

Notice of statutory consultation by employers in relation to Universities Superannuation Scheme (USS)

This is the formal written notice of a statutory consultation in relation to USS. It contains details about proposed changes to USS, most of which would take effect from 1 April 2022, if implemented.

Please read this notice carefully, as it will affect you either as an active member of USS or as someone eligible to join USS (referred to as affected employees in this notice), and you may wish to respond to the consultation.

This consultation seeks comments from affected employees and their representatives on:

- the Joint Negotiating Committee (JNC)'s recommended package of benefit changes and
- the alternative contribution rates which will take effect from 1 April 2022 if the changes recommended by the JNC are not implemented before then.

You can respond to the proposals via the consultation website or via your employer. All responses received during the consultation period will be considered before any final decision is made and implemented.

The closing date for responses will be 5pm on 17 January 2022. Any responses received after that will not be considered.

PART ONE: KEY INFORMATION

Summary of the JNC's recommended changes

- From 1 April 2022, each year members will build up a pension in the USS Retirement Income Builder, the defined benefit section of USS, at a lower rate of 1/85 of salary compared to the current 1/75 of salary, and a separate lump sum of 3/85 rather than 3/75, up to the Salary Threshold.
- From 1 April 2022, the Salary Threshold will reduce from £59,883.65 to £40,000.
- From 1 April 2023, the Salary Threshold will continue to increase annually in line with official pensions, which are currently increased in line with the Consumer Prices Index (CPI), but subject to a lower maximum increase of 2.5% a year until

31 March 2025 or if earlier, the date of any change concluded by a review by the JNC of the amount of the Salary Threshold.

- Benefits earned in the USS Retirement Income Builder from 1 April 2022 will continue to see increases applied annually before and after members retire, but subject to a lower maximum of 2.5% a year.
- From 1 April 2022, there will be a change of benefits for those who are members of USS for a short period (more than three months but less than two years).

These proposed changes would not affect any benefits you build up before 1 April 2022. They will only affect future benefits earned from that date.

Members' contributions will remain at their current level introduced from 1 October 2021, of 9.8% of salary. Employers' contributions will remain at 21.4% of salary.

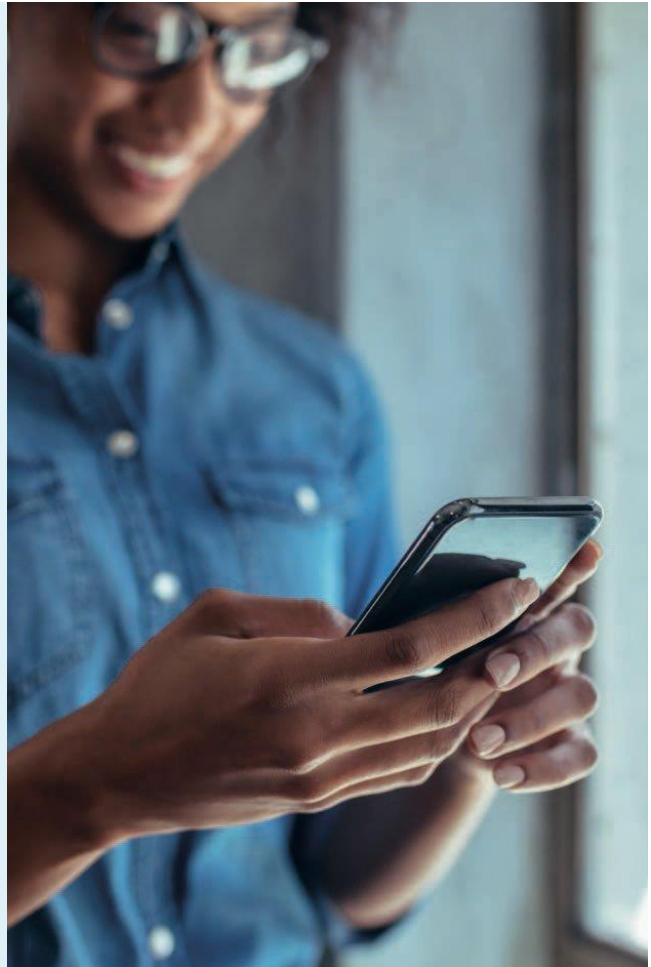
What happens if the JNC's recommended changes are not implemented from 1 April 2022 (in the absence of alternative changes bringing cost savings)

The JNC has proposed changes to the scheme so that contributions won't need to rise significantly and impact affordability for members. However, in the absence of the JNC's (or other) proposed changes being executed by 28 February 2022, there is a proposed fall-back position, where contribution rates will increase every six months from 1 April 2022.

In the fall-back position the increase would be from the October 2021 levels of 9.8% to 18.8% of salary for members by 1 October 2025. For employers, the increase would be from 21.4% to 38.2%. See below for more details.

What to do next

1. Read more about the proposals below and available on the consultation website
www.ussconsultation2021.co.uk
from w/c 25 October.
2. Use the modelling tools on the consultation website to understand how the changes could impact you.
3. Give your views on the proposals before 5pm on 17 January 2022 so your voice is heard. You can do this from 9am on 1 November by following the login process on the consultation website, or by giving your response to your employer. Any views you give on the website will be anonymous – your employer will not be able to identify you in your response.



PART TWO: FURTHER INFORMATION

Why the changes are being proposed

As part of the 2020 valuation, the USS Trustee determined that the cost of continuing to offer the benefits currently provided, while also repairing an estimated deficit of at least £15 billion, had increased, to require a combined contribution rate of up to 57% of salary.

Having been informed by the Trustee that costs had increased, the JNC recommended a package of changes. The contributions required for these changes were significantly reduced because of a substantial support package provided by employers (a long term commitment to the scheme and additional protection as a creditor) which greatly increased the security of the benefits already built up, in the view of the Trustee.

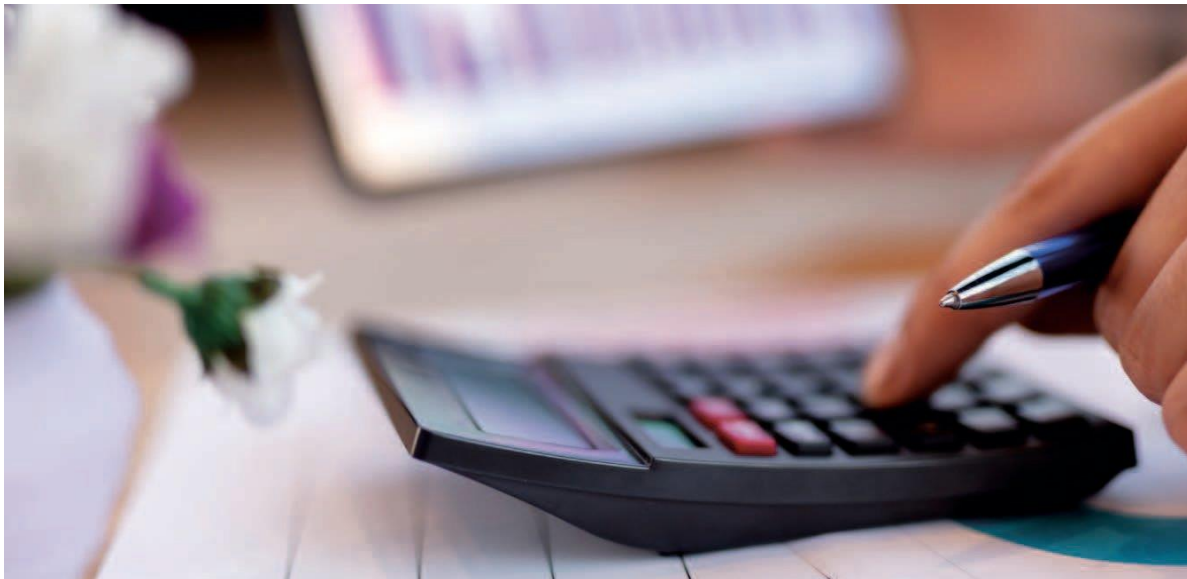
The JNC is a body established under the USS rules and is made up of UUK and UCU representatives as well as an independent Chair. It is responsible for deciding how to address any increase in the costs of the scheme – through changes to benefits or how the

required contribution increase is shared between members and employers, or a combination of both.

The JNC's decisions and the up-front commitment from employers to provide additional support to the scheme have allowed the Trustee to introduce a new member contribution rate from 1 October 2021 of 9.8% of salary instead of 11% (as scheduled under the 2018 valuation). However, this currently leaves a funding gap between the contributions being paid for now, and the cost of providing the current benefits. The Trustee could only accept this because the JNC agreed a fall-back position that would come into effect if the JNC's (or other) recommendations on benefit change were not subsequently implemented. This fallback would be for contributions in the same proportions that applied under the default cost sharing rule in the scheme rules in the last valuation, based upon there being no change to current benefits. It provides the Trustee with the assurances it needs, consistent with its primary legal duty, to protect benefits that members have built up.

For more information on the valuation, go to the USS website:

www.uss.co.uk/about-us/valuation-and-funding/2020-valuation



What USS membership currently provides

The USS Retirement Income Builder

USS members automatically join the USS Retirement Income Builder, the defined benefit section of USS. It provides members with a set level of retirement income, based on their salary up to a certain level during each year of membership of the scheme.

Currently, every year, members earn a pension which is based on 1/75 of salary, up to the Salary Threshold. The Salary Threshold is £59,883.65 for 2021/22. See below for details on how it increases each year.

Members' benefits are calculated and 'banked'. They are then increased, broadly in line with inflation, each subsequent year including in retirement, subject to certain caps.

When they retire, members also receive a tax-free lump sum worth three times their annual USS Retirement Income Builder pension.

The USS Investment Builder

If members earn above the Salary Threshold, have made additional contributions, or have transferred pension savings from another scheme into USS since April 2016, they will also be building up savings in the USS Investment Builder, the defined contribution section of the scheme. The amount paid into the USS Investment Builder is 8% (from the 9.8% paid) of salary above the Salary Threshold by members, and 12% (from the 21.4% paid) of salary above Salary Threshold by employers.

There are various ways in which members can use their USS Investment Builder savings, including as a tax-free lump sum or sums, investing in a drawdown product – take an income using their USS Investment Builder fund, or buying an annuity – a guaranteed income for life.

Benefits payable on death or ill health

USS members get valuable death benefits, which can include a lump sum of at least three times their salary and a pension for a spouse, civil partner, dependant or children. There are also benefits which will provide support if you become ill and have to stop working.



Details of the JNC's recommended benefit changes

The following benefit changes are proposed. **They would take effect from 1 April 2022 unless stated otherwise: they would not affect any benefits you build up before 1 April 2022, they will only affect future benefits earned from that date.**

- ***The Salary Threshold will reduce to £40,000.***

Members' benefits in the USS Retirement Income Builder will be built up based on a maximum salary of £40,000 each year – this is lower than the current figure of £59,883.65.

If you earn over £40,000 you will build up savings in the USS Investment Builder in addition to the pension and lump sum you are building up in the USS Retirement Income Builder.

This means that if, after 1 April 2022, your salary is higher than £40,000 then each year you will build up a lower USS Retirement Income Builder pension and lump sum than at present. However, contributions from you and your employer on salary over £40,000 will be used to build up your savings in the USS Investment Builder.

- ***The Salary Threshold will increase annually after 1 April 2022 in line with official pensions, but only up to a maximum of 2.5% in any year until 31 March 2025 or if earlier, the date of any change concluded by a review of the JNC of the amount of the Salary Threshold.***

The Salary Threshold will rise in line with official pensions, but this will be subject to an annual cap of 2.5%. Currently, USS will match official pension increases up to 5%. Where the increase in official pensions exceeds 5%, one-half of the excess above 5% is also taken into account with a maximum increase of 10% in all cases.

This means that if future increases to official pensions are higher than 2.5% in any year, the Salary Threshold will only increase by 2.5%. So, for subsequent years, if you earn more than the Salary Threshold, you will then build up a lower USS Retirement Income Builder pension (but more USS Investment Builder savings) than you would if the 2.5% cap didn't apply. The 2.5% cap will apply until 31 March 2025 or if earlier, the date of any change concluded by a review of the JNC of the amount of the Salary Threshold.

• *The rate of accrual in the USS Retirement Income Builder will decrease to 1/85 from its current level of 1/75.*

USS Retirement Income Builder pension will be calculated as 1/85 of salary (up to the Salary Threshold) for each year of service from 1 April 2022 onwards. This would reduce the amounts you can build up in the USS Retirement Income Builder each year.

For example, if your salary is £40,000, from 1 April 2022 you'd be building 1/85 of that salary as USS Retirement Income Builder pension which works out as £471 each year. This would then be increased annually both before and after you retire.

On the same salary, with the current 1/75 accrual rate, you'd build up a USS Retirement Income Builder pension of £533 each year which would then be increased both before and after you retire.

You will also build up a separate cash lump sum of 3/85 of your salary each year, up to the Salary Threshold. On a salary of £40,000, you'd build up £1,412 lump sum each year. On the current accrual rate of 3/75, the amount would be £1,600 each year.

• *USS Retirement Income Builder benefits will be increased annually in line with official pensions but only up to a maximum of 2.5% in any year.*

The future benefits that you build up in the USS Retirement Income Builder will increase every year both before and after you retire in line with official pensions but subject to a maximum increase of 2.5%. Currently, USS will match official pension increases up to 5%. Where the increase in official pensions exceeds 5%, one-half of the excess above 5% is also taken into account with a maximum increase of 10% in all cases.

So, your USS Retirement Income Builder benefits earned after 31 March 2022 will increase at a lower rate than they do now, in any year where official pensions are increased by more than 2.5%.

• From 1 April 2022, there will be a change to benefits for those who are members of USS for a short period.

Members who leave the scheme with more than three months', but less than two years' qualifying service, will be provided with full deferred benefits in the USS Retirement Income Builder (i.e. a pension of 1/85 of salary and a lump sum of 3/85 of salary up to the Salary Threshold for each year of active membership) rather than the current deferred benefit which is based on their contributions multiplied by an actuarial factor. On average, the change will provide a larger deferred benefit for the relevant members.

No other changes to benefits are proposed

There will be no other changes to members' benefits. In particular:

- The changes will not affect any benefits built up before 1 April 2022.
- Members' death in service benefits will continue to be calculated on the same basis as at present, providing a lump sum of at least three times salary and spouse/civil partner/dependants' pensions.
- Ill health retirement benefits will also continue to be calculated on the same basis as at present, which could provide a lump sum and pension where a member becomes ill and has to give up work.
- The USS Investment Builder will continue to be available for members who make additional contributions or transfer savings into USS.
- No changes are being made to the scheme's normal retirement age which is currently age 66. (This is aligned to your State Pension age, so will increase in the future as the State Pension age increases).
- Member contributions will remain at their current level of 9.8% (subject to the fall-back position set out below if the JNC's recommended benefit changes are not introduced).

Reduced October increase

The changes proposed by the JNC above have allowed the Trustee to replace the 11% member contribution rate scheduled for 1 October 2021 with a new rate of 9.8%. The Trustee has been able to do this as the cost of the benefit structure proposed by the JNC is lower than that of the current level of benefits. But this is also based on having a fall-back position in place in case the changes don't happen. In this event the employers'

commitments of support to the scheme fall away, and the contribution requirements reflect this, as well as the more expensive benefits.

The fall-back position if no changes are made to the scheme

In the event that no changes are made to the current structure of the scheme, then contributions would need to increase every six months from 1 April 2022 onwards to ensure the existing benefit structure is adequately funded.

This fall-back position would be the application of the required increase to contributions in the same proportion as applied under the default cost-sharing rules used in the previous valuation. This provides the Trustee with the assurances it needs, consistent with its primary legal duty, as to the security of members' accrued benefits.

This fall-back position would apply from 1 April 2022 if the JNC found it could not consent to an executed deed of amendment by 28 February which reflected the current JNC recommendations (or others agreed following this consultation which include contributions which support the cost of the alternative proposed benefit structure).

If the 28 February 2022 deadline is missed there would not be time to complete the necessary legal steps and implement those changes from 1 April 2022. Note, any agreed changes (including revised contribution rates) could be implemented at a later date but the time required to implement them would depend on their scale and nature.

The fall-back position would see member and employer contribution rates increase in steps every six months from 1 April 2022 until October 2025. These contribution rates will put pressure on members and employers in terms of affordability and it is for the JNC to address this should we end up in this position. The increases would be phased in over four years and this would also give the JNC the opportunity to make a decision on whether to recommend changes to benefits in future, before contributions get considerably higher.

However, in the absence of further changes to benefits and/or covenant support provided by employers and subject to the outcome of future valuations, contribution rates will increase as follows.



The fall-back position if no changes are made to the scheme

	Members (% of salary)	Employers (% of salary)
From 1 April 2022 to 30 September 2022:	11.0%	23.7%
From 1 October 2022 to 31 March 2023:	12.9%	27.1%
From 1 April 2023 to 30 September 2023:	13.9%	29.1%
From 1 October 2023 to 31 March 2024:	15.0%	31.0%
From 1 April 2024 to 30 September 2024:	16.0%	33.0%
From 1 October 2024 to 31 March 2025:	17.1%	34.9%
From 1 April 2025 to 30 September 2025:	18.1%	36.9%
From 1 October 2025 onwards:	18.8%	38.2%

These fall-back proposals are subject to the formal statutory consultation process implemented by this notice. This consultation will be conducted between each USS participating employer, affected employees and employee representatives.

Key dates

