

## **USS Valuation – Update for Scheme Members (11 January)**

### **What is the proposal from UCU for benefit reform?**

On 19 December the University and College Union (UCU) tabled a benefit reform proposal at the JNC. UCU propose that from 1 April 2019:

- Members pay more than 35% more towards USS than they do currently (from 8% of salaries to 10.9%)
- Employer contributions rise from 18% of salaries to 23.5% of salaries
- The accrual rate will be reduced to 1/80ths from the current 1/75ths
- The salary threshold will remain unchanged at £55,550 (index linked)
- The 1% match will cease to apply
- DC contributions above the salary threshold and the employer subsidy of investment charges would remain unchanged.

UUK could not support UCU's current formal proposal as it requires scheme members to pay much more for a reduced pension benefit. It also does little to reduce the high levels of risk in the scheme. The likelihood of further benefit change in the near future would also be high under the UCU proposal. It would also mean increases in employer contributions to unaffordable levels at a total cost of around £500m every year. This would necessitate large cuts to budgets in other areas such as teaching and research, and could put many jobs at risk.

### **What is the proposal from UUK for benefit reform?**

Full details of the proposal put forward by UUK in November 2017 can be found on the UUK website <http://www.universitiesuk.ac.uk/policy-and-analysis/Pages/pensions.aspx>.

The objective of UUK's proposal is to ensure that USS remains sustainable in the long-term. This is critical to secure accrued benefits and so that employers can offer valuable pension benefits now, but also in the future. The proposed new arrangements will still be very good pension provision. UUK proposes from 1 April 2019 moving to Defined Contribution (DC) benefits for the time being, but leaving open the possibility of a return to Defined Benefits (DB) if funding conditions improve.

UUK's proposal involves employers making a high contribution to DC savings, but also with a specific employer-funded subsidy of investment management charges and with full DB style cover for members who suffer death in service or incapacity. Employers also propose allowing members to pay lower contributions than the current 8%. This means more employees can afford to save for their pension, and provides more options for members to choose how much they save.

### **Why is UUK not proposing maintaining some DB for future service at this valuation?**

UUK has asked USS to model what level of DB benefits could be afforded for the current contribution rate at this valuation. Even if some DB was maintained at this valuation, the level of DB that could be afforded would be very low.

DC does not offer the same guaranteed outcome that DB does but DC does have advantages to members, such as the greater flexibility and choice it offers. Maintaining even a small level of DB would restrict the ability to realise the benefits of



DC, whilst accruing only a very small amount of guaranteed pension. It would also require higher contributions towards the scheme's deficit rather than maximising the contributions paid to benefit members future service. For this reason, employers believe that within the current solution space, a DC only offer at this valuation is the best offer for members, maximising the contributions towards future service and giving additional flexibility.

**When will a decision on any future benefit reform be made?**

A decision was initially expected to be made in December 2017, however both Universities UK (formal employer representative) and UCU (formal member representative) have agreed to continue negotiations. A decision is now expected to be reached on 23 January 2018 at the Joint Negotiating Committee (JNC).

**What happens next?**

Discussions continue between UUK and UCU to try to find an agreeable solution to address the serious funding challenges facing USS. UUK remains committed to working with UCU and USS to ensure that the best solution for both scheme members and employers is found.

Any proposed changes put forward by the USS JNC are subject to full consultation with members and affected employees, this is now expected to start later in March 2018.