# USS presentation to pension reps regarding benefit restoration & recovery: questions

**20 September 2023**

These notes reflect the questions and answers from a presentation given to Branch Reps and Pension Officers delivered on 20 September 2023 and incorporate shorter queries and prompts from the Zoom Chat function.

## Questions from participants

### When does the members' consultation start and finish?

The employee member consultation is open from 9am on the 25th of September until 24th November 2023.

### Can non-members who are interested look at the impact of the proposals?

USS members will need to use their scheme membership number to log in and view the impact of proposed restoration on their projected retirement benefits. The information on their current accrued benefits will automatically populate the projection cells.

Non-members of USS may request a guest log-in from their employer, so they can see how their benefits might grow in future. This may encourage colleagues to opt-in to USS.

### Will there be template answers for members who are less well versed in pension details?

Most pension reps are familiar with pensions terminology and the wider issues around defined benefit and defined contribution pensions. However, the terminology may be unfamiliar to other scheme members, so some potential 'talking points' will be shared with pension reps, to help to stimulate responses.

### What is the timeline for the deciding on restoration (to pre April 2022 benefit levels), the recovery (compensation) element and contribution rates?

Clearly, once the Joint negotiating Committee has agreed a package on restoration of benefits, recovery (compensation for 2022-24 losses) and contribution rates, it will take some time for USS to prepare their system to enact the changes. The implementation date for benefit restoration was jointly set as 1st April 2024. Employees are pressing for contribution rates to be cut from 1st January 2024 but for this to happen UCU must be confident that restoration and recovery are assured.

In order for contribution rates to be lowered from 1st January the whole package must be agreed between UCU & UUK by 30th October 2023. This is because USS need time to implement the changes agreed. Therefore, there are intense negotiations to ensure all elements are concluded to a satisfactory outcome by this date.

## What is the timeline to actually impact our pension benefits?

The objective is to ensure that members who retire after 1st April 2024 see their benefits uprated in line with the agreement on restoration and recovery.

The exact date of benefit upgrading for members who retired between 1st April 2022 and 31st March 2024 is to be confirmed.

## The employers' consultation has closed. Can we see the actual responses rather than UUK's summary of the submissions?

Members of the SWG strongly encourage pension reps to request a copy of their institution's response to the latest USS consultation. Beyond reporting the contribution rate that the employer prefers from 2024 , this may indicate whether they think that rate is 'demonstrably sustainable' in the medium term.

## It sounds as if significant progress has been made in negotiations over the restoration of benefits and recovery (compensation). What is the situation with regard to contribution rates?

Negotiators are reasonably confident that the restoration of benefits to 2022 levels is agreed. Talks are continuing on UCU's proposal for recovery (compensation). UCU policy is for both of these elements be resolved before any agreement over contribution rates. Employers are eager to talk about lower contribution rates, with a preference to cut from 1st January 2024. Lower contribution rates do offer a saving to members BUT at the cost of inadequate pension income, AND the employers' saving is considerably larger: after tax, the ratio of saving is around 1:3 in employers' favour.

Members are welcome to make their suggestions in response to the members' consultation.

## What is the proposed recovery or compensation element of the deal?

The SWG are still negotiating the exact details but a flat rate payment is proposed for all active scheme members, with a slightly different rate for retired scheme members. The flat rate sum would be added to the Pension CARE bricks for 2022/3 and 2023/4 for all qualifying members. USS supports the simplicity of such a solution.

## What are the implications of a failure to agree over contribution rates? For example, if employers back 20.6% and UCU support a higher rate to ensure the solution is 'demonstrably sustainable', how can the gap be bridged?

In February and May 2023 UCU and UUK signed joint statements agreeing to seek a 'demonstrably sustainable 'contribution rate for restored benefits. Given the many years of industrial action over USS, sustainability is in all stakeholders' interests. UUK is intent on a reduction in contribution rates from 1st January, while UCU is prioritising recovery (compensation). There should be room for mutually satisfactory agreement but the timeline is very tight. Should we miss the October deadline to cut contribution rates from 1st January 2024, UUK may be less interested in reaching agreement on recovery (compensation).

## If the employers are pushing for an October agreement on restoration, recovery (compensation) and contribution rates to be agreed in October, why is the members' consultation open from 25th September-24th November? This looks as if the member consultation is cosmetic.

UUK's interest in lowering contribution rates from 1st January 2024 emerged very recently, presumably from the employers' consultation. The dates for the members' consultation had been determined at a much earlier stage.

Even if the package of restoration, recovery and contributions rates is agreed in October, this will be conditional on the results of the members' consultation.

## How will UUK and employers interpret the members' consultation? If there are strong positions, could these undermine the overall package?

The members' consultation contrasts the option to retain current downgraded benefits at a low cost against restoration at a slightly higher contribution rate. Both the illustrative contribution rates are lower than that paid now. The consultation also has open text questions, so members are able to offer suggestions or to raise longer-term concerns. It is conceivable if unlikely that these responses may impact a provisional agreement for restoration, recovery and contribution rates. The comments may feed in to work which continues after 1st April 2024. For example, on the valuation methodology and a potential low cost pension option.

## What Contribution Rate do the negotiators support?

The negotiators do not have a figure to share with members at this point. However, the SWG support a 'demonstrably sustainable' contribution rate. The USS 'briefing paper for employers' and a report for USS Employers by AON (the Actuary for UUK) both indicated that a rate of 25.2% is sustainable over the medium term. UCU Actuary advice supports a rate closer to 26%. Clearly this rate is significantly lower than the contribution rate paid since April 2022 (31.4%). The risk is that 20.6% may be too low leading to increased contribution rates in the future.

Members are welcome to make their suggestions in response to the members' consultation.

### What might happen if the JNC back a contribution rate lower than the members' preference which emerges from the members consultation?

The USS Trustee sets the contribution rate and has indicated they wish the decision to be informed by UUK's and UCU's positions. Should UUK press for a low contribution rate, the Trustee may still be influenced by the representations of members on this issue.

Members are welcome to make their suggestions in response to the members' consultation.

### What are the implications of setting a contribution rate which is not 'demonstrably sustainable'?

If the contribution rate proves not to be sustainable, then this increases the likelihood that contribution rates will be increased at the next valuation in 2026. Such instability is in no one's interest. UCU members have taken industrial action in pursuit of decent retirement incomes over many years. A failure to set a demonstrably sustainable contribution rate could potentially lead to further industrial disputes.

### Does pursuit of lower contribution rates marry up with the joint statement that parties would look for a 'demonstrably sustainable' solution?

The current contribution rate is 31.4%. It is therefore possible to lower the joint contribution rate and still ensure that rates for restored benefits are 'demonstrably sustainable'. A guide to the appropriate rate to ensure medium term stability may be found in the AON report - [**https://www.ussemployers.org.uk/sites/default/files/field/attachemnt/USS%20valuation%20at%2031%20March%202023%20-%20260723%20Aon.pdf** ].

Members are encouraged to make their suggestions in response to the members' consultation and to also engage their employers to support 'demonstrably sustainable' contribution rates.

### If USS Technical Provisions suggest a rate of 20.6% is all that is required to cover restored benefits now, then employers and some members may opt for this rate. Is there any chance that the Trustee can be persuaded that a higher rate than 20.6% is required?

A report by AON (for USS) suggests that 20.6% may not be sufficient to guarantee current benefits by 2026 [link]. A solution which satisfies all parties, in the medium term, is in everyone's interests. This perspective may carry weight with the Trustee.

### The USS scheme now has a 'notional surplus'. What is the plan for this pot of money?

In 2020 USS had a 'notional deficit', which was a result of conducting a valuation during a global pandemic. Three years later the scheme is in 'surplus', but again this is a notional or paper-based value.

The Pensions Regulator has expressed a view that the surplus should be retained to underwrite the medium term stability of the scheme. 'USS is an open scheme with strong cash flows that allow long term growth seeking investments This gives the scheme security. The compensation package proposed by SWG negotiators relies largely on using contributions accrued which exceeded liabilities over the last 12 months. If payments into the scheme are £125M a month, over 12 months there is almost £1.5B to cover recovery (compensation) without using the notional surplus.

### The 'notional surplus' in USS looks like a cushion against changing economic conditions. What has been done to challenge assumptions on inflation, interest rates, stock market and property values?

In order to facilitate restoration by April 2024, UCU and UUK have established a Stability Working Group but have also agreed to leave discussions of valuation methodology and investment strategy until next year as our policy is to prioritise Restoration and Recovery. However we accept the importance of this future work that may examine assumptions on inflation, interests rates and returns on different assets.

Members are welcome to make their suggestions in response to the members' consultation.

### Can we keep the contribution rates (of both employers and members) high so that benefits can be improved?

Members may be aware that the TPS scheme, which provides benefits for members in certain HE institutions, has higher contributions but offers better benefits. Improving any benefits, whether accrual rates, inflation indexation or the proportion of pension taken as defined benefit, is likely to cost more than the contribution rate agreed for this valuation.

Lower contribution rates benefit the employer more than the worker, even more so after tax.

Members are welcome to make their suggestions in response to the members' consultation. Suggestion could be used to inform motions submitted to the next HE Sector Conference. If these motions passed, they would become UCU policy.

### The annual accrual rates in other pension schemes are better, see for example TPS and NHS schemes. Could we aim for a better rate of accrual in future?

USS currently offers an accrual rate of 1/85 which should revert to 1/75 when restoration of 2022 benefits is agreed. However, the Local Government Pensions Scheme (LGPS) accrues at 1/49 and TPS at 1/57 and NHS at 1/54 a year (with options to increase to 1/45 in exchange for elected higher contributions). If members wish to pursue better accrual of benefits they should indicate this in their responses to the  members' consultation.

### Many pension schemes have better inflation indexation to protect members' benefits. Can we improve the USS inflation indexation in future?

USS currently offers inflation protection up to 2.5% a year, though this change in 2022 was put on hold until 2026. A soft cap was in place prior to April 2022 and is part of the restoration package being negotiated now. The soft cap matches inflation up to 5%, then offers a 50:50 match between 5% and 15%, stopping at 15%. However, the NHS scheme is indexed at CPI + 1.5% and TPS at CPI + 1.6%. If members wish to pursue inflation indexation accrual of benefits they should indicate this in the members' consultation.

### TPS is a better pension scheme. Can we reduce the difference in assumed retirement ages between USS and TPS?

The previous two questions identified pension schemes with better accrual rates and inflation indexation than USS. The TPS scheme also offers a lower standard retirement age than USS; standard retirement it is 13 years earlier. Future negotiations could look at improving elements of the USS scheme if members' responses  indicate they are willing to pay for improvements.

### Will there be any grovelling apology for having unnecessarily cut pension benefits whilst increasing contribution rates?

Restoration and Recovery are our priority and will deliver more to members than any apology, as desirable as that may be.

### Some employers stop USS contributions when members are taking industrial action. Given industrial action was needed to get to this point, will the work on recovery (or compensation) include recognition of these 'missing' payments?

Some HE employers, such as the universities of Loughborough and Exeter, maintain USS payment during industrial action, so there are not uniform deductions across the sector. Negotiations over recovery (compensation) aim to offset the lower accrual rates and the drop in threshold between DB and DC pots. It is unlikely that additional compensation will be agreed.

### What is the 'corridor' that someone mentioned in relation to contribution rates?

Negotiations continue to find mechanisms to ensure future stability in the scheme. A corridor would act like a shock absorber, offering a range centred around the agreed contribution rate within which there would be no need for immediate changes in contribution rates. For example, if there was a contribution rate of 25% and a 2% corridor, the rate would stay the same if Technical Provisions calculated liabilities required a contribution rate of between 23% and 27%.

## Suggested actions for pension reps

1. All pension reps, and in the absence of pension reps, branch committees are advised to ask for their employer's submission to the recent employer consultation.
2. Hold a branch meting for USS members and share with members the template talking points. Note: do suggest that members redraft any talking points they want to use, as these carry less weight when they appear to be 'cut and paste' positions. The negotiators and advisory members of the SWG are happy to accept invitations to talk at branch meetings.
3. Look out for follow-up meetings on USS.