Universities UK

Dr J Grady
General Secretary
UCU
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By email

30 November 2021

Dear Jo,

USS consultation modeller and misleading headlines of 35% pension cuts from UCU

Thank you for your most recent letter dated 29 November 2021, and I note that to date I have not received any response to my previous letter to you where I once again asked whether UCU has a viable and costed alternative proposal for reform that you would like considered by employers.

We both know that, without changes to the scheme, the USS Trustee has confirmed in legal form there would be further rises in contributions from April 2022, which would increase the member contribution rate substantially each 6 months up to 18.8% of salary from October 2025. This would lead inevitably to opting-out with employees missing out on valuable workplace pensions. Similarly, the employer rate would have to increase significantly too (to 38.2% from October 2025), all of which is likely to lead to a series of escalating and material cuts in other areas of university budgets, impacting jobs, research and the student experience.

In your latest letter you talk about the scale of the cuts to benefits and claim that the figures UUK have used are incorrect or deliberately misleading, <u>we strongly refute this</u>.

We are extremely concerned that further rises in contributions will lead to even more members opting-out of the scheme as it is becoming unaffordable (around one in six members choose not to participate). Using just one example, if we are to look solely at future benefits, as you have chosen to do (and indeed in UCU's case choosing to refer only to the defined benefit element in denial of valuable and attractive defined contribution pension saving) to give a headline rate around which to build your industrial action campaign, then the fall-back scenario would result in many members opting-out and incurring a 100% loss. This would also be the case if universities had to consider the impact on jobs as a way of finding the funds for further increases to the employer contribution rate.

I encourage you to consider the future sustainability of the scheme and urgently work with us to secure the best outcome we can for scheme members at affordable contribution rates. We want to work with UCU to design low-cost options for members, to help and encourage those who are not saving for their pension. We also want to explore alternative scheme designs to see if there is a different and possibly better way of providing retirement outcomes.

UUK and employers have spent this last year in difficult discussions with the USS Trustee to get the very best value for the package of covenant support measures employers have offered as a solution to this valuation. This has allowed us to persuade the USS Trustee that the scheme has a strong and enduring covenant, easing its valuation assumptions to protect accrued rights even more comprehensively, and keep some future defined benefits promises.

It is regrettable that we are having to propose changes to benefits – but we are doing so to secure a sustainable scheme; the alternative is worse. We might recall that at the outset of this year it was unclear whether we could retain a scheme with an attractive level of defined benefit promises at close to current contribution rates. Indeed, the USS Trustee had indicated that an accrual rate of 1/100 and Defined Contributions (DC) of 16% of pay above a £40,000 salary threshold with a CPI cap of 2.5% would be available for the collective 30.7% of contributions. The JNC's proposal provides an accrual rate of 1/85 (close to the 1/80 accrual which the scheme has seen for most of its existence), whilst retaining DC contributions of 20% above the threshold. This has only been possible through significant covenant support put forward by employers (worth £1.3 billion per annum, or 13% in contribution terms to the USS Trustee), whilst seeing the employer contribution rate at its highest ever rate - at 21.4%, up from 18% when UCU started this dispute.

Most private sector schemes, as you know, have closed their guaranteed defined benefit pension schemes. Indeed, 1 in 3 people now paying into an open defined benefit scheme in the private sector is a member of USS. This dispute started by UCU wanting to save the defined benefit element of the scheme. Employers have listened, and we have worked hard to be able to continue to provide guaranteed benefits for the future – but we know the status quo is too expensive. We hope you will realise that the changes that you announced individually – but which did not (and still do not) form part of any confirmed UCU position for reasons you understand better that we – proposed substantial reductions to the guaranteed defined benefits provided, and it is only with clearly unaffordable increases in employer contributions that your own illustrated changes would balance the books.

Turning to your most recent letter, I find it quite astonishing that you suggest that the UUK messaging has been misleading, when UCU has been quoting misleading headline figures of 35% cuts to benefits for many months now.

I have appended to this letter an email that we felt we had to provide to universities to explain the nature and impact of the proposal in response to your damaging and misleading headline of 35% cuts. This will clearly explain why the figures UCU has been using to drive industrial action are misleading, and why, as we have said all along, members should consider their own circumstances when using the official USS modeller – which has assumptions that have been agreed by UUK, following consultation with UCU – whilst also considering the increased contribution costs that would be necessary to keep current benefits. The USS Trustee has confirmed that the very best (lowest) price to keep current benefits would be around 42% of pay.

What we have said is, as a guide, there is no universal level of proposed reductions to benefits, but you can make the broad assumption that there will be smaller reductions in benefits overall for the individual who is closest to retirement, and around 25% for members who are further away (we think that 25% is your own narrative when rightly looking at benefits overall, and not just the guaranteed element – and looking at future benefits only). We also stated in headline terms that, based on the 'middle of the road' personas developed for typical scheme members by USS, reductions in retirement benefits would be in the range of 10-18% at retirement. But we have emphasised, just as we did when you released your misleading headlines, that we encourage members to consider their own circumstances, use the modeller, and provide feedback on the proposals through the consultation process.

As I have previously said, if you have a viable and costed alternative proposal for reform that you would like to be considered by employers, we would be happy to consult all 340 USS employers on this, even at this late stage in the valuation process. I look forward to hearing from you.

Yours sincerely,

Alistair Jarvis
Chief Executive

Annexe – Email to Vice-Chancellors dated 12 November 2021 - USS consultation modeller and misleading headlines of 35% pension cuts from UCU

12 November 2021

To Vice-Chancellors, Principals and Chief Executive contacts

Dear Colleague,

USS consultation modeller and misleading headlines of 35% pension cuts from UCU

In recent days USS has launched a modeller on the USS consultation website, and we are aware that UCU is raising questions locally in relation to the scale of cuts members are seeing when using the modeller. We also remain concerned about the misleading 35% cuts figure UCU continues to promote. UCU have also claimed the figures that UUK have used are incorrect or deliberately misleading, we strongly refute this.

We would suggest that individual employers ensure the UCU's misleading claims are not left unchallenged. The information set out below should help to give an accurate, fair explanation of the benefit changes. We will also publish this information on the USS employers web site.

The 35% cuts figure that UCU continues to promote is misleading because it refers only to the changes to future defined benefits (DB). It fails to acknowledge the future DC benefits which members will receive. It also fails to acknowledge that there will be no change to previously accrued benefits. Therefore the 35% figure is focused on just one of three parts of members pension benefits. It also fails to acknowledge the very significant additional contributions that would be necessary to prevent a cut to future defined benefits, and that an employer contribution of 21.4% of salary will continue to be paid. A fuller explanation is included below.

We would ask employers to encourage all members and eligible employees to use the modeller to see the potential impact of the changes upon them individually, based on their own data and circumstances.

More detailed explanation

In response to significantly higher costs to maintain current benefits, employers are proposing to slow down the rate at which the defined benefits (DB) within the scheme build-up (what is sometimes referred to as the 'guaranteed element' of the benefits). It is therefore expected that the guaranteed element that members will build up in the future will be lower under the proposed changes, than would otherwise be the case. For example, a member earning £60k would currently have all their benefits built up on a guaranteed DB basis, but under the proposal this member would build up DB benefits on salary up to £40k, with a 20% contribution to their own DC pension saving on salary above the £40k threshold.

The modeller allows members to adjust the assumptions to reflect different levels of inflation, salary increases and investment returns, as well as adjustments to the retirement age. This allows members to consider the changes through a variety of circumstances as they think suitable (or they can choose default assumptions). Importantly, the modeller takes into account the pension benefits members have already built up in the scheme to date (which we emphasise are unaffected by the proposed changes, but which are shown as part of the overall illustration).

UUK has worked with the USS Trustee to provide members and employers with an indication of the impact the JNC's proposals will have on total USS benefits at retirement. This includes benefits already build up in the scheme as well as future benefits, and includes all parts of the scheme (both the defined benefit and defined contribution elements) – and for the DC element members have the choice to see what their benefits might be at retirement through the options of income drawdown, cash, or if an annuity was purchased. Members also have the option to see their pension income both with and without the state pension – as we believe this is helpful information for retirement planning purposes - for example, if members wished to make additional pension saving.

Generally speaking, those who are closest to retirement will see the smallest effect; those further away will see a bigger effect. For example, the range of outcomes extends from on one hand a member with one year of membership and 40 years until retirement, who would see a much different (larger) impact on their expected retirement benefits compared with, on the other hand, a member who has had 40 years membership and is retiring next year. If you use, as a guide, the broad assumption that there might be a small (say 1%) reduction in benefits overall for the individual above who is closest to retirement, and around 25% for the member who is farthest away (we think that 25% is UCU's narrative when looking at benefits overall (and not just the guaranteed element) and also looking at future benefits only) – it is not unreasonable for us to conclude in headline terms based on the 'middle of the road' personas developed for typical scheme members, that reductions in retirement benefits will be in the range of 10-18%. But it is emphasised, we encourage members to consider their own circumstances and use the modeller.

What we don't think is reasonable is using a headline of 35% cuts; this is misleading and potentially damaging to members. One only needs to dig a bit deeper into the smaller print and nuance to see that UCU states that the headline refers to future 'guaranteed benefits' (although that detail is lost or omitted in some presentations of the headline) – and in some circumstances UCU also adjusts the parameters, for example to use the DC fund on an annuity basis, which produces outputs which are likely to get much closer to the upper range of c25%. In presenting outputs in this way, member benefits built up prior to any changes are ignored, and so too is the valuable defined contribution element in much of the UCU commentary.

The modeller also shows indicative costs to members should the proposed changes not come into effect. In no changes are made, contributions will increase further from April 2022 and every 6 months after that until the member rate reaches 18.8% of pay in April 2025 (employers would face their own, considerably higher, escalating increases too). It is expected that members would also wish to factor these increased contribution rates into their considerations. In short, the proposal to change benefits to slow the rate at which defined benefits are built up in the future is intended to reduce costs; if we do not make these changes then contributions must rise to damaging and unsustainable levels.

The consultation is about members, and their representative bodies, understanding the potential impacts of the proposed changes and having the opportunity to feed in their views if they believe there is a different way to look at the pensions challenges presented by the USS valuation. There is no easy option available. Members are encouraged to feedback on their preferences for adjusting the levers within the hybrid model – or indeed if members would prefer to pay more for higher levels of the more expensive DB benefits (less of a reduction), or other modifications they might consider more attractive.

It is also worth saying that the modeller assumes that the proposed changes last forever. There is a valuation every three years – and one of the areas we are keen to explore is conditional benefits – perhaps in the form of conditional indexation – so this possibility is also worth factoring into considerations.