UCU'S PROPOSALS TO THE JOINT REVIEW GROUP OF USS: JANUARY 2010

THESE PROPOSALS ARE BEING TABLED BY THE UCU NEGOTIATING TEAM ON A "WITHOUT PREJUDICE" BASIS. IF FAVOURABLY RECEIVED BY THE REPRESENTATIVES OF THE EMPLOYERS' FORUM, THE UCU NEGOTIATORS ARE WILLING TO RECOMMEND THE PROPOSALS TO A MEETING OF THE UNION'S PENSION REPRESENTATIVES AND THE UNION HIGHER EDUCATION COMMITTEE. IT IS ANTICIPATED THAT UCU WOULD THEN RECOMMEND THE PROPOSALS FOR ENDORSEMENT IN A MEMBERSHIP BALLOT.

PREAMBLE

1 USS is a well-managed and secure final salary defined benefit pension scheme. The continued existence of the scheme is of great importance to UCU and its members. It is for many correctly and aptly described as 'the jewel in the crown' and over the years, although salary increases in the sector have not matched reasonable expectations, much comfort was and is still derived from the knowledge that USS exists to provide attractive benefits in retirement. The prime objective and mandate of UCU negotiators in the present review is to reach an agreement which secures USS as an 'attractive and affordable' pension scheme for all existing and prospective members.

2 However, in common with all defined benefit pension schemes, USS is experiencing certain financial pressures on the future funding of the scheme, but unlike most other defined benefit schemes it is uniquely advantageously placed, not least because of its positive cash flow, to cope with these pressures. UCU acknowledges that the fact that, *inter alia*, the employers in the 'good days' did not take advantage of any pension 'holiday' has helped to ensure this strong position. In recognising USS's strength it would be a mistake for others to interpret this as an expression of complacency; rather it is recognition of current reality, and does not obviate the need to engage seriously with the current review and secure agreement.

3 In this context, it comes as a great disappointment to UCU to discover that the employers in their most recent short paper, **'A Package of Proposals to Reduce the Cost Risk to USS by 4 to 7%'**, quote from and appear to endorse advice received, as it is stated, from an independent actuarial firm that 'the funding approach of USS is at the weakest end of market practice' and 'the financial viability of the USS is precarious'. (Page 1, Para 6) These are not comments that UCU recognises can be legitimately applied to USS or that we believe any informed, independent commentator would make. We make this point not to engage in some acrimonious debate but to request that truthful and accurate statements are made because it is only by beginning with an analysis of the real risks facing the scheme, and responding to them, that progress can be made. This, UCU believed, was the starting point of the original employers' paper, **'Proposed Structure for USS'** where it was stated that 'the paper sets out the risks identified by USS and its actuary ...... and our proposals for containing and reducing those risks'. (Page 2)

4 This point is important because both sides, employers and union, have members who do not support the current review believing that, on the employers' side, USS will soon be consigned to the dustbin of history like most other defined benefit schemes and reform/change is pointless. On the union side, we have members who will not welcome any change and are suspicious and wary of UCU involvement in the review process. We must not pander to the extremists on both sides and we must challenge 'wild' assertions and provocative hyperbole rather than help give them currency. We have a collective duty to manage this process and moderate expectations, remembering that our key **agreed** objective is the continuation of USS as an attractive, affordable and sustainable defined benefit scheme which we shall achieve by a collective agreement.

METHODOLOGY

1 It is important to state, at the outset, how UCU has approached this review and the guiding principles we have adopted. We shall also comment on the principles that we perceive underpin the employers' approach.

2 Independent observers might say that this review is taking an excessively long time. Initially that might seem like fair comment, but the reality is we have analysed and examined a great number of issues in depth trying to identify (a) the main risks which threaten scheme viability and (b) the possible solutions, including modifications to the current scheme. For both sides, the paper prepared jointly by Mercer and the USS Executive, entitled **Pension Risks**, has been the template for our discussion. That paper provided 'an overview of the risk factors relating to pension benefits and contributions and explores how pension scheme design can assist in controlling or mitigating the potential cost impact arising from these risks.' (Introduction, 1.1) It was also made clear in the document that 'this paper specifically focuses on risks relating to benefit design'. (Introduction, 1.2)

3 The approach of UCU, and underpinning the thinking displayed in this document, has been to identify each risk factor, assess its possible impact and then determine whether what is required in response are contribution increases, benefit changes or specific, articulated commitments which will address issues as and when they arise. Nothing has been ruled out; there are no 'no-go' areas. That is what this kind of review requires and we can assure the Chair and our employer colleagues that we have honoured this brief. What has also been crucial from our point of view has been the need to move solely in circumstances where there is clear, demonstrated *evidence* for change, not least because we have members to convince who by reason of the very occupation they pursue do not take kindly to the presentation of poorly supported and poorly argued claims and assertions.

4 From the UCU perspective, the employers appear to have adopted a rather different approach. In analysing the risk factors under specific headings, the primary focus has been on projected, possible increases in contributions to the scheme, very often under a worst case scenario, and then arriving at the conclusion that a projected saving of 4-7% is required by reducing members' benefits to avoid a future possibility of an increase of 4-7% in employers' costs. (**Package of Proposals**, Page 3, Para 10) However, it is very clear that the intention is not merely to prevent the possibility of future increases under certain headings, but also to give the Trustee company scope to de-risk the USS investment strategy which could lead to an increase in contributions. (We shall discuss de-risking of the investment strategy later in this paper.) Indeed the 4-7% reduction has recently been expressed as a requirement for a more specific 4.9% reduction.

5 This figure is important because it is obviously guiding the employers in their determination of what counts as a successful negotiation. When challenged as to how this figure is arrived at, the response has not been to display how the precise calculation was worked out – and it would be reasonable to assume that this could be easily presented if the figures have a

specific underpinning - but to challenge UCU to name the figure the union thought appropriate. We want to make this point very firmly. UCU is not engaging in this debate. We are not going to guess-estimate such a figure; previously we used the word 'speculation', but as that use caused some annoyance we shall change the term and let others determine the difference!

6 Further evidence which highlights the unsatisfactory nature of the calculation is the statement made in the employers' paper, **Proposed Structure for USS**, where it says: 'Finally the EPF confirms that if the current joint contribution rate of 22.35% could be reduced as a result of the changes set out below, the employers will not seek to reduce their rate of contribution before the results of the actuarial valuation as at April 2011 are known. This will allow any additional money received by USS in the meantime to be directed at targeting the de-risking strategies discussed further in this proposal'. (Page 3) This is an open and candid admission that under these proposals there is a real possibility that the scheme could be running a surplus, even though the stated reason for the benefit cuts is to minimise/reduce risk. Under this scenario, we can understand the reluctance of the employers to outline the basis for the 4-7% cuts.

7 We have stated what our approach to the review is and we shall now discuss identified risk factors:

RISK FACTORS: (A) LONGEVITY

1 So much, very often in a clichéd form, has been said about longevity as a risk factor in pension schemes that we do not need to add to what is already known. This is a significant risk and the more so because of the uncertainty as to whether past increases can be projected in a similar fashion into the future. Is there an upper limit, a plateau ahead, or must pension actuaries assume present trends will continue?

2 One way to cope with the issue is to increase the NRA of the scheme and the employers have put forward this proposal suggesting that this should be 65, not merely for new entrants to the scheme but also for the future service of all active members. (The scheme rules currently prescribe a normal retirement age of 65 for all members, but in keeping with the language generally used in the review group's discussions, we are using 'NRA' here to mean the lowest age at which a given member may as of right draw an actuarially unreduced pension on retirement where that retirement is not attended by any special circumstances.) This is a complicated solution to explain to current active members, where part of their service relates to current retirement dates and the rest is related to the new NRA of 65, leading to the possibility that part of their pension would be actuarially reduced if retirement took place before that new NRA . It is not a suggestion which has been favourably received.

3 Our counter proposal would be the following: UCU is content to accept that the NRA for all *new entrants* to the scheme should be 65. (This, of course, leaves open the question of how you define 'new entrant' and we shall return to this in section 4.) **All existing active members should retain their current retirement age, but there should be a contribution increase of 1% for all existing and new members raising the members' contribution to 7.35%. This proposal is subject to the tiered qualification set out in Paras. 6 and 7.** UCU did consider limiting the 1% increase to existing members because they were retaining their existing retirement age. Another linked proposal to allow existing members to *decide* whether to accept the new retirement age and, as a consequence, not pay the extra 1% contribution was also considered, which would be particularly attractive for those members intending to work to 65. These were rejected because UCU is of the opinion that the longevity pressures are such that it is appropriate that the same rate should apply to all. New entrants will generally benefit the most from improving longevity trends. Further, UCU was concerned about the administrative pressures which might arise in administering the scheme if two different contribution rates, *based on these grounds*, were to be introduced.

4 The employers' proposals envisaged from a specific date all existing and new entrants to the scheme moving to a NRA of 65. UCU has argued that those who had been in the scheme previously, but had now left, should be able to re-join as an existing member provided that they re-joined within a period of 5 years. This was to accommodate members who for a variety of reasons had their employment terminated, not least the

fact they may have been previously employed on a fixed-term contract, to re-join and suffer no detriment to their rights. After analysing the statistics on the matter supplied by the actuary, **UCU is content for that period to be 2 years.** This is a significant move on our part and compares unfavourably with the 5 year period which is offered by the Teachers' Pension Scheme (TPS).

5 UCU also believes that this would be an appropriate time to introduce *tiered contributions* to the scheme. This would be in line with what has happened in some other schemes and is going to apply in others. There are two reasons for proposing this. First of all, it was clear from the actuary's work on longevity that those who earn the most also, generally, live longer. Second, in a pension scheme, members who have careers with significant promotions and corresponding salary increases throughout their career, and particularly towards the end of that career, benefit most from being in a final salary pension scheme. Such contributions would be additional to the new proposed rate. UCU's proposal for the suggested bands and rates would be the following, bearing in mind that all salary bands would be adjusted annually in line with movements in the non-manual average earnings index.

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ALL MEMBERS	
£0 – £25,000	6.35%
£25,001 – £75,000	7.35%
£75,001 – £125,000	8.35%
£125,001 onwards	9.35%

7 As can be observed from the displayed table, members receiving up to £25,000 would not pay the proposed increase of 1% on their contribution rate but would continue to pay the old rate of 6.35%. This offers some 'reduction' for the lower paid members, but it is prudent bearing in mind the pressures on the scheme. Further, the tiered increases would only affect members earning in excess of £75,001 and are not set at a level which should cause members earning the higher salaries, despite recent and proposed governmental changes, to re-consider remaining as members of the scheme. Although the UCU negotiators believe the proposed band ranges are probably correctly drawn, UCU is not definitively committed to the bands as set out but would be prepared to explore and examine other band ranges.

8 The UCU negotiators accept the employers' proposal that all members retiring from eligible employment between age 55 and NRA will have the right to draw an immediate actuarially reduced pension, as opposed to the right merely to seek trustee agreement to their doing so.

9 Collectively we have now agreed the outline of a flexible retirement scheme, the details and implementation of which USS has agreed to document and on receipt of this we can, hopefully, finalise our agreement. This is good progress, but there is, apparently, still some uncertainty and unease on the part of the employers as to how it will apply post 65. It may be that the UCU concern is misplaced here and the employers are

content, but we have to prepare for a world where mandatory or default retirement ages no longer exist. Indeed as members work longer and as a consequence take all or part of their pension later, this will go some considerable way towards easing the longevity pressures. However, it should also be noted that as UCU has now accepted that for flexible retirement to be taken there has to be some reduction in work, measured by a reduction in working hours or level of responsibilities or by an agreed combination of both, it is the view of the actuary 'this would almost certainly reduce the propensity to flex benefits early, at least for lower paid individuals.' **Sensitivity of the Valuation Costs ... of proposed Flexible Retirement Provisions**. (Page 5, Para 2.5) Hence the UCU reluctance to concede on this point.

10 Finally, there is the issue, as raised by the employers, of cost sharing on future contribution increases attributed to longevity. We shall discuss this issue and make our proposal in the section on Cost and Benefit Sharing.

RISK FACTORS: (B) SALARY GROWTH

1 It has been reported that for some this review will not be a success unless the USS *final salary* scheme is replaced by a *career average* scheme. That is their purported benchmark. Let us address this issue at the outset. UCU is not in principle opposed to a career average pension scheme. Indeed at the outset in setting up USS, career average, if it had been considered, might have been the preferred choice. However, the decision was taken to run with a final salary scheme. So much is history.

2 Why do some think the review should adopt a career average scheme? It seems to be a matter of affordability; final salary schemes are considered too expensive and we must 'cut our cloth' and perhaps all that is affordable in today's economic climate is career average provision. In stating this all that is being displayed is a complete ignorance of the two different kinds of scheme. If it's a question of cost then nothing is to be gained by switching to career average provision because appropriate revision of the final salary provision could achieve the same objective. How expensive a final salary scheme is depends *inter alia* on the accrual rate, how much of each year's salary counts towards pension provision, (i.e. are there caps?) and the commutation rate etc. The cost of a career average scheme depends equally on the accrual rate, how each year is revalued and the commutation rate. A career average scheme, in principle and in fact, could be more generous in the benefits it provides than a final salary scheme. In sum, there is only a cost advantage in switching to career average provision if it is designed to offer inferior benefits, but equally it would be possible to redesign a final salary scheme to achieve the same objective.

3 However, career average provision does offer one advantage in that it reduces the *risk* to the employer on annual salary growth which exceeds the actuary's built in assumptions. It introduces an element of stability by determining in advance what the annual revaluation will be and thus removes the 'hit' a scheme can take when salary growth exceeds built in expectations, as has occurred recently in USS. For this reason, and this reason alone, UCU was prepared to examine and model career average provision on a *cost and benefit neutral* basis. The idea of cost neutrality is not novel and has been the basis of other introductions of career average provision.

4 As a result of the modelling we discovered that while the employers' proposed accrual, revaluation and commutation rates would generally lead to satisfactory outcomes for existing staff, who had a substantial number of years of final salary provision to be taken into account, the result for staff starting out in their career would mean a cut in pension provision of around 15%. If you changed the accrual rate to achieve cost neutrality for new staff, the result was an unexpected positive benefit for existing staff, which was certainly not the employers' intended outcome. There is no satisfactory way around this dilemma.

5 UCU cannot accept a move to career average provision introducing a change which would have such a significant, detrimental outcome on pension provision for new staff. However, there are three points we would like to make here.

6 First of all, the objective of our review is, as stated in the Mercer/USS paper, 'to explore how pension scheme design can assist in controlling or mitigating the potential cost impact arising from risks' and the paper examined precisely the relation between 'risks relating to pension design'. (**Pension Risks, Introduction, 1.1 & 1.2)** We are told the proposed career average scheme offered certain savings, ranging from 0.8% to just over 3%. However, if you were to get anywhere near the 3% this could only be achieved by very substantial numbers of members opting to take a very significant amount of their pension 'pot' as a lump sum, and that on what is recognised and accepted as very poor commutation terms despite the incentive of the absence of taxation. It might suit some to do this, despite the financial advice they would receive, but it would be a minority. More importantly, what you would be seeking to achieve are savings on pension provision *derived not from pension scheme design but from fickle human behaviour* in circumstances where it would be impossible to predict the outcome.

7 Second, career average provision does reduce the *risk* from salary increases beyond that which are factored into the actuary's assumptions. We have experienced increases in the recent past which have exceeded the assumptions, but it is clear and acknowledged that these increases are not set to continue. In today's economic climate large salary increases are not going to happen. It hurts from a UCU salary negotiator's point of view to say that but that is the current reality. If the objective in introducing career average provision is to reduce salary risk, the case for its introduction *now* is very weak.

8 Third, having made the above comments UCU is leaving open the possibility that there might be circumstances in the future, with an appropriately structured scheme, where career average provision might be considered. It is clear that there will need to be future reviews of USS pension provision where this might be on the agenda, and we shall say more about this later.

RISK FACTORS: (C) INVESTMENT STRATEGY

1 Around 90% of USS investments are held in equities and other assets of a return seeking nature. This investment strategy of USS obviously poses the greatest risk of any we have considered so far, but it is tempered by the probability of substantial, positive returns, the seeking of which, historically, has been regarded as appropriate for an immature pension scheme and one which has a significant, positive cash flow. It is also worth noting that there is now clear evidence of a substantial and sustained improvement in equity markets. Indeed the Times (6/1/10) quoting BNY Mellon notes that 'UK pension funds managed to recoup most of their 2008 losses last year, helped by strong performances in equity markets' and that 'funds posted an average estimated weighted return of 14.9% against the retail prices index monthly inflation measure'.

2 However, there are risks in the short term, particularly if a downturn in the markets coincides with the triennial valuation leading to the possibility of deficit contributions. Also, USS does have to position itself for a future in which it will no longer be an immature scheme, though the positive cash flow, provided existing membership trends are not reversed, is predicted to be with us for some time.

3 It is very clear that the Trustee Board is minded to begin a process of de-risking some of the assets, moving initially from a 90% reward seeking asset base to one around 70%. This could only occur after a consultation on the matter with the employers, which has yet to take place. Such a move would have consequences for the funding of the scheme and could lead to increased contributions being sought to cover the cost of de-risking. De-risking, in other words, comes with a price tag attached to it. Furthermore, moving too quickly and too far might lessen the investment risk, but would introduce the probability of increased costs, in the form of additional contributions, rendering the scheme unaffordable. There is a balance to be struck here.

4 After a recent meeting with the Chair of the Trustee Company, UCU is assured that the Trustee Board is acutely aware of those issues and the possible implications and that there will be no precipitate rush to begin the process. When and how it begins will be dependent on market conditions and the returns available and every effort will be made, in so far as it is possible, to minimise any possible increase in the contribution rate. A possible increase of up to 3% has been mentioned, but it is hoped that this would be an upper figure. The Trustee Board is very aware of employer sensitivity to increased contributions and will, as a consequence, tread carefully!

5 UCU is aware of the arguments in favour of, at the very least, some de-risking of scheme assets. However in USS, as a *defined benefit* as opposed to a *defined contribution* scheme, the investment risk is the employers' responsibility. That is why it is classified as a defined benefit scheme. However, the employers in their paper have invited UCU to agree to a principle of cost sharing under a number of headings including the investment risk. Previously in our discussions, UCU has agreed in principle only to cost share on longevity and salary costs, and in the case of the latter this should be limited to those costs which

UCU through its national negotiations could be held accountable for. UCU has reconsidered its position and it is appropriate to set out the conclusions in the next section of this paper entitled Cost and Benefit Sharing.

COST AND BENEFIT SHARING

1 There are a couple of preliminary points that require to be made before we discuss the principle of cost sharing. First of all, cost sharing is not about reducing risks to the scheme, but is concerned with how the cost of the risk is shared if it materialises and leads to additional contributions being required. It is the employers that bear this risk and are asking members to share it. In this context, therefore, what is being sought is an agreement to reduce the financial risk to the employer if the Trustee Board requires additional financial contributions to be made to the scheme. The issue here is one of affordability and cost sharing is a mechanism by which the stakeholders together bear the additional cost.

2 Second, the employers have referred to the current employer contribution rate of 16% as being 'at the outer limit of affordability'. (**Package of Proposals to reduce the Cost Risk, Page 1, Para 2)** If the employers are suggesting that 16% is the most that they are prepared to contribute and their contribution is capped at that point, then it is not cost sharing that is being proposed but the requirement that members pay all the additional cost. Let us be clear about this. UCU is prepared to make a clear and generous offer on cost sharing, but we are not going to participate in a discussion which requires the members to bear *all* the additional costs. UCU will require some reassurance on this point.

3 We shall structure our subsequent discussion under the following headings. First of all we shall discuss what we are prepared to share costs on and by what proportion; second we shall discuss how cost sharing should operate within the scheme; and third we shall outline other consequential requirements that we perceive to be necessary.

4 In previous discussions within the group, UCU has made it clear that it was prepared, in principle, to share costs on longevity and salaries, and in the latter case only where salary increases had exceeded the actuary's assumptions and were attributable to national negotiations conducted with UCU. We were not prepared to share the investment risk. We have decided to revise our position.

5 In the case of salary increases, as the evidence made clear there was no significant difference in percentage terms between those salaries negotiated nationally and those negotiated locally we are no longer drawing and standing by that distinction. The offer on sharing salary risk is, as a consequence, unqualified.

6 UCU has thought long and hard on the investment risk. We had adopted a position which we believed to be defensible in that we were underpinning the defined benefit nature of our pension scheme. However, we are now prepared to revise our position and offer to share the investment risk. What this means is that, taking other previous declared commitments into account, **UCU is prepared, *in relation to future service,* to cost share on longevity, salaries and the investment risk.** This is in line with what the employers requested. (**Proposed Structure for USS, Page 9**). **The effective**

commencement date for this cost sharing arrangement should be the date of the next actuarial valuation of the scheme, March 2011. UCU further proposes that cost sharing should take place broadly in line with the 'historic basis' of contributions paid by employers and members, which we would take to mean that employers, in the cost-sharing arrangement, pay 65%, and members pay 35%.

7 From a UCU perspective, the offer to share on the investment risk is one which has not been taken lightly and represents a fundamental, indeed seismic change in our previously declared position. As envisaged, cost sharing on the investment risk will entail sharing in both a 'bear' and 'bull' situation. We must be clear on this point; this is not just about sharing pain, but also about sharing gain. Benefits (such as contribution reductions) resulting from any future easing of costs should, of course, be shared between employers and members in the proportion proposed. If adopted, cost sharing generally, but especially cost sharing on the investment risk, changes in a significant manner the nature of the scheme and the involvement of the stake holders. Clearly to implement such a proposal would require a significant amount of work and planning and we shall now address our second point of how cost sharing should operate within the scheme.

8 UCU proposes that a working party of the USS JNC, operating very much in the fashion of the current working party, should meet after each actuarial valuation to consider what decisions and action may be required. In principle it does not have to be a working party of the JNC, it could be the JNC itself. From a UCU perspective this would be a simpler and less cumbersome proposal, because the UCU members of the present working party currently are, and in future would be, drawn from its representatives on the JNC; however if the employers' side is not prepared to nominate representatives to sit on the JNC that it felt could also be members of the working party then this proposal would not work. This would be a pity because clearly pension issues are going to have a higher profile in the future, requiring more 'heavy-weight' involvement at JNC level, and it would be advantageous, for all sides, if that were recognised and acted on. Significant discussions between the stakeholders will be required not merely when the specific issue of cost sharing is on the agenda, but on a more regular basis if we are jointly to address issues as they arise rather than wait for a crisis to occur.

9 It would be envisaged that after receiving the actuary's report, the Trustee Board would inform the working party of any significant cost pressures which have been highlighted. The cost pressures identified by the Board, and on which the working party has agreed (a) that they fall within the cost sharing remit and (b) that a response is required, will lead to different kinds of responses ranging from possible contribution increases, benefit adjustments etc, all of which will be delivered on a cost sharing basis. Attention will have to be given to the way forward where the two parties do not accept the Trustee Board's report, or differ in their response, and what the default position would be in those circumstances. All of these issues, and others not identified here, require more detailed consideration to be given to them, and it

will probably be necessary to consider the introduction of appropriate modification to the rules of the scheme.

10 Turning now to address the third issue of other consequential requirements flowing from these proposed changes, if UCU is to share the investment risk UCU would require that one of the UCU appointed directors of the Board should, as of right, be a member of the Trustee Company's Investment Committee. *De facto* that may normally be the case, but at present it is not, so we would require it to be written into the rules.

11 Further, as neither UUK nor UCU have any direct contact with the Board's investment policies or decisions, other than through the work of their appointed directors, it would be helpful to have regular meetings, even if only on an annual basis, with the Chair of the Trustee Board and the Chair of the Investment Committee to be apprised of investment strategies, policies and proposed changes. We cannot speak on behalf of UUK, but UCU would desire such meetings, not because of any specific expertise held, but as a means to be brought up to speed on the issues and to remind others that investment decisions have consequences and these may need to be explained, or indeed mitigated, if others have to bear the cost.

INDEXATION OF BENEFITS

1 The proposals that the UCU negotiators have made are intended to form a coherent whole. While they demonstrate our willingness to ask members to share a wide range of risks largely beyond the control of the scheme's stakeholders, we are anxious to minimise the risk of the settlement being unbalanced by extraneous events whose impact could readily be controlled.

2 The particular example of this which we have in mind is the risk that amendment to the Pensions (Increase) Act 1971 would result in the scheme's provision for indexation of benefits being altered, almost certainly for the worse, without any intervention by USS being involved. That is a risk which could be eliminated if amendments were agreed to the scheme rules so that they would replicate the existing provision but do so in language that did not tie that provision to the specific legislative framework.

3 To make this rule change would of course have no cost for the employers apart from the renunciation of a possible uncovenanted windfall. Moreover, the change would not imply that the limitation of indexation of benefits derived from future service would be excluded from the range of benefit design changes that might be considered as part of the members' cost-sharing contribution to the elimination of a funding deficit arising at some future valuation.

4 It may well be that the Act concerned will not in fact be changed by Parliament in the short to medium term; but the possibility has been much canvassed, and many fear such a change. An assurance that a measure that would be designed to address the long-term cost of unfunded public service schemes would not do collateral damage to the pension expectations of active members of USS would play an important part in reconciling those members to the substantial concessions on scheme design that the UCU negotiators are proposing they should accept.

SUMMARY OF PROPOSALS

1. An increase of 1% on all member contributions rates, apart from those earning £25,000 or less whose rate will remain the current 6.35% contribution.
2. Tiered contributions to be introduced which will affect those earning from £75,001. 1% *extra* contribution on salaries between £75,001 -£125,000 and 2% *extra* contribution on salaries over £125,001.
3. NRA of 65 for all *new* entrants. Existing members retain current NRA.
4. Members who leave the scheme but return within 2 years shall not be regarded as a new entrants.
5. All members will have the right to an actuarially reduced pension on retirement between age 55 and NRA.
6. The introduction of a flexible retirement scheme the benefits of which will apply to all members from age 55, and which will include those members who are post 65.
7. The retention of a *final salary* pension scheme.
8. Cost sharing to be introduced, *in relation to future service and effective from the next actuarial valuation in 2011,* and covering longevity, salaries and the investment risk. The employers will meet 65% of the costs and the members 35% of the costs.
9. A working party of the JNC, or preferably the JNC itself, to manage the new cost- sharing arrangement and other issues arising from the actuarial evaluation and at other times as and when required.
10. One UCU appointed Director to be a member of the Investment Committee
11. An amendment to scheme rules replicating existing provision to prevent an amendment to the Pensions (Increase) Act 1971 resulting in the scheme's provision for indexation of benefits being altered.