

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 summary¹ 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

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.

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.
- 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

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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 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.

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%