USS funding and benefits – consultation by Universities UK: University of Warwick Response

As a large employer we clearly want to see an outcome which provides the best compromise between affordability of funding USS and a benefits offering which attracts and retains the talent needed to sustain the University's development in future.

Overall, the University is supportive of the move to a benefits structure that maintains employer contributions within an 18% upper limit (noting that employers are also bearing a c. 2% - 2.5% increase in National Insurance rates). However, we find it difficult to form an opinion on the option on offer because no alternative scenarios have been presented and there is no reference to the financial impact of alterations to either the scheme funding or to contributions of some of the key assumptions, e.g. salary cut-off levels for the operation of the proposed Career Average Benefit (CRB) scheme. It would have been helpful to have seen a number of scenarios modelling a range of benefit structures that could be afforded within the 18% limit as well as the impact of changes within the core scenario such as the one listed above. Some indication of the sensitivities around key assumptions would also have been helpful, such as the extent to which required contribution levels would rise with each £5,000 increase in the proposed salary threshold.

On a more general point, as a research intensive University, average academic salaries are above the sector norm. We note that the proposals have been drafted with a salary cut off for Defined Benefits which estimates that 39% of all staff across the sector will remain wholly within a Defined Benefit scheme and will not be materially less well off in pension terms than hitherto. The impact at Research Intensive Universities, employing career-oriented staff either earning or aspiring to earn more than this cut-off, is likely to be greatest. A secondary general point is that we have within the University those who are members of, or have recently been members of other public sector pensions schemes – all of which have undergone reforms in terms of benefits offerings and/or increases in contribution rates for employees. But there is a very distinct difference in the generosity of the CRB offerings now being made in these (largely) unfunded schemes against the approach being proposed for USS, as a funded scheme. These differences will become increasingly difficult to accommodate in terms of the proposition for employees of the same institution.

Subject to noting the limitations set out above we would wish to make the following comments about the proposed benefits structure changes:

1. In principle we support the proposal to close the final salary section, with the associated re-defining the link between pension entitlement and final salary, on the grounds that this is the best mechanism for managing the deficit and creating sustainable future arrangements. However, we note that the Teachers' Pension Scheme, as used by many post 92 institutions, which is also moving to CRB, will not be breaking the final salary link of its existing members. This will therefore become a point of comparison between the two schemes and it will be necessary to understand what the impact would be of not breaking the link in USS so that employers are clear as to the financial necessity and that this can be communicated clearly to employees. It would be helpful to explain, for example, what the loss in future benefits would be if the final salary link was sustained. This information was not available in the consultation paper.

2. The proposal to adopt a hybrid solution which has a CRB section up to a salary threshold and a DC section above the threshold *could* represent a pragmatic compromise solution, offering better benefits that a full DC scheme but being more affordable than full CRB. However, based on our employer assessment as well as initial feedback from employees, it will be confusing and therefore less likely to be valued as an attractive benefit (particularly to those with career ambition in the sector). It would be helpful to know whether hybrid schemes already in operation in other organisations are seen by employees as attractive and as good value for money. By definition, it is likely to cost more to administer and it would be helpful to know what assessments have been made in this regard.

3. The proposed threshold of £40,000 could be problematic because it is positioned around the same level that employees move to higher rate tax. The double impact of paying higher rate tax and receiving a perceived lower marginal pension benefit could make posts in the salary range £40,000 to £50,000 far less attractive, leading to recruitment and retention problems in middle-management roles. There is no indication of the impact on employer contribution rates of setting the threshold at, say, £50,000 or £60,000 to enable employers to decide whether that additional cost might be a sensible investment to make.

4. We note that the current members of the CRB scheme earning more than £40k per annum will, like those in the Final Salary section, be worse off following these changes, particularly if contribution rates rise from their current 6.5% of salary. As a more general point, the proposal needs to be clear about the likely changes in employee contribution rates for members of all sections.

5. The proposed Additional Flexible Defined Contribution pot is confusing. We wonder whether the potential confusion of this additional pot is justified and that the 2% employer contributions might be better used to strengthen the CRB section – e.g. by raising the threshold. Some scenario planning would be helpful for us to make an informed choice.

6. We are pleased to note that the proposed changes to the benefits structure may create conditions in which the impetus for de-risking the investment strategy is reduced, though a supporting explanation of why this is the case would have been helpful. As recorded in our response to the previous consultation we are generally not supportive of de-risking in the short term.

7. We remain very concerned that the sector is still being offered a “one size fits all” solution to pensions benefits and that no mention has been made of exclusivity issues. The workforce decreasingly observes the traditional norm of people joining and progressing through a career in UK based HEIs and, like other employers, the pensions offering will need to be flexible enough to meet the needs of those moving from or to other sectors and/or to work internationally for periods of their career. Whatever the final outcome, the pensions “deal” for employees will be significantly changed from the former model, which is likely to prompt a far more varied and flexible approach to reward within the sector.

8. On a final note, there is a distinct view that unnecessarily pessimistic assumptions about future financial outcomes may be forcing much starker reductions in benefits than may prove to be necessary to cope with future demographic change and to avoid excessive volatility in funding levels. Given that suspicion, it would be helpful if the proposal could set out clearly how the scheme would respond to more favourable circumstances by re-building benefits e.g. through enhanced provision.

We have attached to this submission verbatim feedback obtained from members of staff at Warwick on these outline proposals. Understandably, while many have worked elsewhere and understand the economic and financial context, the feedback reveals a significant element of disquiet about the proposals. As an employer we are not satisfied that all permutations of benefits offerings have been communicated and believe strongly that some alternative scenarios should be provided before final decisions are placed into negotiation and consultation with members.

Appendix I

In addition to those organizations which participate in the Universities Superannuation Scheme, the following organizations will have a key role in the consultation process:

Universities Superannuation Scheme Ltd

The Trustee Company and governing body for the Universities Superannuation Scheme. The Trustee Company directs the scheme and its administration to ensure that the promised superannuation benefits are paid to all beneficiaries in line with agreed timescales.

Universities UK (UUK)

UUK is the voice for universities in the UK and provides leadership and support to our members in the higher education sector.

The Employers Pensions Forum (EPF)

The EPF was established in 2007 by Universities UK, GuildHE and the Universities and Colleges Employers Association (UCEA) as a broad-based forum for higher education institutions to discuss current and longer term pension issues. Its aim is to develop a strategy that will enable the higher education sector to continue to offer staff access to high quality pension schemes.

Universities and Colleges Employers Association (UCEA)

UCEA provides its members with advice and guidance on employment matters pivotal to the higher education sector.