

UUK consultation on USS proposed changes

Institutional response from University of Sussex

Q1 Should employers aim to significantly reduce the risk of increases in contributions of 18%?

Yes we fully support this measure. HE is at a critical time in the UK and must be able to plan confidently for its future and to be able to demonstrate value for money all its activities. It is vital that we find a lasting solution which meets the employee benefits which HEIs wish to offer in a long term sustainable way

Q2 Do employers support the proposed package of future service benefits with objective of giving the USS trustees confidence that risk associated with future service benefits is reduced such that they may pursue a less aggressive and better value for money investment risk reduction strategy?

Yes we support the proposed hybrid benefits scheme which gives some defined benefit to all members while reducing the risks associated with larger accrual of DB benefits which the scheme would be exposed to by including full salaries as eligible for DB.

Q3 Do employers agree that the salary threshold for DB CRB benefits should be set to allow the maximum number of members to benefit from 100% DB benefits while retaining an affordable model?

This question is more detailed than the other two and without detailed information to suggest whether the cap would likely be at the level of £40k per annum mentioned in the paper or above. There needs of course to be some flexibility for the negotiating team at the JNC to show willingness to modify the proposal. If the question being asked is to elicit responses as to the area where employers would wish to give flexibility, we would potentially agree. However, gauging the effect which makes the affordable scheme unaffordable is difficult especially without information. There are also other areas where the negotiating team may be pressured on making concessions. While we do not object in principle to a higher cap being set, we would make a more general point that the negotiations on behalf of employers must steer clear of diluting the significant increase on confidence on containing future costs of the scheme through change of the scale proposed in the paper, by conceding in areas which increase exposure to longevity and investment risk by being over generous on DB aspects of future service, or indeed on revaluation of accrual earned to date.

Other comments.

- a) We think that the sooner some sample comparative pensions data can be generated the better, particularly around average members (both short term members and lifetime members).
- b) Likewise the proportion and level of employer cost devoted to future employee service (and assurance benefits and scheme administration) is an important figure to calculate. Either it will show a reassuringly high level of future contributions still - which is reassuring - or it will highlight a lower level of future service contributions which we feel we should be tackling head on as a consequence of having to deal with past problems rather than let the point be highlighted by eg UCU as part of a campaign.

- c) Our own experience of change in pension schemes has convinced us that though only a small number of members will require access to death in service and ill health benefits, here are a significant element of the pension and assurance offer. They are also less risky than pension costs and in the case of death in service benefit easy to design and cost. We would therefore argue that the sooner specific proposals can be generated in these areas the better, as they will have a large reassurance factor for the average scheme member.
- d) For the same reason, confirmation that AVCs into DC (only) will continue to be offered may be reassuring (and signals the end of added years AVCs clearly)
- e) While we understand that detail will need to follow shape of the proposal and negotiations, it goes without saying that there are many factors in these proposals which will need to be addressed including salary threshold initial level, whether there will be indexation of tag level, the level and form of calculation of matching employer contributions to the DC benefit a employees discretion under the threshold and so on. These will need to be managed by the JNC team and Epf to ensure they give a sensible overall package which does not risk diluting the objective of risk reduction.
- f) We note that the direct engagement of AonHewitt as advisers has been very helpful. Given the possibility of legal challenge to the outcome of any process, (and again based on our own experience of major pensions change), we would urge EPF to appoint lawyers direct to reduce the risk of any successful legal challenge to the proposed legal changes.

Regarding the USS document

- g) We welcome the overall thrust of this document. At this stage we would make a small number of specific comments:
 - a. The issue of investment risk is covered only very generically in this paper, but is an important factor on the cost and risk of the scheme. It is important in our view to keep reminding the USS trustees that the employers wish for greater engagement in agreeing investment policy and any de-risking proposals.
 - b. The specific tests mentioned by USS in this paper have no illustrative figures so it is difficult to see what sensitivity the tests have and what may trigger further action beyond the next Recovery Plan. This is a tricky issue since ideally the case for reform is supported by the new approach and tests but by the same token we do not wish to be forced into further action by some change in circumstances soon after agreeing a new approach.
 - c. This leads us to a conclusion that it is very difficult to comment on this document while the valuation, recovery plan and future benefits are not yet known and agreed. We would argue strongly that USS should not seek to finalise this document until the current cycle of valuation, recovery plan and benefit change is known and consequences of implementation can be assessed.