University and College Union

We note that the Employers Pensions Forum for Higher Education has circulated a leaflet for those active and prospective members who it is thought would be affected if the proposals they put through the JNC were implemented. They offer it as a supplement to the paper produced by the scheme's trustee company.

In the present paper, UCU offers its commentary on the EPF document (and the headings below follow those used in it).

UCU riposte to EPF on: 'USS – the need for reform'

Introduction

'The need for reform' of USS is predicated on the inability of the employers 'to fund the rising costs of USS in its current form'. But the proposals they are supporting would not, in the next five years or more, bring about any material reduction in the proportion of staffing costs devoted to pension provision. The employers have committed themselves to the current rate of employer contributions for the indefinite future.

The employers have not had a consistent view of what the scheme needs. In April they secured a bunch of important people's endorsement for the proposals they then made as 'the minimum change necessary' [the employers' emphasis]. The very same document was produced in June to support a proposal for even further change. Next, the Government announced that henceforth official pensions in payment or deferment would rise in line with CPI instead of RPI, and since USS pension increases are tied by rule to those of official pensions, this change immediately took around £2 billion off the past service liabilities and at least 1.5% off the aggregate future service contribution rate required. But rather than deciding that the cuts in their staff's future living standards might be at least in part restored, the employers introduced a new proposal that the rules be changed so that the less generous CPI measure will be used even if Government were to go back to using RPI.

As to 'the virtual certainty of further increases in costs', it is important to distinguish between cost increases and the capacity of the scheme to meet them, on which see further the next section.

Why are pension costs increasing ?

UCU recognises the cost implications of increased longevity, the fall in investment returns in recent times and the modest salary gains that have been made in the past few years (not showing signs of being repeated in the immediate future). Investment returns are, however, liable to move upwards as well as downwards, and have most recently shown an improvement. What is important is whether the scheme is in sufficiently good health to cope with those increases. UCU believes that it is, with only significantly less drastic changes than currently proposed being needed to secure that position and to meet regulatory requirements.

The employers claim that “the next scheme valuation, in 2011, is expected to reveal a funding deficit in respect of past service benefits” But until one sees next year what the balance will be at the relevant date between volatile factors, it is impossible to know for certain whether any recovery plan will be required, and (if it is) whether the proposals now made are in that context too much, too little or just right. The authors of those proposals would be minimally affected if the proposed changes turned out to be more severe than will be required; while the unnecessary sacrifices would be made largely by young staff with limited term posts and by future staff. The needs of the scheme would be better assessed next year at the appropriate time, on evidence rather than speculations, instead of being pushed forward now.

How much does USS cost?

In the light of the employers’ evident anxiety to relieve the political pressures which they see weighing on the sector, UCU would have been prepared to see some changes, including increases to member contributions, made now to address the cost to the scheme of members’ increased longevity. Our proposals would have generated the net cost savings that the scheme actuary thought it would be appropriate to make ahead of the 2011 valuation report. We were prepared, moreover, to move away from the historic structure of the scheme, whereby meeting any balance of cost is the responsibility of the employers, and to commit to a mechanism for members to share future cost increases with the employers. We stand by those proposals.

What happens if USS stays the same?

This paper deals elsewhere with the present and likely future cost to employers of the present scheme, as well as with the employers’ claim that ‘the aim of [the] changes is NOT to allow the employers to save money’.

The case for a CARE scheme for new entrants

UCU has not ruled out the future movement of USS to a career average (‘CARE’) benefit structure, for there are respectable arguments in favour of such a structure, especially in a mature scheme. But the fairness of the structure is critically dependent on the accrual rate and revaluation method chosen. The accrual rate is the fraction of salary added to a member’s pension pot each year: it is 1/46th in the civil service CARE scheme, nuvos, while the comparable figure for the CARE scheme now proposed for USS is a little less than 1/68th.

Another disadvantage in the employers’ proposals for USS is that while a pension pot in nuvos will move up each year in line with UK price inflation (irrespective of its level); under the proposals for consultation within USS, such increases would be capped, so that members would lose out in real terms as soon as annual inflation exceeded 5% (or 2½% for service before a break in membership).

To describe the CARE proposals under consideration as offering ‘attractive benefits for future members’ may be easy if one’s occupational pension income would never be restricted to those benefits. But pensions represent pay deferred until retirement, and we doubt the employers’ spin doctors would risk attempting to justify a salary cut of comparable size with a lyrical description of the attractiveness of the resulting remuneration. They know our colleagues would see through that. We believe that, whatever some people’s perception that only those on the brink of retirement care about pensions, everybody knows their value now, and know when someone is trying to strip that value away.

In conclusion

The employers stress that ‘the aim of these changes is NOT [their emphasis] to allow the employers to save money’. That is not easy to believe when their paper repeatedly makes such comments as ‘employers…are certainly unable to fund the rising costs of USS in its current form', 'it would…be considered unacceptable to use additional public funds to meet increased pension costs', 'the employers' proposals for reform are designed to address rising costs and produce a scheme that is affordable in the face of the severe squeeze on higher education sector income'.

Why, anyway, should increased pension costs be any more unacceptable than increased utility bills for institutions? This is the age-old negotiating stance: all costs are unavoidable except staff costs. And if the employers' representatives are so unprepared to draw on public funds for pensions costs, why have they committed themselves to meeting 65% of additional costs that might arise from future actuarial deficits?

UCU's conclusion

In the employers' proposals, the current atmosphere of doom and gloom seems to have been taken as an opportunity to effect a permanent financial reduction for university staff. The employers may not be looking to save money in the short term, despite the case they make that they need to do so. But in a supporting paper put to the JNC in July, they indicated an aspiration to reduce the employer contribution to USS to around five-eighths of its current level. If the proposals under consultation were introduced and maintained, so bad are the future pension rights they offer that such an objective might well be attained.

We therefore call on all those consulted to write in to expose the threadbare justifications offered for the recommendation before the trustee company, and to resist as forcefully as possible this hollowing out of higher education pension provision.