Universities Superannuation Scheme Ltd

Backing for defined benefit pension scheme bucks trend

University workers' fund less expensive to run thanits manager had argued, review panel finds

The independent expert panel was commissioned after a wave of strikes over the issue in the spring © Jane Barlow/PA

Josephine Cumbo in London 8 HOURS AGO

- Universities tried to phase out guaranteed pensions
- Expert panel said could be retained with small rise in cost
- Recommendation counter to trend on DB pensions

The disappearance of traditional defined benefit pension schemes from the UK private sector has for the past decade appeared unstoppable.

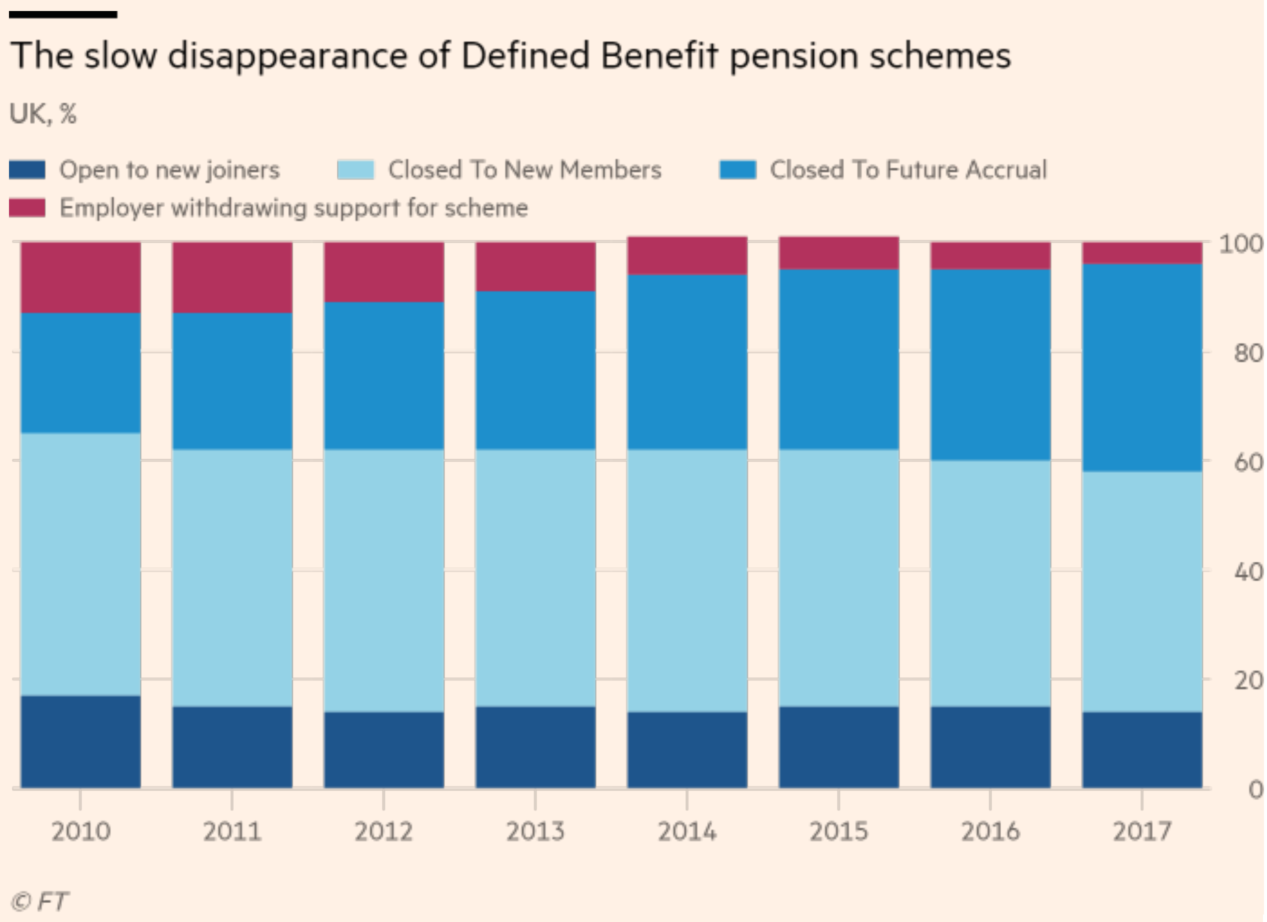
But earlier this month, this trend was bucked when wide-ranging flaws were found in a decision to withdraw guaranteed pensions from hundreds of thousands of university workers.

A report by an independent expert panel, commissioned after a wave of strikes over the issue, found that the DB pension scheme for university workers was less expensive than the privately run fund's manager, the Universities Superannuation Scheme (USS), had argued. The panel concluded that the pension scheme could continue with only a slight increase in contributions.

"This dispute has challenged the groupthink that DB is unaffordable and that it has to go on the bonfire," said Dr Jo Grady, senior lecturer in Employment Relations, Sheffield University.

DB pensions — which promise an inflation-proofed retirement income for life — have all but disappeared in the private sector, where employers have seen fund deficits soar because of rising life expectancy and low interest rates, which have inflated the cost of pension liabilities.

'Defined benefit' pensions disappearing



Between 2006 and 2017, the proportion of private-sector DB schemes still open to new joiners fell sharply from 43 per cent to 14 per cent.

The £63bn USS looked destined to follow suit in 2017, after a three-yearly health check by its trustees found that the cost of funding future pension promises had jumped by a third. To compensate, the USS said that contributions would need to rise from 26 per cent of salary (18 per cent of which came from the employer and 8 per cent from the employee) to about 32-33 per cent to keep retirement benefits in their current shape.

Months later, the USS revised this figure up to 37.4 per cent after it came to light that the Pensions Regulator had warned the fund in a confidential letter that the future of the scheme was rockier than thought.

Universities UK, the body which speaks for more than 350 higher education institutions, announced in October that DB pensions had become unaffordable and warned that teaching and research budgets would suffer if they were to continue. It proposed to switch around 200,000 unretired staff into a riskier defined contribution plan which gave no certainty over the size of a pension pot at retirement.

The University and College Union, which represents more than 110,000 lecturers, librarians and other university staff, argued this would leave a typical lecturer about £10,000 a year worse off in retirement, and opposed the change, triggering a bitter industrial dispute on UK campuses.

A wave of strikes erupted in February and March, as thousand of academics and university staff staged 14 days of walkouts, manned picket lines in the snow and publicly challenged the USS to “show its workings”.

With the unrest threatening to damage the university sector, UUK offered to maintain DB pensions, but at a much-reduced level — a proposal rejected by union members.

Panel advised retention of DB pensions

To break the deadlock, the parties agreed to set up a Joint Expert Panel to review the controversial USS valuation. The panel’s 100-page report made for uncomfortable reading for the key players, including the regulator, which the panel accused of misjudging the ability of the university sector to financially support the scheme.

“TPR appears to have taken an approach to the valuation, especially in relation to the employer covenant, that does not fully take account of the specificities of USS,” said the report.

The USS was criticised for relying too heavily on a technical test which steered the scheme towards low risk, but low-growth assets, which in turn increased the size of the pension fund deficit to £7.5bn and pushed up projected contributions.

UUK was singled out for issuing asked universities how much risk they were prepared for the pension fund to take in a questionnaire. The panel said this “produced misleading results” due to the “framing and context of the questions”.

“The report has given validation to staff who felt compelled to strike over what they saw as a grey area but which was really being painted as a black and white issue,” said Dr Sam Marsh, of the School of Mathematics and Statistics at the University of Sheffield. “There was a significant push by employers to get out of DB but they forgot there would be a downside in attempting to pull such a move.”

The panel recommended that DB pensions could continue to be offered with contributions rising to 29 per cent — significantly lower than the 36.6 per cent from April 2020 proposed by USS, based on the valuation as it stands.

University workers welcome findings

“This first report is a significant landmark in our ongoing campaign to defend members’ pensions,” said Sally Hunt, general secretary of the UCU, which has endorsed the recommendations and called on UUK and the USS to do the same.

The Pensions Regulator, the USS and UUK issued statements in response to the panel’s report but declined requests for interviews to discuss the findings.

The regulator said: “More analysis now needs to be done to fully understand the implications of the

JEP proposals on the long-term affordability of the pension scheme."

USS said: "There may well be areas where our opinion and understanding differs from that of the panel but we will want to reflect on the report in due course."

The UUK said it was "reflecting on the panel's observations" and was consulting with the universities on its next steps.

But while some industrial relations experts said the recommendations could have wider implications for DB pensions, John Ralfe, an independent pensions consultant, said the USS was unique and unlikely to reverse the closure of DB pension schemes in private companies.

"The JEP flawed argument depends on USS still being open to new members, and having a AAA credit risk," said Mr Ralfe. "Since these are unique to USS, even on its own terms, the report has no application to private sector companies. We won't see companies reopening their DB schemes."

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