

Proposals on USS reforms to be recommended to Trustees

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EPF Media Release

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Following today's meeting of the Joint Negotiating Committee (JNC) of the Universities Superannuation Scheme (USS), it was confirmed that a package of proposals for benefit reforms from the employers would be recommended to the USS Trustees on 22 July. This conclusion was reached when independent chairman, Sir Andrew Cubie, exercised his casting vote in favour of the employers' proposals. This is an important step in a formal process which will include a full statutory consultation with employees once the Trustees have approved these changes.

Professor Sir William Wakeham, Chair of EPF said, "The Employers Pension Forum has always maintained that these changes are the minimum required for the scheme to have a sustainable long-term future. This change ensures that higher education institutions in membership of USS can continue to offer a good defined benefit scheme whilst containing cost pressures from a whole range of factors including increasing longevity. By implementing a Career Average Revalued Earnings (CARE) scheme for new joiners, the USS will be able to continue to provide attractive benefits, at a cost that both employers and employees can afford."

This is the latest development in more than two years of negotiations between the employers and the Universities and Colleges Union (UCU). The last reported figures from USS stated that there was a deficit of £17bn using their historic funding* basis.

** A deficit on the Historical Funding Basis is the gap between the funds available and what a scheme needs to meet its obligations, assuming all employer and member contributions cease.*

ENDS

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Attached: Notes to editors

Notes to Editors

The Employers Pensions Forum (EPF) was established by GuildHE, the Universities and Colleges Employers Association (UCEA) and Universities UK in 2007 as a broad based forum for HEIs to discuss current and longer term pensions issues and to develop a strategy that will enable the HE sector to continue to offer staff access to high quality pensions schemes as an important part of the total remuneration package.

The EPF website can be found at www.employerspensionsforum.co.uk

The background

The cost of providing current USS benefits continues to rise and, under the current scheme rules, the employers are required to bear the whole of any cost increases. In 2009 the employers paid an extra 2% (£110m) of salaries towards the scheme.

In particular, the scheme faces costs pressures from:

- **Longevity:** the life expectancy of a USS member retiring today is around 13 years longer than it was when the scheme was set up in 1974.
- **Salary costs:** the last decade's significant pay rises in HE were well in excess of the funding assumptions made by USS actuaries, and, being a final salary scheme, this has had a major impact.

- **Uncertain investment returns:** stock market performance has been poor over the past decade and there has been considerable volatility in USS asset values.

Employers are committed to providing USS pensions and have a duty to address the real risks involved; risks initially identified by USS.

The proposals

The employers' proposals set out the minimum essential changes needed if USS is to remain a sustainable, attractive and affordable pension scheme for all members, current and future. UCU accepts that change is needed, but its proposals don't address the issues. The proposals are shown in the table below:

	Proposals
1.	A normal pension age of 65 will be introduced for new entrants and for the future service of existing members.
2.	Existing members over the age of 55 will be exempt from the changes to the normal pension age.
3.	The normal pension age will be linked to increases to the state pension age.
4.	A flexible retirement scheme will be introduced which will be available to members from age 55.
5.	The employee contribution rate for members of the final salary section will increase to 7.5%.
6.	Pension increases (for pensions in payment) will be inflation proofed in line with increases in the [Retail Prices Index (RPI)] subject to a 5% inflationary cap.
7.	Pensions in deferment will be increased by [RPI] or 2.5%, whichever is the lower.
8.	A CARE benefits structure will be implemented for new entrants. The benefits will be based upon a 1/80 th pension and 3/80 th cash lump sum formula.
9.	The contribution rate for members of the CARE scheme will be 6.5%.
10.	Cost sharing will be introduced and any increase in the joint contribution rate of 23.50% (22.50% for the CARE section) will be shared 35%/65% by employees and employers respectively.

Click on the underlined text below for the following:

[Full details of the proposals from both the EPF and UCU](#)

[Summary update on the Universities Superannuation Scheme \(USS\) for HEIs](#)

[EPF Comments on the UCU on-line Q&As](#)

USS is one of the biggest pension schemes of its kind in the country with assets of many billions. We provide high quality pensions and peace of mind protection benefits for more than 250,000 people at over 400 universities, higher education and associated institutions.

[Please see the USS website for additional information relating to the USS or pension issues in HE](#)

Next steps

These JNC approved proposals will now need to be approved by the USS board of Trustees on 22 July. Thereafter there is a legal duty on employers to undertake a full consultation with their employees. The 400 individual employers in membership of USS will be responsible for carrying out this consultation with the scheme's 130,000 active members and those who are eligible for membership but have not yet joined. The format of the consultation exercise is determined by regulation under the Pensions Act 2004 and allows for a greater degree of feedback from members than a ballot. It is proposed that a consultation would be initiated in late September and would run for at least 70 days.

Following the end of the consultation period early in December, the outcome would be considered by the USS board. Any resulting changes to the reform proposals would then be considered by the JNC which would approve the rule changes necessary to ensure that the changes were implemented as from 1 April 2011.