15 February 2018

OPEN LETTER TO STAFF AND STUDENTS: UNIVERSITIES SUPERANNUATION SCHEME (USS)

In the light of the proposed strike action by the University and College Union (UCU) on changes to the Universities Superannuation Scheme (USS), I thought it might be helpful if I laid out my position as Vice-Chancellor of the University of Reading.

I recognise that the USS reform is challenging for many across our University community. In the future, pension provision for those in academic and academic-related roles will not be at the same level as previously. This will impact on everyone within the scheme, but particularly those at the start of their university careers.

I also want to acknowledge publicly that, for many UCU members, it has been a difficult decision as to whether or not to take strike action. So I fully respect the decisions that colleagues will take.

This situation brings great uncertainty for our students. Many have expressed concern to me about a potential loss in teaching time and what this means for their academic studies. I can offer a firm assurance that staff across the University are working hard to mitigate the impact of the strike on both teaching and other core activities, and I thank them for their efforts in this regard.

This letter now explains in detail why USS reform is needed, the process that has been followed and the likely next steps. It is in direct response to staff and students who have asked me to provide them with this information in a clear and straightforward manner. I trust that this will be helpful.

Every three years, USS is required to carry out an actuarial valuation. During a valuation, the USS trustee – responsible for oversight of the Scheme – establishes how much money needs to be paid for the current level of benefits, and whether sufficient money is likely to be available to pay out benefits when they fall due.
The last two valuations (in 2011 and 2014) have each been very challenging, revealing a funding deficit — where the value of the liabilities exceeds the assets — and significant increases in the cost of future defined benefits (DB).

For the 2017 valuation, the USS trustee has indicated that to continue to offer current benefits, contributions would have to rise by approximately £1 billion per annum (which if reforms were not agreed would have had to be split 35:65 between members and employers respectively).

Around the world, DB pension schemes have become increasingly expensive due to slower (and more unpredictable) economic growth and lower investment return expectations. Over the last decade employers have paid almost 30% more towards USS benefits. However, at this valuation, employers are not in a position to pay even higher contributions.

It is worth highlighting that this is a national negotiation, with Universities UK representing the employers and UCU representing the employees. Throughout the negotiations, UUK has put forward a workable solution to ensure that USS is financially sustainable and capable of providing valuable benefits for all its members.

UUK’s proposals derive from a mandate built on: the majority view put forward by employers through consultation; extensive advice from its professional advisors; regular contact with USS and the Pensions Regulator; and advice from both the Employers’ Pensions Forum and the UUK Board.

Employers have made clear that increasing employer contributions beyond the current 18% is not affordable or sustainable. It would mean the diversion of funding away from teaching, research and the infrastructure needed to support these, and other, key priorities. UCU’s proposal would have required a 35% increase in member contributions and for employers to pay around £500 million more towards USS every year, for less than the current benefits. In my view, this is not justifiable and it is for that reason I support the employers’ proposals for reform of USS.

These funding problems must be addressed so that the scheme, and our offer to members, remain sustainable. The Pensions Regulator has also made very clear that the risk in USS needs to be managed.

The Joint Negotiating Committee (JNC) — the body that negotiates between the employers and the employees — had to consider how the cost of that increase should be met. There have been over 35 meetings between UUK, representing the USS employers, and UCU, representing scheme members, during the past year to agree how to address the funding challenges and reform USS.
The deadline accepted by both parties for making a decision was extended twice. During this period, UCU has unfortunately been unable to alter its position. The JNC, the formal and legally established forum for deciding on changes to USS, reached a decision on proposed benefit reforms in January. The proposal, accepted by the USS trustee, will now be consulted on with affected employees and their representatives.

In addition, as part of those proposals decided on by the JNC, UUK put forward some areas where it seeks to engage in further discussions with UCU and USS. These include:

- exploring alternative models for risk sharing, which might provide higher certainty about retirement benefits to USS members. An example of an alternative scheme is Collective DC (CDC), which is currently not possible under UK legislation, although this may change in the future;

- exploring a well-defined framework for the future re-introduction of meaningful Defined Benefits if economic and funding conditions improve;

- exploring how deficit recovery contributions can be kept as low as possible, so that a greater proportion of employer and employee contributions supports future benefits; and

- engaging with stakeholders on the way that any investment de-risking is to be implemented by the USS trustee (although for the avoidance of doubt, UUK is not proposing to reopen the technical provisions discussion which is already agreed by the Trustee and is outside of the remit of the JNC).

Employers are duty bound to respect the JNC process set out in the USS rules and in statute, and which all parties have signed up to. The timetable for reaching a decision in the JNC was aligned to the statutory timetable which the Trustee must adhere to in order that the valuation be submitted to the Pensions Regulator by 30 June. This is already strained, given the extensions to negotiations which already took place.

There will now be a 64-day consultation with members and their representatives on proposed benefit reform. Consideration of responses to the consultation will need to be completed by 30 June 2018. In addition, other statutory consultations required will have to be undertaken with employers to the same timescale.
The focus now is to listen carefully to the views of members and their representatives through the consultation process. Employers and the USS trustee will consider the consultation responses fully, working with all stakeholders to shape the details of the new benefit structure in its final form, so that it continues to offer valuable benefits.

Finally, I recognise that a dispute like this has caused, and will cause, disagreement and division across the University and, indeed, across the higher education sector as a whole. However, I know that everyone who works for, and studies at, the University of Reading cares passionately and deeply about our success. In that, we are united and will continue to be so, now and the future.

SIR DAVID BELL KCB