USS Revaluation

Dear Colleague,

Many of you will be aware of the important discussions taking place on how best to ensure the future sustainability of the USS pension scheme. You may also have seen the media coverage of this over the past months. We appreciate how unsettling the situation is for scheme members – having a secure and stable pension is of vital importance to everyone’s future, and the current uncertainties are causing real concern and anxiety.

USS is a national scheme, offered by over 350 Higher Education Institutions across the UK, including all pre-92 universities and related institutions. It is run by a Trustee Board, consisting of four Directors nominated by Universities UK, three nominated by UCU and five independent trustees. USS is governed by a clear set of scheme roles, and any changes to these have to be decided by the Joint Negotiating Committee. This consists of five members appointed by UUK, five by the UCU and one independent member who acts as Chair and who can choose to cast a deciding vote if agreement between both parties cannot be reached.

The University of St Andrews, along with the other scheme employers, is periodically consulted about aspects of the scheme to inform discussions in the JNC, most recently in relation to the assumptions underpinning the actuarial revaluation which, by law, USS is required to carry out every three years. During the revaluation, the USS Trustee assesses the fund’s assets and liabilities to ensure that it has sufficient funds to pay the defined benefits already earned, and also that contributions into the scheme cover the cost of planned future service benefits. The USS Trustee has to satisfy the Pensions Regulator about the realism of its assumptions and the level of risk involved.

The USS Trustee is clear that the scheme is facing significant challenges, with a substantial increase in the reported deficit (from 5.3bn to £7.5bn) since the last revaluation (in 2014), as well as a rise of around a third in the cost of future benefits provision. The USS Trustee estimates that, if no alternatives are considered, to maintain current levels of benefit provision would require the total employer and employee contribution to increase substantially by around 11% of salaries. This would be on top of the current 26% contribution rate (18% from the University, 8% from employees) that we have pledged to maintain.

This raises significant questions of affordability both for participating Higher Education Institutions and for individual scheme members. For the University of St Andrews, each 1% increase to the paybill costs around £1m a year. To put that in context, the entire annual operating surplus that we depend on to invest in the University’s future is forecast to be £1.6m in 2018/19.

The University of St Andrews is committed to providing all staff with a comprehensive benefits package, which encompasses pay, pension provision, holidays and our employee- and family-friendly practices and policies. As part of that package, the University firmly believes that staff should have access to an attractive, affordable and well managed pension
scheme. But we are also clear that reform to the governance and management arrangements of USS is essential for any Defined Benefit scheme to be sustainable and credible going forward. Our concern is to ensure that further adjustments are not simply temporary measures, and that we do not find ourselves facing another substantial increase in funding shortfall at or before the next revaluation.

Along with all other Universities that offer USS, we were asked in September to respond to a number of questions around the USS Technical Assumptions, the method used for the revaluation of the pension scheme. Our response expressed reservations about the level of risk being proposed at that stage by the Trustee (which also attracted criticism from the Pensions Regulator), and about the sustainability of the current hybrid benefits model without a comprehensive overhaul of USS governance and management arrangements. We expressed concern that USS appeared yet again to be in crisis, only three years after a fundamental restructuring which involved both a substantial increase in contributions and a significant reduction in benefits. We recognised that a move to a wholly DC pensions model would be deeply controversial and unpopular, but saw this as preferable to continued uncertainty, instability, cost growth and further erosion of benefits. We called for the development of options and the modelling of a range of potential scenarios.

Universities UK have tabled a proposal to move to a market-leading defined contribution scheme (through the USS Investment Builder), but leaving open the possibility of reintroducing defined benefits if scheme funding improves at future valuations. UCU have recently put forward a counter proposal that would involve additional costs of around a third for both employers and members. Universities UK and the UCU are now discussing outcomes and potential proposals through the Joint Negotiating Committee. The pre-Christmas deadline has been extended until 23rd January when it is hoped that a decision can be reached on a set of proposals.

Once these are available, the University will enter into a formal employer consultation with scheme members. As part of this process, we shall engage widely with staff to ensure that all scheme members fully understand what is being proposed, and have the opportunity to express their views.

In the meantime, we are providing further information on the situation on the pensions page of the University’s website, at https://www.st-andrews.ac.uk/staff/money/pensions/

Kind regards,

Alastair Merrill  Derek A Watson
VP Governance  Quaestor & Factor