USS FAQs

Why are changes to USS being proposed?	
Answer	Every 3 years, the USS trustee has, by law, to undertake a scheme valuation, which re-assesses the future liabilities of the scheme compared to current levels of funding. Despite changes to the scheme at the last valuation point in 2014, the current valuation shows an increased deficit, currently estimated at £6.1bn. The costs of maintaining the current level of defined benefits going forward have increased significantly and would require contribution levels from employers and employees which employers view as unaffordable and unsustainable. Hence, a new benefits structure for the future is proposed, reducing both the costs and risks to more sustainable levels.

What is the difference between Defined Benefit (DB) and DC (Defined Contribution) schemes?	
Answer	DB provides a defined level of retirement income for each year an employee has been a member of the scheme, so contributions from staff and employers will vary over time in order to fund it. The bulk of the financial risk is met by the employers. DC provides retirement income based on value of investments at retirement, so contributions from staff and employers are fixed but the outcomes will vary. The financial risk depends on the level of investment performance, and impacts the amount of pension the member will receive.

Does DC mean a less good pension?	
Answer	Not necessarily. The two approaches are quite different, and moving over to DC pension saving in the future does mean less certain outcomes, with the level of benefits being more dependent on economic conditions. However, in certain circumstances, for example if investment returns are good, the outcomes can be better, and DC arrangements provide extra flexibilities which are likely to become increasingly desirable (for example the option to take more cash if that is preferred, and/or drawdown on pension savings over a period of time without necessarily purchasing a lifetime pension or annuity). There will continue to be a combined contribution into the scheme of 26% (employers 18%, members 8%) and, unusually for DC schemes, the proposals involve continuing the death and incapacity benefits available on a DB basis. The USS DC section, the USS Investment Builder, has a number of fund options to give options to members for the nature and type of investments held. Modelling by UUK suggests that “including standard state pension entitlements, current members should continue to receive incomes equivalent to 80-90 per cent of those that would, hypothetically, have been received under current benefits”. The USS trustee will shortly issue a modeller to allow individual members of staff to assess the effect of the proposed changes on their own positions, which will form part of the formal consultation on the proposed changes.

What are the issues being dealt with in the current review?	
Answer	The need for change arises_because the trustee has to ensure that existing commitments for service already built up by members, which are entitlements that cannot be taken away or changed, can securely be funded, and because it must be confident that it is receiving sufficient contributions to pay out the future defined benefit pensions that are earned. There are two broad, but highly complex, sets of calculations required. The first is to estimate what the future costs will be, which reviews life expectancy, even though the rate of improvement may be slower than experienced in recent years, amongst other factors. The second is to estimate what future investment returns will be required to be able to have the funds to securely be able to pay defined benefits; this balances different views of the future economy and future returns from investments.

Given the different approaches to scheme funding that exist, and the suggestion that using 'best estimate' assumptions could actually produce a funding surplus, is the scheme actually in deficit?	
Answer	There is no single definitive way for a trustee to value a scheme's liabilities, although there are pensions laws, and indeed the specific rules of USS, which govern the approaches that can be adopted. Importantly the USS trustee is the body that is responsible in law, and under the USS rules, for setting the assumptions used in valuing the liabilities – and therefore in determining the extent of any surplus or deficit. If the valuation could be carried out on what is known as a 'best estimate' basis, the scheme would indeed have a surplus and be affordable within the current combined employer and employee contribution rate. But that would not be lawful. The Trustee has a legal duty to take a "prudent" approach – that is set down in the Pensions Act 2004 – taking into consideration the possible risk exposure to employers if an adverse scenario occurs. This assessment of risk involves, amongst other things, reviewing the financial strength of the HE sector – as a strong and robust sector is less likely to present financial challenges to the trustees in future – and the amount (and extent of) of guarantees that the sector can make to underpin the scheme. The USS trustee took a range of views including UUK's response, informed by views of 116 employers, independent actuarial advice and the views of the Pensions Regulator in determining the appropriate level of risk for the scheme, and the assumptions which have been adopted to value the liabilities (and the resulting deficit). Even if it were lawful, an approach which utilised best estimate assumptions would place much too great a risk on employers and would not provide sufficient evidence that the benefits that have been built up are secure. The University supports UUK's view that such an approach would not be acceptable to the USS trustee and scheme actuary, employers or the Pensions Regulator, and would not be in the best interests of scheme members.

What were the proposals from UCU, and what did JNC agree on 23 January 2018?	
Answer	UCU made a proposal to maintain the current DB pension scheme components but with some changes to the formula that determines the pension to be paid, requiring higher contributions to pay for it. Employers would have had to increase their contribution from 18% to 23.5% and individual staff from 8% to 10.9%.

	For The Open University this would have resulted in an increase in employer contributions of just under £11,000,000 per annum, as well as individual staff paying considerably more. This level of increase was not considered acceptable because of the financial cost to all Universities, and because of the increase in the risk of individual member withdrawal from the scheme because of the cost of their individual staff member contribution. It would also fail to address the increasing levels of risk to which scheme employers are exposed in USS. The Joint Negotiating Committee (JNC), which comprises equal membership from UUK and UCU with an independent chair, finally decided to maintain the current hybrid arrangements for DB and DC, but, by reducing the salary cap on DB to £Nil, effectively made DB dormant – with a normal review of this position at the next valuation (i.e. March 2020). Therefore, all future benefits would be built up as DC, with no change to the current level of employer contribution but with the introduction of an additional employee lower cost saving option involving a member contribution rate of 4% (without any reduction in the level of employer contribution), as well as the retention of the current 8% standard member contribution. In addition, death and incapacity benefits from the DB section would continue to be provided as part of the overall arrangements. The proposals as defined by Universities UK are shown in the annex. Universities have committed, as part of the current proposals, to continue to guarantee the level of their contribution of 18% of salaries through to 2023 (an extension of the former agreement).

What role does the Pensions Regulator play?	
Answer	The Pensions Regulator requires the trustees of defined benefit pension schemes to undertake three-yearly actuarial valuations. The main purpose of these is to ensure that the contributions paid into DB schemes are sufficient to provide a high level of security for members' benefits. The triennial valuation is subject to detailed regulations and the Pensions Regulator – which is an independent body established by government through the Pensions Act 2004 – can intervene if the approach taken is deemed by the regulator not to be sufficiently prudent and does not therefore sufficiently protect members' benefits.

What happens next?	
Answer	There is a formal consultation by employers with representative bodies and all affected staff which is scheduled to commence on 19 March 2018, running for more than 60 days to gather feedback on the proposed changes. The University will hold information sessions for staff during this time. At the end of the consultation, the USS trustee will consider the responses and may propose changes to the proposals which would be considered and decided on by the JNC. The process must conclude by 30 June 2018, for submission of the actuarial valuation report to the Pensions Regulator. The changes would be introduced no earlier than 1 April 2019. All scheme members are encouraged to participate in the consultation, and take advantage of the information sessions that will be provided by the University with the support of the USS trustee.

What is The Open University's view?	
Answer	The USS trustee has calculated that unless there is a change to the way pension benefits build up in future, then the cost of providing the current benefits will increase from 26% of salaries to 37.4%. At present The Open University pays 18% of staff salaries as its contribution to pension benefits. The remaining 8% is paid by the staff members themselves. For this University, each 1% of employer pension contribution costs just under £2,000,000 per annum. If the cost of those benefits were to increase to 37.4%, the University would be required to contribute 25.5% of this, which would be an additional cost to the University of over £15,000,000 per annum. Staff would also be required to pay a significant extra cost to raise their contribution from 8% to 11.9%. This University, like many others, cannot justify such an additional cost of contributing to the pension scheme. Doing so would mean that the University's ability to invest in the student experience, and maintain staffing levels and our infrastructure, would be significantly challenged, and it must have regard to how its students and stakeholders would perceive value from their tuition fees and other income given to the University. It would also fail to control the substantial risk to which the University and other employers in USS are exposed. In considering all the issues around the financial position and sustainability of USS, the University is aware of its responsibilities to existing staff, retired members of staff, and future employees, and is committed to providing the best possible pension scheme that it can afford. We are pleased that discussions between UUK and UCU (University and College Union) continue and the University supports the latest statement from UUK which confirms that employers would want to consider any credible, affordable solutions that could be brought forward. We are also in support of the proposal from UUK to engage in further talks with UCU on the longer-term future of the scheme, including the framework for a possible return to defined benefit-type provision.

What is the University doing to resolve the dispute with UCU?	
Answer	This is a sector-wide pension scheme, which requires a sector-wide solution. No individual University can determine what is decided. As one of the c350 participating employers in USS, we have been involved in the various consultation exercises throughout the USS Valuation process. We recognise that the final decisions on the valuation process are for the USS Trustee to determine. The USS Trustee has a statutory obligation to apply prudence to ensure the pensions promised to scheme members can be paid in the future and to meet a deadline for completion of the valuation process and delivering an outcome that is acceptable to the Pensions Regulator. We continue to encourage both sides - UUK and UCU - to maintain their dialogue regarding the proposed changes, and as they continue to discuss the longer-term future of USS and a scheme which meets the needs of employers and members.

Annex:
Proposed reforms as put forward by Universities UK and decided upon by the JNC (as set out in http://www.universitiesuk.ac.uk/policy-and-analysis/Documents/revised-UUK-proposal-to-the-JNC.pdf) **Employer contributions:** Employers continue to be committed to a very high overall contribution of 18%. **Market-leading DC:** The proposed new arrangements will still be market leading pension provision, with employer contributions almost double the average in the private sector (proposed at 13.25%), along with an extremely valuable employer-funded subsidy of investment management charges. **Protecting members in case of death and ill-health:** There is no change to the provisions for death and ill-health and there will continue to be full DB style cover for members who suffer death in service or incapacity. This provides members and their families with substantial value, and certainty, in the most difficult of circumstances. **Encouraging all USS eligible employees to save for their retirement:** Employers propose designing a new lower-cost USS option for members. Employers want to offer a pension scheme that works for everyone, and are concerned that some employees are unable to afford the high member contributions that USS currently requires. The proposal will allow employees to choose a lower and more affordable level of pension saving (4% is suggested), whilst still benefitting from the full employer contribution. **Flexibility for employers who can pay more:** Employers have the flexibility to make additional pension contributions if they so wish. A uniform proposal is put forward by UUK in accordance with the mutual structure of the scheme, however the existing scheme provides employers with a power to make special employer contributions, and this will continue to be made known to institutions. **Attractive DC design and post-retirement options through USS:** The USS trustee carried out a survey of thousands of its scheme members to shape its DC product design (the USS Investment Builder), and its investment funds continue to perform strongly. UUK is working with the USS trustee through the JNC to undertake a review of retirement, and is also committed to working with stakeholders to fully explore new and innovative post-retirement options that can be genuinely attractive for members. In addition, it is critical that stakeholders work jointly on understanding what support members with DC savings require.