

## USS employer consultation – University of Oxford Response

The Joint Negotiating Committee of the University Superannuation Scheme has proposed a number of changes to the scheme. The proposals follow discussion between Universities UK and the University and College Union (UCU) on how to address the significant funding challenges in the scheme. In support of the consultation, the University ran 28 briefing sessions with bookings from over 430 employees and provided over 600 printed copies of the detailed document to members. The Oxford UCU also held an open meeting on the consultation.

The online responses from affected Oxford employees have been reviewed and submitted to USS. The responses have been considered, and this document provides a summary and highlights some areas of particular concern. In the light of submitted responses and of points raised during the briefing sessions, the University asks that the USS trustee board consider making some modifications to the proposals.

In giving an overview of the consultation, this document is necessarily selective in choosing which of the many suggested modifications to put forward. In addition, we have chosen to make some additional proposals of our own to address concerns that were expressed. **Our aim is to highlight what we see as the main concerns and to put forward a range of ideas with the hope that the most equitable and stable solution for our staff and other members of USS can be reached.** However, it is recognised that any modifications should not materially impact on the overall employer contribution rate (18% proposed) nor increase reliance on the sponsoring employers' covenant.

This submission is an overall assessment of responses from Oxford members that has been made by officers of the University working with representatives of the Oxford UCU.

Key areas:

1. Closure of the FS section
2. Setting salary threshold
3. Management of the DC section and DC at retirement
4. Revaluation
5. Option elections (including late retirement)
6. Support for members

In addition the University has considered the proposed changes and raises points for consideration by the trustee.

1. Tax options
2. Transfers from OSPS

## **1. Closure of FS section**

Members expressed their deep unhappiness about the proposed breaking of the final salary link, seeing it as a breach of trust. Many members had a deep mistrust of the valuation methodology that led to the proposed changes and were alarmed that changes were again necessary so soon after the changes in 2011 which it was claimed were sufficient to ensure that the scheme would be both sustainable and affordable over the long term. Having to break the final salary link is extremely regrettable, but the consequent reduction in liabilities of approximately £5 billion means this step is now unavoidable. In the context of so substantial a change to the scheme, we see it as important that, as soon as possible after the change is implemented, USS should provide clear information to members about their pensionable salary at the time of the change and the associated accrued benefit that will then be carried forward. This will help them to assess the impact of the change and to undertake meaningful financial planning.

## **2. Setting salary threshold**

Support was expressed for a higher salary threshold that would be likely to capture more of an academic's career salary. It is noted that many Oxford academics may already be at or above the proposed threshold. If a higher threshold cannot be afforded, it has been suggested that the threshold be set at National Spine Point 49 (currently £54,841) and then increased in line with annual cost-of-living increases: this would avoid the erosion of the level of the threshold implied by the current proposal to link it to CPI. We wish strongly to encourage the trustee to consider this suggestion.

## **3. DC Section**

Respondents were concerned by the lack of detail about the defined contribution arrangements. They made the following points:

- the trustee should ensure low charges on the funds offered;
- to avoid unduly influencing investment choices, the employers should meet the investment management charges associated not only with the default fund but with all funds offered;
- availability of a range of funds, including ethical and socially responsible funds was important to members;
- members wanted the scheme to provide a broad range of options so as to reflect the new freedom of choice offered under recent pensions legislation; and
- members wish to be able to use the USS DC fund as an investment vehicle after retirement in situations such as flexible drawdown.

## **4. Revaluation**

Members were concerned about the cap on the revaluation of benefits (official pensions increase in full up to 5%, then half the increase over 5% subject to an overall maximum of 10%). Potentially this could significantly devalue members' benefits in real terms. Options such as no cap or RPI-linking were proposed in the responses by members. An alternative approach to managing the effect of the cap would be to allow the use of discretionary power on occasion to lift the cap or to make good some part of the detrimental effect of past use of

the cap provided such flexibility was judged to be affordable. Given the concern expressed about the revaluation cap, the trustee will need to evaluate such alternatives.

## **5. Option elections**

Views were expressed about the loss of value from Added Years contracts and transfers in.

A suggestion was made which would improve the position of those who wish to continue their final salary Added Years AVCs after the implementation date: namely, that their AVC contributions should become a *defined amount* to be inflated by capped CPI (rather than being specified as a *percentage* of their salaries). That approach would better recognise that the benefit accrued through their Added Years purchase would no longer increase in line with pensionable salary. It is, however, recognised that this could present some complexity for payroll administration.

The trustee should make clear to members that the late retirement uplift factor will continue. At the beginning of the consultation this level of detail was not known and the lack of information caused considerable anxiety, but by the close it was clarified that the late retirement uplift would continue to operate. We welcome this confirmation, but it needs to be widely and clearly disseminated.

## **6. Support for members**

The proposed arrangements will be complex for many members (with three tranches of benefits: FS, CRB, DC). It is vital that support be given to enable members to make informed decisions about DC investments. The online modeller is one key tool to help members understand their pension. Suggested features for development of the modeller include details of State Pension and taxation, AVCs, DC funds, and member specific information with the option to test various conditions and scenarios.

To address the mistrust some members have for the valuation methodology, the trustee should in future make available to interested members more background information and detail on their approach.

## **Employer comments**

### **1. Tax options**

Currently there are no options available to assist CRB members who are affected by the Annual and/or Life-time Allowances. Final salary members have options such as the enhanced opt-out election. The trustee should consider making similar options available after the implementation date, particularly in light of the reduction of the Life-time Allowance to £1 million from April 2016.

### **2. Transfers from OSPS**

The University would like to see transfers in from our self-administered trust (the University of Oxford Staff Pension Scheme (OSPS)) continue whilst the window for Public Sector Transfer Club transfers is open. Currently members of OSPS, promoted to USS eligible roles, may transfer their SATS benefits to USS during a two-year window after joining USS. Since OSPS members have both FS-linked benefits and CRB benefits, these transfers are in

part on Club terms and in part non-Club. It seems reasonable and fair to allow such transfers in from OSPS to continue during the normal transfer period for members joining USS after 1 April 2014 but before 1 April 2016. We would ask the trustee to consider a suitable mechanism for allowing such transfers to continue.