USS Pension Scheme Update – October 2019

This communication aims to provide an update on the USS Pension Scheme and progress with resolving issues surrounding its future cost. The situation is complicated with the possibility of further industrial action towards the end of the year. UCU and UNISON are currently balloting their members for strike action and action short of strike with the ballot closing on 30th October 2019.

The University is committed to ensuring that all current and prospective USS members benefit from a pension scheme which retains defined benefits and is affordable for both staff and the University.

In addition to the USS ballot, the four trade unions UCU, UNISON, Unite, and EIS are currently balloting for industrial action on the 2019 pay offer. The ballot will run until 30th October (31st for Unite). National pay negotiations between the Universities and Colleges Employers Association (UCEA) and the trade unions ended in July 2019 however the final pay offer (uplifts ranging from 3.65% to 1.82% for spinal points 2 to 16, and a 1.8% uplift for points 17 and above) was not accepted by the trade unions. The University implemented the final pay offer and although it is not expecting to change, it is committed to any national agreement finally reached with the trade unions. Nevertheless, any further increase would prove extremely challenging to the institution and would compromise our investment strategy.

Background

It is crucial that the University and other universities can offer staff an attractive and secure retirement income. Over the last 20 years and on an ongoing basis, however, a variety of factors impact on the affordability of pension schemes: rising life expectancy; changing regulations; lower interest rates; lower returns and Government policies. Final salary schemes and, increasingly, defined benefit retirement schemes have ended or reduced significantly, particularly in the private sector as well as, increasingly, the public sector.

Such factors have already led to changes in the benefits and costs, for employers and staff, of the USS Scheme, for example the closure of the final salary scheme in 2016 and the creation of the career average salary/revalued benefits scheme.

The USS Trustee, JNC and the Pension Regulator

The USS Trustee, responsible for the management and administration of the USS Scheme, working together with Universities UK (UUK) on behalf of employers and UCU on behalf of staff, must manage a range of complex and conflicting factors – including, the appropriate type and level of benefits (considered by the Joint Negotiating Committee which consists of equal membership of UUK and UCU), affordability for employers and staff, fairness including the balance between members and pensioners and differences in views between different actuarial firms representing the USS Trustee, UUK and UCU.

The USS Trustee is also legally required to address deficits identified by actuarial valuations of the Scheme which are undertaken every 3 years and to do that on a prudent basis. During a valuation, the USS trustee assesses the scheme's assets and liabilities to ensure it has sufficient funds to pay promised benefits, and also that contributions into the Scheme cover the cost of benefits that might be promised in future.

The USS Trustee is subject to oversight by the Pensions Regulator. The Regulator has statutory responsibility, and the necessary powers, to protect workplace pensions. It has expressed concern that the degree of prudence shown by USS in settling the 2017 valuation was at the limit of what it thought was required to be compliant with the 2004 Pensions Act. In other words, the Trustee was taking as much risk as the Regulator could tolerate - even at the very high levels of contribution that it now requires from employers and staff. This advice from the Regulation, therefore, limits the room for manoeuvre by the Trustee.

Industrial action during 2018 and the creation of the Joint Expert Panel

The USS Trustee proposed changes to the Scheme in 2018, including consideration of introducing a defined contribution rather than defined benefit scheme – a proposal that led to industrial action by UCU. Following what was a significant period of industrial action, this was suspended with an agreement between UUK and UCU to establish a Joint Expert Panel (JEP) to undertake a retrospective review of the 2017 valuation with a view to seeking a fair and pragmatic solution.

The JEP could not affect statutory increases in contributions. However, a report published in September 2018 did conclude that, with adjustments to the valuation assumptions, a defined benefit element could be retained, as UCU had requested. However, to achieve this there would need to be an increase in contributions from 26% to 29.2% of salary costs (see the table at the end of the communication) with the increase in contributions shared between employees and employers (35:65). The Panel is undertaking a second phase of work looking at the valuation methodology and governance. Their second report is due later this year. At the time, the first JEP Report was welcomed by both UCU and UUK.

- **USS Cost Sharing Consultation**

Simultaneously, during September 2018, a cost sharing consultation for the Scheme commenced as the USS Trustee was required by law to complete the 2017 valuation and, in the absence of agreement, the cost sharing rule took effect in line with Scheme rules and the Trustee's statutory obligations.

This consultation took place with the USS Trustee remaining committed to engaging in the JEP process.

Following this consultation, the USS Trustee announced changes in contributions, failing any other agreement which they started to be implemented (for April 2019) and are highlighted in the table at the end of this communication. The increased costs to staff and the University are potentially significant.

The USS have announced alterations to the contribution rates following completion of the 2018 Valuation – further information below.

- **2018 Valuation**

Shortly after the JEP report was published in September 2018, the USS Trustee announced a new valuation based on March 2018, as it had been suggested that the deficit indicated by the 2017 valuation might have fallen, therefore a new valuation would allow the Trustee to take into account the JEP's recommendations.

Following this, the USS Trustee has stated that it has incorporated, or partly incorporated, the JEP's recommendations (four out of seven). Two have not been fully incorporated because the Trustee believes that their implications exceed the degree of prudence required of them by the Pensions Regulator i.e. they introduce a higher level of risk than they consider is acceptable to the long-term financial health of the Scheme. The incorporation of some of the JEP recommendations, combined with changes in market data, life expectancy, and forecasted investment returns since the last valuation, as well as actual investment experience in the year after March 2017, meant that the 2018 valuation produced a more positive picture of the scheme's funding position than the 2017 valuation, although it remains in deficit in the long-term.

Consequently, in May 2019, USS was able to put forward three options for finalising the 2018 valuation and employers were asked to comment on these earlier in the year. Crucially, the new contribution levels are below those that were already in place i.e. the increases planned for October and April (see the table below). Employers, including University of Aberdeen, although unhappy that the contribution levels are not at the level recommended by JEP, favoured the option closest to it; this is referred to as "Option 3". Whilst the favoured option at a total contribution rate of 30.7% is slightly higher than JEP's recommendation of 29.2%, it is significantly lower than the contribution rate initially planned for April 2020 of 35.6%.

The current dispute

Nationally, UCU is disappointed about the situation and stated that if the JEP recommendations had been applied to the 2018 valuation the contribution rate would have fallen below the existing rate. UCU has now called for "No Detriment" i.e. no change in benefits or contributions from employees with any increases to be borne entirely by employers. This overturns an agreement in 2011 to share contribution increases on a 35:65 basis between staff and employer

At the beginning of June 2019, UCU wrote to universities demanding they do not implement the planned increases in employee contributions in October 2019 and April 2020 and that failure to comply with their demands would result in another trade dispute.

The University could not meet these demands as:

1. The 2017 valuation has been filed with the Regulator, therefore, refusing to pay the additional contributions would be unlawful and would provoke legal action;
2. The power to decide the contribution rate rests with the USS Trustee not the University of Aberdeen, therefore, there would be no legal basis upon which the University could make such a commitment;
3. If the University were to reject all the options proposed by the USS Trustee for concluding the 2018 valuation then the October and April increases would be virtually guaranteed due to time pressures.

As indicated, UCU and UNISON are currently balloting their members for strike action and action short of strike action. The ballot is running from 9th September 2019 to 30th October 2019.

The University, along with other universities, had thought that the work that UUK and UCU representatives had done together on the JEP had paved the way towards a fair and pragmatic solution. As the defined benefits remain protected in the latest proposals from USS, the current dispute seems to be being driven by differing views on the level of risk that the USS Trustee should accept in determining the future affordability of the Scheme and who pays for any additional contributions required to protect the Scheme's benefits.

The University is of the view that it is vital that parties work together to avert the major increases in pension costs, to both staff and employers, which are already planned for this October.

The University is aware of how committed staff are to our students and of all the efforts that staff are making to tackle vital issues such as finalising preparations for the REF. Further industrial action risks distracting from these critically important activities to continue to improve the performance of the University and ultimately, damaging the experience of our students.

It is acknowledged that staff are deeply committed to their profession and supporting the delivery of an outstanding student experience at the University of Aberdeen. The further changes to USS impact on pension benefits but equally it is crucial to take steps to ensure the Scheme remains affordable for both staff and employers.

In summary

1. The defined benefits continue to be protected by the USS Trustee's latest proposals.

2. The difference in employee contributions between the JEP outcome - which was supported by UCU - and the latest proposal (Option 3) from the Trustee is 0.5%. The increase for the University is 1%.

3. The latest proposals are significantly lower than those planned and which will be implemented by USS if an agreement is not reached.

4. The 35:65 split of any additional contributions formed the basis of the JEP outcome and has been the basis of decisions since 2011. It is reasonable that the beneficiaries of the Scheme should make some contribution to protect their benefits and those of future generations.

Table summarising contribution rates

Date	Employee	Employer	Total	Comments
2014 Valuation	8%	18%	26%	Effective until 1 April 2019
2017 Valuation				
JEP report	*9.1%*	*20.1%*	*29.2%*	*JEP view of the 2017 Valuation*
1 April 2019	8.8%	19.5%	28.3%	Current cost of the 2017 Valuation
1 October 2019	10.4%	22.5%	32.9%	Original planned increase based on cost sharing/no other agreement
1 April 2020	11.4%	24.4%	35.6%	Planned increase based on cost sharing/no other agreement
2018 Valuation				
1 October 2019	9.6%	21.1%	30.7%	New increase, following completion of the 2018 Valuation and which forms part of the latest proposals from USS Trustee ('option 3')
Notes: 1. If implemented, the 2018 Valuation contribution rates will supersede the 2017 Valuation levels. 2. As part of the package for "Option 3", the USS Trustee is proposing that if there is no resolution after the 2020 Valuation then contributions will increase to 11% and 23.7% for employees and employers respectively.				

Links to other material:

https://www.abdn.ac.uk/staffnet/working-here/pensions-208.php

https://www.hepi.ac.uk/2019/02/07/the-uss-how-did-it-come-to-this/

http://www.ussjep.org.uk/report-of-the-joint-expert-panel/

https://www.uss.co.uk/how-uss-is-run/2018-valuation

https://www.ucu.org.uk/strikeforuss

https://www.ussemployers.org.uk/

https://pensionsage.com/pa/Why-universities-cannot-support-no-detriment.php