

A briefing for employees - 'What do the potential proposed USS reforms mean for me?'

15th January 2015

- *What changes are being proposed?*

The potential joint proposals set out an essential package of reforms to the USS that aim to address the current scheme funding challenges, including the indicative £13 billion deficit. An overview of the potential joint proposal for reform is available at:

www.employerspensionsforum.co.uk/en/pension-schemes/uss

- *How will I know how the changes will affect me?*

From Monday 19th January an online benefits estimator will be launched to allow scheme members to estimate what the proposal would mean for them individually. This will be available at www.benefitestimator2015.com

- *How much will I have to pay?*

Under these potential joint proposals the standard member contribution will be 8% of pensionable salary. You would also have the opportunity to make additional pension savings into the DC section of 1% of the whole of your pensionable salary, below and above the salary threshold. This additional 1% contribution would be matched pound for pound by the employer.

- *How much will my employer pay?*

The employers will increase their overall contribution to USS from 16% to 18% of total salary. This additional investment is approximately £135m a year and allows the USS to continue to provide attractive pension benefits for employees and provides funds to begin to address the current scheme deficit. This follows the increase in employer contributions from 14% to 16% in 2009.

- *When will my contributions increase? When do the changes come into effect?*

The effective date of any agreed changes is expected to be 1 April 2016 but that is subject to confirmation. It will be no earlier than this date.

- *Has this proposal for reform been agreed yet? What happens next?*

No, this proposal has yet to be agreed by the USS Joint Negotiating Committee and a consultation with all affected employees must be undertaken before the USS Trustee Board can make the final decision to implement any scheme reforms.

The UCU's HE Committee decided (on Wednesday 14 January) to put this potential joint proposal to its members in a consultative ballot, the results of which will be known in time for the Joint Negotiating Committee (JNC) meeting on 29 January 2015. The employers' representatives will support this proposal at the JNC if the UCU members of the JNC also support it.

This joint proposal is also dependent on the USS Trustee Board adjusting some of the proposed assumptions relating to the 2014 scheme valuation. UUK provided a detailed response to the Trustee Board's consultation on the assumptions in December 2014. UUK's response urged the USS Trustee Board to make a number of changes to the valuation technical provisions and recovery plan in order to avoid an approach that is unnecessarily prudent, to the potential detriment of the scheme's stakeholders.

Following a JNC decision there will then be a statutory consultation by employers with USS members (and eligible employees who are not scheme members) on the reform proposals that are decided at the 29 January JNC. This consultation is expected to begin in mid-March and must continue for at least 60 days.

- *What is the point of taking part in the statutory consultation when the changes have already been decided?*

The changes have not yet been decided. The statutory consultation process will give members the opportunity to understand more fully how they will be affected by the benefit changes, express any concerns and suggest alternatives.

Responses to the consultation will be reviewed by employers and considered in detail by the USS Trustee and the JNC. The JNC will consider whether any revisions to the proposals should be made. After that, the proposals will be finalised and confirmed to the USS Trustee Board so that it can make the changes necessary to implement the revised benefit structure.

- *How will the DC section work?*

Individual pots in the member's name will be created under the USS Trust Deed and the amount in each member's pot will be based on the amounts credited to these accounts (through employer and employee contributions) plus any investment earnings on the money in the account. At retirement the proceeds will be available to provide additional

benefits. Under the new DC rules that come into effect in the UK in April 2015, this could be taken as a one off cash sum – 75% of which would be taxable at your marginal rate – drawn on an ad hoc basis, or used to provide a regular income.

- *Will I lose my final salary benefits?*

The final salary section of the scheme will close, but existing final salary benefits will be protected at the point of change, calculated on pensionable salary and service at that date and increased each year in line with the CPI.

Important information about the legal status of this document

This document has been prepared at the date given for illustrative purposes only, using a range of assumptions which are available on request. As such, it should not be used or relied upon by any person for any other purpose and all third parties are hereby notified the document shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them.

This document was based on data available to us as at the date of writing and takes no account of developments after that date. With respect to data/information on which we have relied in producing the document (including that from third parties), it is not possible for us to confirm the accuracy or completeness of such data/information. The information is based on the face value of information provided by or on behalf of third party sources and we have not verified the provenance, validity, completeness or accuracy of such information and give no representations or warranties in respect of such matters.

Whilst it is hoped that the potential joint proposal will achieve the desired results, neither the USS, Universities UK, Employers Pensions Forum for Higher Education or their advisers, or the participating employers, can give any assurances as to the future financial status of the scheme and, as a result, whether any further changes will be required to the scheme at some point in the future.