Employers Pensions Forum (EPF): Q&As on USS reforms **30 April 2010**

This is a summarised media briefing to explain the background of the current review of the Universities Superannuation Scheme (USS), one of the main pension schemes available to academic staff in the HE sector. Other major HE pension schemes, LGPS and TPS, are also being evaluated this year and next. Pending reviews of other schemes in HE are separate to this. For nearly two years a Joint Review Group (JRG), consisting of employer and UCU representatives, has been gathering data and analysing the details of the complex challenges facing USS. The employers have presented their final set of proposals and now we enter the decisive stage. For USS, any decisions on changes must be taken by the USS Trustees and Joint Negotiating Committee (JNC). The JNC is made up of 5 UUK appointed members, 5 UCU appointed members and an independent chair (Sir Andrew Cubie).

The changes to USS proposed by the employers are seen to be the minimum that is necessary in order to address the massive pressures facing the sustainability of USS arising from increased longevity and other factors. However, it is important to note that under these proposals current USS members retain their final salary scheme. Employers want to retain high quality pension schemes and *prevent* problems that would threaten the long-term future of the schemes. For USS, the priority is to maintain an affordable, attractive and sustainable defined benefit scheme open to all.

Q: Why does the USS need to change?

A: USS hasn't been subject to a major review since it was set up in 1974 - it needs to be brought up to date. It's been a very successful scheme for 35 years and we need to take steps to ensure its future for the next 35 years and beyond. We can't afford to do nothing - if we don't act now the financial pressures arising from people living longer and other factors will only increase further and threaten future sustainability.

Changes are needed to ensure the sustainability of *all* the major pension schemes in HE, and for these schemes to continue to be both affordable and attractive for everyone in the sector. Increased longevity primarily accounts for the need to change – new entrants are expected to live even longer (up to 100) and this is expected to have a massive impact on a scheme originally designed when life expectancy was shorter.

To quote from the USS advisors document of March 2009;

"We would encourage the Joint Review Group to discuss changes for the long-term which will set the scheme on a secure footing for decades, rather than just for a three year valuation period, whilst at the same time reassuring members that the security of the pensions they have already built up is in no way under threat. It would be our hope that our successors in the sector will look back in 30 or 40 years time and recognise that this was an important step in securing the long-term strength and viability of the scheme."

Q: Is USS at risk?

A: No, USS is not at risk, provided it makes changes. As the CBI and the media have widely highlighted, all final salary pension schemes - including those in HE - have been under increasing pressure in recent years, because people are living longer and investment returns have fallen. We all need to take steps to ensure the sustainability of the major pension schemes operating in HE, so USS changes are being discussed with that aim in mind. The Confederation of British Industry (CBI) has recently called for major reform of 'unaffordable' public sector final salary pension schemes, and any colour of government will continue moves in these schemes to raise the retirement age, introduce cost sharing and cap or change benefits.

Q: What changes are being considered, and for when?

A: The employers' proposals for USS are both measured and moderate, including a 'Career Average Revalued Earnings' (CARE) scheme for new entrants, a normal pension age of 65 for payment of benefits (with protection nearing the retirement age), fair cost-sharing and flexible retirement options that would enable employees to step their way into retirement.

Q: Isn't this just about the current recession? Can't universities wait it out?

A: No - doing nothing is not an option as the present scheme will become even more unaffordable due to longevity and other pressures. Every 1% increase in employers' contribution costs USS institutions more than £55m each year. In October 2009 employers funded a largely unreported 2% increase (from 14% to 16%) in contributions – and a further increase for employers in 2011 already looms (increased longevity alone will account for a 3.6% increase in USS costs between 2008-2011). At present all USS members pay just 6.35% of their salary into the USS scheme.

Q: What is the difference between the CARE and final salary scheme?

A: CARE is a defined benefit scheme (not a defined contribution scheme), under which a pension is based on the average pay earned over the period of membership, with each year's pay revalued in line with RPI. This means that someone who gets a big pay rise late in their career will *not* have their entire pension based on this higher final salary. However, the benefit outcomes for some members can be as good under a 'CARE benefit' approach as a 'final salary' approach. The 'CARE' method is considered to be fair and equitable because it reduces substantially the risk to USS from members who receive higher than normal pay increases, particularly near retirement age, while still ensuring members can plan on receiving a secure (defined benefit) pension.

Q Are these changes an attempt by employers to cut the cost of pensions?

A: No, HE employers are already having to find the resources to pay the increasing cost of pensions, for example the 2% increase in USS contributions imposed on employers last October 2009. The employers' proposals have always been built around a desire to control the costs to institutions at no more than their current level and reduce the risk from the spiralling cost of pensions in order to ensure institutions are financially sustainable given that their staff costs are such a large proportion of expenditure. The final proposals are what the employers believe is the minimum needed to address this concern and will certainly not lead to employers cutting the cost of the contributions that they make on behalf of their staff to USS.

Q: Will unions try to prevent change?

A: We have been working **with** the UCU over the last two years to try to identify those changes that will protect the USS scheme for the future. It is regrettable that this process has not yet led to an agreement on the changes needed. High quality pension provision in HE is part of an excellent reward package and, with considered reforms, should remain one of the key benefits offered to staff. The unions understand this, just as they know that there is only one cake from which we have to pay for all HE operations. HEIs are operating in an exceptionally difficult and uncertain financial environment, and jobs, pay and pensions are increasingly inseparable when it comes to funding and income, as staff costs are such a large proportion of an HEI's expenditure

Q: How critical is this for universities – with all the other funding cuts announced, will schemes such as USS collapse?

A: No – this review aims to ensure that HE continues to have in the USS an affordable, attractive and sustainable defined benefit scheme that remains open to all eligible staff.

Please use these websites for additional information relating to the USS or pension issues in HE:

http://www.uss.co.uk/HowUssIsRun/Schemereview/Pages/default.aspx

http://www.employerspensionsforum.co.uk/en/index.cfm