**BACKGROUND**

Based on an extensive assessment, and discussion with employers (via Universities UK (UUK)) and the Pensions Regulator, the USS trustee’s 2017 valuation has determined that the cost of continuing to offer the benefits currently provided by the scheme — and repair a £7.5 billion deficit in relation to pensions already earned — has increased by £900 million a year.

The USS trustee has, therefore, concluded that, in order to maintain the scheme’s current level of benefits and features and address the deficit, the combined contribution rate required in total from members and employers needs to increase by 11.4%, from 26% of salaries today to 37.4%.

For more information from the trustee about the valuation, members, eligible employees and member representatives should visit the dedicated pages on USS website: www.uss.co.uk/2017valuationupdates

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**SUMMARY OF PROPOSED CHANGES**

This document sets out proposed changes to USS contributions that will affect you:

- **Member contributions to increase from 8% to 8.8% of salary from 1 April 2019**

- **Further increases to member contributions to be phased in at 1 October 2019 (10.4% of salary) and 1 April 2020 (11.7% of salary)**

- **Employer contributions would also increase at the same dates**

- **The employer match would be removed from 1 April 2019. Members who have opted to pay 1% match contributions would continue to do so, unless they elect to cease paying via My USS**

- **8% of member contributions from salary above the salary threshold would continue to be saved in the USS Investment Builder, with the excess supporting the benefits of the USS Retirement Income Builder.**
THE JOINT NEGOTIATING COMMITTEE (JNC)

The JNC is made up of five representatives from the University and College Union (UCU) (the body that represents USS members), five representatives from UUK (the body that represents employers) and an independent chairperson, as defined under the USS rules.

Under the USS rules, the JNC is responsible for deciding how any increase in the cost of the scheme is to be addressed: either by increases to the rates of contributions and/or by benefit changes.

The JNC has discussed potential changes to the scheme’s future benefit and contribution structure in response to these challenges.

It proposed benefit changes in January 2018, but after further discussions between UUK and UCU, it agreed to withdraw those proposals and no replacement has yet been put forward.

THE JOINT EXPERT PANEL (JEP)

The JNC withdrew its proposals and UUK and UCU separately agreed to set up a Joint Expert Panel (JEP) to assess the 2017 valuation.

The JEP has been meeting since May – completely independently of the JNC – to analyse the basis of the valuation and hear from the trustee, other experts, scheme stakeholders, and the Pensions Regulator.

The JEP expects to deliver its report on the 2017 valuation to UUK and UCU in September 2018 which is expected to inform JNC discussions which will follow shortly after.

Based on the JEP’s findings, the JNC may propose changes to benefits and/or contributions which, subject to due diligence by the trustee, would then be subject to a further consultation by employers.

For more information from the trustee about the withdrawn JNC proposals, members, eligible employees and member representatives should visit: https://www.uss.co.uk/withdrawn-changes

FUNDING USS BENEFITS

While it is engaging constructively with the JEP, the trustee still has a statutory obligation to complete the 2017 valuation – and the deadline for doing so passed on 30 June 2018. The Pensions Regulator has made clear to the trustee and the scheme’s stakeholders that the trustee is expected to present a credible plan for completing the process as soon as reasonably possible.

In order for it to do that, the trustee must be able to demonstrate to the Pensions Regulator that the scheme is sustainable: that it has sufficient funds to pay the pensions promised, or a credible plan to recover any shortfall. It must also conclude on the contribution requirements for future pension promises.

For more information from the trustee about the cost of providing the current level of benefits, members, eligible employees and member representatives should visit: https://www.uss.co.uk/6-things
COST SHARING

The cost sharing process was introduced through the JNC in 2011 (and amended in 2014) at the request of UUK and UCU (via the JNC). Under the scheme rules, it is a process for dealing with the JNC not reaching a decision on benefit and/or contribution changes, where a funding shortfall has been identified, as is now the case.

Furthermore, having now missed the statutory deadline for completion of the valuation, the trustee has been informed by the Pensions Regulator that it should present a credible plan for completing the process as soon as reasonably possible. The trustee cannot, therefore, wait for the outcome of the JEP process to complete the valuation: the JEP is expected to produce a report to UCU and UUK in September 2018, which is expected to inform subsequent JNC discussions. Any changes to benefits and/or contributions arising from a JNC decision thereafter would be implemented by USS as soon as practically possible, but the USS trustee believes it could take around 12 months to introduce from the point of a JNC decision, depending on the complexity of the changes.

For these reasons and in the absence of a decision by the JNC, the default cost sharing process under the scheme rules will run in parallel with the work of the JEP and the implementation of any subsequent JNC decision.

At a headline level, the proposal is that contributions from members and employers would increase from 26% of salaries (8% member and 18% employer) to 37.4%.

However, the rules also provide that the trustee must determine the extent to which it is necessary to reduce the 1% employer matching contribution to the USS Investment Builder to accommodate the necessary increases to the employer aggregate contribution rate. The required increase to the contribution rate (to 37.4%) means that the employer match would be completely removed (with effect from 1 April 2019). This reduces the combined contribution rate required from 37.4% to 36.6%.

Should it be removed, any members who currently take the match would continue to make their 1% additional contributions to the USS Investment Builder, but employers would no longer match those contributions from 1 April 2019. Any members that wish to stop making the 1% additional ‘match’ contribution can do so using My USS.

Under cost sharing, the increase from the current contributions of 26% is ultimately to be split 35:65 between members and employers respectively – but please see the “Changes to USS” section on page 4 for more detail on how it is proposed this would be implemented in practice from 1 April 2019 onwards.

CONTRIBUTIONS TO BOTH SECTIONS OF USS ARE AFFECTED

THE USS RETIREMENT INCOME BUILDER

When employees become members of USS, they automatically join the USS Retirement Income Builder, the defined benefit (DB) section of USS. It provides members with a set level of retirement income, based on their salary during each year of membership of the scheme and how long they have been members.

Every year, members earn 1/75th of their salaries (up to a threshold*) and their benefits are calculated and ‘banked’. They are then increased, broadly in line with inflation, each subsequent year (including in retirement).

On retirement, members will also receive a tax-free lump sum worth three times the amount of their annual USS Retirement Income Builder pension.

*The salary threshold is revalued annually and is £57,216.50 for 2018/19.

THE USS INVESTMENT BUILDER

If members earn above the salary threshold, have made additional contributions and/or transferred pension savings from another scheme since October 2016, they will probably also be building up benefits in the USS Investment Builder, the defined contribution (DC) section of the scheme.

Members build up funds based on how much both they and their employers contribute and on the investment returns those contributions generate, minus any investment charges. It also gives members the option of making additional contributions to build their funds.

There are various ways in which members can use their funds at retirement, including as a tax-free lump sum, investing in a drawdown product or buying an annuity, which will provide a guaranteed income for life.
PROPOSED CHANGES TO USS

REMOVAL OF THE EMPLOYER MATCH
As part of the operation of the cost sharing rule, it is proposed that the employer match would be discontinued from 1 April 2019.

This would reduce the maximum combined contribution required from members and employers from 37.4% to 36.6% (the reduction is slightly less than 1% because not all USS members currently take the match).

Should it be removed, any members who currently take the match would continue to make their 1% additional contributions to the USS Investment Builder, but employers would no longer match those contributions from 1 April 2019.

Any members that wish to stop making the 1% additional contribution can do so using My USS.

INCREASE IN CONTRIBUTIONS
Under the cost sharing rule, members’ contributions will rise from the current rate of 8% and employers’ contributions will increase from 18%.

The increase in the aggregate contribution rate required will be split 35:65 between members and employers respectively, and the trustee plans to phase in contribution increases from 1 April 2019.

Increased contributions apply to total salary, i.e. salary above and below the salary threshold (currently £57,216.50).

1 APRIL 2019
8.8% ➔ 10.4% ➔ 11.7%
19.5% ➔ 22.5% ➔ 24.9%

1 APRIL 2019
Members’ contributions
Employers’ contributions
WHAT MEMBER CONTRIBUTIONS FUND

The salary threshold for 2018/19 is £57,216.50

CURRENTLY, MEMBERS’ 8% CONTRIBUTION FUNDS:

- 8% of salary up to the salary threshold (including 0.35% towards death in service and ill health benefits) to the USS Retirement Income Builder.
- 8% of salary above the salary threshold saved in the USS Investment Builder.

FROM APRIL 2019 ONWARDS

UNDER THE COST SHARING RULE:

**CHANGED**

On earnings up to the salary threshold, contributions to the USS Retirement Income Builder will increase in phases, as highlighted in the above chart*.

*The contribution towards death in service and ill health will remain at 0.35%

**UNCHANGED**

On earnings above the salary threshold, contributions to the USS Investment Builder will remain at 8%.

**CHANGED**

On earnings above the salary threshold, an additional contribution will be made to the USS Retirement Income Builder, increasing in phases, as highlighted in the above chart.
**EMPLOYER CONTRIBUTIONS**

**CURRENTLY, THE EMPLOYERS’ CONTRIBUTION OF 18% FUNDS:**

18% (13.3% + 2.1% + 0.4%)

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**UNDER THE COST SHARING RULE**

From 1 April 2019 to 31 March 2020, in aggregate, contributions have been determined to meet the cost of new benefits but no deficit contributions are payable. Total employer contributions from 1 April 2019 would be 19.5% and from 1 October 2019 would be 22.5%.

**FROM 1 APRIL 2020, THE EMPLOYERS’ CONTRIBUTION WOULD FUND:**

24.9% (17.2% + 6.0% + 0.4%)

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**KEY**

- Builds benefits (including death in service and ill health benefits) in the USS Retirement Income Builder.
- For deficit recovery contributions.
- Goes to the USS Investment Builder. This currently includes aggregated contributions to cover the employer 1% match. However, from April 2019, this would not include the match because it would have been removed.
- Funds scheme running costs.
- Subsidises the cost of investment management.

*The employer contribution is based on aggregated costs across all members, and that this doesn’t reflect each individual member’s cost / contribution split. The cost sharing process will run separately to, but in parallel with, the work of the JEP and will be in effect until such time as any subsequent JNC decision on benefits and/or contribution changes is implemented.*
CONTRIBUTIONS ABOVE THE SALARY THRESHOLD

Members that earn above the salary threshold (£57,216.50 for 2018/19) will continue to save in the USS Investment Builder.

Currently, 20% of salary above the threshold is saved in the USS Investment Builder: 8% from members and 12% from employers.

Under the proposal, 20% would continue to be invested in members’ USS Investment Builder savings. However, it is proposed that contributions on salary above the threshold will rise in line with contribution increases under the cost sharing rule.

The excess would go towards funding the USS Retirement Income Builder section of the scheme.

Under the proposal, as further contribution increases are phased in, contributions above the salary threshold would also rise. However, the contributions saved to the USS Investment Builder would remain at a combined 20%.

These proposed changes are subject to the formal statutory consultation process implemented by this notice.

Consultation will be conducted between each (USS-participating) employer, employees who may be affected by any changes and employee representatives.

The pension benefits members have already built up in USS are protected by law and the scheme rules.

NO OTHER PROPOSED CHANGES TO USS RETIREMENT INCOME BUILDER BENEFITS

Whilst the JNC may propose scheme changes in the future (including following the report from the JEP), there are no other changes to members’ benefits proposed as part of this consultation, but the feedback could result in changes to benefits. Members’ contributions and employers’ contributions on behalf of members will continue to accrue at the same rate of 1/75ths up to the salary threshold in the USS Retirement Income Builder, and continue to be invested in the USS Investment Builder (where members earn above the salary threshold or make additional contributions).

- Active members’ defined benefits will continue to be increased, broadly in line with inflation.
- For so long as they are active members of the scheme, members will continue to have the same death in service and ill health retirement benefits.
- Members will continue to be entitled to the same pension payments and lump sum from the USS Retirement Income Builder in retirement.
- The USS Investment Builder will continue to be available for members who want to make additional contributions or transfer in.
- Members can still choose to manage their own USS Investment Builder funds or opt for the trustee to do it on their behalf.

All defined benefits already built up by members in USS are secure and protected by law and the scheme rules.

RESPONDING TO THE CONSULTATION

This consultation is your opportunity to share your thoughts on:

- The proposed removal of the employer match;
- The change to contributions as a result of the cost sharing proposals;
- How those contributions would be phased in up to 1 April 2020;
- Alternative or additional proposals that you think could also address the challenges identified in the 2017 valuation and to share any other comments.

Members, eligible employees and member representatives should visit www.ussconsultation2018.co.uk for more information and to leave their responses.
**KEY DATES**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOW</td>
<td>Notice of consultation and where to find more information are provided to members, eligible employees and member representatives.</td>
</tr>
<tr>
<td>3 SEPTEMBER 2018</td>
<td>Consultation website (<a href="http://www.ussconsultation2018.co.uk">www.ussconsultation2018.co.uk</a>) goes live.</td>
</tr>
<tr>
<td>3 SEPTEMBER 2018</td>
<td>Consultation start date.</td>
</tr>
<tr>
<td>2 NOVEMBER 2018</td>
<td>Consultation end date (responses must be received by 5:00pm).</td>
</tr>
<tr>
<td>NOVEMBER 2018</td>
<td>Responses from members, eligible employees and member representatives are considered, and the final changes are decided on.</td>
</tr>
<tr>
<td>FROM DECEMBER 2018</td>
<td>The final position decided upon will be communicated to members, eligible employees and member representatives.</td>
</tr>
<tr>
<td>1 APRIL 2019</td>
<td>The intended date that the changes will be implemented.</td>
</tr>
</tbody>
</table>

### WHAT TO DO NEXT

**Members, eligible employees and member representatives** should visit [www.ussconsultation2018.co.uk](http://www.ussconsultation2018.co.uk) and review the information about the proposed changes and the consultation process.

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

- [www.ussconsultation2018.co.uk](http://www.ussconsultation2018.co.uk)
- From 9am on 3 September.