19 April 2021

USS branch briefing: the current situation

UUK's proposed cuts to defined benefits

On 7 April, UUK launched a consultation of employers which closes on 24 May. UUK is asking employers whether they support proposals for benefit cuts, as a response to the extremely high contribution rates and other demands which USS is making in its 2020 valuation.

The benefits which members have already accrued are protected but for future service, UUK is proposing to:

- lower the salary threshold where defined benefit (DB) accrual stops from £59,883.65 to £40,000
- reduce accrual (and therefore the size of payments in retirement) from 1/75 to 1/85
- impose a CPI indexation cap of 2.5% (removing the protection of benefits against any inflation above that level)
- keep the contribution rate as it is now (9.6% for members, 21.1% for employers).

This proposal is very similar to (but worse than) the offer made by UUK under the auspices of ACAS midway through the 2018 industrial action [**https://www.ucu.org.uk/media/9300/Agreement/pdf/UCU_UUK_agreement_at_ACAS_12_March_Final.pdf**], which UCU branches decisively rejected.

UCU maintains that the contribution increases proposed by USS for the 2020 valuation are unnecessary. This view is supported by UCU's actuarial advisers, First Actuarial. UUK and their advisers, Aon, also believe that the rates and other commitments demanded by USS are excessive and unjustified.

UUK's attempt to secure staff support for a sub-par DC alternative

UUK is also consulting employers on options for addressing the high rates of staff opting out of the scheme. UUK's preference seems to be a defined contribution (DC) only option which would be aimed at low paid members of staff, provide no guaranteed retirement income, and almost certainly amount to a very poor pension compared with what USS members have now.

UUK is encouraging employers to start consulting their staff now to build a consensus in favour of this substandard DC package. UUK's consultation documents feature a template survey [**https://www.ucu.org.uk/media/11468/UUK-USS-consultation-staff-engagement-guide/pdf/STAFF_ENGAGEMENT_GUIDE.pdf**] with poorly framed, leading questions that highlight the supposed merits of a low cost DC option and barely reference the cuts to defined benefits which UUK is putting forward.

If UUK can cite staff survey results in support of their position, it will be a serious propaganda victory. UCU branches should prioritise stopping their employer from issuing the template survey if possible, and making staff aware of its shortcomings if they do.

Contribution increases in October 2021

Finally, negotiations are taking place against the backdrop of the next phase of contribution increases associated with the 2018 valuation, which are scheduled to take effect in October 2021. This will see member contributions rise to 11% and employer contributions to 23.7%. Both UCU and UUK and our actuarial advisers believe that USS can and should delay these increases if necessary.

However, UCU's view does not matter if we cannot force employers to come up with a better solution than the cuts which UUK is proposing.

What does a win look like?

First of all, branches need to make clear to employers that the cuts to defined benefits proposed by UUK are absolutely unacceptable and that UCU members are ready to campaign and take industrial action to force employers to withdraw them. The whole union will need to campaign, starting in the consultation window and escalating to an industrial action ballot, to demonstrate to all university staff, the press, politicians, students and the wider public that these cuts are not a viable solution to the problems with USS.

Assuming the UUK proposals can be beaten, the question remains of what the union should push for and consider as a victory and a long-term solution for USS.

Your elected negotiators and the wider Superannuation Working Group have discussed the issues and agreed to present an indicative set of five principles for an acceptable outcome to the 2020 valuation. Some of these principles could also serve as the basis of any future trade dispute with employers and industrial action, if they are not being met.

1. **Progressive contribution structures to enable more low paid staff to join and stay in USS.**

   The high rate of eligible staff opting out of USS membership is extremely concerning. UUK's preferred 'solution', of a defined contribution (DC) alternative for low paid and junior staff, will entrench inequality and precarity and reinforce the current low participation in USS. Like UUK's central benefit cut proposals, it is absolutely unacceptable.

Any resolution should provide equal benefits with equal security to low paid and junior staff, while making membership of the scheme more affordable for them than it is currently and more attractive to staff who do not intend to stay in USS in the longer term (e.g. staff who intend to work outside the UK).

2. An end to the downward spiral of contribution increases and cuts to retirement income.

Scheme members have suffered repeated attacks on their pensions. That must end with any resolution to this dispute, and we need to be sure we won't be back in another dispute with employers in three years' time.

3. The fund weighted towards return-seeking, ethical investments.

USS can provide members with very good pensions by ensuring that a significant majority of its holdings are in assets that generate relatively high returns. It should stop and ultimately reverse its current tendency to hold an increasing proportion of low-yield, fixed-income assets.

USS's holdings in fossil fuels and other ethical shortcomings as an investor are well known. Employers should work with UCU to explore solutions that will give UCU a stronger positive influence on the scheme's investment practices.

4. Commitments from employers on covenant support, governance reform, and lobbying for regulatory change.

None of the above will be possible without clear commitments from employers, beyond anything they have agreed to in previous disputes. For example, they could reinforce their own covenant by committing to a longer moratorium on employer exits from USS than the 20-year period UUK is consulting on. This should not be necessary to prompt USS to mitigate its proposed recovery plan and contribution rates, but it is expected to have that effect.

Employers must also push for thorough governance and regulatory reform. USS has resisted some of the recommendations of the Joint Expert Panel (JEP). The Pensions Regulator has continued to make inappropriate and poorly evidenced interventions in the valuation process that disregard the strengths of USS as an open, relatively immature, multi-employer DB scheme. Trust in USS and in TPR is at an all-time low among employers as well as members.

Employers must join UCU to explore every avenue to achieve change in the way the scheme is governed, including:

- mutually agreeable changes to the board composition and the scheme rules.
- public expressions of no confidence
- legal challenges
- lobbying for changes to regulation and other interventions at the highest levels of government.

Employers must also not abandon their recent request for USS to review its valuation methods and assumptions.

5. Exploration of conditional benefits on terms acceptable to UCU members.

UUK has indicated some willingness to explore another solution that might constitute a superior alternative to its central benefit cut proposal: conditional benefits (which UUK and its advisers, Aon, refer to as 'conditional indexation'). The details would need to be worked out but essentially this would mean that the protection of benefits against inflation will depend on the extent to which the scheme performs in line with or above the forecasts made at each valuation.

Conditional benefits would mean that USS would continue as a collective, mutual, multi-employer scheme with an ability to invest for the long term in growth-seeking assets. If implemented properly, it could also:

- allow the overall contribution rate to be lower than it is now and to reduce further over time
- create opportunities to make the scheme more affordable for low paid staff than it is currently
- return higher than expected benefits
- give UCU and employers more say in how funds are invested and more mechanisms by which to promote ethical investment.

However, conditional benefits would mean that benefits for future service could be exposed to greater risk than defined benefits are currently. There would still be some guarantees regarding retirement income – more than in a defined contribution (DC) or collective defined contribution (CDC) scheme – but not to the same level as the DB element of the current hybrid scheme.

A conditional benefit approach would also require significant governance reform at USS to ensure that members can trust the management of the scheme.

Preserving defined benefits at current levels.

Even within the current regulatory framework, it should be possible to preserve current defined benefits without an increase in contributions – particularly in contributions for members. This would involve stronger commitments on the part of employers, including not only extra covenant support but potentially also higher employer contributions and/or potentially a willingness to take a bolder public stand against USS and TPR.

USS should also take the post-valuation improvement in the fund's assets into account before it finalises contribution rates – or perhaps even conduct a new, 2021 valuation in place of the 2020 one. The Trustee should also consider new evidence which USS says it has not thus far considered, some of which is currently being developed for UCU by First Actuarial. Finally, there can and should be a wide-ranging review of the Trustee's assumptions before the valuation is filed.

No matter what path is taken, a mandate for industrial action will strengthen our negotiators' hand.

A mandate for industrial action will almost certainly be needed to force UUK to withdraw its proposals for benefit cuts and a second-class DC option. And even if those proposals are withdrawn, a mandate for action will still make a substantial difference in negotiations over any more acceptable alternatives.

Decisions to call ballots and industrial action can only be taken by the higher education committee (HEC) or sector conference (HESC), but branches should start preparing and campaigning now on the assumption that a ballot could take place soon –potentially during the summer vacation.

Some initial information about campaigning activities over the coming weeks is provided below.

First campaign steps

On Monday 26 April, 1-2pm there will be a meeting for UCU pensions reps. Your branch can register for the meeting here: **https://ucu.wufoo.com/forms/he-uss-pension-rep-briefing-26-april/**

This meeting will cover:

- the UUK consultation and how branches can intervene in it
- how branches can engage non-members and members in their institutions about the benefit cuts proposed by UUK
- timeline for negotiations
- planning for industrial action

- building student solidarity
- political lobbying
- media work
- options for potential legal action.

Later in the campaign, and if possible during the UUK consultation window, UCU will launch a modelling tool developed by First Actuarial which will allow all staff to assess the impact of UUK's proposed cuts on their pensions. Branches will be encouraged to share this tool as widely as possible to get staff (including non-members of UCU) involved in our campaign to defend USS and counter any messaging from employers in favour of benefit cuts.

Links

UCU updates on USS: **https://www.ucu.org.uk/strikeforuss**

UUK consultation documents: **https://www.ussemployers.org.uk/briefings/uuk-launches-consultation-indicative-outcomes-2020-uss-valuation**

Commentary by First Actuarial on the 2020 valuation:

- Note 1 [**https://www.ucu.org.uk/media/11451/Note-1-funding-and-prudence/pdf/2021.04_note_1_funding_and_prudence.pdf**] covers funding and prudence
- Note 2 [**https://www.ucu.org.uk/media/11452/Note-2-security-of-accrued-benefits/pdf/2021.04_note_2_security_of_accrued_benefits.pdf**] covers security of accrued benefits