

USS National Dispute Committee Branch briefing note for lobbying employers on the present consultation

USS is currently consulting employers on their proposed 2018 valuation. If fully implemented the proposals in the JEP report would result in no deficit (and even a modest surplus). But USS have rejected two--postponing de-risking for 10 years and smoothing contributions over two cycles and will only consider implementing another two changes if employers agree to contingent contributions: that is, if USS determines that certain “trigger” conditions are met, contributions would increase automatically with no chance for employers or members to be involved in the decision. Employers may seek to pass some of the cost of these contingent contributions to members. Obviously, we have serious concerns about this, given USS’s track record so far.

UCU has asked all branches to lobby their Vice Chancellors to call on USS to implement the JEP proposals in full. Here are some arguments branches can make.

The Experts Say the JEP Report’s Recommendations Should be Accepted in Full

1) The JEP was made up of leading experts in the field -- their recommendations were unanimous.

2) UUK’s Expert Advisors Agree

AON, the actuary hired by Universities UK, said that, “our preference would have been for the USS Trustee to accept the JEP recommendations in full given the employer support”.¹

3) UCU’s Expert Advisors Agree

First Actuarial, the actuary hired by UCU, said “In our professional opinion and based on the information we have available, we could certify as prudent a valuation of the USS which follows the recommendations of the JEP, were either of us the scheme actuary to USS.”²

What are the Benefits of Implementing the JEP Recommendations?

USS has admitted that the scheme would be in surplus by £0.6bn if the JEP recommendations were implemented in full with no need for an increase in contributions from the present level of 26%.³

¹ AON, “USS Actuarial Valuation at 31 March 2018—Initial Thoughts,” 14 January 2019, <https://www.ussemployers.org.uk/briefing-resources/briefings/advisory-note-2018-technical-provisions-consultation>

² First Actuarial, “Report for University and College Union: Three Questions on the USS 2017 valuation”, 16 November 2018, https://www.ucu.org.uk/media/9971/First-Actuarial-three-questions-on-the-valuation/pdf/firstactuarial-3questions_nov18.pdf

³ https://twitter.com/Dennis_Leech/status/1070700581776490497, https://twitter.com/Sam_Marsh101/status/1070720321911701504.

What Happens if JEP Recommendations are not Implemented

- 1) Significantly higher contribution rates, possibly not much lower than those of the 2017 valuation.
- 2) “No Detriment” is the formal policy of UCU. Higher contributions for members could lead to further industrial action.

But What Will the Pensions Regulator Say?

The Pensions Regulator will say that the scheme has too much risk. The Pensions Regulator always says that. They said it in 2011 but did not challenge the valuation. They said the 2014 valuation was at the limit of acceptability. They say that the 2017 valuation is too risky but that they will take no action.

The Pension Regulator stands alone in saying that the USS covenant is only “tending to strong”, and this colours their view. USS have two independent reports on the covenant that both say the covenant is strong. The JEP agrees and says, “While the covenant is strong, the Panel believe the employer and Trustee may be able to agree a larger risk envelope.”⁴ [4]

According to the Pensions Act of 2004, the Pensions Regulator is required to act only if the valuation is judged to be imprudent, and it would be very difficult for them to make that case in this instance. The Pension Regulator is unlikely to act against a 2018 valuation that implements the JEP recommendations if it has been judged to be prudent by USS’s actuaries.

What are the Red Lines for UCU?

- 1) No reduction in benefits. There is no evidence to justify any reduction in current benefits.
- 2) No trigger increases in member contributions.

31st January 2019

The Aon report to UUK says on page 4: "If the individual changes proposed by the JEP were all applied to the 2018 valuation, then the resulting contribution rate would be lower (we understand c.26%)", <https://www.ussemployers.org.uk/briefing-resources/briefings/advisory-note-2018-technical-provisions-consultation>

⁴ Report of the Joint Expert Panel, 13 September 2018, p30, <http://www.ussjep.org.uk/report-of-the-joint-expert-panel>