Universities UK

Parliamentary briefing on the USS pension scheme

November 2022

Introduction

The University and College Union (UCU) has announced that its members will be taking strike action across three days in November – **on Thursday 24 November, Friday 25 November and Wednesday 30 November 2022.**

The industrial action relates to two separate disputes – one on pensions – specifically the Universities Superannuation Scheme (USS) and the other focusing on pay and working conditions. **Action will take place at 150 UK universities across the three days, with 67 universities facing action relating to the USS pension dispute and 145 on the pay and working conditions dispute.**

As Universities UK (UUK) is the nominated formal representative for over 340 employers in the USS pension scheme, this briefing focuses primarily on the USS aspect of the dispute. A separate briefing on the dispute over pay and working conditions is available upon request from the Universities and Colleges Employer Association (UCEA), the employer representative in collective UK-wide pay negotiations.

Background to the 2020 valuation

The USS pension scheme is the largest private pension by asset size in the UK. At least once every three years, the USS Trustee[1], which runs the scheme, must carry out a valuation – an assessment of a pension scheme's financial health. The latest valuation was carried out in 2020 and the process was completed in April 2022.

During the 2020 valuation, the USS Trustee calculated that the cost of providing pensions in the future had grown substantially and found that the scheme had a large deficit. As a result, it wanted much higher salary contributions – as high as 56% of salary – to ensure there was enough money in the scheme to pay for new pensions

[1] The USS Trustee is run by the USS Trustee Board. The Board is comprised of four individuals nominated by UUK, three nominated by UCU, and five who are independent who are appointed by the Trustee Board itself.

which will be earned in the future, and to have enough money to pay the pensions that have already been built-up.

Since neither employers nor scheme members could readily afford to pay higher contributions, Universities UK (UUK), the employer representative, developed a package of possible changes to the future benefits which would be built-up in the scheme, to bring contributions down to more affordable levels.

UUK reforms

UUK's proposed package of reforms maintained the scheme's structure as a 'hybrid' of two kinds of benefit – both defined benefit (up to the salary threshold) and defined contribution (above the salary threshold), but it lowered the salary threshold from £60,000 to £40,000, and the pensions accrual rate from 1/75 to 1/85. This reduced costs by building up defined benefits more slowly, with defined benefits also being a smaller proportion of salary overall. The UUK package also included the introduction of a limit or cap on inflationary increases to future benefits (so benefits would increase in line with CPI up to 2.5% per annum).

In August 2021 the Joint Negotiating Committee (JNC), which is made up of representatives from UUK and the University and College Union (UCU) – the member representative – and an independent chair, decided in favour of UUK's proposals. The decision came down to the JNC's independent chair's casting vote after UCU's representatives decided not to table an alternative solution for the JNC to vote on at this time, leaving much higher contributions as the only alternative to UUK's proposals.

UCU proposal

After some differing iterations and delays, UCU did eventually officially table a counter-proposal in early February 2022 – over 5 months after the already extended deadline the USS Trustee required a decision on the 2020 valuation from the JNC.

UCU's proposal to the JNC was effectively to accept the higher contributions and conduct a 2022 valuation in the hope that it would provide a better outcome. As such it proposed:

- Employers sign-up to a contributions schedule that would have risen from 21.4% of salary, to 23.7% from April 2022, to 25.2% in October 2022 and

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then increase further every 6 months, until they potentially reach 29.1% of pay in April 2024 (but see third bullet).

- For scheme members, contributions would have gone up from 9.8% to 11% of salary in April 2022, and again to 11.8% of salary in October 2022 - with further increases every 6 months until member contributions potentially reach 13.9% of pay in April 2024 (see bullet below).
- Employer contributions would have been capped at 25.2% and members at 9.8% at 31 March 2023, based upon a 2022 valuation concluding ahead of 31 March 2023 – but it is not clear how this could have been either achieved or agreed and it also carried significant risk for both employers and members.

Employers then gave their views on the UCU proposal through a short consultation. 93 out of 97 employers responding – representing over 92% of the active membership of the scheme and over 98% of those responding by weighting – did not support the UCU proposal. Three employers indicated conditional support for the UCU proposal, and just one employer provided support.

It was clear that the UCU proposal went far beyond affordable and sustainable levels of pension contributions for the vast majority of employers, and for many members. Paying more, as outlined in the UCU proposal, would have forced employers to move money from elsewhere, pausing investments, putting jobs at risk, and leading to wider cost cutting. The high-quality university experience that students currently enjoy would have suffered. In addition, from the feedback received, many employees may have been forced to consider membership of the scheme and potentially opt-out (at present there is no alternative to USS for USS eligible employees). This may have been exacerbated with current cost-of-living pressures.

The USS Trustee did not conduct a 2022 valuation, but provided an indicative year-end assessment as at 31 March 2022. This showed that - without the reforms proposed by employers and agreed by the JNC - the indicative cost of benefits would have been 36% for future benefits, plus a deficit of c£3billion – which under the Pensions Regulator framework would take the total contribution required to c40% of pay.

The proposed changes decided-on by the JNC were then subject to a formal consultation with scheme members and representative bodies. This consultation took place in early 2022, and as a result of the comments received , UUK modified its proposal to address members' concerns about a 2.5% cap on inflationary increases to future pensions, by deferring this particular change up to and including the increase due in 2025 (more details on this can be found on the USS Employers website).

The UCU's counter-proposal was considered by the JNC in February 2022, alongside UUK's modified proposal following formal consultation. After careful consideration, the JNC decided, again through the casting vote decision of the independent chair, to implement UUK's package of reforms to conclude the 2020 valuation of the scheme.

Having passed the joint negotiating process and with the necessary agreement of the USS Trustee Board, the reforms were then implemented from 1 April 2022. With these changes to the scheme made, potential huge and unaffordable cost increases were avoided for both members of the scheme and employers.

Without the reforms – members would have been paying at least 11% of pay from April 2022 (up from the current level of 9.8%) and 11.8% of pay from October 2022, with all USS participating employers having to find at least the means to pay 23.7% of contributions from April 2022 (up from the current level of 21.6% of salary), and 25.2% from October 2022. The employer contribution rate has already risen by 53% since 2009 and is far higher than in most other private sector schemes.

Without these changes, jobs would have also been put at risk and done lasting damage to the quality of teaching and research at UK universities. The scheme still remains as one of the best private sector schemes in the country, with employers paying in more than double the average contribution rate for FTSE 100 companies[2].

USS funding challenges

According to the USS Trustee's regular monitoring, the funding position of the scheme has recently improved, and the cost of future benefits has reduced, helped in part by the reforms which have been implemented and the substantial employer covenant support package. UUK has welcomed this positive news, but this funding position is fragile (reflective of the broader economy and the global prospects for growth).

Despite a positive funding position in June 2022, financial markets remain highly volatile. This was made clear in a recent update from the USS Trustee to sponsoring employers that showed the value of the scheme assets had fallen significantly from

[2] Source: WTW DC Savings Survey, 2022. WTW Defined Contribution and Savings Survey 2022 - WTW (wtwco.com)

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around £93bn at the end of November 2021 to around £78bn at the end of June 2022.

Inflationary pressures and the real terms cut in tuition fees mean that universities are also facing an uncertain financial future. Employers have repeatedly made clear that their current contributions to the pension scheme – which rose to 21.6% of salary in April 2022 - are among the highest in the country and at the very limit in terms of affordability and sustainability.

Next steps

We are saddened to hear that UCU plans to take strike action this winter. It is only through the work of our talented staff that universities are able to carry out their world-leading teaching and research, and we will continue to meet regularly with union and USS representatives.

We appreciate this could be a difficult time for students, who may be anxious about possible disruption to their learning. Universities are well prepared for industrial action and will put in place a series of measures to protect students' education, as well as other staff and the wider community. This will include exploring replacement teaching, specific tutorials and harnessing technology such the use of online resources. There will also be continued access to wider student support services for anyone who needs it. Individual universities will let students affected know about how they will be supported during this time.

We are already working with UCU ahead of the next valuation, including sending a joint statement to the Department of Work and Pensions on pension regulation, establishing a technical group on valuation methodology, and on low cost options for employees who want more flexible pension contributions, and scheme redesign.

For many reasons, and notably given the volatility of the current financial situation, the USS Trustee is clear in its views that there are no grounds to alter contribution levels or benefits outside of a new full valuation. The USS Trustee decides on matters relating to the actuarial valuation under the USS rules. The USS Trustee also emphasises that changes outside of a valuation would also establish a potentially undesirable precedent for corrective action in the future when a funding position changes (for example, if the recent short-term improvements were reversed). Employers do however want to work collaboratively with UCU to find ways to fast-track the process of the next valuation – scheduled for March 2023 – so the USS Trustee can deliver any positive changes for scheme members as quickly as possible.