Employers
Pensions
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for Higher Education

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

29th January 2015

- *What changes are being proposed?*
  The Joint Negotiating Committee (JNC) 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 as at 31st March 2014. An overview of the JNC proposal for reform is available at: www.employerspensionsforum.co.uk/en/pension-schemes/uss

- *How will I know how the proposed changes will affect me?*
  An online benefits estimator is currently available at www.benefitestimator2015.com to allow scheme members to estimate what the proposal would mean for them individually. The estimator will be available online until the start of the employee consultation period.

  Starting in March 2015, there will then be a formal consultation on these proposed changes undertaken by USS employers with eligible employees. To support this consultation an online modeller will be shortly be made available by USS which will use the data held by the scheme on each member's record.

- *How much will I have to pay under the proposed changes?*
  Under these JNC proposals the standard member contribution will be 8% of pensionable salary. You would also have the opportunity to make additional pension savings into the defined contribution (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 your employer.

- *How much will my employer pay under the proposed changes?*
  Under the proposals, 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 under the proposals? When do the proposed changes come into effect?*
  Based on the current timings and expectations the effective date of any agreed changes would be 1 April 2016 at the earliest, but this subject to confirmation. It will be no earlier than this date. Both employer and employee contributions would increase from the implementation date.

- *Has this proposal for reform been agreed and finalised? What happens next?*
  No, the proposal has been agreed by the JNC and this decision now has to be ratified by the Trustee. The Trustee must be satisfied that all the legal requirements that must be met before these reforms can be implemented have been fulfilled. Most importantly, this requires a statutory consultation of all affected employees to be undertaken locally by their employer. This consultation is expected to begin on the 16th March and must continue for at least 60 days. The employer must take into account the views of the employees expressed during the consultation period and report these back to the Trustee before the Trustee can agree to any rule amendments.

- *Why take part in the statutory consultation when the changes have already been decided?*
  The proposed changes have not yet been finalised. 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.

  A number of changes to a proposed reform package were made following the statutory consultation with scheme members in 2010.

- *I earn over £55,000. How will the defined contribution (DC) section work for me?*
  As a member earning over £55,000 (or if you earn less than £55,000 and wish to pay the additional 1% matched contribution) your regular contributions plus those of your employer will be held in an account in your name. This account will be kept separate from the main USS defined benefit (DB) investments. The Trustee will identify a range of investments that you can choose from and your account will be invested in the fund or funds that you choose. By law there must be a default investment fund which is used if you do not or cannot choose and this default fund will also be determined by the USS Trustee after consulting with the scheme stakeholders.

  The amount in your DC account at retirement is not guaranteed as it will depend on a number of factors – mostly how much you and your employer paid in, where the money was invested and how well those investments performed. The proceeds of the DC scheme will be available to provide additional benefits on top of the benefits you have built up in the CRB section. Under the new DC rules that come into effect in April 2015, the money in the account 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, for example, through purchasing an annuity.

- *How will the proposed DC section be invested?*
  The choice of investment funds will be determined by the USS Trustee Board (after consulting with Universities UK and the University and College Union on behalf of the employers and employees respectively) and would be expected to include a range of investment funds to suit members' differing circumstances and attitudes to investment risk. For example, a young member with many years to work until they retire may wish to take more investment risk, and therefore to anticipate a better investment return, than a member who is approaching retirement and may be more concerned with ensuring the value of their funds are maintained until they decide how they wish to draw them. In each case the investment fund will be held separately from the USS DB investments and will be held in an account allocated to each individual member.

- *What charges will apply to the proposed DC funds?*
  The range of investment funds to be offered by the USS DC section has not yet been identified by the Trustee Board. However the employers have agreed to fund all administration costs for the hybrid scheme; the DB and DC sections. In addition the employers will fund the investment management charges for the default fund as this fund will be designed to be the most appropriate investment choice for the scheme membership. A range of alternative funds will be available which members can choose to invest in but any investment management charges applicable to those funds would be deducted from the member's DC account.

- *Is this the first step towards providing all USS benefits on a DC basis?*
  The hybrid scheme has been designed on the basis that all members will be entitled to future benefits in the CRB scheme on their salary up to £55,000. This provides a core benefit to all members while the vast majority (83%) will still have their entire future pension on a DB basis. The salary threshold will be increased every year by CPI to maintain the value of the CRB benefit (subject to a review to be completed by the USS Joint Negotiating Committee by 31 March 2020). Those members who choose to pay into the DC pot to receive the employer 1% match will build up additional benefits, (in a similar way to current members who pay money purchase AVCs). This means that all members will be able to take advantage of the Government's new DC flexibilities and can build up an additional cash amount to draw in the manner that suits them best at retirement.

- *What will happen if the USS funding position improves markedly?*
  As part of the ongoing discussions between the employers and UCU, the potential for the scheme funding position to change, both for the better or the worse, has been considered. A recovery plan has been agreed which will see the deficit removed over the next 17 years. If the USS funding position as assessed at triennial valuations were to improve, over and above the improvements in funding assumed in the deficit recovery plan, employers would commit to using this to improve member benefits.

- *How confident are the stakeholders and the Trustee that we will not be back here in 3 years' time?*
  All sides have worked together to respond to the March 2014 valuation deficit and agree an appropriate recovery period over which the deficit will be removed. However, neither

the scheme stakeholders nor the Trustee can provide any guarantee relating to the results of the next valuation in March 2017.

- *Will I lose my final salary benefits?*
  Under the proposals, 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. Those past service benefits will be payable at retirement in addition to any CRB or DC benefits that build up after April 2016.

- *What do these proposed changes mean for USS members who join the scheme after the planned implementation date of 1 April 2016?*
  New members earning less than £55,000 a year will receive improved CRB benefit compared with a member joining the scheme today, but their contribution rate will be 8%. They can also enhance this benefit further if they choose to pay the 1% matched DC contribution. The significant DC employer contribution of 12% above £55,000 means that in many cases even higher earning new members should enjoy broadly the same level of benefits as under the current arrangement, with some members potentially better off under the proposed new scheme. It is also worth remembering that the £55,000 salary threshold would be increased each year in line with CPI.

- *Why has the scheme funding position deteriorated so much in 3 years since the last set of reforms?*
  Between March 2011 and March 2014 three main factors contributed to the increase in the USS deficit:
  - The Bank of England's programme of quantitative easing in response to the financial crisis increased the price of bonds (gilts) and, as a result, the value of the USS's liabilities (being the benefits that the USS has promised to pay) increased substantially.
  - The continuing global economic challenges had a detrimental impact on the value of USS's assets and the calculation of its liabilities.
  - Members of the USS are living longer so the pension scheme has to pay pensions in retirement for longer than planned.

- *How will these proposed changes impact on transfers into USS from other pension schemes?*
  Any service relating to a transfer in of benefits from a previous employer's scheme will be treated in the same way as any other USS pensionable service. This includes service transferred in through the Public Sector Transfer Club. The benefit that relates to this service will be calculated based on your pensionable salary at the date the change is implemented (currently expected to be 1 April 2016) and will be increased thereafter by CPI each year.

- *When will more detail be available about the new hybrid scheme benefits?*
  As the JNC has agreed a package of reforms to be put to the Trustee Board, work can now begin on drafting the relevant changes to the trust deed and rules. This will involve the JNC

working with USS and the Rules Committee to ensure that every detail of the benefits available under the new hybrid scheme is fully understood and documented correctly. This is a huge task but it is intended that the majority of this work will be done in advance of the employee consultation in March. This will enable employees to comment on the detail of each element of the benefit package that is relevant to them. These FAQs will be updated as soon as more information becomes available.

- *Where can I find out further information?*
  Further information will be published as part of the formal consultation with scheme members commencing in mid-March. Further information is also available and regularly updated on the USS web site and Employers Pensions Forum web site.

  There are detailed questions to which we have not yet provided answers. There remain a number of detailed specification points which the employers, UCU and USS and our advisers are discussing further. We and USS will provide further clarification on these in due course.

Important information about the legal status of this document

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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 gives no representations or warranties in respect of such matters.

Whilst it is hoped that the JNC proposal will achieve the desired results, neither the USS, Universities UK, the University and College Union, 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.