USS FAQs

Why are changes to USS being proposed?	
Answer	Every 3 years USS has by law to undertake a scheme valuation, which re-assesses the future liabilities of the scheme compared to current levels of funding. Despite changes to the scheme at the last valuation point in 2014, the current valuation shows an increased deficit, currently estimated at around £6.0bn. The costs of maintaining the current level of defined benefits going forward have increased significantly and would require contribution levels from employers and employees which employers view as unaffordable and unsustainable. Hence, a new benefits structure for the future is proposed, reducing both the costs and risks to more sustainable levels.

What is the difference between Defined Benefit (DB) and DC (Defined Contribution) schemes?	
Answer	DB provides a defined level of retirement income for each year an employee has been a member of the scheme, so contributions from staff and employers will vary over time in order to fund it. The bulk of the financial risk is met by the employers. DC provides retirement income based on the value of a member's individually allocated fund at retirement, so contributions from staff and employers are fixed but the outcomes will vary. The financial risk depends on the level of investment performance, and impacts the amount of pension the member will receive.

Does DC mean a less good pension?	
Answer	Not necessarily. The two approaches are quite different, and moving over to DC pension saving in the future does mean less certain outcomes, with the level of benefits being more dependent on economic conditions. However, in certain circumstances, for example if investment returns are good, the outcomes can be better, and DC arrangements provide extra flexibilities which are likely to become increasingly desirable (for example the option to take more cash if that is preferred, and/or drawdown on pension savings over a period of time without necessarily purchasing a lifetime pension or annuity).However, the linkage of DC pensions directly to the stock market and other asset values does mean that if investment returns are lower there is a risk of a lower outcome on retirement than on DB. There will continue to be a combined contribution into the scheme of 26% (employers 18%, members 8%) and, unusually for DC schemes, the proposals involve continuing the death and incapacity benefits available on a DB basis. An employer based contribution of 18% is significantly higher than made to most other pension schemes. Modelling by UUK suggests that "including standard state pension entitlements, current members should continue to receive incomes equivalent to 80-90 per cent of those that would, hypothetically, have been received under current benefits". USS will shortly issue a modeller to allow individual members of staff to assess the effect of the proposed changes on their own positions, which will form part of the formal consultation on the proposed changes.

What are the issues being dealt with in the current review?	
Answer	The need for change arises because USS has to ensure that existing commitments for service already built up by members, which are entitlements that cannot be taken away or changed, can securely be funded. Also USS must be confident that the contributions it receives from all members are sufficient to pay the future defined benefit pensions that are earned. There are two broad, but highly complex, sets of calculations required. The first is to estimate what the future costs will be, which reviews life expectancy, even though the rate of improvement may be slower than experienced in recent years, amongst other factors. The second is to estimate what future investment returns will be required to be able to have the funds to securely be able to pay defined benefits; this balances different views of the future economy and future returns from investments.

Given the different approaches to scheme funding that exist, and the suggestion that using 'best estimate' assumptions could actually produce a funding surplus, is the scheme actually in deficit?	
Answer	There is no single definitive way for USS to value a scheme's liabilities, although there are pensions laws, and indeed the specific rules of USS, which govern the approaches that can be adopted. Importantly USS is the body that is responsible in law, and under its own rules, for setting the assumptions used in valuing the liabilities – and therefore in determining the extent of any surplus or deficit. If the valuation could be carried out on what is known as a 'best estimate' basis, the scheme would indeed have a surplus and be affordable within the current combined employer and employee contribution rate. But that would not be lawful. USS has a legal duty to take a "prudent" approach – that is set down in the Pensions Act 2004 – taking into consideration the possible risk exposure to employers if an adverse scenario occurs. This assessment of risk involves, amongst other things, reviewing the financial strength of the HE sector – as a strong and robust sector is less likely to present financial challenges to USS in future – and the amount (and extent of) of guarantees that the sector can make to underpin the scheme. USS considered a range of views including UUK's response, informed by views of 116 employers, independent actuarial advice and the views of the Pensions Regulator in determining the appropriate level of risk for the scheme, and the assumptions adopted to undertake the valuation. Even if it were lawful, an approach which utilised best estimate assumptions would not provide sufficient assurance that the benefits that have been built up are secure and would not provide an appropriate level of confidence in the protection of members' interests. The University supports UUK's view that such an approach would not be acceptable to USS and schemes actuarial advisor, employers or the Pensions Regulator, and most importantly, would not be in the best interests of current and future scheme members.

What were the proposals from UCU, and what did JNC agree on 23 January 2018?	
Answer	UCU made a proposal to an additional meeting of the Joint Negotiating Committee (the body which recommends scheme changes to USS). The proposal was to maintain the current DB pension scheme components but with some changes to the formula that determines the pension to be paid, requiring

	higher contributions to pay for it. Employers would have had to increase their contribution from 18% to 23.5% and individual staff from 8% to 10.9%. For The Open University this would have resulted in an increase in employer contributions of just under £11,000,000 per annum (approximately 2.5% of the University's income) as well as individual staff paying considerably more. This level of increase was not considered acceptable because of the financial cost to all Universities, and because of the increase in the risk of individual member withdrawal from the scheme because of the cost of their individual staff member contribution. It would also fail to address the increasing levels of risk to which scheme employers are exposed in USS. The Joint Negotiating Committee (JNC), which comprises equal membership from UUK and UCU with an independent chair, finally decided at the meeting on 23 January to keep the DB section architecture alongside the DC section but to effectively make the DB dormant. This allows DB to be reviewed again in light of economic conditions at the next scheme valuation. Under the proposal all future benefits would be built up as DC, with no change to the current level of employer contribution but with the introduction of an additional employee lower cost saving option involving a member contribution rate of 4% (without any reduction in the level of employer contribution), as well as the retention of the current 8% standard member contribution. In addition, death and incapacity benefits from the DB section would continue to be provided as part of the overall arrangements. The proposals as defined by Universities UK can be found in detail here (on Page 4). Universities have committed, as part of the current proposals, to continue to guarantee the level of their contribution of 18% of salaries through to 2023 (an extension of the former agreement).

What role does the Pensions Regulator play?	
Answer	The Pensions Regulator requires the trustees of defined benefit pension schemes to undertake three-yearly actuarial valuations. The main purpose of these is to ensure that the contributions paid into DB schemes are sufficient to provide a high level of security for members' benefits. The triennial valuation is subject to detailed regulations and the Pensions Regulator – which is an independent body established by government through the Pensions Act 2004 – can intervene if the approach taken is deemed by the regulator not to be sufficiently prudent and does not therefore sufficiently protect members' benefits.

What happens next?	
Answer	There is a formal consultation by employers with representative bodies and all affected staff which is scheduled to commence on 19 March 2018, running for more than 60 days to gather feedback on the proposed changes. The University will hold information sessions for staff during this time. At the end of the consultation, USS will consider the responses and may propose changes to the proposals which would be considered and decided on by the JNC. The process must conclude by 30 June 2018, for submission of the actuarial valuation report to the Pensions Regulator. The changes would be introduced no earlier than 1 April 2019. All scheme members are encouraged to participate in the consultation, and take advantage of the information sessions that will be provided by the University with the support of USS.

What is The Open University's view?	
Answer	USS has calculated that unless there is a change to the way pension benefits build up in future, then the cost of continuing to provide the current level of benefits will increase from 26% of salaries to 37.4%. At present The Open University pays 18% of staff salaries as its contribution to pension benefits. The remaining 8% is paid by the staff members themselves. For this University, each 1% of employer pension contribution costs just under £2,000,000 per annum. If the cost of those benefits were to increase to 37.4%, the University would be required to contribute 25.5% of this, which would be an additional cost to the University of over £15,000,000 per annum. Staff would also be required to pay extra to raise their contribution from 8% to 11.9%. This University, like many others, cannot justify such an additional cost of contributing to the pension scheme. Doing so would mean that the University's ability to invest in the student experience, and maintain staffing levels and our infrastructure, would be significantly challenged. It must have regard to how its students and stakeholders would perceive value from their tuition fees and other income given to the University. It would also fail to control the substantial risk to which the University and other employers in USS are exposed. In considering all the issues around the financial position and sustainability of USS, the University is aware of its responsibilities to existing staff, retired members of staff, and future employees, and is committed to providing the best possible pension scheme that it can afford. We are pleased that discussions between UUK and UCU (University and College Union) continue and the University supports the statement from UUK which confirms that employers would want to consider any credible, affordable solutions that could be brought forward. We are also in support of the proposal from UUK to engage in further talks with UCU on the longer-term future of the scheme, including the framework for a possible return to defined benefit-type provision and the exploration of new types of pension provision involving different ways of sharing risk.

What is the University doing to resolve the dispute with UCU?	
Answer	This is a sector-wide pension scheme, which requires a sector-wide solution. No individual University can determine what is decided. As one of the c350 participating employers in USS, we have been involved in the various consultation exercises throughout the USS Valuation process. We recognise that the final decisions on the valuation process are for USS to determine. USS has a statutory obligation to apply prudence to ensure the pensions promised to scheme members can be paid in the future and to meet a deadline for completion of the valuation process and delivering an outcome that is acceptable to the Pensions Regulator. We continue to encourage both sides - UUK and UCU - to maintain their dialogue regarding the proposed changes, and to discuss the longer-term future of USS and a scheme which meets the needs of employers and members.