

# University and College Union

## Higher Education Branch Action Note

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| <b>To</b>      | All Higher Education Branch Secretaries, Presidents and Chairs  |
| <b>Topic</b>   | <b>Superannuation Working Group (SWG) report on USS to the HESC, 25 May 2025</b>  |
| <b>Action</b>  | To note the report and endorse the recommendations.   |
| <b>Summary</b> | This Branch Action Note provides a report on developments with USS and makes recommendations on UCU's approach future negotiations. |
| <b>Contact</b> | Dooley Harte, Pension Official for USS  |

Dear Colleagues

Please find below the Superannuation Working Group (SWG) Report to the HE Sector Conference (HESC) at Congress May 2025, which appears as motion **HE17** on the Agenda.

The SWG is nine elected members who engage with USS and UCEA on behalf of all Scheme Members. The SWG meets regularly and is assisted by UCU Officials and Staff, Pension Officers and Reps as well as First Actuarial, UCU's Actuary.

The current health of the USS Scheme is good with latest finance projections showing almost £10bn in surplus. This is despite the scheme, and scheme members weathering some significant events recently including the ongoing effects of the LDI crisis, investment losses regarding Thames Water and the Capita Data Breach.

This report provides a summary of the considerable work carried out by the SWG since 2024 UCU Congress.

### 1. Stability Working Group

- 1.1 In a Joint UCU & UUK Statement in March 2023 - [Microsoft Word - Second Joint UUK and UCU Statement - Final](#) – UCU & UUK committed to “*working together so that this, and future, valuations are undertaken on a moderately prudent and evidence-based basis, taking account of the open and long-term nature of the scheme.*”
- 1.2 A Stability Working Group (StWG) was established in August 2023 that included representatives from UCU, UUK & USS as well as actuarial support for all parties.

#### Review of Valuation Methodology

- 1.3 An objective of the StWG is to provide necessary mechanisms for improved and long-term stability of future scheme valuations. The SWG considers a Review of Valuation Methodology as absolutely critical to providing the sound platform that future valuations need to avoid unnecessarily creating a deficit and pressure to cut benefits or increase contributions. UCU have engaged with First Actuarial to support the SWG work on

developing a proposal paper for changes to valuation methodology. It was the view of SWG, supported by First Actuarial, that moving valuations away from their current link to Gilts and towards a Best Estimates model would improve Trustee decision-making and provide more stable outcomes for scheme members.

- 1.4 In January 2024, SWG produced a paper exploring a new approach to the valuation, monitoring and decision-making and proposing a new three leg approach to modelling valuations looking at Best Estimates, Prudence and Low Dependency.
- 1.5 UCU worked with USS & UCEA to further develop these proposals to address concerns. In November 2024, First Actuarial produced a commissioned report, agreed by SWG, to support the January 2024 paper setting out in more detail, how the three-leg approach to valuations could work. Following a series of meetings, this commissioned report was adapted and improved before being finally submitted to StWG in January 2025.
- 1.6 On 20 March 2025, representatives from UCU & First Actuarial presented our proposals for change to the USS Trustee Board. This also involved a Q&A session. Following this presentation, SWG engaged with USS Trustee Board to provide further clarity on our proposals. The USS Trustee Board is committed to providing a formal response to UCU proposals to change the valuation methodology by July 2025.

**Recommendation 1: That UCU continues to prioritise improvements in valuation methodology as the most effective means to introduce stability and safeguard member benefits while controlling costs for both members and employers.**

#### Conditional Indexation(CI)

- 1.7 Under the current DB scheme, members receive an inflationary increase in their pensions based upon a soft cap arrangement. Where inflation is below 5%, members will receive the full inflationary increase. Where inflation is above 5%, members will receive half of that above 5%. An example is that if inflation was 10%, members could get the full first 5% while also getting half of the second 5% - that is 7.5% overall.
- 1.8 Employers have proposed exploring a new way of indexing USS pensions where this inflationary increase is dependent on the performance of the scheme, meaning members may not get an increase or only receive a part-increase where the scheme is under-performing. This is known as Conditional Indexation(CI) and employers would benefit from a transfer of risk to scheme members. To off-set this transfer of risk, employers argue that scheme members could get improved member benefits such as increased accrual rates and above inflation increases when the scheme is performing well.
- 1.9 While CI is a major component of employer focus for the scheme, the SWG remains sceptical of CI and believes that improved valuation methodology brings increased stability which benefits employers and members and therefore must be our top priority. While CI is a model used by some large pension schemes in some other countries such as Canada, The Netherlands and Japan, it is not a model used by large schemes in the UK. The difference in regulation and context make it difficult to draw direct comparisons from CI experiences in other countries.
- 1.10 UCU Conference policy requires SWG to critically explore CI and the SWG has engaged with USS and UCEA in this vein. In September 2024, the JNC agreed a terms of reference that would allow USS to allocate the necessary resources to explore CI further, given the additional work needed. In January 2025, SWG agreed the establishment of a CI Sub-Group

of the StWG to further explore and investigate CI and whether this, if introduced, would benefit scheme members. The provisional timeline is for a detailed public report in October 2025 following an Interim Report to JNC in May 2025.

- 1.11 In April 2025, SWG members met with representatives of the Ontario Teachers Federation, a Canadian trade union with representatives who sit on the Ontario Teachers Pension Plan. OTPP is one of the pension schemes that moved to the CI model and SWG considered the meeting very helpful in understanding their experience and useful to get a trade union perspective on CI.

**Recommendation 2: That UCU continues to explore and take a sceptical view to CI through its involvement in the CI Working Group and Stability Working Group.**

#### Improving Member Benefits

- 1.12 SWG has begun work to look to improve member benefits from the scheme using the current scheme surplus. SWG needs to ensure that scheme stability would not be affected but believes there is scope for some additional member benefits and is engaged with USS to better understand what is possible, when this could be done and how much these benefits might cost.

**Recommendation 3: Work to obtain improved benefits for members, including through use of the valuation surplus, with a focus on ensuring improving benefits, particularly for casualised and other low paid members.**

## **2. Changes to USS Scheme Rules**

- 2.1 During the last 12 months, SWG have been engaged with USS & UCEA on three Deeds of Amendment to amend Scheme Rules.
- 2.2 UCU JNC Negotiators agreed the 27<sup>th</sup> Deed of Amendment to provide greater discretion to the scheme to better benefit members. This would allow the scheme to use available medical evidence in the event a member under serious ill-health provisions died before being examined by a Trustee registered medical practitioner. And greater discretion to consider interest compensation on late payments earlier.
- 2.3 UCU JNC Negotiators agreed the 28<sup>th</sup> Deed of Amendment which provided minor amendments and clarification to existing scheme rules which had no practical impact on the application of scheme rules or brought rules into line with intention and/or practice.
- 2.4 UCU JNC Negotiators have been engaged with USS & UCEA on progress of a 29<sup>th</sup> Deed of Amendment that seeks to bring existing scheme rules on Active and Proportionate Revaluation (Rule 10) in line with operational practice. Work is ongoing but UCU JNC Negotiators are concerned about practical implications of agreeing the Deed and have sought further information and clarity on a number of outstanding matters.

## **3. Ethical Investment**

- 3.1 Since before 07 October 2023, SWG has been engaged seeking USS to divest from its investments with Israeli government and companies supporting the genocide in Gaza. On 08 August 2024, the Financial Times carried an article - [UK's biggest private pension fund dumps £80mn of Israeli assets](#) – confirming that USS had disposed of £80m of Israeli government bonds. This was welcomed by UCU but SWG has argued that more can and must be done.

- 3.2 However, rather than engage further with UCU on this issue, USS withdrew all contact alleging that UCU had released the information to the press, a position refuted by UCU, and that USS would not discuss its investment strategy until it could have confidence that any information provided would not be leaked.
- 3.3 Following an exhaustive process of re-engagement, USS recently agreed to re-engage with SWG but has refused to discuss individual investment decisions such as those linked to Gaza. SWG continues to engage USS to improve on this position.
- 3.4 SWG has continued to raise concerns about USS investments in Thames Water, the impact on the environment and the USS fiduciary duty to scheme members. USS continues to argue that its investments are long-term decisions and no single investment endangers the scheme's ability to pay member pensions. UCU continues to argue that investments in Thames Water are not in the interests of scheme members or the scheme itself.

**Recommendation 4: Increase the pressure on USS for an ethical investment policy, making default DC scheme ethical, divestment particularly from fossil fuels and arms, specifically Israeli arms, and for USS to implement its own responsible investment policy more effectively. Work with UCU CEEC and Ethics for USS on these issues.**

#### **4. Scheme Factors**

- 4.1 Under current USS Scheme Rules, the Trustee can change, following advice from the scheme actuary, how both Early Retirement Factors(ERF) and Late Retirement factors(LRF) are applied. An ERF is applied to reduce benefits when a member claims their pension before their normal pension age. A LRF increases benefits when a member does not claim their pension until after their normal pension age.
- 4.2 In December 2023, just 2 days before the December JNC, USS presented JNC Negotiators with a paper to note setting out the changes to these Scheme factors from 01 April 2024. The SWG engaged with USS & UCEA and achieved a postponement of the changes to Early Retirement factors until 01 October 2024 while LRF changes were implemented from 01 April 2024. This postponement allowed members considering early retirement more time to assess whether they wanted to retire early including engaging with employers and finishing teaching for the year.
- 4.3 However, some members still missed out and SWG pushed for a review which concluded with a number of recommended changes that will improve early engagement with stakeholders and scheme members and improve communications.

#### **5. Collaborative Review Forum (CRF)**

- 5.1 A new forum was agreed by SWG to allow for representatives from UCU, UCEA and USS to come together to discuss and identify scheme design matters or long-standing Rules, within the benefit structure in place, which:
  - No longer support the requirements of members and / or employers; or,
  - Cause disproportionate administrative issues and resource strains; or,
  - Have been in place unchanged for a number of years and need a review to ensure they still support the overall benefit proposition.
- 5.2 The main priority for the forum has been about the treatment of dependents, including stepchildren and adopted children, who were in non-married or non-civil partnership

relationships compared to those in marriages or in a civil partnership. SWG argues that Co-habitation should give the same rights to pension benefits as those members in marriage and civil-partnerships and CRF is considering the implications of this.

- 5.3 CRF is also considering the impact of the Restoration and Recovery agreement of 01 April 2024 on scheme members who claimed their benefits under Total and Serious Ill-Health Retirement provisions, as well as those who died in service. This work is also ongoing.

## **6. Transparency & Confidentiality**

- 6.1 SWG has been seeking changes to the JNC Transparency & Confidentiality Agreement and has been engaged with UCEA & USS to make these changes that will provide scheme members access to more information on how the JNC functions.
- 6.2 At its JNC on 25 March 2025, UCU JNC Negotiators agreed to a new Transparency Agreement that will improve access to more information and hold the JNC better to account in how it functions.

## **7. Review of Governance**

- 7.1 SWG has agreed in principle to a Review of USS Scheme Governance to be taken forward with UCEA, supported by USS. The terms of reference have been agreed and SWG and UCEA representatives are currently considering the process for selecting an independent Chair for the Governance Review Group that will include representatives from SWG & UCEA.
- 7.2 SWG is keen that the review focuses on under-representation of employee representatives on USS Trustee and USS Investment Management Boards as well as formalizing employee representation in Valuation Investment Strategy process.

**Recommendation 5: Use governance review to get better UCU representation on the Board and greater role for the JNC.**

## **8. Capita & Procentia**

- 8.1 Following the debacle of the Capita data breach, USS changed provider to Procentia's cloud-based administration platform, IntelliPen. UCU has engaged USS on this change arguing for improved customer service, improved accessibility to information and a better member experience from any new platform. USS have confirmed this change will take around two years to implement and SWG have met with USS management leading on introducing the new platform.