University and College Union

A specification of proposals to change USS

June 2010

UCU Specification Summary — to be implemented with effect from 1 April 2011

	Proposals
A	A NPA of 65 will be introduced for new entrants. Existing members will retain their current NPA.
B	A flexible retirement scheme will be introduced which will be available to members from age 55.
C	A tiered contributions structure will be introduced to increase the employee contribution rate. The contribution rate will remain 6.35% for those earning £25,000 or less.
D	Cost sharing to be introduced in relation changes in the future service contribution rate and effective from the next valuation in 2011. The cost share basis will be 35% for employees and 65% for employers. Any past service deficit contributions will not be shared.
E	Pension increases—the scheme rules will be amended so that the increases applying to pensions in payment will be based upon increases in the retail prices index. The link to official pensions will be removed.
F	One UCU director will be appointed to the Investment Committee.

Normal Pension Age for new entrants

1 A Normal Pension Age (NPA) of 65 shall apply to all new entrants to the scheme on or after 1 April 2011.

2 In cases where a member leaves the scheme on or after 1 April 2011, and returns to scheme membership within two years of leaving the scheme, he/she will not be classified as a new entrant for the purposes of 1 above (and will therefore not be subject to the NPA65 rule). In addition, in the case of a person who is a deferred pensioner as at 31 March 2011, if such a person re-joins the scheme on or before 31 March 2013 then, similarly, they will not be treated as a new entrant for the purposes of 1 above.

3 The existing re-joining rules shall continue to apply in respect of members who re-join the scheme, namely that the member will have the option to link their periods of service, or alternatively keep the periods separate (with the prior period being deferred benefits).

4 For the sake of clarity, a member who joins the scheme as a new entrant on or after 1 April 2011 shall be entitled to retire early — in general, from age 55 — with an unreduced pension in circumstances where their employment is terminated due to:

(i) redundancy; or
(ii) in the interests of the efficient exercise of the institution's functions (provided that the employer grants consent to payment of the benefits).

It should be noted that there will be no provision available for such members to seek their employer's consent to retire with unreduced benefits upon reaching age 60, such consent not to be unreasonably withheld.

5 If a member retires on grounds of incapacity (either total or partial incapacity), an unreduced pension shall become payable, as under the current rules.

6 A member may elect to retire early — between age 55 and NPA — with an actuarially reduced pension. No consent shall be required from the trustee company to retire early in these circumstances. In order to be eligible for this provision, a member must have "qualifying service" in the scheme (ie generally speaking have two or more years membership).

7 A person who had preserved benefits may elect to draw their benefits early (but not earlier than age 55) and receive actuarially reduced benefits.

8 No consent shall be required from the trustee company to draw deferred benefits on an actuarially reduced basis (as set out in 7 above).

9 Members will be eligible to continue in pensionable membership of USS after reaching age 65. A member will have a choice as to whether he/she wishes to continue to contribute beyond age 65 (as is the case under the current rules). Where a member makes such an election to continue to contribute to the scheme, his/her employer will be required to continue to pay employer contributions to the scheme. The accrual of service after age 65 will be specified in the scheme rules.

10 With regard to benefits that, in the future, are determined by reference to an assumed retirement age (eg service credits secured from a transfer-in, added years AVCs etc.), the assumed retirement age will be age 65.

11 The NPA for new entrants (in paragraph 1 above) will be specified as age 65, however, this could be subject to future review, undertaken in the normal way.

Normal Pension Age for existing members

12 Active members of the scheme as at 31 March 2011 shall retain their existing NPA. It is intended that such existing members should continue to be eligible to retire – with unreduced retirement benefits –upon reaching their contractual pension age or at age 60 with the consent of the employer (not to be unreasonably withheld), or at their own volition at age 63 1/2.

13 The current provisions regarding early retirement shall continue to apply to existing members (ie an unreduced pension will be payable in circumstances where (i) the member's employment is terminated by reason of redundancy, or (ii) on efficiency grounds and the employer consents to early payment, or on (iii) the member's request upon reaching age 60 (with employer's consent, not to be unreasonably withheld).

14 In addition, if a member retires on grounds of incapacity (either total or partial incapacity), an unreduced pension shall become payable as under rule 13.

15 A member may elect to retire early – between age 55 and their NPA – from active service with an actuarially reduced pension. No consent shall be required from the trustee company for an individual to retire early from age 55 with actuarial reductions. In order to be eligible for this provision, a member must have "qualifying service" in the scheme (ie generally speaking have two or more years membership).

16 A deferred member may elect to draw their benefits early (as described in paragraphs 7 and 8 above).

17 In respect of benefits determined by reference to an assumed retirement age (eg service credits, AVCs), the current practice shall remain unaltered.

Flexible retirement for existing members of the scheme'

18 In general terms, the flexible retirement arrangements permit members to draw a specific portion of their accrued retirement benefits, whilst continuing in pensionable employment in a reduced capacity.

19 These arrangements will come into effect from 1 April 2011.

20 In order to be eligible to access the scheme's flexible retirement arrangements, a scheme member must receive the consent of his/her employing institution, such consent not to be unreasonably withheld. If this is a new employer the member must do this within 6 months of leaving their previous employer and not later than 3 months with their new employer and USS should be able to certify the required reduction.

21 In order to be eligible to access the scheme's flexible retirement arrangements, a member must reduce his/her working hours by a minimum of 20%, or alternatively reduce his/her salary[2] by a minimum of 20%.

22 For the avoidance of doubt, a member will be entitled to continue to participate in USS in respect of the continuing employment.

23 A member's employer will be required to certify to the trustee company that the reduced working arrangements are to subsist for a period of a minimum of 12 months. This is intended to prevent institutions/members from agreeing temporary reductions in employment which are quickly restored (and during which time flexible retirement benefits have been drawn).

24 The existing definition of "retirement" within the scheme rules will be retained, which means that, in order for a member to retire and be in receipt of their benefits from USS, they must satisfy the "retirement" definition[3]. A "flexible retirement" definition shall be added to the scheme rules.

25 Where a member accesses benefits under the flexible retirement arrangements, if he/she takes up any further employment with a participating institution, such further (new) employment will not be pensionable under the scheme, if it is greater than the original reduction if it brings the members' aggregate salary (in real terms) or part-time service fraction above the level s/he agreed to reduce them to. This is separate and distinct to the employment which has continued - in a reduced capacity - following the accessing of flexible retirement benefits, which continues to be pensionable. A discretion for the trustee company will be included to allow some flexibility in this area, in exceptional circumstances.

Including those who are deferred members on 31 March 2011 who re-join the scheme on or before 31 March 2013

2 *The reference to "salary" here is to the definition of this term in the USS rules*

3 *The existing definition of retirement states: "the cessation. .. of employment which gives entitlement to membership without the member taking any other employment which would give entitlement to membership"*

26 The options for cash commutation offered upon a flexible retirement will be the same as those when retiring in full.

27 A member, upon becoming eligible for flexible retirement, will be eligible to draw a maximum of 80% of the retirement benefits then accrued under the scheme. The minimum proportion which may be drawn under the flexible retirement arrangements is 20%.

28 For administrative ease, a member is entitled to elect to receive benefits in 5% increments or such other reasonable limits as the trustee company may require.

29 The method of measuring the 80% and 20% (maximum and minimum benefits) will be by establishing the capitalised value of retirement benefits to which a member is entitled under the scheme, using the method prescribed by HM Revenue and Customs in determining the value of an individual's benefits for the purposes of testing against the lifetime allowance. For the avoidance of doubt, this assessment will include all additional voluntary contributions, but will exclude any benefits to which the member entitled but which relate to another member's entitlement in the scheme (for example, where a member is also entitled to a spouse's pension from USS).

30 A member will be entitled to draw benefits under the flexible retirement arrangements on a maximum of two occasions, before drawing benefits in their entirety on a third occasion. In cases where there is a second occasion on which flexible retirement benefits are drawn, the 80% and 20% limits (as specified in 29 above) will apply to all of the benefits accruing to the member under the scheme. Importantly if, for example, 50% is flexed at the first occasion and then 80% at the second opportunity, the 80% will be based upon the value of all of the member's benefits under the scheme less what has already been vested.

31 Subject to 38 below, the benefits payable to members under the flexible retirement arrangements are payable on a non-actuarially reduced basis where the flex of benefits is taken on or after the member's 60th birthday. Where benefits are drawn earlier than age 60, they will be payable on an actuari, reduced basis. A late retirement factor will be applied to the benefits accrued prior to age 65 where service continues after age 65, on actuarial advice.

32 With regard to the salary used in the calculation of benefits, it is confirmed that "pensionable salary" (as defined in the scheme rules) will be used, and benefits not already vested will continue to be linked to pensionable salary.

[UCU needs to consider how the salary linking will work where a member moves to lighter duties and remains 100% of full time, however, its initial preference is for the 13 year assessment of pensionable salary to be applied.]

33 In the event of the death in service of a member who has accessed flexible retirement benefits (but not retired entirely), the lump sum benefit shall be calculated in the normal manner (ie based on the annual rate of salary of the member at the date of death). In addition, any lump sum benefits in

respect of the flexible retirement pension already in payment will be payable. The general principle is that no double counting shall occur in these calculations and particular attention will be needed in areas, for example where a member flexes their maximum proportion of benefits and dies in service shortly after. [The definition of other death benefits in these circumstances shall be consistent with the scheme's general provision of death benefits in other circumstances (i.e. spouses, children's dependant's pensions) and the detailed application shall be a matter for the trustee company, on the advice of the Advisory Committee where appropriate].

34 Members will be entitled to access the flexible retirement arrangements in respect of any employment that is a variable-time employment (as defined under the scheme). The employer would need to consider whether flexible retirement is suitable for a sole VTE when providing its consent.

35 In the event of any questions arising over the application of the flexible retirement arrangements in any particular circumstances — which are not prescribed in the rules — such questions shall be decided at the discretion of the trustee company, taking advice from the Advisory Committee where it considers that to be appropriate. The member should be able to appeal against the decision.

36 Where the member has a money purchase AVC fund, any benefits derived from the fund must be taken in their entirety or not at all ie it is not possible to draw part of a money purchase AVC fund.

37 Where a member has an added years AVC contract (or contracts), it shall be possible to take the benefits derived from the AVC contract(s) in full upon the first flex or defer it until final retirement.

UCU would wish it to be possible to split the contract on flex (only part paid for) without requiring a new contract to be started if it is still in place.

Flexible retirement for new entrants to the scheme on or after 1 April 2011 (ie those members with an NPA of 65)

38 The same principles as defined for existing members apply, except that the references relating to actuarial reductions described in 31 will be to age 65 and not age 60.

Employee contributions

39 The rate of ordinary employee contribution to USS will be revised, with effect from 1 April 2011, to the following contribution percentages:

Members with a salary level (FTE earnings) of:	**Contribution Rate**

£0	to	£25,000	6.35%
£25,001	to	£75,000	7.35%
£75,001	to	£125,000	8.35%
£125,001	onwards		9.35%

40 The rates of employee contribution shown in paragraph 39 above will apply to the entire salary[4] of a member.

41 The rate of contribution to the supplementary section of USS will remain at 0.35%.

42 The salary levels identified in the table in 39 above are the full-time equivalent salaries of members.

43 Members who are over age 60 upon joining the scheme are currently required to pay an additional contribution (most recently at the rate of 1%). The requirement for this additional contribution will continue unchanged, for new and existing members who join (or joined) the scheme over age 60.

44 The maximum additional contribution payable by members to the added year's additional voluntary contribution arrangements will be 15% of salary, and therefore the maximum overall contribution in these circumstances will be the relevant rate specified in paragraph 39 plus 15%.

45 The salary levels specified in paragraph 39 will be reviewed annually in line with increases in the non-manual average earnings index. This method of review will be stated in the scheme rules, however the subsequent revised salary level values will be recorded not in the rules but in associated documentation (in a similar manner to the default salary for variable time employees).

46 Cost-sharing arrangements will be introduced following the valuation as at 31 March 2011.

47 The cost-sharing arrangements referred to in paragraph 46 mean that future increases to pension costs in USS — which are derived from increases to the future service contribution rate — will be shared between members and employers (ie on the basis of 35% employees, 65% employers). For the avoidance of doubt, these arrangements do not apply to contributions which may be required to fund a past service deficit.

48 The cost share arrangements shall also operate in the event of a decrease in the future service contribution rate, and therefore such decreases would be shared on the '35% for employees and 65% for employers' basis.

4 *The term "salary" here is used to mean the defined term in the USS rules*

49 The arrangements specified in paragraph 46 are to be specified in the scheme rules.

50 The Joint Negotiating Committee (or a sub-committee of it) is to be given additional responsibilities in the scheme rules to address projected increases or decreases in the scheme's contribution requirements. In the event that the trustee company advises the committee of the likely need for a contribution rate increase/decrease, the committee will decide whether such increases/decreases shall be dealt with under the cost-sharing arrangements, or whether other options should be implemented (for example, a change to future scheme benefits), all of which should be on a cost sharing basis. The default — in the event of the JNC being unable to reach a decision — will be that any contribution increase/decrease relating to the future service contribution rate is shared under the cost-sharing arrangements specified in paragraph 47. The default for any contribution rate increase resulting from a requirement to meet a funding deficit will be that such requirements are met by the employer. In default position only changes to contribution requirements are permissible.

Pensions increases

51 The changes to pensions increases will be implemented from April 2011 for pensionable service accrued after this date. From April 2011 onwards, the pensions payable in respect of such benefits will be increased annually in line with increases in the Retail Prices Index over the twelve months to the previous September.

52 It is intended that a pensions increase rule will be introduced to replicate the current practice without meeting the Pensions (Increase) Act 1971. UCU wants to ensure that any pension increases awarded under the Act are not changed and that in future the trustee company can apply further increases to pension other than GMPs on specific actuarial advice and would not be lower than those specified in the Act.

53 The reference period in the scheme rules for measurement of the increases in the Retail Prices Index —and other related technical references, for example to the commencement date for pensions increases and their effective date, the pensions increase arrangements for those under age 55 etc. — will be the same as that hitherto used for increases to "official pensions".

54 Increases relating to supplementary service benefits will, in the future, be subject to the scheme-specific pensions increase rule (as referred to in paragraph 52). The trustee company will no longer have discretion over pension increases that apply in respect of supplementary service benefits.

55 Revaluation of deferred pensions will be based on increases under the revised pension increase rule in paragraph 52.

56 In order to protect subsisting rights, a pension will not be able, in so far as derived from service before April 2011, to fall below the level it would have reached if it had been an 'official pension' under the Act (as modified by the present sub-rule 15.3).

Membership of the investment committee

57 One UCU appointed director to be a member of the Investment Committee (no further specification necessary).