

UCUBANHE/57 10 May 2019

Higher Education Branch Action Note

To All Higher Education Branch Secretaries, Presidents and Chairs

Topic Superannuation Working Group (SWG) report on USS to HESC 2019

ACTION: To consider the report and recommendations and circulate to members.

Summary This Branch Action Note provides a report on developments with USS and informs of the SWG's recommendations to HE Sector Conference

Contact Paul Bridge, Head of Higher Education

Dear colleagues

Please find attached the Superannuation Working Group (SWG) Report to HE Sector Conference 2019, which appears as motion HE4 on the HE Sector Conference Agenda.

Paul Bridge, UCU Head of Higher Education

ACTION REQUIRED: branches are asked to consider the report and recommendations and circulate to members.

SUPERANNUATION WORKING GROUP REPORT TO HE SECTOR CONFERENCE 2019

Introduction

Since the last HE Sector Conference and the Special Sector Conference on USS in June 2018, there have been a number of significant developments with the USS dispute. This report covers the key matters that have emerged in the last year and concludes with some recommendations.

N.B. At the time of finalising and circulating this report to branches, the USS response to the UUK proposals on the 2018 Technical Provisions valuation has not been published. We understand it is due very soon but, rather than waiting, SWG felt further delays could be problematic and that it was more important to circulate our report now in order to give branches as much time as possible before Congress to consider it.

Branches and members have been regularly updated with all significant developments; <https://www.ucu.org.uk/strikeforuss>

<https://www.ucu.org.uk/article/9831/USS-technical-provisions-employer-consultation>

As a result of the hugely successful industrial action in early 2018, UCU members voted to set up a Joint Expert Panel (JEP) to look at the disputed USS valuation. Following this agreement, Universities UK formally withdrew its Defined Contributions proposal and committed to retaining a guaranteed Defined Benefit pension.

Both HE Sector Conferences in 2018 resolved that UCU's position was one of 'No Detriment'. The SWG (UCU negotiators) have pressed 'No Detriment' during the many informal and formal meetings with UUK. The SWG has been consistent and clear with UUK in regards to any final offer that falls short of 'No Detriment' and the JEP recommendations will trigger a ballot of members for industrial action.

Meetings of the Joint Negotiating Committee and Finance and Benefit Sub Committee

There have been regular meetings of both bodies as well as other informal discussion over the last year. The SWG continues to vigorously press USS to implement all aspects of the JEP report. UUK are supportive of the JEP forming the basis of a solution to the dispute.

Had USS accepted the JEP recommendations as applied to the 2017 valuation, it would not only enable the protection of current levels of pension benefits it would also mean the contributions paid by both employers and members would be at 29.2%, split on a (65:35) cost sharing basis. This costs would fall significantly, to below the current 26%,

if the JEP proposals are instead applied to updated data as part of a 2018 valuation (see below).

However the Board has not accepted all of the JEP recommendations and at the time of writing are claiming that the correct total contribution rate, as an outcome from a 2018 valuation, is 33.7%. USS has failed to provide convincing justification of this higher rate. Nevertheless, the result has the potential to restrict the scope of the negotiating space between UUK and UCU.

UCU wrote to the Board in December to challenge this position;

<https://www.ucu.org.uk/strikeforuss>

The majority of the time in the meetings has been dominated by these and related discussions. UCU has also challenged the modelling used by USS to construct their assumptions that underpin the costs of the contributions they say are needed to keep pension benefits at current levels. In addition USS has indicated that it may be possible to get close to the JEP recommended contribution levels by other means. This requires UUK to make proposals in the form of additional contingent contributions. USS says these are needed following an intervention by the Pensions Regulator (tPR).

The UUK contingent contribution proposal and their critique of the USS 2018 valuation assumptions and other recent developments can be found here

<https://www.ussemployers.org.uk/>

<https://www.uss.co.uk/how-uss-is-run/valuation/2017-valuation-updates>

At the time of writing this report we await the response from the Board to the UUK proposal. The next meeting of the JNC is 17 May and HE sector conference will consider the outcome of that meeting when it meets the following week.

2017 Valuation

The 2017 Valuation has been completed and submitted to the regulator. The Rule 76 related contribution increases commenced in April 2018, which means the 0.8 % for members are now in place with a schedule of contributions.

<https://www.uss.co.uk/how-uss-is-run/valuation/reference-materials>

These are the phased increases determined by the board that will mean incremental rises in employer and member contributions in April 2019, October 2019 and April 2020, unless the Joint Negotiating Committee (JNC) agrees an alternative. The Rule 76 increases continue until they are overridden by a new schedule of contributions arising from the 2018 valuation.

2018 Valuation

It was agreed by the employers and USS that a 2018 valuation should be carried out to enable the improved scheme performance data to be used as a means by which something similar to the JEP outcome could be reached. In line with the decisions of HE sector conference, the SWG were agnostic to the new valuation. However the Board rejected two key recommendations of the JEP in regards to smoothing and de-risking. Also the Board is of the view that the employer's acceptance of less prudent valuation has increased risk.

Joint Expert Panel (JEP)

The JEP first report was published on 13 September. It was generally well received and considered to be an impressive and authoritative first report addressing Phase 1 of the JEP's two staged work stream as agreed in its terms of reference and endorsed by UCU members.

<https://www.ucu.org.uk/uss-jep-report>

The SWG welcomed the JEP report as the basis for negotiations with UUK and issued the following statement;

The UCU Superannuation Working Group (SWG) met on 18 September 2018 and considered the report of the JEP. After a wide ranging discussion the SWG welcomed the report as a significant and impressive piece of work. The SWG would like to express its thanks to the chair of the JEP and all members of the panel for the speed with which they undertook the task and for the report's findings and unanimous recommendations. The SWG agreed the following position in regards to the JEP report and recommendations:

- *SWG endorses the JEP report and its recommendations as basis for negotiations*
- *SWG looks forward to UUK and USS making the same commitment*
- *SWG encourages UCU branches to consider the report and recommendations and to seek the views of members*
- *SWG encourages branches to raise the report with their Vice Chancellor or Principal and encourage them to support the report.*
- *SWG looks forward to the JEP continuing its work on phase 2 of the agreed process.*

The report makes a number of proposals in regards to the 2017 valuation. The important key findings and unanimous recommendations in the report are;

1. The valuation should be completed using a fuller consideration of the employer's ability and willingness to bear risk – this would mean reassessing reliance on sponsor covenant.
2. The valuation should seek to establish greater consistency of approach between the 2014 and 2017 valuations – this would mean changing the approach to deficit recovery contributions.
3. The valuation should, where possible, result in intergenerational fairness and equality between Scheme members – this would mean smoothing future service contributions.

4. The valuation should use the latest available evidence and information when calculating contributions in considering the valuation – this would mean using the latest available data and taking account of recent investment considerations and outcomes.
5. The uniqueness of the Scheme and HE sector should be more fully taken into account in the valuation.

The cumulative effect of these recommended adjustments would:

- have a material impact on the scale of the 2017 valuation and resulting contribution increases
- create a space within which employer and members' can find common ground so that the issues around the valuation can be reconciled; and
- be consistent with the Trustee's fiduciary duties and the objectives of the Regulator

Finally, contributions are estimated to fall from the USS proposed 36.6% level in 2020 to 29.18% (with the removal of the match) and that the full JEP proposals if implemented could have maintained benefits without increasing contributions.

In January, the JEP started the second phase of its work which is to look for an alternative approach to future valuations which might enjoy the support of the key stakeholders and to look at how the governance of USS might be improved. Members and branches have been encouraged to submit evidence to the JEP, as did the SWG.

<https://www.ucu.org.uk/uss-jep-call-for-submissions>

One UCU nominee Catherine Donnelly has stood down and the new UCU nominee is Bryn Davies of Union Pension Services. Catherine's contribution to the JEP was recognised by both SWG and HEC.

National Dispute Committee (NDC)

In line with HE Sector Conference and Special HE Sector Conference resolutions and the decisions of the HEC, the NDC was elected over the summer. The result of the election was communicated to branches in UCUBANHE43. The NDC is tasked with providing a steer during the dispute and has met frequently. The NDC has been active and produced a range of materials, resources and commentaries;

<https://www.ucu.org.uk/uss-ndc>

Ethical Investment

UCU has long standing policy around areas of investment including controversial areas such as arms manufacturers and fossil fuels. UCU further believes that as a trade union it is important that, while defending our terms and conditions, we take account of wider issues such as "Responsible Investment" and fossil fuel and climate change action.

SWG Recommendations

1. The SWG to re-affirm the union's position of 'No Detriment' in all meetings with UUK and USS.
2. SWG to continue to challenge the flawed and discredited valuation methodology used by USS that produces unacceptable deficits and scheme instability.
3. That if the proposals for concluding the 2018 evaluation that emerge from the JNC accept 'No Detriment', UCU will put the proposals to members with an analysis and commentary on UCU policy.
4. That UCU remains vigilant and live to the need to move to ballot members and to enter into dispute with employers if they make proposals that fall short of 'No Detriment', UCU will put the proposals to members with an analysis and commentary on UCU policy.
5. On the publication of the second JEP report, expected in the autumn, UCU will provide analysis and commentary to branches.
6. UCU to reaffirm support for Share Action.
7. UCU to continue to lobby USS and campaign to develop an ethical investment policy, including low carbon investments and 'climate solutions', in line with UCU policy. UCU to campaign for USS to take action in response to the declaration of a UK Climate Emergency.
8. UCU to lobby USS when there are opportunities to show leadership on responsible investment and to assess and challenge their response as well as any continuing climate-related activities.
9. UCU to oppose any proposals to increase the number of non-UCU directors and campaign at an appropriate time for an additional UCU director.