Employers
Pensions
Forum
for Higher Education

USS Reform Communications Pack, 15th January 2015
Materials to support employers' communications with employees

Contents:

Any information in this pack can be reproduced and used for communications with your staff or other stakeholders.

*We recommend that sections 3, 4 and 5 are distributed to all of your staff who are USS members and those who are eligible to join USS but are not scheme members to allow them to consider the details of the potential joint proposal for reforms. These three documents have also been distributed as separate individual pdfs. We also recommend that you promote the web link to the online benefits estimator when launched.

Please note the important legal disclaimer on page 8 of this document.

1. Overview of current position of the USS reform process (as at 15th January 2015) and timeline of next steps

- The indicative results of the most recent triennial valuation of the USS in March 2014 show that the USS scheme deficit was £13,000,000,000 (£13 billion). At the time of writing, the deficit is now estimated to have risen to more than £20,000,000,000 (£20 billion) because of adverse market conditions.

- The USS trustees are required to produce a recovery plan in order to address this substantial scheme deficit over a reasonable period and the plan has to be submitted to the Pensions Regulator by July 2015.

- A potential joint proposal for reform has been developed over the last two months of intense negotiations between Universities UK (UUK) and University and College Union (UCU) negotiators. These talks followed well over a year of discussions with the UCU, USS and our advisers on scheme funding and benefit reform, and close consideration of a range of options by the Employers Pensions Forum (EPF).

- An overview of the potential joint proposal for reform is included on page 6.

- The importance of maintaining an attractive benefits package is a view that the employers share with scheme members and UCU as their representative. The employers want to agree a proposal for reform that offers an attractive, affordable and sustainable pension scheme, for both current and future members.

- This potential joint proposal is dependent on the USS Trustee Board adjusting further some of the proposed assumptions relating to the 2014 scheme valuation at its meetings in January. UUK provided a detailed response to the Trustee Board's consultation on the assumptions in December 2014. UUK's response urged the USS Trustee Board to make a number of changes to the proposed technical provisions assumptions for the 2014 valuation and the deficit recovery plan in order to avoid an approach that is, in its view, unnecessarily prudent, to the potential detriment of the scheme's stakeholders.

- The UCU's HE Committee decided (on Wednesday 14th January) to put this potential joint proposal to its members in a consultative ballot, the results of which will be known in time for the USS Joint Negotiating Committee (JNC) meeting on 29th January 2015. The employers' representatives will support this potential proposal at the JNC if the UCU members of the JNC also support it. The UCU's HE Committee has also decided to suspend the industrial action that was due to resume on Friday 16th January 2015 while the union consults its members.

- An online benefits estimator will be launched by Monday 19th January to allow scheme members to approximate their potential future pension benefits under these potential reform proposals at www.benefitestimator2015.com

- The next formal Joint Negotiating Committee (JNC) meeting will be held on 29th January and it is intended that a final decision on a scheme reform proposal (that will then be the subject of a statutory consultation with employees) will be made at this meeting.

- Reform is both essential and urgent. If reform proposals are not agreed, to address the deficit whilst maintaining current benefits would mean the USS Trustee Board having to impose increases in member contributions to around 12% and in employer contributions from the current 16% to 25%. This would mean less take-home pay for USS members and an employer contribution level that would leave many universities with little choice but to fund this imposed increase by reducing long term staffing expenditure by recruitment freezes, greater salary restraint and redundancies. Further details about why the reforms are necessary and urgent are included on page 12.

- There will then be a statutory consultation by employers with USS members (and other USS eligible employees who are not scheme members) on the reform proposals decided at the JNC on 29th January. This consultation is expected to begin in mid-March and must continue for at least 60 days. The consultation will be supported by a suite of communications material for members including a dedicated USS website which will incorporate a benefits calculator in order to help members understand how they will be affected by the proposed changes. Shortly after a reform package has been recommended by the JNC on 29th January USS will write to employers with further details about the consultation.

- USS will also write to employers shortly about their statutory responsibilities and the logistical considerations regarding any scheme changes.

USS Reform - Timeline of next steps

15th January	Draft joint proposal for reform published by UUK and UCU
15th January	UCU announces consultative ballot of pre-92 members on draft joint proposal for reform (ballot to close by 26th Jan)
15th January	Joint Negotiating Committee (JNC) meets
15th January	USS Trustee Board meets
19th January (latest)	Online benefits estimator launched at www.benefitestimator2015.com
19th January	Employers Pensions Forum USS Group meets
23rd January	USS Trustee Board meets to further consider the valuation assumptions
Late Jan	USS will provide some further information about employers' statutory responsibilities in relation to any consultation they are required to carry out with affected employees around proposed changes to future benefit arrangements and the logistical support available from the trustee company to conduct any such consultation
28th January	UCU meeting to consider the outcome of the consultative ballot
29th January	Joint Negotiating Committee (JNC) meets. It is intended that a decision on a scheme reform proposal is made at this meeting
Early Feb	USS will formally notify employers of the proposed changes and provide further details of the statutory requirements for employers to consult with affected employees. The process for registering institutions to enable the consultation to be carried out will begin
16 March (subject to current timetable)	Statutory consultation with USS members on JNC proposals for reform begins (consultation to run for a minimum 60 days)
March/April/May	Employers to review all consultation responses received from their affected employees
June /July	Consultation responses and any employer feedback considered by the USS Trustee Board
June / July	Trustee board to advise JNC of the consultation response and the JNC to decide upon changes to future benefit arrangements.
Summer 2015	Actuarial valuation and recovery plan submitted to the Pensions Regulator
1st April 2016 (earliest)	Reforms, including changes to future benefit arrangements and contribution rate adjustments, implemented

Universities UK media statement – 15th January 2015

A Universities UK spokesperson said:

"Over the last few months significant progress has been made in closing the differences between the negotiating positions of the two parties and we now have a potential joint proposal for reform of the USS which the UCU is putting to a consultative ballot of their members in pre-92 institutions."

"The importance of maintaining an attractive benefits package is a view that the employers share with scheme members. Given that it is unavoidable that a recovery plan has to be submitted to the Pensions Regulator that would address the substantial scheme deficit over a reasonable period, the potential joint proposal for reform offers an attractive, affordable and sustainable pension scheme, for both current and future members. "

"We are pleased that the UCU have taken the decision to extend the suspension of industrial action whilst they consult their members. The next formal Joint Negotiating Committee (JNC) meeting is scheduled for the 29th January and it is intended that a final decision on a scheme reform proposal that will be the subject of a statutory consultation with employees will be made at this meeting."

"The employers have also urged the USS Trustee Board to make a number of changes to the technical provisions for the 2014 scheme valuation in order to avoid an approach that is unnecessarily prudent, to the potential detriment of the scheme's stakeholders."

"An online benefits estimator will be launched shortly to allow scheme members to estimate their potential future pension benefits under these reform proposals."

2. The potential joint proposal for reform of the USS - A Summary for USS Members

This reform proposal seeks to ensure that the USS can be a sustainable, attractive and affordable pension scheme for all members, both current and future.

During more than a year of discussions on reform of USS, a range of possible options has been considered, modelled and costed. Advice and views were sought by the JNC from USS, the Pensions Regulator, member representatives, employers, actuaries and pensions experts.

The potential reforms proposed are designed both to address the substantial deficit in the USS scheme funding and to mitigate the risk that contribution rates will become unaffordable for both employees and employers. The potential joint proposal outlined below aims to offer the best possible deal for employees within the constraints that the USS Trustee has set. The proposal retains a defined benefit (DB) structure, with an improved accrual rate, for the highest proportion of members possible, while remaining just within the affordability constraints identified by the Trustee.

The proposal is subject to both employer and employee support at the 29th January JNC meeting. The UCU is currently putting the proposal to a consultative ballot of their members in pre-92 institutions. The employers' representatives will support the proposal at the JNC if the UCU members of the JNC also support it. The proposal is also subject to consideration by the USS Trustee Board and the Pensions Regulator, and subject to the affordability tests that will be determined by the USS Trustee Board's scheme valuation assumptions.

If this potential joint proposal is agreed by the JNC, and ratified in principle by the USS Trustee Board, there will then be a formal consultation on these proposed changes undertaken by USS employers with eligible employees. As a result of the consultation there could be some further changes to this proposal before a final decision is taken in summer 2015.

Why is reform necessary?

The USS is no longer affordable in its current form. The USS Trustee is legally responsible for making sure that there is enough money in the fund to pay members' benefits, both past and future. Currently there is a substantial shortfall, or deficit, between the value of the benefits already built up and the value of the fund's assets. As well as being sizeable, the deficit is volatile and this volatility poses additional risks to the security of the USS and the HE sector employers.

The USS is a private occupational pension scheme and as such falls under the remit of the Pensions Regulator. It has to meet certain minimum levels of funding; the indicative results of the most recent triennial valuation in March 2014 show that the scheme deficit was £13 billion.

Accordingly, the USS Trustee Board is required to produce a recovery plan in order to address this substantial scheme deficit over a reasonable period and the plan has to be submitted to the Pensions Regulator. If no reforms are made, the USS Trustee Board will be compelled to impose increased contributions to a level that would be unsustainable for members (at around 12%) and employers (at around 25%) alike.

At the time of writing, the deficit is now estimated to have risen to more than £20 billion because of adverse market conditions.

A summary[1] of the potential joint proposal for reform of the USS – 15th January 2015

- The proposed implementation date of the proposed benefit reforms is 1 April 2016.

- Final salary accruals would cease as at 31 March 2016. Benefits built up before this date would be protected. Their value would be calculated using the existing definition of pensionable salary and service as at 31 March 2016 and from that date accrued benefits would be increased annually in line with CPI, rather than increases in final salary.

- All members would build up future defined benefits in the Career Revalued Benefits (CRB) section based on an accrual rate of 1/75th of actual pensionable salary. The right to a tax free cash sum of 3 times pension (3/75ths) will also be increased in line with the higher accrual rate.

- Benefits in the CRB section would also be increased annually in line with CPI.

- Benefits in the CRB section would be based on the first £55,000 of the member's pensionable salary. Therefore for members earning up to £55,000 their total salary would be pensioned through the CRB scheme. All members would receive this core benefit.

- The salary threshold would increase each year in line with CPI (subject to the outcome of a review to be completed by the USS Joint Negotiating Committee by 31 March 2020).

- If the member earns more than £55,000 they would still build up CRB benefits on their salary up to the salary threshold of £55,000, but any pensionable salary over this threshold would instead be pensioned through a new Defined Contribution (DC) section of the scheme. Employers would pay a contribution of 12% of pensionable salary over the threshold into the DC section.

- Employee contributions would increase to 8% of pensionable salary. If the member earns over the £55,000 salary threshold then their contribution of 8% of their pensionable salary over the threshold will be paid into their DC pot, in addition to the employer's 12% contribution.

- All members would have the opportunity to choose to pay in an additional 1% of pensionable salary into their personal DC pot, which would be matched by their employer to build up an additional flexible DC fund. This option would be available to those members earning below the £55,000 salary threshold as well as those earning over this amount.

- Benefits on death in service and on ill health would remain comparable with current provision.

[1] This document provides a short summary. The USS scheme rules would be the ultimate reference. Fuller details would be provided as part of the statutory consultation with members.

- Employers would commit to pay contributions of no less than 18 per cent of payroll for the next two valuations. This extends the increased employer contribution rate until the 2020 valuation (i.e. until 31 March 2020). 18% is a blended rate payable by all employers and includes the contributions to the DB and DC sections of the scheme. If the USS funding position as assessed at triennial valuations were to improve, over and above the improvements in funding assumed in the deficit recovery plan, employers would commit to using this to improve member benefits.

- There also remain a number of detailed specification points which the employers, UCU and USS and our advisers will discuss further.

Summary table

Element of benefit design	
Blended employer contribution	18%
	DB section
Salary link for past service	Increased annually by CPI[2]
Future benefit design	CRB
Pension accrual rate	1/75ths
Lump sum accrual rate	3/75ths
CRB salary threshold	£55,000
Indexation of CRB benefits	Annually by CPI
Increases in salary threshold	Annually by CPI
Employee contribution	8%
	DC section
Employee contribution	8% on salary above the threshold of £55,000 salary
Matched contributions	Voluntary 1% from employee matched by employer, both above and below the threshold

Important information about the legal status of this document

This document has been prepared at the date given for illustrative purposes only, using a range of assumptions which are available on request. As such, it should not be used or relied upon by any person for any other purpose and all third parties are hereby notified the document shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them.

This document was based on data available to us as at the date of writing and takes no account of developments after that date. With respect to data/information on which we have relied in producing the document (including that from third parties), it is not possible for us to confirm the

[2] CPI increases in line with current USS rules i.e. in full up to 5% then half any further increase to a maximum of 10%

accuracy or completeness of such data/information. The information is based on the face value of information provided by or on behalf of third party sources and we have not verified the provenance, validity, completeness or accuracy of such information and give no representations or warranties in respect of such matters.

Whilst it is hoped that the potential joint proposal will achieve the desired results, neither the USS, Universities UK, Employers Pensions Forum for Higher Education or their advisers, or the participating employers, can give any assurances as to the future financial status of the scheme and, as a result, whether any further changes will be required to the scheme at some point in the future.

3. A briefing for employees - 'What do the potential proposed USS reforms mean for me?'

- *What changes are being proposed?*
  The potential joint proposals set out an essential package of reforms to the USS that aim to address the current scheme funding challenges, including the indicative £13 billion deficit. An overview of the potential joint proposals for reform is available at: http://www.employerspensionsforum.co.uk/en/pension-schemes/uss

- *How will I know how the changes will affect me?*
  By Monday 19 January an online benefits estimator will be launched to allow scheme members to estimate what the proposal would mean for them individually. This will be available at www.benefitestimator2015.com

- *How much will I have to pay?*
  Under these potential joint proposals the standard member contribution will be 8% of pensionable salary. You would also have the opportunity to make additional pension savings into the DC section of 1% of the whole of your pensionable salary, below and above the salary threshold. This additional 1% contribution would be matched pound for pound by the employer.

- *How much will my employer pay?*
  The employers will increase their overall contribution to USS from 16% to 18% of total salary. This additional investment is approximately £135m a year and allows the USS to continue to provide attractive pension benefits for employees and provides funds to begin to address the current scheme deficit. This follows the increase in employer contributions from 14% to 16% in 2009.

- *When will my contributions increase? When do the changes come into effect?*
  The effective date of any agreed changes is expected to be 1 April 2016 but that is subject to confirmation. It will be no earlier than this date.

- *Has this proposal for reform been agreed yet? What happens next?*
  No, this proposal has yet to be agreed by the USS Joint Negotiating Committee and a consultation with all affected employees must be undertaken before the USS Trustee Board can make the final decision to implement any scheme reforms.

  The UCU's HE Committee decided (on Wednesday 14 January) to put this potential joint proposal to its members in a consultative ballot, the results of which will be known in time for the Joint Negotiating Committee (JNC) meeting on 29 January 2015. The employers' representatives will support this proposal at the JNC if the UCU members of the JNC also support it.

  This joint proposal is also dependent on the USS Trustee Board adjusting some of the proposed assumptions relating to the 2014 scheme valuation. UUK provided a detailed response to the Trustee Board's consultation on the assumptions in December 2014. UUK's response urged the

USS Trustee Board to make a number of changes to the valuation technical provisions and recovery plan in order to avoid an approach that is unnecessarily prudent, to the potential detriment of the scheme's stakeholders.

Following a JNC decision there will then be a statutory consultation by employers with USS members (and eligible employees who are not scheme members) on the reform proposals that are decided at the 29 January JNC. This consultation is expected to begin in mid-March and must continue for at least 60 days.

- *What is the point of taking part in the statutory consultation when the changes have already been decided?*
  The changes have not yet been decided. The statutory consultation process will give members the opportunity to understand more fully how they will be affected by the benefit changes, express any concerns and suggest alternatives.

  Responses to the consultation will be reviewed by employers and considered in detail by the USS Trustee and the JNC. The JNC will consider whether any revisions to the proposals should be made. After that, the proposals will be finalised and confirmed to the USS Trustee Board so that it can make the changes necessary to implement the revised benefit structure.

- *How will the DC section work?*
  Individual pots in the member's name will be created under the USS Trust Deed and the amount in each member's pot will be based on the amounts credited to these accounts (through employer and employee contributions) plus any investment earnings on the money in the account. At retirement the proceeds will be available to provide additional benefits. Under the new DC rules that come into effect in the UK in April 2015, this could be taken as a one off cash sum – 75% of which would be taxable at your marginal rate – drawn on an ad hoc basis, or used to provide a regular income.

- *Will I lose my final salary benefits?*
  The final salary section of the scheme will close, but existing final salary benefits will be protected at the point of change, calculated on pensionable salary and service at that date and increased each year in line with the CPI.

4. Why is reform of the USS both necessary and urgent?

In short, the USS is no longer affordable in its current form.

The USS is a private occupational pension scheme and as such falls under the remit of the Pensions Regulator. The USS Trustee is legally responsible for making sure that there is enough money in the fund to pay members' benefits, both past and future and are required to carry out regular valuations to assess how the scheme measures up against certain minimum funding standards. The indicative results of the most recent triennial valuation of the USS in March 2014 showed that the scheme deficit was £13,000,000,000 (£13 billion). At the time of writing, the deficit is now estimated to have risen to more than £20,000,000,000 (£20 billion) because of adverse market conditions. As well as being sizeable, the deficit is volatile and this volatility poses additional risks to the security of the USS and to HE sector employers.

Accordingly the USS Trustee Board *must* agree a 'recovery plan' to remove the March 2014 deficit over a reasonable period. The USS Trustee Board, which manages the scheme on behalf of the employers and members, is required by law to make provision for the pensions earned to date and it must be confident that the funds it has set aside will grow large enough over time to be able to meet these payments when they are due.

The potential proposed reforms are designed to address the current funding deficit and manage the scheme's funding challenges to set the scheme on the path to long-term sustainability. Before these benefit changes can be implemented they need the formal approval of the USS Trustee Board. This approval will only be forthcoming if the Board believes that the reforms will achieve the objective to address the funding deficit over a reasonable period and provide future service benefits that meet certain affordability criteria over the long-term.

If no reforms are made, the USS Trustee Board will be compelled to impose an immediate increase in contributions to the level required to continue to provide the current level of benefits. This would see members' contributions increase to around 12% of salary; a very significant increase from current members' contributions of 6.5% or 7.5% depending on which section they are in. The employer's contribution would increase from 16% to around 25%. The effects of this would be:

- Significantly less take home pay for university staff, on top of the increased National Insurance contributions that the Government is implementing from April 2016. Some members might find this level of contribution unaffordable and feel forced to opt out of the scheme; new staff may choose not to join.
- The breaching of the upper employer contribution limit identified by an independent review of the 'employer covenant' (the ability of the employer to support the pension scheme financially) commissioned by the Trustees and undertaken by Ernst & Young.
- Many universities would find this contribution rate unaffordable and would be left with little choice but to fund such an imposed increase by reducing long term staffing expenditure by recruitment freezes, greater salary restraint and redundancies. This in turn could affect the sector's ability to continue to attract top flight staff and students and damage its excellent reputation in the increasingly competitive global education market.

In such a scenario the long-term future of the USS would, necessarily, come into question as HEIs would find it impossible to continue to support a scheme that was damaging their viability.

Why is the USS no longer affordable in its current form?

A combination of factors has caused the scheme to become unaffordable. These include falling bond yields which have a negative impact on the implied net discount rate used to calculate the present day value of future liabilities. The discount rate is an important scheme assumption as a lower rate means a higher value on the scheme's liabilities. Put simply, the lower the discount rate the more money the scheme needs to have today in order to pay pensions tomorrow. Other factors that have contributed to the USS deficit include improvements in life expectancy. This means that people are drawing their pension for many more years than anticipated when the scheme was established and this trend is expected to continue.

Where can I find out more about the valuation and the deficit?

USS has produced information for members and a series of FAQs that explain in more detail the Trustee's approach to scheme funding and how it is required, by law, to conduct the 2014 valuation. These are available online in the 'News & Updates' section of the USS website at www.uss.co.uk.