University and College Union

In addition to the booklet produced by USS, the employers have been permitted to also send a letter entitled ‘the need for reform’ to every USS member. The letter, like the booklet, presents just one side of the argument and barely acknowledges that other proposals exist – such as UCU’s, which would not reduce benefits.

This biased approach is disappointing but in keeping with an approach from the employers which has seen them reject UCU’s request for a ballot of all USS members.

Below we reprint the key points made by the employers in their letter together with UCU’s response in each case. We, at least, recognise there are two sides to the argument.

‘The need for reform’
A UCU perspective

The employers say...

This paper explains why changes are needed to make sure that USS remains sustainable, affordable and attractive for everyone in the sector. The key point is that the cost of providing current USS benefits – and the virtual certainty of further increases in costs – is no longer sustainable.

UCU’s response

The paper is a one sided view which ignores other alternatives. Actuarial advice confirms that UCU’s proposals are sufficient to deal with the current challenges within USS and ensure the fund is ‘sustainable’.

It will be difficult to maintain USS benefits as ‘affordable and attractive’, if a CARE scheme is introduced which is worse than that in competitor professions and leads to future staff paying more to receive lower benefits.

The employers refusal to put both their and UCU’s proposals to members indicate the weakness of their argument which is based on the supposed need to act now even though the next fund valuation is due in 2011.

WHY ARE PENSION COSTS INCREASING?

The employers say...

The main reason is that members are living longer and are receiving their pensions for many more years than was anticipated when these schemes were originally designed. The life expectancy of an individual retiring today is many years longer than it was when the scheme was set up in 1975; new joiners are expected to live even longer. This has already resulted in a 2 per cent increase in the employer contribution rate last year (as mentioned below) and there will be further increases in cost if longevity continues to improve, as is expected.

The long-term cost of providing USS benefits has also been affected by the recent downturn in investment returns and predictions of lower long-term returns in the future. For example, if USS were to suffer a shortfall in its assets of 10 per cent (£2.5 billion) as a result of market performance, this could result in additional contributions of 2 per cent (c.£130 million) every year over a 30 year period. On top of this, salaries in the higher education sector have risen faster than anticipated in recent years and (since it is currently the final salary which determines benefits payable for the entire pensionable service) this has had an impact on the cost of providing benefits already built up (past service benefits) as well as those for future service. The mis-match between the actuarial assumptions and actual salary growth required USS to establish a reserve which by 2008 was as much as £1,350 million.

UCU's response

As the employers themselves point out "currently USS as a 'young' scheme benefits from a positive cash flow, where the contributions paid by active members and employers more than cover the regular benefit payments and scheme running costs."

UCU believes the employers have exaggerated the threat to USS to justify their preference for their preferred package of changes. The longevity pressures on USS, while real, are addressed by our own reform proposals. The government-imposed move to linking pensions to CPI rather than RPI has removed £2 billion from past service liabilities as well as reducing the future contribution rate. The performance of investment markets has in fact been relatively good and the fund has grown by £8.28bn to reach a fund total of £30.197bn in the year up to March 2010. There is no reason to think that the valuation of the fund in 2011 will reveal an urgent case for radical reform and certainly not necessarily for this particular package of reforms. If it does, as joint custodians of the fund, UCU will act responsibly and in the interest of fund members. Acting now though is unnecessary and precipitate.

Data from HESA shows that the proportion of expenditure spent on staff costs (including pensions) by UK universities has actually fallen slightly from 58.5% in 2003-04 to 56.9% in 2008-09.

HOW MUCH DOES USS COST?

The employers say...

The cost of USS is already very substantial. At the beginning of 2009 the employers were paying contributions equal to 14 per cent of scheme members' salaries, some £750 million. During the year, the employers were required to fund a 2 per cent rise in contributions to cover the increases in life expectancy identified in the scheme's 2008 actuarial valuation. This increased the employers' contribution for 2009 by £120 million to £870 million. USS employers now pay 16 per cent of salaries into the scheme with members contributing a further 6.35 per cent.

UCU's response

UCU proposed that the employers and staff share future costs on a 65/35% basis which given the low salary increases in recent years seems a fair balance.

During the negotiations the employers admitted that their real agenda was to reduce their costs from 16% to around 10%.

WHAT HAPPENS IF USS STAYS THE SAME?

The employers say...

The funding of higher education is under severe pressure. In the emergency budget on 22 June, the Chancellor announced that the coalition Government would seek to remove the UK's deficit entirely

by 2015/16. As a result, it seems likely that higher education could be facing significant cuts in public funding over this period. There is also uncertainty about whether the recommendations of the Browne review of higher education funding will gain Parliamentary approval and about the impact of new immigration controls on international student fee income. In this environment, where institutions are facing a significant squeeze in their income, the failure to control pension costs can only lead to additional reductions in staff numbers, with a consequent impact on the student experience and research. The higher education sector is still significantly publicly funded and it would, understandably, be considered unacceptable to use additional public funds to meet increased pension costs. Therefore, if we do not implement changes now which will allow us to continue to provide a good level of pension for current and future members, it is highly likely that we will be compelled to seek more drastic changes in the future.

UCU's response

This is a completely bogus argument. No one is suggesting that USS stay the same. UCU's proposals secure the fund's future without reducing benefits or creating a two-tier system.

Basing the long term future of USS on whether or not the Browne proposals go through parliament is as foolhardy as it would have been in 1997 to assume that the sector would be soaked in riches arising from the introduction of tuition fees.

Funding policies change and while the union fundamentally disagrees with the Browne reforms, we do note with respect to USS that Browne himself envisages overall future funding being stable albeit a substantial proportion coming from non-public sources in the future.

There is no evidence that pension costs are or may in the future impact upon the student experience. The financial trend is in fact the reverse with staff costs taking a lower proportion of overall expenditure now than five years ago.

UCU agrees with a report commissioned by the British Universities Finance Directors Group in 2007 and written by Professor Michael Bourn which stated that "any pension advantage which there might be [for HE staff] must be set against the comparatively modest salary levels in HE, particularly for academic staff. Notwithstanding recent and impending increases in salary rates, HE pensions are based on modest salaries by comparison with alternative competing professional occupations, and it is ostrich-like to pretend otherwise."

WHAT ARE THE PROPOSED CHANGES?

The proposals for reform accepted by the USS Trustee Board are summarised here (full details are available on the USS Consultation website):

- Retain final salary pension provision for all current members of USS
- Move pension age to 65 for members who are under age 55 on 31 March 2011. This change will only apply to future service which accrues from 1 April 2011 onwards and does not necessarily

UCU's response

These proposals reduce benefits and rights for both existing and new members of USS. However even they are not the full extent of the employers' ambition.

During negotiations with UCU, the employers initial proposals were to place both existing and future members on CARE career average benefits. These proposals were only withdrawn after protests from mean that members have to work until age 65 (members can retire earlier, but if they do so the benefits based on a pension age of 65 will be reduced for early payment)

- Link further increases in the normal pension age in USS to changes in the state pension age
- Increase current members' contributions by 1.15 per cent (to 7.5 per cent) from 1 April 2011
- Introduce a new flexible retirement scheme enabling the option of taking some benefits from age 55 whilst continuing to work part-time
- A cap would be implemented on the amount of annual increases to pensions once in payment, and to the revaluation of deferred benefits, with the link of pension increases for future benefit accruals to the consumer prices index (CPI) rather than the retail prices index (RPI) – quite separately, the government has already announced a change to existing pensions increase arrangements from RPI to CPI
- Introduce a career average re-valued earnings (CARE) type scheme for new members who join the scheme from 1 April 2011 onwards, where a pension of 1/80th and a lump sum of 3/80ths of salary would accrue each year, with an employee contribution rate of 6.5 per cent and pension age of 65
- Any future increases in the USS contribution rates will be shared with the employers meeting 65 per cent of the increase and the members 35 per cent

UCU, indicating that the employers see the current proposals as the beginning not the end of a process which will see all staff facing reduced benefits.

Precedent tells us that two tier pension schemes are unsustainable. When introduced elsewhere, existing members have been forced into the inferior, lower tier within four or five years. The two tier system threatens all – not just new entrants and re-joiners.

The employers proposals also make it cheaper for employers to make staff redundant; make it more difficult for staff to take early retirement without loss of benefits; and will mean staff made redundant and out of the sector for more than six months losing their right to return to the final salary part of the scheme.

Who wants their pension eroded by inflation as USS removes the link with RPI? Early leavers (post 31/03/11 service) will have a link to CPI with a 2.5% per annum cap. Over 30-40 years your pension will be worth a lot less.

THE CASE FOR A CARE SCHEME FOR NEW ENTRANTS

The employers say...

CARE stands for career average re-valued earnings scheme. This is a defined benefit scheme where the pension is based on average pay over the whole period of membership, with each year's pay revalued in line with CPI. The CARE type approach is considered to be fair and equitable. It reduces, substantially, the risk to USS from members who receive higher than normal pay increases, particularly near retirement age, while still ensuring members can plan on receiving a secure defined benefit pension.

The CARE type benefit structure for new entrants,

UCU's response

The employers' CARE proposal is far from being 'fair and equitable' as described. You can see the difference it makes to individuals' pension payments by clicking here:
http://www.ucu.org.uk/media/pdf/m/c/comparison_malelumpsumandlosses.pdf

UCU has never been opposed to CARE in principle, so long as it matches existing benefits. Some CARE schemes, such as in the Civil Service, can be very beneficial. However, the CARE scheme being advocated is a very poor deal by comparison.

which will be introduced from 1 April 2011, provides secure defined benefits at a reasonable cost to employees. The employee contribution rate will be 6.5 per cent (compared with a revised contribution rate of 7.5 per cent for the final salary section).

CARE is an essential part of the strategy for controlling future costs, but it will take a considerable time for the change to have a significant impact as the number of CARE members will build up over a long period. It is likely that it will be at least 40 years before the last members of the final salary section retire.

The proposed accrual rate – the fraction of salary added to a member's pension pot each year – is less than 1/68th, as compared with 1/46th in the Civil Service scheme.

The reality is that the employers' proposals will lead to a divided workforce, and with enforced redundancies on the increase in higher education even those currently within the final salary section of the scheme face the prospect of being transferred into CARE if they are out of the sector for a relatively short time.

The employers made it clear during negotiations that their long term aspiration is for all staff – existing and future – to move to CARE benefits , saving them millions and costing individual members of staff many thousands of pounds each in lost pension expectations.

A new entrant following a standard career path and retiring at the top of the lecturer scale would lose almost £100,000 at current values. Someone retiring at the top of the senior lecturer scale would lose over £120,000.

IN CONCLUSION

The employers say...

The proposed changes are considered by the employers to be right for the benefit of the scheme and its members. They preserve the maximum level of benefit for existing members, introduce what is still an excellent defined benefit scheme for new entrants and provide an essential mechanism for controlling future costs. Please remember that the aim of these changes is NOT to allow the employers to save money. In fact, as mentioned earlier, the employers actually increased their contribution by 2 per cent in 2009.

Employers will continue to pay a contribution rate of 16 per cent and this may have to increase after future triennial valuations, albeit mitigated by the cost-sharing provision. These reforms will help to make sure that USS costs are sustainable so that employers can continue to provide affordable, attractive pension benefits to both current and future members.

UCU's response

The employers' proposals are NOT the only answer to the challenges faced by USS. Taken together as a package they are unnecessary and divisive, as well as being opportunistic in using the context of recession to seek to reduce benefits.

A measure of the lack of credibility of the employers' proposals is their refusal to put UCU's counter proposals to USS members alongside their own.

A further sign is the decision of the employers to block UCU's proposal for a ballot of all fund members.

Despite receiving nearly £700,000 of taxpayers' money to "sell" pension changes to staff, they have failed dismally. An earlier set of proposals were rejected by 97% of staff in a UCU referendum.

A sensible employer would have substantially changed their proposals in order to gain the support of their staff.

Our employers have, regrettably, chosen to avoid any kind of vote or referendum on the package which is why UCU has been forced to start its own to give fund members a say: www.ucu.org.uk/defenduss

UCU'S ADVICE TO MEMBERS

USS members have two ways to make their views known on the future of the fund.

1. Although the formal consultation falls far short of the ballot that fund members have asked for, we are still recommending that every fund member participate by going to www.ussconsultation.co.uk. Some members may wish to give comprehensive answers to the questions asked in the employers' consultation and this document will be of assistance to those who wish to do so. Others have asked us to suggest a form of words for them to use when answering each of the online questions. The union suggests that you respond to every question asked in the online consultation as follows:

   "This proposal is part of an overall package which is detrimental to both existing and future members of USS, and which creates a highly divisive and damaging two tier benefits system. The challenges facing USS could be dealt with without reducing benefits by adopting the UCU proposals. My clear view is that the USS Board should listen to fund members, and not implement the employers' detrimental package of proposals."

2. UCU's referendum on the future of the USS is open to all scheme members whether members of the union or not.

   Go to www.ucu.org.uk/defenduss to participate.

UCU'S COMMITMENT TO MEMBERS

While our view is clear that the employers' proposals are unnecessary, we hope that whatever your views are you participate in both the employers' formal consultation and the UCU referendum.

UCU general secretary Sally Hunt has committed the union to abide by the majority view of fund members whatever that is. We suggest that fund members should seek the same commitment from their employers and the USS Board.