

Subject: USS consultation - UCL response

From: Harding, Philip
Sent: 17 September 2014 08:18
To: Pensions <pensions@UniversitiesUK.AC.UK>
Cc: Waugh, Nigel <nigel.waugh@ucl.ac.uk>
Subject: USS consultation - UCL response

Dear Tony,

Thank you for the opportunity to comment on the proposals contained in the UUK paper on USS funding and benefits, and also on USS's document, 'An integrated approach to scheme funding', July 2014. We have had the opportunity for discussion on this matter amongst our Senior Management Team and, as you would expect, there is much interest in the future of USS at this critical point in time.

We recognise the scale of challenge facing the scheme and share the desire to ensure that USS remains both attractive for employees as well as sustainable over the longer term. The assessment of affordability for UCL of higher employer contributions to the scheme confirms the need for the probability of them rising above 18% to be very low. Beyond this level, the scale and quality of academic output would undoubtedly be adversely affected and would compromise our ability to fulfil our mission and strategic aims. It is also the unanimous view of our Senior Management Team that we would expect the current round of benefit reform and the review of the investment strategy to result in enduring changes that will avoid the need for further change in the foreseeable future and certainly well beyond the 2017 valuation. We recognise that the need to effectively cap contributions at 18% and to ensure lasting change will result in benefit change on a significant scale and we support UUK and EPF in pursuing this on behalf of USS employers. Indeed if we do not take the necessary steps at this stage then our concern is that we may relinquish our ability to manage the situation and be faced with a much harsher outcome, imposed perhaps by The Pensions Regulator and/or government, that may not be in the interests of either the sector or our employees.

With regard specifically to the proposed benefit reform as set out in section 14 of the UUK paper we have the following comments and questions:

1. We recognise that the ability of UUK to share fully with us the analysis of alternatives that has been undertaken in arriving at the current proposal is constrained due to the nature of the change process. We would nevertheless wish to see more information about the other options considered and how they have been evaluated. This would help in satisfying ourselves, and members of our governing body who will be keenly interested in this subject, that this set of proposals offers the best outcome in terms of managing risk, securing the sustainability of the scheme and retaining an attractive package of benefits for members.
2. The suggested salary threshold of £40,000 for DB benefit appears low in the context of wishing to "maximise the number of scheme members" who fall below this level. For UCL, the proportion of our USS member employees below this threshold is only 46% and we would expect this is a low proportion for many universities, particularly those based in London. It would also be helpful to have a clearer definition of what is included in this salary figure - total earnings vs pensionable earnings, London weighting, etc? Some data on the distribution, and progression, of earnings across this sector would also be helpful.
3. The proposal is a complex one for those not routinely immersed in pensions and will offer challenges in terms of communications, with the scope for misunderstanding. Assistance in this regard will be necessary, including tools to help us develop some relevant worked examples of the impact. There must be a high likelihood of a national trade union dispute and we would expect UCU to present the proposed benefits under USS as being significantly inferior

to those enjoyed by academics who are members of the Teachers Pension Scheme. Assistance in responding to these arguments will also be required, highlighting for example, the much higher costs for employees in TPS.

4. We would expect that an equality impact assessment will be carried out on the proposed changes at an appropriate point in the process.

The paper asks (section 24) for a response on certain specific points:

- We support the view that reform that relies solely on career average benefits and re-defining the link between pension entitlement and final salary is unlikely to be sufficient to curtail risk and deliver sustainability. Sharing the evaluation of options that arrived at this conclusion would however be helpful to employers. We have confirmed our view above that employer contributions cannot rise above 18%.
- We also support the proposed hybrid scheme, with the introduction of benefit flexibility and an element of defined contribution based benefits. It is a welcome feature of the proposal that benefit accrual for higher earners will have a greater proportion that is DC based.
- We have commented above on the salary threshold and believe that further information is required to inform our view about the appropriate level. We support the intent that as many employees as possible should fall below the threshold and are inclined to believe it should therefore be higher than £40,000.

I hope this response is helpful. Please contact myself or Nigel if you wish to follow up any points raised.

Best wishes

Phil

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