Employers
Pensions
Forum
for Higher Education

The Employers' Proposals for Reform of USS
A Summary for USS members

Universities UK, on behalf of the Employers Pensions Forum and all USS employers, is seeking to ensure that the USS remains a sustainable, attractive and affordable pension scheme for all members, both current and future.

The employers have carefully considered a wide range of possible options. The changes proposed are designed both to address the substantial deficit in the USS and to mitigate the risk that contribution rates will become unaffordable for both employees and employers.

The employers' proposals outlined below aim to offer the best possible deal for employees within the constraints that the USS Trustees have imposed. These proposals are subject to agreement by the USS Trustees and the Pensions Regulator and to negotiation with UCU and so may change.

Why is reform necessary?

In short, because the USS is no longer affordable in its current form. The USS Trustees are legally responsible for making sure that there is enough money in the fund to pay members' benefits, both past and future. Currently there is a substantial shortfall, or deficit, between the value of the benefits already built up and the value of the fund's assets. As well as being sizeable, the deficit is volatile and this volatility poses additional risks to the security of the USS. In March 2013, the deficit was £11.5 billion; it is expected to be around £8 billion calculated as at March 2014. The USS Trustees are required to put in place a plan to fund the deficit over a reasonable period and in order to do that they need to agree a contribution level with the employers that is affordable over the long term.

The proposed changes are about securing the USS for the future, not just funding the past service deficit. The cost of maintaining the current final salary benefit structure is increasing so rapidly that, the costs are brought under control.

This is not a cost cutting exercise. In in fact the proposed changes will require the employers to increase their contribution to USS from 16% to 18% of total salary, an additional investment by employers of approximately £135 million a year. This follows an increase in employer contributions from 14% to 16% in 2009.

The current estimated date for the changes to come into effect is April 2016, but this will be subject to negotiations.

Overview of the proposed changes

From the point of change it is proposed that:

- The final salary section will close for future service and members will cease to build up further benefit entitlements in this section. Past service benefits for current members of the final salary section will be based on final pensionable salary at the date the reforms come into effect and revalued each year in line with the consumer prices index (CPI) from the date of closure.

- For future service, all members of USS will continue to receive defined benefits on the existing Career Revalued Benefits (CRB) scale of 1/80 of salary each year, plus tax-free cash of three times pension, on their salary up to the proposed threshold of £50,000 a year provided that the cost is affordable for employers. This is subject to the USS Trustee Board (and the Pensions Regulator) agreement to an extension to the period for repaying the deficit in the USS.

- The employers believe it is important to aim to set the threshold at a level that allows the highest number of USS members to accrue the whole or the majority of their benefits from the CRB section. A proposed £50,000 salary threshold would mean that around two thirds of current members would receive a CRB pension on their whole salary. The remaining third would receive CRB benefits on salary up to the threshold with benefits on salary above that provided under the new Defined Contribution (DC) section described below.

- Benefits on earnings above the proposed salary threshold of £50,000 will be provided in a new DC section. Member contributions of 6.5% and employer contributions of 12%* of salary above the threshold will be invested in an individual account for each member with the proceeds available to provide benefits at retirement.

- All members will have the opportunity to make additional pension savings into the DC section of up to 1% of salary, below and above the salary threshold. This will be matched pound for pound by the employer, up to 1% of salary.

- It is proposed that member contributions should remain at the current rate of 6.5% of salary. But this is subject to USS Trustees' agreement that the proposed £50,000 salary threshold is affordable.

* According to research from the Office of National Statistics the average total contribution to private sector UK DC schemes is just 9% (6.1% employer and 2.9% member).

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