USS Valuation – FAQs for USS members

April 2018

Universities UK (UUK), in its role as formal representative of USS employers, has developed the following additional questions and answers on the USS 2017 valuation. This includes information on the recent Acas talks, and the Joint Expert Panel (JEP).

The information below provides answers to a number questions that have been regularly posed by scheme members or employers in recent weeks.

Contents

Recent activity

Q1. What are the latest developments in the USS 2017 valuation?

Since the beginning of March 2018 there have been numerous developments including:

- 5-12 March: Six days of formal Acas talks
- 12 March: Benefit proposal agreed at Acas by UUK and UCU negotiating teams (for further detail see question 2)
- 14 March: Further industrial action following UCU rejection of the Acas proposal agreed
- 21 and 22 March: A second round of informal engagement through Acas to explore an option to convene a Joint Expert Panel (JEP) on the valuation
- 23 March: UUK Board adopt proposal to take forward the idea of a JEP
- 28 March: UCU Higher Education Committee voted to ballot UCU members on the JEP proposal
- 28 March: Employers agree support for the panel subject to the immediate suspension of ongoing industrial action
- 13 April: UCU e-ballot results, with 64% voting to support for the panel and suspension of strike action.

Q2. What benefit proposal was put forward at Acas on 12 March?

On 12 March, following six days of talks at Acas negotiators for both UCU and UUK agreed to a proposal consisting of:

- Current pension benefits being built up until 31 March 2019
- A revised level of defined benefit pension build-up from 1 April 2019 for three years
- Contributions increasing to 19.3% for employers and 8.7% for members from 1 April 2019 for three years
- A joint expert panel to review the valuation methodology and assumptions of the USS trustee
- Continuation of meaningful discussions, taking into account the findings of the Joint Expert Panel, to explore risk sharing alternatives for future pension build-up from 2020.

Both UUK and UCU negotiating teams agreed on 12 March to the proposal, subject to consulting with their respective sides. On 14 March UCU branches had rejected the Acas agreement. UUK had a strong and broadly positive response to the Acas agreement from USS employers. However it was clear, and it was recognised by employers, that the proposal is conditional upon industrial action being suspended and that the proposal is at the limits of affordability for many employers.

Joint Expert Panel

Q3. What work will the Joint Expert Panel undertake?

The panel will review the methodology and assumptions in the current valuation with the aim of building confidence, trust and increasing transparency in the valuation process. It will provide an opportunity to consider the questions raised about the valuation by some scheme members and employers. It will be important that interested parties engage with the panel and remain open-minded about its possible findings.

Working in partnership with UCU, we will now appoint a jointly agreed chair for the panel as soon as possible as well as developing its terms of reference, order of work and timescales.

Alongside UCU, we have sought support for this process from the USS Trustee and the Pensions Regulator, fully recognising their statutory responsibilities and accountabilities.

The current pension benefit structure will remain in place unchanged until at least 31 March 2019, so the panel will need to conclude its work in time to put in place a sustainable way forward for USS from that date.

Q4. What will the Joint Expert Panel mean for benefit reforms?

The focus of the Joint Expert Panel will be on the current valuation, and its methodology, processes and assumptions.

Since we do not know what the panel will find, it is difficult to say yet what it will mean for benefit reforms. As mentioned above, any benefit reforms required need to be determined so that they might be implemented from April 2019.

Due to their statutory requirements to address the funding shortfall highlighted in the 2017 valuation, the alternative to agreeing any necessary reforms is the imposition of contribution increases by the USS Trustee. If the current valuation assumptions were used an increase of c11% of salaries would be required to maintain current benefits, split 1/3 members (contributions rising from 8% to c11.5% of salaries) and 2/3 to employers (contributions rising from 18% to c25% of salaries).

Terms of reference for the panel are being discussed between UUK and the UCU as well as ongoing discussions with the USS Trustee and the Pensions Regulator.

Valuation details

Q5. Is there a scheme deficit?

The USS Trustee has confirmed that the deficit at the valuation date (31 March 2017) was £7.5bn (based on current scheme benefits being provided in the future)[1].

The deficit is driven by exceptionally challenging economic conditions of a prolonged period of low interest rates, together with higher asset prices, meaning that investors pay more for assets which leads to lower expected future investment returns.

The USS Trustee estimates that the cost of building up future benefits based on the current formula – in addition to maintaining its required deficit contributions – is 37.4% of salaries per year, substantially higher than the current overall cost of 26% of salaries.

[1] The USS Trustee had confirmed a deficit of £6.1bn based on defined contribution benefits being provided in the future. Given that a defined contribution solution is no longer suggested the deficit is being correctly quoted as £7.5bn, which is based on the scheme's current benefits.

There are different ways to measure the deficit in a defined benefit pension scheme. The USS Trustee has a legal duty to follow pensions law, guidance set by the Pensions Regulator, the actuarial profession's standards, and to consult with all scheme employers (through UUK as the USS employer representative) in ultimately deciding upon the valuation deficit.

A recent article from USS explains the deficit in more detail: https://www.uss.co.uk/how-uss-is-run/views-from-uss/discussing-deficits.

This is one area that the Joint Expert Panel may be asked to consider. Terms of reference for the panel are being discussed between UUK and UCU.

Valuation timetable

Q6. Can the statutory deadline be extended by the Pensions Regulator beyond 30 June 2018?

UUK, UCU and the USS Trustee have all sought to understand the Pensions Regulator's view on the statutory timetable.

The Pensions Regulator has made clear it cannot waive the legal requirement, nor does it have the power to extend the deadline, which is set out in legislation. It has powers to act (and indeed impose certain outcomes) which it may choose to use if it believes the response of the trustee and stakeholders to the valuation is unsatisfactory.

The Pensions Regulator has stated that whilst it appreciates that UUK and UCU wish to set up the Joint Expert Panel, and it will offer its support to the panel as far as possible, it has also stated that it expects the Trustee to be continuing discussions on next steps for the valuation submission.

In the event of the statutory deadline for valuation completion being missed, the Regulator would want to see evidence of a credible programme to complete the valuation within a reasonable timeframe.

Further information

Q7. What is a contribution holiday, and did USS employers take one?

When schemes have assets in excess of the value of their liabilities, they are said to have a surplus. Surpluses in defined benefit schemes were common during the 1990s and the laws in place at the time taxed companies who had defined benefit pension schemes with a certain level of surplus.

It is important to note that, regardless of the funding position of a pension scheme, the contribution rate required by trustees to fund ongoing build-up of pension benefits varies from time to time, depending on things like market conditions.

In the 1990s many employers took the option of reducing or suspending their pension contributions below the rate required by the trustees – a so-called 'contribution holiday' – in order to reduce their surplus.

USS employers have never taken a contribution holiday. USS employers have never paid less than the rate that was required by the Trustee at that particular time to build up further pension benefits.

Q8. How will any benefit reforms affect my contributions while I am on maternity leave?

The exact details of any benefit reform would need to be worked through with the USS Trustee but there is no plan to alter the treatment of maternity leave compared with that under the current arrangements.

While you are on paid maternity leave you will receive full build-up of benefits. For the period of your maternity absence where you are not paid, you will have the choice upon your return, or upon leaving, to make contributions for this period and therefore to have the unpaid period count in full.

Q9. Will any benefit reform proposal be analysed to see if it disproportionately impacts employees with protected characteristics[2]?

Yes. Once a benefit reform option has been formally decided upon by the Joint Negotiating Committee (JNC), a consultation by employers with affected employees and their representatives begins. Alongside this consultation employers will undertake an Equality Impact Assessment (EIA). This is used to determine whether any protected groups are being disproportionately affected by proposed benefit reforms.

Q10. Can I contribute to another pension scheme rather than USS?

There is an exclusivity provision in USS, so your employer is unable to contribute to any other occupational pension scheme for an employee who is eligible for USS. Individuals can participate in their own personal pension arrangements however their employer cannot contribute to it.

Universities UK

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[2] Protected characteristics relate to protected groups, based on: race, gender, disability, age, gender reassignment, marriage and civil partnership, pregnancy and maternity, religion or belief and sexual orientation.