AGENDA

1. OVERVIEW OF USS BENEFITS
2. CURRENT SITUATION – THE 2017 VALUATION
3. CONSULTATION ON CONTRIBUTIONS
4. WHAT HAPPENS NEXT?
SECTION 1
OVERVIEW OF USS BENEFITS
YOUR BENEFITS AS A USS MEMBER

- Regular Income
- Cash on Retirement
- Flexibility of benefits
- Top up savings
- Ill-health benefits
- Death benefits
CURRENT CONTRIBUTIONS

8% for members

18% for employers

= 26%
HOW USS WORKS

**DEFINED BENEFIT**

The USS Retirement Income Builder
Providing you with security

**DEFINED CONTRIBUTION**

The USS Investment Builder
Providing you with flexibility
**BENEFITS IN USS**

**USS Retirement Income Builder (DB)**
1/75th of annual salary up to a prescribed threshold, with the option to make voluntary contributions to the USS Investment Builder and choose ‘the match’

**USS Investment Builder (DC)**
Automatic for salaries of £57,216.50* and over with the option to make voluntary contributions and choose the match

*2018/19: The threshold increases annually, broadly in line with the Consumer Price Index measure of inflation
USS INVESTMENT BUILDER – ABOVE THRESHOLD

You contribute 8% of your salary above the salary threshold

Your employer contributes 12% of your salary above the salary threshold

INTO THE USS INVESTMENT BUILDER

This is in addition to your benefits in the USS Retirement Income Builder
If you contribute an additional

1%

or more of your salary

Your employer also contributes an additional

1%

of your salary

INTO THE USS INVESTMENT BUILDER

You can choose to pay more, but your employer will only match the first 1%
SECTION 2
THE 2017 VALUATION
Are there enough assets to pay for all the benefits built up to now?

How much will it cost for benefits earned in the future?

REASSESSED EVERY 3 YEARS
THE PARTIES INVOLVED

USS TRUSTEES

ENSURE THE PROMISED BENEFITS BUILT UP ARE PAID TO ALL BENEFICIARIES OF USS

UNIVERSITIES UK (UUK)

SUPPORTS EMPLOYERS

UNIVERSITY AND COLLEGE UNION (UCU)

SUPPORTS THE STAFF OF UNIVERSITIES

THE PENSIONS REGULATOR

REQUIRES THE SCHEME CHECKS IT IS PROPERLY FUNDED FOR THE PROTECTION OF MEMBERS

JOINT NEGOTIATING COMMITTEE (JNC)

APPROVES AMENDMENTS TO THE RULES (MADE UP OF 5 UUK AND 5 UCU MEMBERS WITH AN INDEPENDENT CHAIR)
Assumptions about the future to assess the funding position should be,

“chosen prudently, taking into account the degree to which the employer covenant can support a range of likely adverse outcomes.”

The Pension Regulator’s Code of Practice No. 3 Funding Defined Benefit Schemes
THE 2017 USS VALUATION
INTEGRATED RISK MANAGEMENT

INVESTMENTS

FUNDING TESTS

FUNDING

COVENANT
THE 2017 USS VALUATION

Majority of feedback suggested the valuation was set at close to maximum risk appetite

**Employers**
UUK’s response indicated that trustee should take a more moderate approach to risk

**Scheme Actuary**
Discount rate is at the upper end of the acceptable range for a strong covenant

**The Pensions Regulator**
Discount rate is at the upper end of what is acceptable, *if* the covenant is “strong”

**Covenant advisor**
The covenant *is* strong, but trustee should consider reducing risk
THE 2017 USS VALUATION
HOT TOPICS

• “The Scheme Actuary is being too cautious”
  • Assumptions are “optimistic” relative to typical UK pension schemes
  • Regulatory expectations

• “Interest rates will rise”
  • Basis takes account of market expectation for future rises
  • Related issues: rising inflation?

• “This is down to poor investment returns”
  • USS reports return of +12% per annum over 5 years to March 2017
  • Expectations of difficult investment conditions over short-term
THE 2017 USS VALUATION

Member contributions up to around **12%** if no changes

**8%** for members

**18%** for employers

CURRENT CONTRIBUTIONS

Employer contributions up to around **25%** if no changes
JOINT NEGOTIATING COMMITTEE (JNC)

Approves amendments to the rules (made up of 5 UUK and 5 UCU members with an independent chair)

JNC DECISION ON 23 JANUARY - REVOKED

Threshold

USS Investment Builder (DC)

Salary £000s

0 20 40 60 80 100 120
A NEW PARTY IS INVOLVED...

JOINT EXPERT PANEL

JEP

To examine the 2017 valuation

Assess the 2017 valuation

Review the valuation components

Agree future joint approach to valuations

Initially report back to UUK and UCU in September 2018
THE 2017 USS VALUATION

USS TRUSTEES

Ensures the promised benefits in USS are paid as they fall due

THE PENSIONS REGULATOR

Requires the scheme checks it is properly funded for the protection of members

BUT... the valuation should have been signed off on 30 June 2018

A new Schedule of Contributions needs to be put in place
SIGNING OFF THE 2017 USS VALUATION
REMINDER OF CURRENT CONTRIBUTIONS

8% for members

18% for employers

= 26%
RESULTS OF 2017 USS VALUATION
CONTRIBUTIONS IF NO BENEFIT CHANGES

11.4% higher than current combined contribution
RESULTS OF 2017 USS VALUATION
“COST SHARING RULE”

USS are proposing using the cost sharing process in the rules to complete the 2017 valuation

Increase in contributions to be shared 35:65 between members and employers
SECTION 3
CONSULTATION ON CONTRIBUTIONS
The employer match to be removed from 1 April 2019
PROPOSAL – INCREASE IN CONTRIBUTIONS
COST SHARING APPROACH

11.7% for members

24.9% for employers

= 36.6%

Phased contribution rises from 1 April 2019
PROP OSAL – INCREASE IN CONTRIBUTIONS

8.8% for members

From 1 April 2019
PROPOSAL – INCREASED CONTRIBUTIONS

KEY
- Members’ contributions
- Employers’ contributions

1 APRIL 2019
- 19.5%
  - 8.8% Members’ contributions
  - 10.4% Employers’ contributions

1 OCTOBER 2019
- 22.5%
  - 10.4% Members’ contributions
  - 12.1% Employers’ contributions

1 APRIL 2020
- 24.9%
  - 11.7% Members’ contributions
  - 13.2% Employers’ contributions
### PROPOSAL – INCREASED CONTRIBUTIONS

**WHAT DOES IT MEAN FOR ME?**

<table>
<thead>
<tr>
<th>% of salary</th>
<th>Monthly deduction</th>
<th>Monthly change</th>
</tr>
</thead>
<tbody>
<tr>
<td>8%</td>
<td>£240</td>
<td>Current position</td>
</tr>
<tr>
<td>8.8%</td>
<td>£264</td>
<td>£24</td>
</tr>
<tr>
<td>10.4%</td>
<td>£312</td>
<td>£72</td>
</tr>
<tr>
<td>11.7%</td>
<td>£351</td>
<td>£111</td>
</tr>
</tbody>
</table>

*Example: £36,000 salary = £3,000 per month (pre-tax)*

*Please note: This is a pre-tax example; the exact deduction would most likely be marginally lower depending on tax and salary sacrifice arrangements. The above information is indicative only and should not be relied upon by you.*
The salary threshold for 2018/19 is £57,216.50
PROPOSAL – EMPLOYER CONTRIBUTIONS

Currently, the employers’ contribution of 18% funds:

18% total

- 13.3% Benefits in the USS Retirement Income Builder
- 2.1% Deficit recovery
- 0.4% Contributions to the USS Investment Builder
- 2.1% Running costs
- 0.1% Investment manager subsidies

From 1 April 2020, the employers’ contribution would fund:

24.9% total

- 17.2% Benefits in the USS Retirement Income Builder
- 6.0% Deficit recovery
- 0.4% Contributions to the USS Investment Builder
- 1.2% Running costs
- 0.1% Investment manager subsidies
• The employer match will be removed from 1 April 2019

• Phased contribution rises from 1 April 2019

• No change to the amounts going into the USS Investment Builder above the salary threshold
RESPONDING TO THE CONSULTATION

Members, eligible employees and member representatives will be able to login to:

www.ussconsultation2018.co.uk

From 9am on 3 September.
RESPONDING TO THE CONSULTATION

Share your thoughts on:

• The match
• Cost-sharing
• Phased contribution increases
• Contributions to USS Investment Builder above salary threshold
• Alternative / additional proposals to address challenges from 2017 valuation

www.ussconsultation2018.co.uk
SECTION 4
WHAT HAPPENS NEXT?
KEY DATES FOR CONSULTATION

3 SEPTEMBER 2018
Consultation start date

2 NOVEMBER 2018
Consultation end date (responses must be received by 5:00pm)

NOVEMBER 2018
Responses considered and the final changes decided on

FROM DECEMBER 2018
Final position communicated

1 APRIL 2019
Intended date for first phased contribution increase
TIMELINE

STATUTORY REQUIREMENT TO FINALISE THE VALUATION

- 31 March 2017 valuation date
- Sep/Oct 2018 Member consultation on contributions
- 1 April 2019, 1 October 2019 and 1 April 2020 Phased implementation of increased contributions

LONGER TERM SOLUTION TO RUN IN PARALLEL

- Sep 2018 JEP report
- 2018/19 JNC decision
- 2019 Member consultation on benefit changes?