold is revalued annually and is £57,216.50 for 2018/19.

THE USS INVESTMENT BUILDER

If members earn above the salary threshold, have made additional contributions and/or transferred pension savings from another scheme since October 2016, they will probably also be building up benefits in the USS Investment Builder, the defined contribution (DC) section of the scheme.

Members build up funds based on how much both they and their employers contribute and on the investment returns those contributions generate, minus any investment charges. It also gives members the option of making additional contributions to build their funds.

There are various ways in which members can use their funds at retirement, including as a tax-free lump sum, investing in a drawdown product or buying an annuity, which will provide a guaranteed income for life.

PROPOSED CHANGES TO USS

REMOVAL OF THE EMPLOYER MATCH

As part of the operation of the cost sharing rule, it is proposed that the employer match would be discontinued from 1 April 2019.

This would reduce the maximum combined contribution required from members and employers from 37.4% to 36.6% (the reduction is slightly less than 1% because not all USS members currently take the match).

Should it be removed, any members who currently take the match would continue to make their 1% additional contributions to the USS Investment Builder, but employers would no longer match those contributions from 1 April 2019.

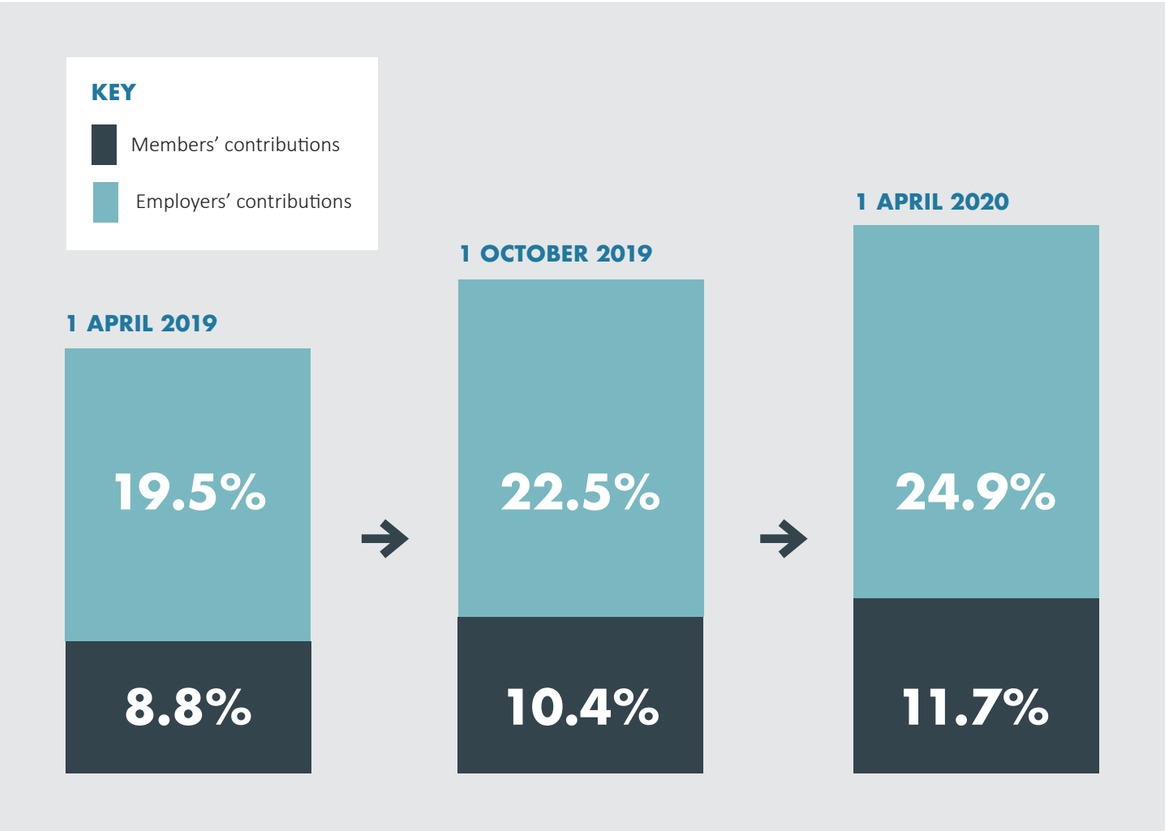
Any members that wish to stop making the 1% additional contribution can do so using My USS.

INCREASE IN CONTRIBUTIONS

Under the cost sharing rule, members' contributions will rise from the current rate of 8% and employers' contributions will increase from 18%.

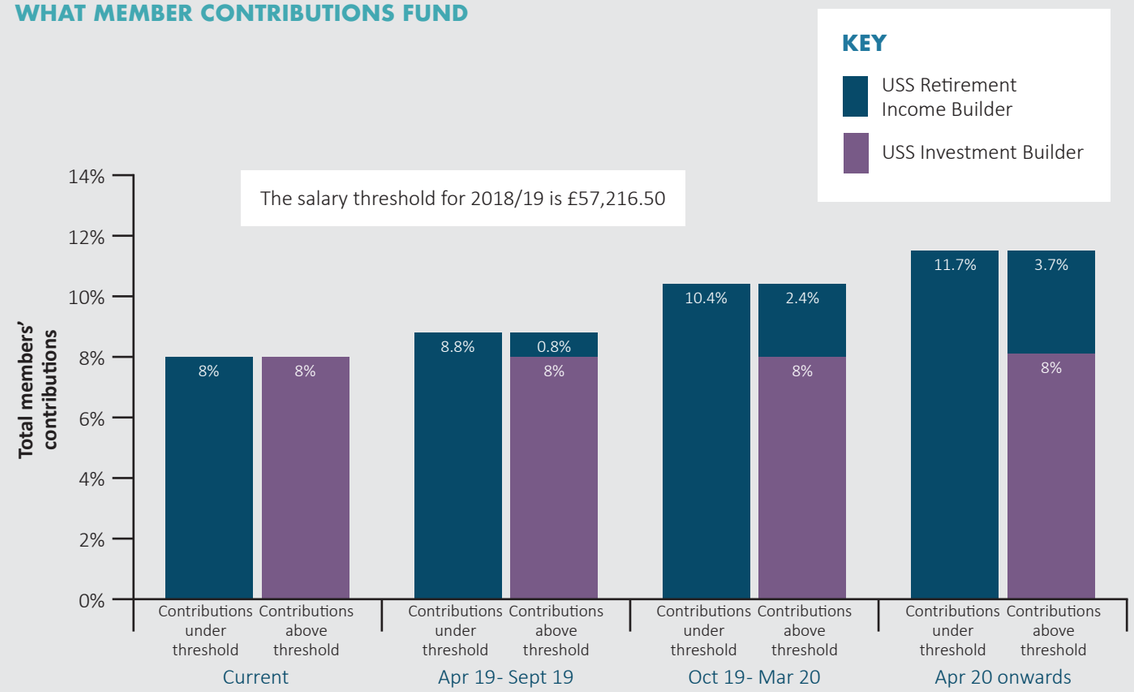
The increase in the aggregate contribution rate required will be split 35:65 between members and employers respectively, and the trustee plans to phase in contribution increases from 1 April 2019.

Increased contributions apply to total salary, i.e. salary above and below the salary threshold (currently £57,216.50).



HOW THE COST SHARING CONTRIBUTIONS WILL FUND USS BENEFITS

WHAT MEMBER CONTRIBUTIONS FUND



CURRENTLY, MEMBERS' 8% CONTRIBUTION FUNDS:

8% of salary up to the salary threshold (including 0.35% towards death in service and ill health benefits) to the USS Retirement Income Builder.

8% of salary above the salary threshold saved in the USS Investment Builder.

FROM APRIL 2019 ONWARDS

UNDER THE COST SHARING RULE:

CHANGED

On earnings up to the the salary threshold, contributions to the USS Retirement Income Builder will increase in phases, as highlighted in the above chart*.

*The contribution towards death in services and ill health will remain at 0.35%

UNCHANGED

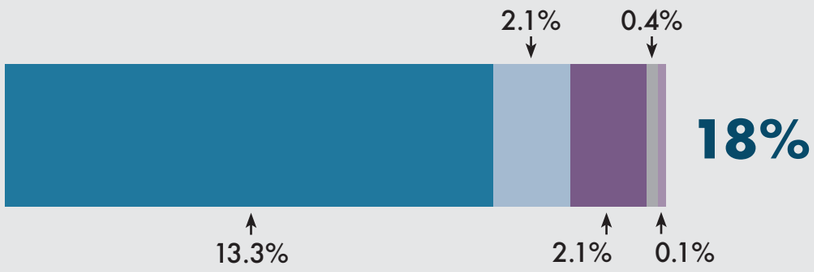
On earnings above the salary threshold, contributions to the USS Investment Builder will remain at 8%.

CHANGED

On earnings above the salary threshold, an additional contribution will be made to the USS Retirement Income Builder, increasing in phases, as highlighted in the above chart.

EMPLOYER CONTRIBUTIONS*

CURRENTLY THE EMPLOYERS' CONTRIBUTION OF 18% FUNDS:



UNDER THE COST SHARING RULE

From 1 April 2019 to 31 March 2020, in aggregate, contributions have been determined to meet the cost of new benefits but no deficit contributions are payable. Total employer contributions from 1 April 2019 would be 19.5% and from 1 October 2019 would be 22.5%.

FROM 1 APRIL 2020:

KEY

- Builds benefits (including death in service and ill health benefits) in the USS Retirement Income Builder.
- Goes to the USS Investment Builder. This currently includes aggregated contributions to cover the employer 1% match. However, from April 2019, this would not include the match because it would have been removed.
- For deficit recovery contributions.
- Funds scheme running costs.
- Subsidises the cost of investment management.

*The employer contribution is based on aggregated costs across all members, and that this doesn't reflect each individual member's cost / contribution split.

The cost sharing process will run separately to, but in parallel with, the work of the JEP and will be in effect until such time as any subsequent JNC decision on benefits and/or contribution changes is implemented.

CONTRIBUTIONS ABOVE THE SALARY THRESHOLD

Members that earn above the salary threshold (£57,216.50 for 2018/19) will continue to save in the USS Investment Builder.

Currently, 20% of salary above the threshold is saved in the USS Investment Builder: 8% from members and 12% from employers.

Under the proposal, 20% would continue to be invested in members' USS Investment Builder savings. However, it is proposed that contributions on salary above the threshold will rise in line with contribution increases under the cost sharing rule.

The excess would go towards funding the USS Retirement Income Builder section of the scheme.

Under the proposal, as further contribution increases are phased in, contributions above the salary threshold would also rise. However, the contributions saved to the USS Investment Builder would remain at a combined 20%.

These proposed changes are subject to the formal statutory consultation process implemented by this notice.

Consultation will be conducted between each (USS-participating) employer, employees who may be affected by any changes and employee representatives.

The pension benefits members have already built up in USS are protected by law and the scheme rules.

NO OTHER PROPOSED CHANGES TO USS RETIREMENT INCOME BUILDER BENEFITS

Whilst the JNC may propose scheme changes in the future (including following the report from the JEP), there are no other changes to members' benefits proposed as part of this consultation, but the feedback could result in changes to benefits. Members' contributions and employers' contributions on behalf of members will continue to accrue at the same rate of 1/75ths up to the salary threshold in the USS Retirement Income Builder, and continue to be invested in the USS Investment Builder (where members earn above the salary threshold or make additional contributions).

- Active members' defined benefits will continue to be increased, broadly in line with inflation.
- For so long as they are active members of the scheme, members will continue to have the same death in service and ill health retirement benefits.
- Members will continue to be entitled to the same pension payments and lump sum from the USS Retirement Income Builder in retirement.
- The USS Investment Builder will continue to be available for members who want to make additional contributions or transfer in.
- Members can still choose to manage their own USS Investment Builder funds or opt for the trustee to do it on their behalf.

All defined benefits already built up by members in USS are secure and protected by law and the scheme rules.

RESPONDING TO THE CONSULTATION

This consultation is your opportunity to share your thoughts on:

- The proposed removal of the employer match;
- The change to contributions as a result of the cost sharing proposals;
- How those contributions would be phased in up to 1 April 2020;
- Alternative or additional proposals that you think could also address the challenges identified in the 2017 valuation and to share any other comments.

Members, eligible employees and member representatives should visit **www.ussconsultation2018.co.uk** for more information and to leave their responses.

KEY DATES

NOW	Notice of consultation and where to find more information are provided to members, eligible employees and member representatives.
3 SEPTEMBER 2018	Consultation website (**www.ussconsultation2018.co.uk**) goes live.
3 SEPTEMBER 2018	Consultation start date.
2 NOVEMBER 2018	Consultation end date (responses must be received by 5:00pm).
NOVEMBER 2018	Responses from members, eligible employees and member representatives are considered, and the final changes are decided on.
FROM DECEMBER 2018	The final position decided upon will be communicated to members, eligible employees and member representatives.
1 APRIL 2019	The intended date that the changes will be implemented.

WHAT TO DO NEXT

Members, eligible employees and member representatives should visit ***www.ussconsultation2018.co.uk*** *and review the information about the proposed changes and the consultation process.*

Members, eligible employees and member representatives

Members, eligible employees and member representatives will be able to login to:

www.ussconsultation2018.co.uk

From 9am on 3 September.

University of Oxford

USS – member examples

21 August 2018

Prepared by Aon

Presentation to USS Working Group

QAS Institute and Faculty of Actuaries ® Quality Assurance Scheme

AON Empower Results®

USS member examples

The following slides set out two member examples showing the potential impact of reducing the current Salary Threshold (currently £57,216.50) for members in the Universities Superannuation Scheme (the "Scheme").

The examples highlight the potential impact on a member's retirement pension and the potential cost to the University of offsetting any negative impact to the member.

The examples compare:

a) Projected USS pension assuming no benefit changes are implemented
b) Projected USS pension assuming a reduction to the Salary Threshold going forward (under a range of different investment returns)

Assumptions

In all of these examples it is assumed that:

- All the example members work for the University until retirement at SPA
- Price inflation is in line with CPI inflation of 2% a year
- Wage growth is in line with CPI inflation i.e. 2% a year until retirement
- Salary Threshold growth is in line with CPI inflation i.e. 2% a year
- The member pays 8% and the University pays 12% of Pensionable Salary above Salary Threshold into DC account
- The DC account purchases a guaranteed pension (i.e. annuity) at retirement, based on:
  - Pension increases of 2% a year
  - A 50% spouse's pension payable upon a member's death (spouse 3 years younger)
  - A 5 year guarantee period
  - An individual in good health
- The automatic 3x lump sum purchases a pension at retirement (as per the DC account)

In addition:

- The pension figures shown are all in today's money and so remove the effects of price inflation between now and the date the members retire
- Past service pension is ignored
- State benefits are excluded from all of the examples and may be payable in addition

Example A

- Age 50
- Retirement at SPA (67)
- Current Scheme Pensionable Salary of £60,000 a year

Yearly pension they might receive at age 67 (in today's money)	Current benefits (Salary Threshold = c£57k)			Salary Threshold reduced to £50K			Salary Threshold reduced to £42K		
	Investment return 3% per annum	Investment return 5% per annum	Investment return 7% per annum	Investment return 3% per annum	Investment return 5% per annum	Investment return 7% per annum	Investment return 3% per annum	Investment return 5% per annum	Investment return 7% per annum
DB CARE pension	12,715			11,111			9,333		
DB 3x lump sum pension	1,538			1,344			1,129		
DC pension	411	488	583	1,477	1,754	2,096	2,658	3,158	3,772
Total pension	**14,664**	**14,741**	**14,836**	**13,932**	**14,209**	**14,551**	**13,120**	**13,620**	**14,234**
Difference to current benefits*	-	-	-	(732)	(532)	(285)	(1,544)	(1,121)	(602)
Additional University contribution**	-	-	-	1.7%	1.0%	0.5%	3.5%	2.1%	1.0%

*compared to the relevant investment return
**estimated to be required to be paid to the DC account as a percentage of current salary

Example member A – Explaining the 'If the Scheme continued in its current form'

- Total CARE benefit is 17 years x £57,216.50 x 1/75 x 1.02^{16} = £17,804

  Future salary increases and salary threshold increases of 2% a year are assumed to be granted at the end of the year. Revaluation of CARE benefit assumed to be 2% a year.

- Putting this into today's money terms:

  £17,804 / 1.02^{17} = **£12,715**

  To adjust the CARE pension payable in 17 years' time into today's money terms we remove 17 years' worth of inflation (at 2% a year).

- Cash lump sum in today's money is:

  3 x £12,715 = £38,145

- This is converted to a pension assuming £1 of pension a year costs £24.80 so the cash lump sum could purchase £38,145 / 24.80 = **£1,538** a year of pension :

- Future DC contributions would be paid in relation to Pensionable Salary above the assumed Salary Threshold:

	Salary net of Salary Threshold	Pension contributions	Value at retirement (low return)
Year 1	£60,000 – £57,216.50 = £2,783.50	20% x £2,783.50 = £556.70	£906.64 = (£556.70 x $1.03^{16.5}$)
Year 2 (etc)	£60,000 x 1.02 – 57,216.50 x 1.02 = £2,839.17	20% x £2,839.17 = £567.83	£897.83 = (£567.83 x $1.03^{15.5}$)

- Total DC fund value (17 years of contributions with returns at 3% a year) at retirement is £14,272
- This is converted to a pension assuming £1 of pension a year costs £24.80 so the DC fund value could purchase £14,272 / 24.80 = £575 a year of pension
- Putting this into today's money terms (i.e. removing inflation):

  £575 / 1.020^{17} = **£411** a year pension

Example member A – Explaining the 'If the Scheme continued in its current form with a £42K salary Threshold'

- Total CARE benefit is 17 years x £42,000 x 1/75 x 1.02^{16} = 13,069

  Future salary increases and salary threshold increases of 2% a year are assumed to be granted at the end of the year. Revaluation of CARE benefit assumed to be 2% a year.

- Putting this into today's money terms:

  £13,069 / 1.02^{17} = **£9,333** a year of pension

  To adjust the CARE pension payable in 17 years' time into today's money terms we remove 17 years' worth of inflation (at 2% a year).

- Cash lump sum in today's money is:

  3 x £9,333 = £27,999

- This is converted to a pension assuming £1 of pension a year costs £24.80 so the cash lump sum could purchase £27,999 / 24.80 = **£1,129** a year of pension :

- Future DC contributions would be paid in relation to Pensionable Salary above the assumed Salary Threshold:

	Salary net of Salary Threshold	Pension contributions	Value at retirement (low return)
Year 1	£60,000 – £42,000 = £18,000	20% x £18,000 = £3,600	£5,863 = (£3,600 x $1.03^{16.5}$)
Year 2 (etc)	£60,000 x 1.02 – 42,000 x 1.02 = £18,360	20% x £18,360 = £3,672	£5,806 = (£3,672 x $1.03^{15.5}$)

- Total DC fund value (17 years of contributions with returns at 3% a year) at retirement is £92,292
- This is converted to a pension assuming £1 of pension a year costs £24.80 so the DC fund value could purchase £92,292 / 24.80 = £3,721 a year of pension
- Putting this into today's money terms (i.e. removing inflation):

  £3,721 / 1.020^{17} = **£2,658** a year pension

Example B

- Age 40
- Retirement at SPA (68)
- Current Scheme Pensionable Salary of £52,000 a year

Yearly pension they might receive at age 68 (in today's money)	Current benefits (Salary Threshold = c£57k)			Salary Threshold reduced to £50K			Salary Threshold reduced to £42K		
	Investment return 3% per annum	Investment return 5% per annum	Investment return 7% per annum	Investment return 3% per annum	Investment return 5% per annum	Investment return 7% per annum	Investment return 3% per annum	Investment return 5% per annum	Investment return 7% per annum
DB CARE pension	19,033			18,301			15,373		
DB 3x lump sum pension	2,378			2,287			1,921		
DC pension	-			531	712	972	2,656	3,561	4,858
Total pension	**21,411**			**21,119**	**21,300**	**21,560**	**19,950**	**20,855**	**22,152**
Difference to current benefits*	-			(292)	(111)	149	(1,461)	(556)	741
Additional university contribution**	-			0.4%	0.1%	n/a	2.1%	0.6%	n/a

*compared to the relevant investment return
**estimated to be required to be paid to the DC account as a percentage of current salary

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USS review working group

Effect of cost sharing rule

Background

USS has announced how the cost sharing rule, agreed though the Joint Negotiating Committee in 2011 and amended 2014, will be implemented (subject to formal 60 day consultation starting in early September).

The full schedule of proposed increases is:

	Current	From 1 April 2019	From 1 October 2019	From 1 April 2020
Member rate	8.0%	8.8%	10.4%	11.7%
Employer rate	18.0%	19.5%	22.5%	24.9%

(In addition the 1% Match is removed on 1 April 2019.)

The Council statement of 4th April 2018 said it "will seek to provide pension provision for USS members employed by the University that is of the same standard as currently available". The Working Group previously agreed that it should not seek to interpret Council's statement and therefore Council should be presented with all possible options. At the previous meeting the Working Group requested that it should be provided with a summary of the total costs of both the additional employer and employee contributions being proposed under the cost-sharing rule. This paper illustrates the financial impact if the University paid member contributions on top of its increased contributions.

Cost of University contributions

The annual pensionable payroll for University employees who are members of USS is around £400m, so a 1% increase in the employer contribution rate costs £4m per annum.

	1 April 2019 6 months	1 October 2019 6 months	Total for 2019	From 1 April 2020 Annual cost
Member rate increase	0.8% £1.6m	2.4% £4.8m	£6.4m	3.7% £14.8m per annum
Employer rate increase	1.5% £3.0m	4.5% £9.0m	£12.0m	5.9% £27.6m per annum
Total Increase	£4.6m	£13.8m	£18.4m	£42.4m per annum

Illustration of the impact

Annex 1 shows the effect on members' net pay of an increase in contributions, with adjustment for tax relief and NI saved via salary exchange.

Also shown is the effect if the University paid the contribution on members' behalf.

Under salary exchange a member's Basic Salary is reduced by the current contribution rate for employees. The University increases its employer pension contribution into USS by the equivalent amount. Under the scheme, National Insurance contributions reduce, resulting in an increase in take-home pay for individuals and cost-savings for the University. These savings are returned to the individual's department in the form of reduced costs. Members of USS at the University are included in Salary Exchange automatically after three months of joining, unless they opt out.

Annex 2 gives examples of the impact for individuals given on the University pension communication webpages. As part of the consultation, USS will make available a ready reckoner so individuals can see the impact for their own circumstances.

The group is asked to note the information and consider if further work or information is needed for Council to consider this matter once the outcome of the consultation is known.

Cost of providing compensation if employee contributions increase

Two example employees are considered:

A. Earnings below £46,350. Basic rate (20%) tax payer, and earnings below Upper Earnings Limit (UEL) giving 12% employee National Insurance (NI) contribution rate.
B. Earnings above £46,350. Higher rate (40%) tax payer, and earnings above UEL giving 2% employee NI contribution rate.

For pension contributions it is assumed that salary exchange (SS) operates (i.e. employee pension contributions paid via salary sacrifice).

Scenario 1: Employee required to pay increased pension contributions of £100 without employer assistance.

Cost to employee

	A – salary <£46,350	B – salary >£46,350
Pension contribution deducted from pay	(£100.00)	(£100.00)
National Insurance saving (12% / 2%)	£12.00	(£2.00
Tax saving (20% / 40%)	£20.00	£40.00
Reduction in net pay received	(£68.00)	(£58.00)

Saving to employer (due to increased employee contribution being paid via SS)

	A – salary <£46,350	B – salary >£46,350
National Insurance saving (13.8%)	£13.80	£13.80
Apprenticeship levy saving (0.5%)	£0.50	£0.50
Net saving to employer	£14.20	£14.20

Although this saving is likely to be offset by the employer also having to pay higher pension contributions.

Scenario 2: As scenario 1 (i.e. employee pays increased pension contributions of £100) but employer pays employee extra £100 of <u>non-pensionable pay</u> as compensation (effectively paying pension contribution on employees behalf)

Cost to employee

	A and B
Pension contribution deducted from pay	(£100.00)
Non pensionable pay increase	£100.00
National Insurance (12% / 2%)	No change
Tax (20% / 40%)	No change
Reduction in net pay received	Nil

Cost to the employer

	A and B
Non pensionable pay increase	£100.00
National Insurance (Nil as SS operates)	No change
Apprenticeship levy (Nil as SS operates)	No change
Total cost to employer	£100.00

Summary

If employee contributions increase by £100:

	Impact on Employer	Impact on Employee A	Impact on Employee B
Scenario 1: Employee meets full cost	£14.20 saving	£68 fall in net pay	£58 fall in net pay
Scenario 2: Employee receives additional £100 of non-pensionable pay as compensation	£100 cost	Nil	Nil

Examples of monthly net pay of phased USS contributions increases

			Example 1: Grade 10.9		Example 2: Grade 8.4		Example 3: Grade 6.5	
		Contribution rate	Annual	Monthly	Annual	Monthly	Annual	Monthly
	Salary		£67,971.96	£5,664.33	£43,685.06	£3,640.42	£31,604.00	£2,633.67
Current	Member's USS pension contribution	8%		£453.15		£291.23		£210.69
	Pay after pension contribution (before tax and NI)			£5,211.18		£3,349.19		£2,422.97
	Net take home pay (after tax and NI)			£3,690.43		£2,559.19		£1,929.36
	University's pension contribution (gross)	18%		£1,019.58		£655.28		£474.06
	University's pension contribution (net)			£954.78		£613.63		£443.93
April 2019	Member's USS pension contribution	8.8%		£498.46		£320.36		£231.76
	Pay after pension (before tax and NI)			£5,165.87		£3,320.06		£2,401.90
	Net take home pay (after tax and NI)			£3,664.14		£2,539.38		£1,915.03
	University's pension contribution (gross)	19.5%		£1,104.54		£709.88		£513.57
	University's pension contribution (net)			£1,033.26		£664.07		£480.42
October 2019	Member's USS pension contribution	10.4%		£589.09		£378.60		£273.90
	Pay after pension contribution (before tax and NI)			£5,075.24		£3,261.82		£2,359.77
	Net take home pay (after tax and NI)			£3,611.58		£2,499.78		£1,886.38
	University's pension contribution (gross)	22.5%		£1,274.47		£819.09		£592.58
	University's pension contribution (net)			£1,190.23		£764.95		£553.41
April 2020	Member's USS pension contribution	11.7%		£662.73		£425.93		£308.14
	Pay after pension			£5,001.60		£3,214.49		£2,325.53
	Net take home pay			£3,568.87		£2,467.59		£1,863.10
	University's pension contribution (gross)	24.9%		£1,410.42		£906.46		£655.78
	University's pension contribution (net)			£1,315.65		£845.56		£611.72

UNIVERSITY OF OXFORD

Our pension, your chance to comment

USS Open Forum Event - 12 June 2018

Areas for discussion and comment

- Background to USS, its governance and benefits
- The valuation
- The University's response
- Next steps

USS scale

University has c9,300 members, contributing over £80m p.a.

Active members	190,000
Deferred (left employment, not taken pension)	139,000
Pensioners	66,000
Total	**396,000**

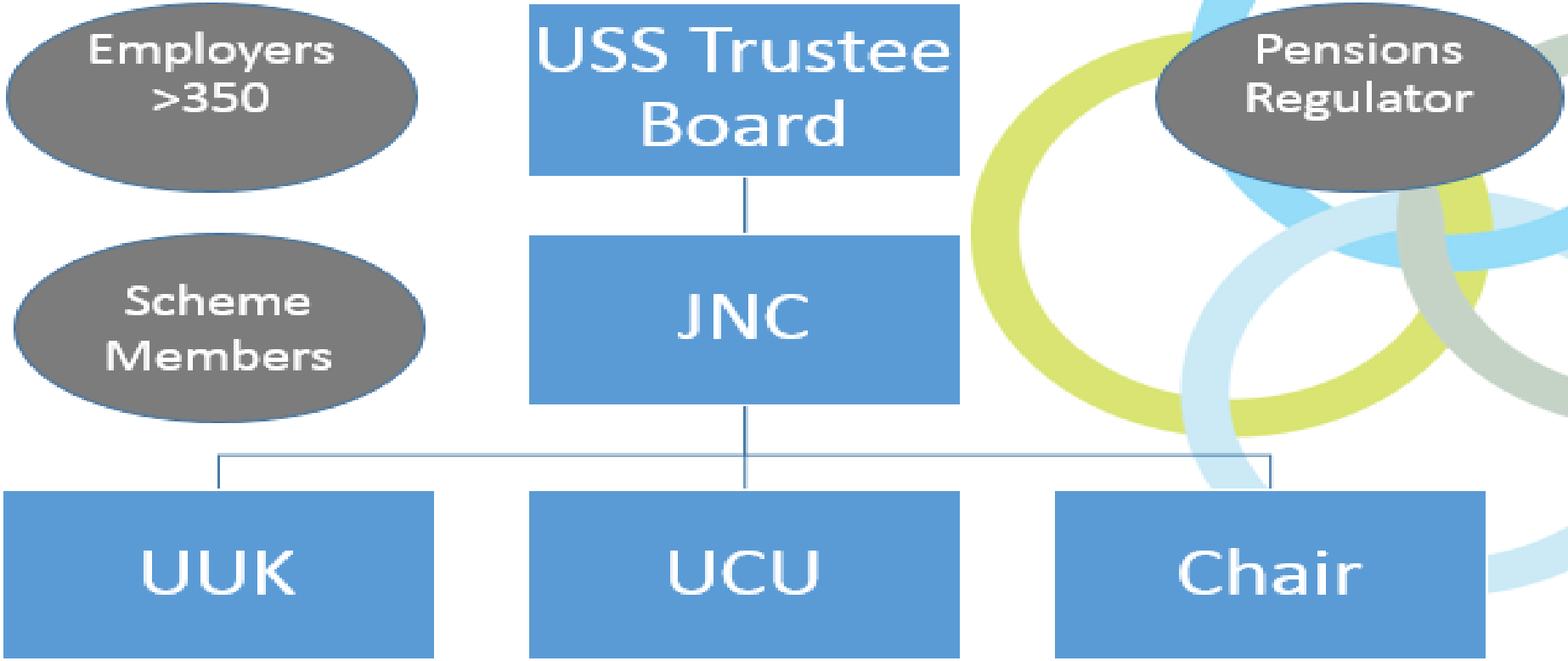
Assets under management (as at 31 March 2017)	£60.5 billion

A hybrid scheme since 2016

Over 350 participating employers

USS governance

Who is involved

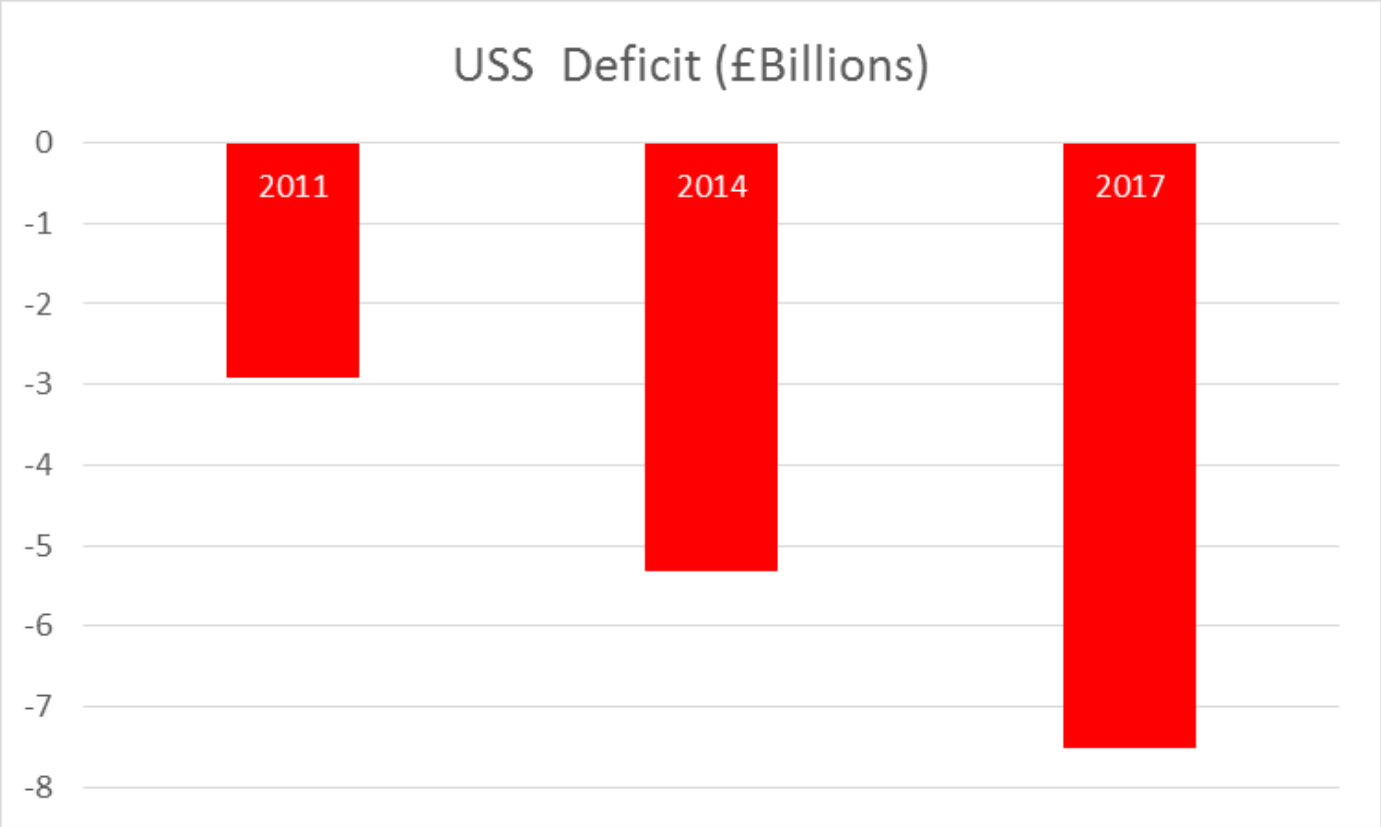


The Pensions Regulator’s role

- Protecting benefits – occupational schemes and personal pensions
- Reducing the risk of schemes drawing on the Pension Protection Fund
- Promoting good administration
- Minimising any adverse impact on the sustainable growth of an employer

Valuation process

- At a point in time an assessment of whether the assets held by the Scheme are enough to pay for the benefits members have already built up
- Plan to recover shortfall (deficit) – relying on the financial strength of employers, duration of deficit recovery period
- Estimate of cost of building up benefits in the DB Retirement Income builder section each year
- Regulatory requirements


USS Deficit (£Billions)
0
-1
-2
-3
-4
-5
-6
-7
-8
2011
2014
2017

Joint Expert Panel

- The agreed purpose of the Panel is to:
  - make an assessment of the 2017 valuation of the USS fund
  - focus in particular on reviewing the basis of the scheme valuation, assumptions and associated tests
  - agree key principles to underpin the future joint approach of UUK and UCU to the valuation of the USS fund

- Chair: Joanne Segars
- 3 UUK nominees (Ronnie Bowie, Sally Bridgeland; Chris Curry)
- 3 UCU nominees (Catherine Donnelly, Saul Jacka, Deborah Mabbett)

- Report in September 2018

Council’s position

- …….an issue of high priority

- …..Council will seek to provide pension provision for USS members employed by the University that is of the same standard as currently available, subject to the duties of the Council, as a trustee body, to serve the interests of the University as a whole.

Steps taken

- USS Review Working Group reformed in 2017
- Expanded membership of the Group
- Extended remit to explore options for Council to meet its aspiration on pension provision
- Sharing information
- Ideas

USS Review Working Group - remit

- the Group reports Council
- respond to consultations from Universities UK
- respond to any consultations from the national Joint Expert Panel (JEP) on issues connected with the USS valuation.
- seek options for Council to meet its aspirations on pension provision
- communicate regularly and with transparency across the whole University to help all USS members understand the issues connected with the USS.
- not seek to directly interrogate the USS valuation, this is the task of the JEP.

USS Review Working Group

- Professor Richard Hobbs (Chair) – Member of Council (Medical Sciences)
- Charles Alexander – Finance Bursar, Merton College
- Professor Gordon Clark – (Social Sciences)
- Professor Sam Howison – (MPLS)
- Professor Jane Humphries – (Humanities)
- Sir David Norgrove – external member of Council
- Giles Kerr – Director of Finance
- Julian Duxfield – Director of Human Resources

+ *new members*

- Professor Fabian Essler – (MPLS)
- Sir Andrew Dilnot – Warden of Nuffield
- Professor Danny Dorling – (Social Sciences)
- Professor Cecile Fabre – Junior Proctor (Humanities)
- Plus a member of the Oxford Research Staff Society

USS Exclusivity

- "An *institution* shall not be entitled to participate, or to continue to participate, in the *scheme*, if it establishes, maintains or contributes to any other *pension scheme* for *eligible employees* or *excluded post employees*.

- An *institution* which breaches this requirement shall become a *withdrawing institution* and shall cease to participate in the *scheme*."

- This may be a significant constraint to anything we do.

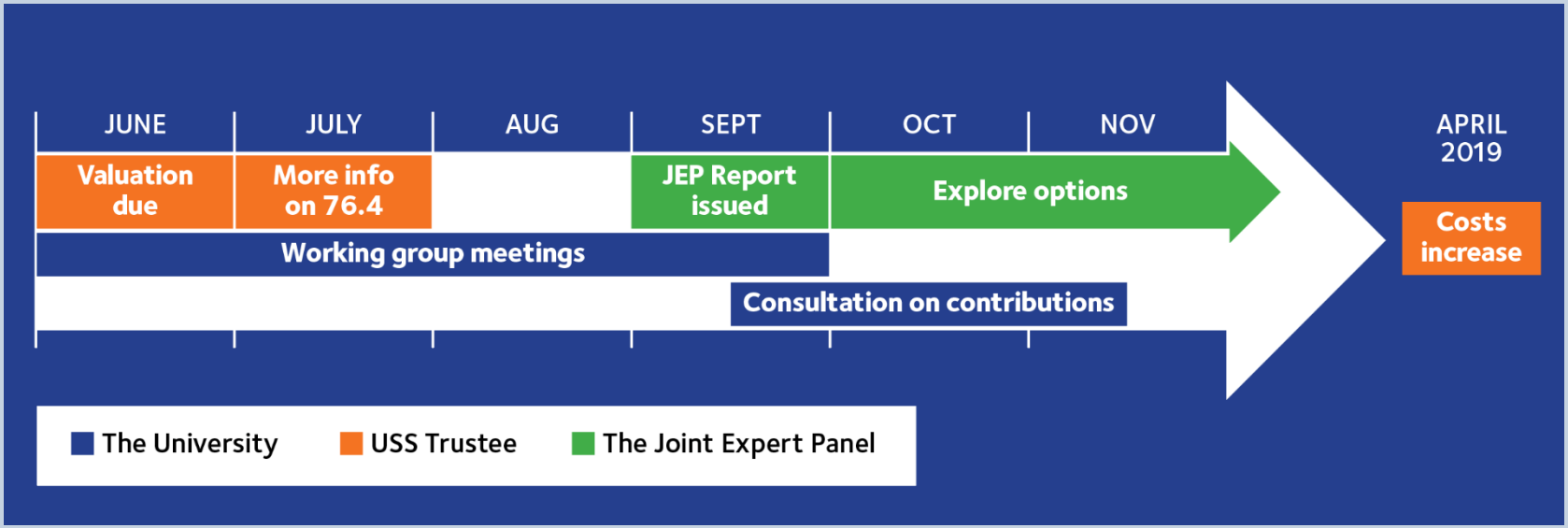
Options

- Cease participating in USS and set up a new pension scheme to mirror the current level of USS benefits.
- Continue to participate in USS and set up a new pension scheme which tops up members' benefits from USS to the desired level
- Continue to participate in USS and set up an unfunded benefit promise which tops up members' benefits from USS to the desired level.

What's next

Three strands:

- The University's work
- The work of Joint Expert Panel on valuation
- USS trustee and rule 76.4



USS response to safeguarding the scheme - Rule 76.4

- In the absence of any agreed changes, USS has triggered Rule 76.4
- Match removed
- Shared increase in costs between employer and employees (65:35) from April 2019
- Changes to the employer match and employee contributions require a formal employer consultation with affected members

More information

- Dedicated webpage – USS and Oxford

https://www.ox.ac.uk/staff/working-at-oxford/pensions-comms

- Pensions Discussion Forum

- USS website: www.uss.co.uk
- Online information from My USS – USS number, NI number, email address needed to register
- **Tel: 0333 300 1043**

- University members' USS benefit queries:
- **Email:** uss@admin.ox.ac.uk
- **Address:** Pensions Office, 6 Worcester Street OX1 2BX
- **Tel:** 01865 (6)16067

Universities UK

The 2017 actuarial valuation and the potential outcomes

University of Oxford's USS Working Group

Mary Lambe | Brendan Mulkern

Introduction

Universities UK

- We welcome this opportunity to engage with the University's USS working group; this is a very helpful exchange for UUK
- We would like to discuss:
  - The latest developments in overview, including the Joint Expert Panel (JEP), employer covenant and USS rule 76
  - The potential future scenarios, and their impact upon the overall timeline for the coming months
- Clearly there are many uncertainties as to the outcome that might emerge
- A consultation with employers is likely following the JEP report, and this meeting is helpful to UUK in framing that consultation
- This is also an opportunity to try to respond to questions from the group

The latest developments

- In recent weeks we have seen two parallel streams of activity being progressed:

The two key strategic developments during 2018

The trustee progresses its implementation of higher contributions under rule 76

The Joint Expert Panel prepares a report to be taken forward by the stakeholders

- The streams have very different timelines but it is important that they are considered together as part of planning
- There are communication challenges, not least between the relative certainty of the rule 76 stream and the uncertainty of future negotiations within the JNC

Implementation of contribution increases

Universities UK

- The trustee will shortly commence a consultation on increased contributions – consulted upon with affected members and representative bodies
- UUK is engaged with the trustee on issues relating to:
  - The updated covenant advice received by the trustee
  - The implications for small institutions
  - FRS102 and status of recovery plan
  - The ending of the employer match and elections
  - Member contributions on salary above the threshold and equity
- UUK is concerned at the impact of the higher contributions proposed by the trustee, on both employers and members
- UUK's view is that it can only be a temporary fix, and the focus is on the JEP and its report – and the subsequent discussions in the JNC

Progress of the Joint Expert Panel

Universities UK

- The Joint Expert Panel met for the first time in May 2018, and a report is anticipated from the JEP in September 2018
- The JEP's report will focus on the 2017 valuation …

  → the underlying methodology → the three tests → the assumptions
- UUK would not want to take any actions which would be unhelpful or would impact upon the JEP
- The September report is on the valuation specifics, but later JEP work may well include (a) principles for future valuations, and (b) other areas such as TPS vs USS, alternative designs etc.
- The JEP will report to UUK and UCU; they (UUK and UCU) will then decide when and how to engage with USS trustee and with Pensions Regulator

Universities UK

End page