USS employers' statutory consultation with affected members and their representatives – suggested points for responses

UCU offers the context for this consultation

1. Following the USS valuation in March 2020, which claimed a significant (notional) scheme deficit, the contribution rates for employers and scheme members were increased. A number of cuts to benefits were also imposed from April 2022. These affected members in the following ways:

    i. The threshold for contributions to defined benefit (guaranteed income in retirement) and defined contribution (relying on the fluctuations of the stock market) elements was lowered significantly;

    ii. Lower/worse accrual rates. The benefits that would be accrued were lowered to 1/85th of salary from 1/75th (members would pay more for less) and the rate for lump sums dropped from 3/75ths to 3/85ths;

    iii. The inflation-linked uprating of the salary threshold, splitting pension contributions between Defined Benefit (DB) & Defined Contribution (DC) pots was capped at 2.5%;

    iv. The rate of inflation protection for retirement income was capped at 2.5% for future benefits;

    v. Many scheme members lost wages, and therefore an element of pension accrual, as they took industrial action to regain their benefits. Only sustained industrial action has brought members to the position where it seems likely that the benefit levels, in place until April 2022, will be restored.

2. The cost of living crisis has impacted the living standards of all workers in the UK. Workers in Higher Education are among those whose wages have plummeted in real terms.

    Despite the fall in living standards, it is important to consider whether USS is setting contribution rates at a sustainable level. It is desirable to avoid now cutting contributions to such a low level that members' benefits may be vulnerable to USS arguments of their being unaffordable at the 2026 valuation. Lower benefits mean members may face a choice between penury in old age or delaying retirement. This choice is no choice and might lead to further industrial action.

Consultation questions

1. Salary threshold increase

You build up benefits in the defined benefit part of the scheme, on your salary up to the salary threshold. If you earn above the salary threshold, you'll contribute to the defined contribution part of the scheme, the USS Investment Builder too.

From 1 April 2022, the salary threshold was reduced from £59,883.65 to £40,000, and the inflation cap on the annual increases applying to that threshold was changed from 10% to 2.5% (as described below). If the April 2022 changes had not taken place, it is likely that the salary threshold would currently be around £66,400.

At the moment the salary threshold is £41,004 and it increases every year in line with Consumer Price Index (CPI) inflation to a maximum level capped at 2.5%.

It's proposed that, from 1 April 2024, the salary threshold increases to between £66,400 and £73,040 (the final level to be determined by the rate of CPI inflation to September 2023) and that annual increases continue in line with CPI inflation but to a higher cap of 10%, applied as follows:

- Where CPI inflation is 5% or less, the increase is matched.
- Where CPI inflation is more than 5% but less than 15%, the increase will be 5% plus half of the percentage increase above 5%.
- Where CPI inflation is 15% or more, the increase applied shall be 10%.

This change would broadly put the salary threshold at the level it would have been were it not for the 1 April 2022 change, and would mean that a greater proportion of benefits is built up in the defined benefit part of the scheme, the USS Investment Retirement Income Builder, for members whose salary is higher than the current salary threshold. This also means that these members would build up less savings in the defined contribution part of the scheme, the USS Investment Builder. If a member's salary is below the current salary threshold, the increase to the salary threshold will not impact that member's benefits.

Do you have any comments or suggestions in relation to this part of the proposals?

UCU recognises that many scheme members will formulate their own responses to this question. However, some scheme members may welcome some suggestions of points to consider. All submissions will carry more weight if expressed in the member's own words.

1. In my view, workers need a guaranteed retirement income so increasing the salary threshold in line with inflation is vital if workers are to plan for a secure retirement.
2. I value a defined benefits pension more highly, as do other workers. A more secure pension will help the sector attract and retain workers.

3. Workers benefit from the security of a guaranteed retirement income. Improving the uprating of the salary threshold, so it is not capped at 2.5% in a period of high inflation, is vital if workers are to plan for a secure retirement income. Having an agreed mechanism to uprate the threshold takes the pressure out of bargaining for improvements.

4. I think at my workplace, the wish to avoid a move from DB to DC pension may have impacted promotion applications and job movements.

5. Like me, many scheme members have neither the time nor financial acumen to manage the defined contribution pot in my pension. This change is a good idea.

6. Members like me, who were caught by the cut in threshold but who will now only contribute to a DB pot, are going to be unhappy to have been left with this small DC pot. Can we convert it to DB?

7. While I am happy to see a higher threshold for splitting contributions between DB & DC, why does USS not explore restoring a full DB pension? This greater security in retirement would be very welcome.

8. DC pots are of value if large and if acquired and accumulating from an early stage in one's career. The entry level salary grades, and the average age of starting employment in the University sector, therefore do not make DC attractive.

2. Accrual rate increase

In the defined benefit part of the scheme, the USS Retirement Income Builder, you build up benefits at a rate of 1/85 of salary each year (up to the salary threshold) and 3/85 of salary as a lump sum you get on retirement.

It's proposed that, for benefits built up from 1 April 2024, the accrual rate will increase to 1/75 of salary and 3/75 of salary for the lump sum.

This change would re-introduce the accrual rate that was in place before 1 April 2022, and would mean that a higher rate of benefits would be built up in the defined benefit part of the scheme, the USS Investment Builder, than now.

Do you have any comments or suggestions in relation to this part of the proposals?

UCU recognises that many scheme members will formulate their own responses to this question. However, some scheme members may welcome some suggestions of points to consider. All submissions will carry more weight if expressed in the member's own words.

1. I fully support an increase in the accrual rate.

2. I support an increase in the accrual rate and in particular in how this increases the lump sum.

3. While I am happy that the accrual rate is returning to 2022 levels, why is it not being improved further?

4. I have colleagues in the TPS scheme. If TPS has an accrual rate of 1/57, why is the accrual in USS still so low?

5. TPS allows for members to elect faster accrual of up to 1/45. Might similar arrangements be made for USS, after all these are pension schemes in the same sector?

6. Are USS and the UCU SWG negotiators exploring a better accrual rate? The local government pension scheme (LGPS), for example, accrues at 1/49 and the NHS at 1/54, so an accrual of 1/75 still looks poor.

3. Higher cap on future pension increases

In the defined benefit part of the scheme, the USS Retirement Income Builder, the benefits you build up each year are "banked" and increased in line with Consumer Price index (CPI) inflation subject to a cap of 2.5% (deferred to 1 April 2026 but applying to benefits built up from 1 April 2022).

It's proposed that the cap increases to a maximum of 10%, to be applied as follows to benefits built up from 1 April 2022:

- Where CPI inflation is 5% or less, the increase is matched.
- Where CPI inflation is more than 5% but less than 15%, the increase will be 5% plus half of the percentage increase above 5%.
- Where CPI inflation is 15% or more, the increase applied shall be 10%.

This change would re-introduce the cap on increases that was in place before 1 April 2022, and would mean that the greater benefits built up in the defined benefit part of the scheme, the USS Retirement Income Builder, would have a higher rate of inflation protection applied to them, if inflation is higher than 2.5%.

Do you have any comments or suggestions in relation to this part of the proposals?

UCU recognises that many scheme members will formulate their own responses to this question. However, some scheme members may welcome some suggestions of points to consider. All submissions will carry more weight if expressed in the member's own words.

1. I support an increase in the uprating of inflation protection. Recent events have shown that capping at 2.5% would mean benefits could be significantly eroded, and income in retirement will by no means match the value of the contributions when made.

2. Retirees are vulnerable to inflation, as by default they cannot earn more money when living costs rise. I am very relieved to see protection being restored to 2022 levels.

3. I support a return to the soft cap. I was very worried about losing the real value of my retirement benefits.

4. While I am happy that the soft cap on benefits is returning to 2022 levels, why is it not being improved further?

5. If NHS pensions are protected by inflation indexation of CPI +1.5% and TPS members in education have pension indexed by CPI +1.6%, why are we not offered better protection for retirement benefits?

6. Are USS and the UCU SWG negotiators exploring better protection of benefits from inflation?

4. Do you have any alternative suggestions?

UCU recognises that many scheme members will formulate their own responses to this question. However, some scheme members may welcome some suggestions of points to consider. You may wish to make suggestions on pension contribution rates, the "demonstrable sustainability" of USS, USS management costs, the scheme's investment strategy and/or the valuation methodology

All submissions will carry more weight if expressed in the member's own words.

1. I am worried about contribution rates. The current rate is extremely high and so I welcome lower rates for both me and the employer, but we need to pick a combined contribution rate which is sustainable over the medium term and long term. USS published data on stability which is discussed in a **document by the UUK actuary, AON**, which reports that a rate of 20.6% has a good chance of requiring higher contributions by the next valuation. Choosing a combined rate that low could be irresponsible, as parties will then be haggling over whether we need higher contributions, lower benefits or both. All parties would benefit from stability, so the combined rate should be around 25%. That is still lower than what we pay now.

2. I want better benefits and to pay less than 9.8% of my salary but the proposed combined contribution rate looks too low. Let's not set things up so we could be back in dispute in 3-6 years.

3. A joint statement on USS, **earlier this year from UCU and UUK** called for "demonstrably sustainable" contribution rates. It is more important to me to get decent retirement benefits for the long-term than it is to save a little money each month. I'd pay more than the suggested employees' share of 6.1% of the total 20.6% for peace of mind.

4. I think employees should be paying a smaller share of the combined pension contribution. If the notional scheme surplus is retained, employees can

sustainably pay lower contributions. Don't let employers pay any less on the back of the current notional scheme surplus.

5. In my view, the employers drove the cut in benefits and they should pay to get us back decent benefits at a price workers can afford. Can we adjust the historic split of contributions which has always been 70:30 (with minor changes split 65/35), so that workers pay less?

6. A simple solution for the restoration of benefits and the recovery of what was lost during 2022-24 is required. We want security as quickly as possible and to pay USS as little as possible to manage the process.

7. I'd like to pay at least the same amount as currently and see better retirement benefits. Are the SWG and USS considering improving benefits? I'd like to see a higher accrual rate/more going into a DB pension/better inflation protection/all these. If TPS members have a better pension, why can't we?

8. I understand that this valuation and this round of negotiations have considered a limited range of issues to allow for a rapid restoration of benefits. However, I would like the next round of negotiations to consider improved benefits. Our pension benefits compare poorly against workers in local government, the NHS and even TPS members in Higher Education. Please explore offering better benefits.

9. The recent rapid rise in interest rates has led to the notional surplus in USS, but we must be cautious. I think our investment portfolio is too risk averse. I worry that the weight of gilts reduces the medium- to long-term growth of assets and could leave us open to another notional deficit if rates plummet again. Contribution rates must be higher than 20.6% until we change investment strategy, if we are to avoid the risk of further swings from surplus to deficit and back.

10. I am looking forward to a plan to develop a low cost option for this pension scheme, which might help casualised workers in Higher Education. However, I am really worried that UUK will use this as an opportunity to introduce a low value DC option which while amplify existing inequalities. I hope this work will consider how members can benefit from a DB scheme through, for example, tiered contributions or other scheme designs. I hope to see careful consideration and information about that work emerge once the valuation methodology is fixed and the governance reform concluded.

11. Cutting contribution rates sounds great but it benefits employers much more than us employees, as they get 2/3 of the saving. I want better benefits or to pay a lower split of contributions, rather than helping out employers.

12. During a recent UCU presentation on pensions, someone mentioned a "corridor" for contribution rates. I'd like to see some mechanism to help to lower volatility in contribution rates.

13. Before lower contribution rates I want to see compensation or recovery of what members lost between 2022-24. UCU consistently argued that the USS valuation made in 2020 was driven by the impact of Covid on markets and that the deficit was "notional", but our benefits were cut. That's guaranteed pension

we lost and we lost wages taking action to win it back. I think members need to see some level of recovery or compensation for this loss before contributions are lowered.

14. This notional surplus is members' money, it is deferred salary. It should be used to compensate members for the unnecessary cuts in benefits, rather than used to guarantee stability while contribution rates, predominantly benefiting employers, are cut.

15. I'd like to see contribution rates maintained while there is some effort to deal with intergenerational unfairness. Some older USS members may have final salary pots and career average DB pots, while younger members have only a limited amount of career average DB pension. That means younger members will enjoy a poorer standard of living in retirement, which is not fair. Please try to find a solution for this.

16. I understand that USS is an open DB scheme which is cash rich, ie: more comes in in payments than must be paid out. If contribution rates are currently a little higher than necessary, can we use this to offer compensation for the cuts? It looks as if £125M is "over paid" each month, which gives us a pot of £1.5bn in a single year for compensation. That still leaves the notional surplus to ensure we do not swing back to a notional deficit in 2026.

17. I have heard that UUK will hand over responsibility for negotiating with UCU on USS to UCEA. Given how they respond to UCU claims on pay and conditions, I think this is a terrible idea.

5. Contributions above the salary threshold to the defined contribution (DC) part of the scheme, the USS Investment Builder

Currently, 20% of your salary above the salary threshold (8% from your contribution above the salary threshold and 12% from your employer) is paid in to the defined contribution part of the scheme, your USS Investment Builder.

Whilst it is proposed that the overall 20% of salary above the salary threshold to the USS Investment Builder remains unchanged, the JNC will confirm, later in the year, whether the proposed share of member and employer contributions within that 20% will change. The JNC will determine this share of contributions into the DC part of the scheme, the USS Investment Builder based upon the overall rate determined by the Trustee for the benefits proposed.

Do you have any comments or suggestions in relation to this part of the proposals?

UCU recognises that many scheme members will formulate their own responses to this question. However, some scheme members may welcome some suggestions of points to consider. All submissions will carry more weight if expressed in the member's own words.

1. I am happy with this size payment into my DC pot and with the split of contributions between me and the employer.

2. I am happy with this size payment into my DC pot but I want the employer to pay more. If the usual split (for DB) has always been 70:30 (with small changes split 65/35), why is this not mirrored here?

3. I just want a DB pension as this is far more predictable and would help me plan for retirement. I want to see work by negotiators to further increase the DB/DC threshold or to end DC altogether.

4. Can options for DC funds be improved so that I am confident I am only supporting ethical investments?

5. Can the default for the DC funds be the ethical option?

6. Can I use my DC pot to buy more DB pension? That would give me a more secure retirement.

7. If employers will get so much more benefit from the likely contribution rate cut, I think they should contribute more to the DC pot than 60%.