

## Consultation Themes

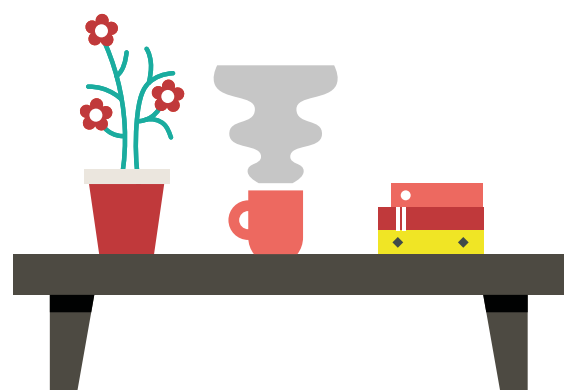
Thank you to everyone who contributed feedback on the proposed changes to The University of Manchester Superannuation Scheme (UMSS). The consultation was open for 86 days from Monday, 18 June to Tuesday, 11 September 2018. The statutory period of consultation for proposals like these is 60 days.

We wanted to make sure that existing UMSS members, those eligible to join UMSS and the campus trade unions all had the chance to consider the proposals carefully, especially because some affected colleagues do not normally work over the vacation period.

We received feedback from 9% of those staff eligible to take part in the consultation (existing UMSS members and those eligible to join). We also received feedback from the campus trade unions. The main themes emerging from the consultation feedback were:

- Seeking clarification of the need for change as well as the timing and management of the consultation in light of ongoing discussions about the Universities Superannuation Scheme (USS) valuation and proposed changes.
- How do UMSS pension benefits compare with those of other public sector pension schemes?
- Specific feedback on the proposed changes to UMSS.
- Specific feedback on the proposed Defined Contribution (DC) arrangement for new starters/joiners.
- Issues relating to the University's financial position and staff feeling valued.

The key points raised in each of these themes are outlined here alongside responses from the University.



# Seeking clarification of the need for change as well as the timing and management of the consultation in light of ongoing discussions about the Universities Superannuation Scheme (USS) valuation and proposed changes

## 1. Why are changes needed - has UMSS been mismanaged?

No, UMSS has not been mismanaged. These changes are being proposed to ensure that the cost of future benefits can be met at the current level - that is 19.75% of Pensionable Salary from the University, plus member contributions. If the University did not make any changes at this point, the cost of providing the current level of pension benefits in the future would need to increase significantly - and both the University and UMSS members would have to cover this increased cost. This would impact both staff, who would experience higher contribution rates, and the University, which would have to consider making significant budget cuts and diverting funding away from our core activities.

## 2. If UMSS investment returns are good, why has the deficit increased?

The difference between the value of the assets and the current cost of the pension benefits has widened, meaning that the UMSS deficit has grown. The University has committed to meet this deficit by paying £6 million a year, increasing each year in line with inflation.

## 3. What was the process for the UMSS valuation and can there be a review of this in a similar way that the USS valuation was reviewed?

The UMSS actuarial valuation was carried out by the UMSS Trustee, which is an independent body with University and member representation, having taken detailed expert advice from its actuary, and in consultation with the University. All parties agreed the financial and other assumptions used in settling the valuation. This process, and respective responsibilities, is in line with the requirements of UK pension law and with how all similar schemes conclude valuations. The valuation has been signed off by the Pensions Regulator and it is not possible to retrospectively change its conclusions. The valuation process for UMSS is unrelated to the valuation process for USS as they are two different schemes.

## 4. Why are changes to UMSS being proposed when the issues around USS are still to be resolved?

UMSS and USS are two separate schemes and are unrelated. UMSS is a scheme for our University and associated employers. USS is a sector-wide pension scheme which over 350 higher education employers participate in. No decisions have yet been made regarding the future benefit structure of USS, although proposals regarding contribution rates are currently being consulted on.

The outcome of the UMSS 2016 formal actuarial valuation showed that a substantial increase in contributions from 1 August 2018 would be needed in order to continue with the current level of benefits. This position is unsustainable for the University and we are therefore proposing changes to continue the scheme at its current funding level of 19.75% of Pensionable Salary from the University, plus member contributions.



## 5. How can the University afford to increase contributions for staff in USS, while proposing reductions to UMSS contributions?

We are not proposing to reduce contributions to UMSS. Since 2009 the University has made higher rates of contributions to UMSS than to USS, contributing 19.75% of Pensionable Salary to UMSS and an additional £6 million a year in respect of the deficit, which takes the University's overall contribution to UMSS to approximately 27% of pay. The University currently contributes 18% (this includes deficit contributions) to USS with a proposal to increase to 19.5% from April 2019, which is currently being consulted on.

## 6. What will happen if the changes go ahead before the Joint Negotiating Committee for Higher Education Staff (JNCHES) pay dispute is settled?

The pay award and any increments due to employees are accounted for in the build-up of UMSS pension benefits and have now been implemented into salaries.

## 7. Why would the proposed changes need to be introduced so quickly? Could any changes be introduced over a longer timescale to allow people time to plan their finances?

These changes are being proposed to maintain the cost of future scheme benefits at the same level as currently, that is 19.75% of Pensionable Salary from the University, plus member contributions. If the University did not make any changes at this point, the cost of providing the current level of pension benefits in the future would need to increase significantly - and both the University and UMSS members would have to cover this increased cost. This would impact both staff, who would experience higher contribution rates, and the University which would have to consider making significant budget cuts and diverting funding away from our core activities.

## 8. How did the University communicate these proposed changes and the consultation to affected staff?

A consultation exercise opened on 18 June 2018 with a planned end date of 31 August 2018, a period of 75 days (the minimum under legislation is 60 days). The University agreed to a request from the trade unions to extend the consultation period, and the consultation ended on 11 September, giving a total of 86 days. Communication with employees and trade unions started before 18 June 2018. All eligible employees were sent a consultation pack containing details of the proposals. A microsite was also set up specifically for the consultation containing further details including a video, modellers, FAQs (updated during the process), a jargon buster and a feedback tab. Regular updates continued on StaffNet and Staff Update during the consultation. Roadshows were held at various locations across campus (11 were delivered, attended by 536 employees) and 1:1 sessions were offered over three days. Pensions and communications colleagues met with a wide range of managers and supervisors working in parts of the University with high UMSS membership but where staff don't have regular access to a PC at work to ensure that they were fully briefed regarding the consultation and were able to encourage these employees to take part.

## 9. Has the University engaged with the trade unions during the consultation process?

University representatives met with the campus trade unions, with local and national representatives, once before the consultation opened, and four times during the consultation.

## 10. What will happen to the feedback - is this a meaningful consultation?

The University has been committed to running a meaningful consultation and has encouraged all affected employees and trade unions to engage with the process and raise any issues, concerns and suggestions they have.

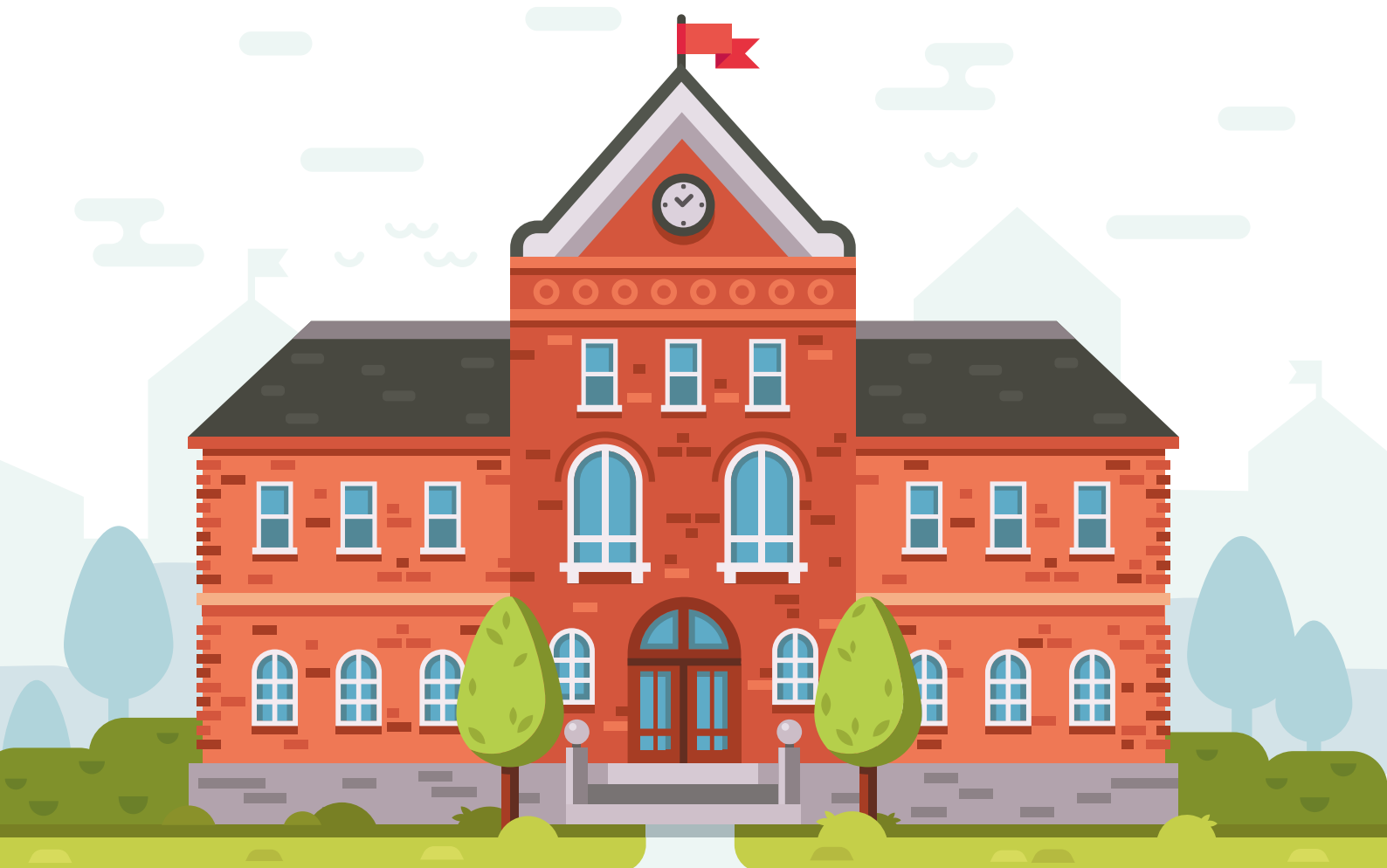
## How do UMSS pension benefits compare with those of other public sector pension schemes?

1. How do these proposals compare with similar schemes? Won't these changes make UMSS a less attractive pension when compared with other major public sector organisations like the NHS and local authorities?

The University is committed to providing the best possible retirement benefits for all its employees. The contribution rates that UMSS would offer are generous and aim to help employees build up their retirement savings with the flexibility of increasing their contributions, or reducing them if there are times when employees cannot afford to contribute. Details of pension schemes offered by other universities can be found on the consultation website at: [www.umssconsult.manchester.ac.uk/home/proposal\\_details](http://www.umssconsult.manchester.ac.uk/home/proposal_details). Many public sector schemes do not have an actual fund and are underwritten by the government, therefore they are not directly comparable with UMSS.

2. Why has the proposed accrual rate in the CARE section been set at 1/100ths which is a big change from 1/80ths? Have other rates been considered as part of the review? Other public sector schemes offer better rates than this.

As part of the pensions review, the University has considered a range of proposals in detail. It has also considered feedback from employees and the trade unions with regard to suggested alternatives, and is continuing to do so with USS. The proposed accrual rate is one which offers continued affordability for both the University and members. A pension of 1/100th and cash lump sum of three times pension can be provided from the University's 19.75% of Pensionable Salary contribution plus member contributions. You can find out more about other similar university schemes on the consultation website at: [www.umssconsult.manchester.ac.uk/home/proposal\\_details](http://www.umssconsult.manchester.ac.uk/home/proposal_details)



# Specific feedback on the proposals for UMSS

## 1. Why is a new Career Average basis being introduced for UMSS?

Building pensions on a Career Average (also called CARE) basis is now common for many pension schemes. The majority of members in UMSS are already building up pension benefits on a CARE basis. The current CARE section was introduced in 2012 and there are currently around 1,945 members in this section (compared with approximately 1,600 members in the Final Salary section).

## 2. Can I pay more to get more?

The University proposes that all members of UMSS would contribute the same percentage of Pensionable Salary and build up benefits at an accrual rate of 1/100th. Additional voluntary contributions (AVCs) have always been a feature of UMSS and if the proposals were to go ahead, members of UMSS could continue to pay AVCs into UMSS to provide additional pension benefits.

## 3. Where would my future benefits build up if the proposals go ahead?

Members currently in either the Final Salary or the CARE section of UMSS would build up future benefits in the new CARE section of UMSS with an accrual rate of 1/100th. Earned benefits in other sections of UMSS would be calculated as at 31 December 2018 and would remain in UMSS until members take them (usually at retirement). They would be increased each year in line with inflation, up to 5%. Members could, alternatively, choose to build up benefits in the proposed Defined Contribution (DC) arrangement. This would give members more choice about how much they contribute, where their fund is invested, and what they do with their savings when they retire.

## 4. Can UMSS members stay in the Final Salary section of UMSS?

As explained in question one of this section, in order to keep UMSS sustainable and affordable, the University needs to change future benefits and the proposals outline closing the Final Salary section.

## 5. Can I add in a lump sum to my pension before the changes take place?

Yes, it has always been possible to pay a lump sum additional voluntary contribution (AVC) into UMSS, and this will continue.

## 6. Why can't different rates be offered to different groups of staff e.g. 1/80th for existing UMSS members and 1/100th for new employees?

These changes are being proposed to ensure that the cost of future benefits can be met at the current level, that is 19.75% of Pensionable Salary from the University, plus member contributions. When deficit payments are added, the University's contribution is 27% of Pensionable Salary. If the University did not make any changes at this point, the amount needed to provide the current level of pension benefits in the future would have to increase significantly, and both the University and UMSS members would have to cover this increased cost. This would impact both employees, who would experience higher contribution rates, and the University, which would have to consider making significant budget cuts and diverting funding away from its core activities.

## 7. If these proposals go ahead, can we be sure that there will be no future changes to pensions at the University?

The intention is that these proposals will keep UMSS affordable and sustainable. However, as with all UK employers providing pensions, we are not in a position to provide any guarantees that there will not be any further changes to pensions in the future, because costs of providing guaranteed pensions could change again in the future.

## 8. Why can't the proposed changes be brought in for a fixed period of time e.g. three to six years and then be reviewed?

UMSS's finances are examined every year and in detail every three years as part of the actuarial valuation. The University cannot predict what future conditions will be like and can therefore only act now to deal with the current situation.

## 9. Are death-in-service (DIS) and ill-health benefits affected by these proposals?

There are no changes proposed to the DIS lump sum which remains at three times salary. The DIS pension for members with over five years' service continues to be based on a member's prospective pension. This prospective pension will change as and when the accrual rate changes. Ill-health pension is based on a member's prospective length of service and the accrual rate. Further information is available at: [www.umss.co.uk/benefits\\_summary.html](http://www.umss.co.uk/benefits_summary.html)

# Specific feedback on the proposed Defined Contribution (DC) arrangement for new starters/joiners

## 1. Are all UMSS members moving into the defined contribution (DC) scheme?

No, the proposed DC arrangement is for new employees who join the University on or after 31 December 2018. Current members of UMSS would not be moved into the new DC arrangement; however any current University employee working at grades 1-5 can choose to join the DC arrangement from 1 January 2019 if they wish. If they are currently a member of UMSS they would have to opt out of UMSS in order to do so.

## 2. Can new starters join the new 1/100th CARE section of UMSS?

The proposal is for new employees who join the University on or after 31 December 2018 to join the DC arrangement.

## 3. Can you clarify what the death-in-service (DIS) and ill-health benefits would be in the new DC arrangement?

The DIS lump sum will be seven times salary. In cases of permanent incapacity, an employee who has been a member of the DC arrangement for at least three years may qualify for continuance of up to 50% salary for a period of up to five years. Employees with less than three years' service may qualify for payments under the University's Sickness Absence Policy.

## 4. Do you think offering a DC arrangement will mean that the University will not be able attract the best calibre staff in the future?

The DC arrangement that the University is proposing is generous compared to schemes at other universities and extremely favourable compared with those in the private sector.

## 5. Does having a DC arrangement place all of the risk onto staff because future benefits would be dependent on the performance of financial markets?

The DC provider would offer a range of investment funds to our employees; one of these would be a default fund so employees would not need to make investment choices. A default fund manages investments with regard to a member's chosen retirement date by aiming to grow funds in the earlier years and then move into lower risk

assets closer to retirement. Members of the proposed DC arrangement would be able to access a range of online and other tools to help them plan saving for their retirement.

## 6. Would staff have a say in where the funds in their account in the DC arrangement would be invested, for example will investments be socially responsible?

Yes, this would be one of the requirements for our DC provider if the proposed DC arrangement goes ahead, as outlined in our socially responsible investment policy at: <http://documents.manchester.ac.uk/DocuInfo.aspx?DocID=659>

## 7. How does the proposed DC arrangement differ from my current pension with UMSS?

UMSS is a Defined Benefit (DB) pension. This provides members with an income in retirement based on a formula using a member's service in UMSS and earnings, multiplied by a fraction (known as an accrual rate). In a DC arrangement, members would build up a pot of money in an individual DC account which members and the University would pay into. Members' DC accounts would be invested with the aim of growing their value, to provide members with an income in retirement.

Under the proposed DC arrangement, members would choose how much they contribute and could change their contribution rate at any time. At retirement, they would also have choices about what to do with the value of their DC account including taking all cash 'now'; some cash now and some later (drawdown); or a regular income (annuity).

## 8. Where would my future benefits build up in the DC arrangement?

In the proposed DC arrangement there would be a choice of funds in which you could invest your own and the University's contributions. As outlined in the response to question six in this section, these would include socially responsible options.



## Issues relating to the University's financial position and staff feeling valued

### 1. I signed up to a pension scheme for life – why is it being changed now?

These changes are being proposed to maintain the cost of future scheme benefits at the same level as currently, that is 19.75% of Pensionable Salary from the University, plus member contributions. When deficit payments are added, the University's contribution is 27% of Pensionable Salary. If the University did not make any changes at this point, the amount needed to meet the cost of providing the current level of pension benefits in the future would need to increase significantly – and both the University and UMSS members would have to cover this increased cost. This would impact both employees, who would experience higher contribution rates, and the University, which would have to consider making significant budget cuts and diverting funding away from our core activities.

### 2. We have been told that the University can't afford to pay any more into UMSS, but there are many buildings and other projects that are being invested in. Why can't that money go into UMSS?

Providing valuable retirement benefits for our staff is extremely important to us. The University wants its staff to have the best possible pension benefits at retirement. However, these need to be affordable for members and the University, both now and in the future. Over half of the University's total income is currently spent on our staff including pay, National Insurance and pension contributions.

The ongoing redevelopment of our campus will benefit both staff and students, now and in the future. Some projects like the Graphene Enterprise and Innovation Centre and the Henry Royce Institute are entirely externally funded, many others have major external funding and others like MECD are funded through a combination of external and internal funding. The costs of delivering our latest project, MECD, are still very much lower than the costs of remaining on North Campus for even another ten years. The move will also free up considerable land holdings in the north of the campus, enabling the University to play a significant role in the future economic success of the City by developing the site into a world-class innovation district over the next 20 years.

### 3. Isn't this just about the University saving money?

Not at all. In making these proposals, the University is not seeking to reduce its financial commitment to UMSS, but neither can it increase its level of contribution to cover the significantly increased costs of future benefits based on the current benefits package.

### 4. Are part-time workers who are currently in the Final Salary section unfairly affected by these proposals? What about the pensions of those who have worked part time at some point, but intend to work full time nearer to retirement?

No. In the Final Salary section, to ensure that members who work part time receive a Final Salary benefit, the salary is pro-rated up to its full-time equivalent and the service period down. In the Final Salary section of UMSS, benefits are based on a member's Final Pensionable Earnings, which for most members is the last 12 months' earnings before retirement.

Where a member works on a part-time contract, the Final Pensionable Earnings figure is the full-time equivalent of the part-time earnings. An example following the current rules for the Final Salary section can be found in Appendix One.



## 5. Why do different groups of employees at the University have different pension schemes – why can't everyone belong to one scheme?

Different employees are in different pension schemes due to historical reasons around when and how the different schemes were set up. For support staff, UMSS is a longstanding pension scheme created in 1925 for employees of the Victoria University of Manchester. Support staff at UMIST were enrolled into the local government scheme and we still have some employees in this scheme. USS was set up in 1975 for academic and academic-related employees. While there are different schemes, the University is committed to continuing to make a contribution of 19.75% for future build-up of benefits for our support staff.

## 6. Why are pensioners who are claiming their benefits now not affected by these proposals?

It is important to note that any benefits already earned through UMSS are protected and cannot be altered. These proposals cover future benefit build-up only, and the University is proposing to keep defined benefits for existing employees. As pensioners and those members with entitlement to deferred benefits are not building up any future pension, this means they are not affected by these proposals.

## Appendix One

### For example, following the current rules for the Final Salary section:

Alex works on a 60% contract with actual earnings of £15,000, so the full-time equivalent salary is  $£15,000/60\% = £25,000$  a year

- If Alex is employed for 5 years on a 60% contract throughout, the pension would be  $5 \times 1/80 \times 60\% \times £25,000 = £937.50$  a year.
- If Alex had 10 years' full-time as well as the 5 years' part-time service, the pension would be  $(10 \times 1/80 \times £25,000) + (5 \times 1/80 \times 60\% \times £25,000) = £4,062.50$  a year.

This principle is used for any changes of hours to ensure that proportionate benefits are obtained, all with reference to the full-time equivalent of final earnings.

In the CARE section of UMSS, pension is earned on actual Pensionable Salary each year so there is no need to pro-rata salary and service. In other words there would be no additional impact to part-time workers.

