29 November 2010

Dear Colleague

PROPOSED CHANGES TO UNIVERSITY OF SHEFFIELD PENSION SCHEME (USPS)

The purpose of the enclosed information is to provide details of the proposed pension changes to University of Sheffield Pension Scheme ("USPS"). You have received this information pack because you are either an active member of, or eligible to join, USPS*. Earlier this month, the University Council were presented with recommendations to change the USPS provision. The University Council agreed that these recommendations should now proceed to a formal consultation with current and eligible members. This consultation period will run from 1 December 2010 until 10am on 7 February 2011.

You will find enclosed a booklet entitled “Consultation on proposals for changes to USPS”, which sets out the reasons for the proposed changes, details of the proposed changes and how you can provide your response.

Further information can be found on the dedicated review project website, www.sheffield.ac.uk/uspsreview including frequently asked questions; a basic modeller, background information and the opportunity to provide your response. A pdf copy of the enclosed information to members notice can also be found on this website.

A series of presentations will be held across campus during the consultation period, and a web cast version of this presentation will be published on the web pages above once the presentations begin.

You are advised and encouraged to study these proposals carefully and then submit any comments you may have via the USPS review website, or using the pink form attached to the information pack.

Yours faithfully,

Bob Rabone, Director of Finance
Rosie Valerio, Director of HR
Consultation on proposals for changes to USPS

Background

In November 2009, the University launched a project to review the University of Sheffield Pension Scheme (USPS). USPS is the pension scheme run by the University of Sheffield and is open mainly to staff on grades 1 to 5.

The aim of the review was to identify, recommend and, if appropriate, implement approved changes to ensure the pension provision for USPS eligible members is sustainable for the long term, affordable for the members and the University and attractive to staff.

With the help of specialist pensions advisers from Mercer, the project team has now developed proposals which have been approved for consultation by the University Executive Board (UEB) and Council.

Why you should read this document

This document aims to share these proposals with all staff eligible to be members of USPS in order to gather the views of those staff in relation to the proposed changes to USPS. You have received this booklet because you are either a current member of, or are eligible to join USPS. It is also being given to recognised trade union representatives. Details of the proposals and how you can feed into the consultation process are outlined in this booklet.

Inside this booklet you will find some explanation of the challenges that the current scheme faces and why changes are being proposed.

The proposed changes aim to ensure that the University continues to offer a good level of pension benefits for eligible staff. They are intended to help safeguard the long term future of the scheme by ensuring it remains affordable for the University and attractive for members.

The consultation period will run from 01 December 2010 to 10am on 07 February 2011.

It is important that if you want to respond to the consultation you do so before the closing date. The responses received will then be considered by the University Council and the Trustees of the scheme in early 2011 before a final decision is made on any changes to be implemented with effect from April 2011.
1 Why are changes to USPS being proposed?

In its current form USPS is becoming increasingly expensive and is unsustainable in the long term. It also exposes the University to a large amount of risk, which does not help to provide for a robust, sustainable financial position either for the University or USPS.

1.1 Past scheme deficit

USPS had a deficit of £31.3 million at the last full actuarial valuation in 2008. This means that the assets held by the scheme (shares, bonds, property etc) are not currently enough to pay all of the benefits promised to existing members of the scheme. Since 2008 the deficit has increased further and is expected to be greater in April 2011, when it is next valued.

Irrespective of any changes which may be made to USPS, this deficit will have to be paid. The University is fully committed to addressing the deficit in order to bring USPS back into balance. The University will be making financial contributions to address the deficit over a number of years. The funding of the deficit would be completely separate from any potential new benefit arrangements introduced.

1.2 Future sustainability

The future sustainability of the current benefit structure under considerable strain due to people living longer, above anticipated salary increases and returns on investments being lower than expected.

Under the current final salary arrangements of USPS, the University promises to pay retiring members a pension based on their length of scheme membership and their salary on retirement (their final salary). This pension is paid for as long as the scheme member lives and potentially further still (at a reduced rate) if the member has a spouse, civil partner or dependants who live longer than they do.
Life expectancy has increased significantly since USPS was launched as a final salary scheme in 1975. This means that pensions are being paid out for much longer now than they were expected to be paid for when the scheme was set up.

The salary level that pension income will be based on is also unknown whilst a member is contributing to the scheme. In recent years salary growth within the higher education sector has increased at a faster rate than was anticipated, for example the 8% increase in 2008. Since pensions are paid based on the final salary of the member, this increase in salary levels means that pensions are higher too.

Because contributions to the pension scheme are based on a salary that is generally lower than the final salary on which a pension income is paid, the scheme needs to invest both the member and University contributions with the intention of seeing those investment values grow in order to fund the costs of paying pensions to retired members. The types of investments that the USPS pension scheme makes have historically shown high levels of volatility, with their values increasing and decreasing significantly over time. This kind of volatility is not helpful in the long-term planning of the fund and indeed, as with many pension schemes, the investments have not provided the expected levels of return over recent decades.

It is not possible to simply change the types of investments to lower risk investments which generally have less volatility but provide lower rates of return, without a corresponding large increase in the level of contributions or a lower level of benefits to compensate for the lower rate of returns.

The three areas of risk outlined above (sometimes referred to as the longevity risk, the salary risk and the investment risk) have all increased in recent years and remain the main issues affecting the on-going affordability and sustainability of the current scheme if it remains unchanged.

13. Future affordability

The impact of the reductions in University funding announced in the recent Comprehensive Spending Review and the likely introduction of increased student fees will be felt for many years, placing additional pressure on the costs of employment and pension provision.

A further pressure will be the future requirement to enrol all eligible staff into a pension scheme (known as “auto-enrolment”). This is a change in legislation that will begin to take effect from 2012. Currently only a minority of new staff join the scheme. In 2008-09 only 27% of new starters eligible to join USPS actually chose to do so. In future, everyone employed by the University will be required to be enrolled into a pension scheme. This will increase the cost to the University of providing pensions for staff. When the auto enrolment legislation comes into force, the additional cost of eligible non-joiners becoming members of the current scheme would be approximately £18million each year if no staff opted out.

The proposed changes would lead to the scheme having a lower level of risk in the future, resulting in it being more affordable and sustainable whilst being attractive to eligible staff.
14. Numbers joining USPS

In 2008-09 only one out of every four new members of University staff in grades 1 to 5 chose to join USPS. This level of take up rate is very low and suggests that the scheme is not currently attractive to the majority of new staff.

Further investigation into the reasons behind the low level of joiners showed that the main reasons for people not choosing to join were the complexity of pension arrangements and the high level of cost.

15. Which options have been explored?

The project team have looked at ways of amending the current final salary arrangements in USPS, including raising the contribution levels, changing the rate at which benefits are built up in the scheme, extending the normal pension age and closing the scheme to new members. Whilst each of the options investigated would help in some way towards reducing the risks inherent in the final salary scheme, they would not tackle the full extent of the problem and so have not been recommended for implementation.

The project team also explored alternative ways of providing a pension for staff. These included provision of a “defined contribution” scheme where the member decides how to invest their own and the University’s contributions. The University did not want to leave the scheme members bearing all the risks related to their pension provision and so this option was not recommended.

Career Average Re-valued Earnings or “CARE” arrangements were also investigated. This type of scheme has merits when applied to a scheme such as the Universities Superannuation Scheme (USS) with a higher level of member salary progression, but is much less applicable to the staff group eligible for USPS membership. A CARE scheme would not address one of the key issues of the current arrangements - that of people living longer. Under a CARE arrangement the scheme would be responsible for paying out pensions for an unknown and increasingly lengthy period, and, as has been seen with the final salary scheme, this increase in life expectancy can place large pressures on a scheme and therefore, a potentially large financial burden on the University in the future. As a result a CARE scheme was not recommended.
2. How will the proposed changes affect you?

The changes proposed would not affect the benefits you have built up in the scheme up to the proposed date of any change. You would continue to be entitled to a pension based on your accrued pensionable service up to the date of any change, and that pension would be calculated based on your final salary at your retirement date, or date of leaving the University’s employment if sooner. In effect, your benefits would still be based on your final salary, but you would cease to build up any further pensionable service in the final salary arrangements from the date the proposed changes would be introduced.

If the proposed changes are accepted, from the date of the change eligible members would begin to build up benefits on a “cash balance” basis (further details of which are set out below). This would give a known level of fund at the date of retirement which could be used to buy a retirement income to suit the member’s particular circumstances and needs at that time.

3. Consultation process

The consultation period starts on 01 December 2010 and will run until 10am on Monday 07 February 2011. The consultation period must, by law, last for a minimum of 60 days. As the consultation period runs over Christmas, an extra eight days have been added.

USPS members, all staff eligible to join USPS and trade union representatives have the opportunity to consider the proposed changes and to provide their responses at any time during the consultation period. The University knows how important pensions are and welcomes your views on the proposed changes.

Once the consultation period ends the comments received will be considered before final recommendations are presented for approval in the spring of 2011. It is anticipated that any agreed changes would be implemented with effect from April 2011.

3.1. Key dates:

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Dates</th>
<th>What’s happening &amp; what should you do?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultation starts</td>
<td>01 December 2010</td>
<td>Read this document, visit the website for more information and give your response. The University will also be consulting with recognised trades unions.</td>
</tr>
<tr>
<td>Consultation ends</td>
<td>07 February 2011</td>
<td>Deadline at 10am for receipt of your response to the proposed changes.</td>
</tr>
<tr>
<td>After consultation</td>
<td>February 2011</td>
<td>Responses are considered and final proposals prepared for presentation to Council and USPS Trustees.</td>
</tr>
<tr>
<td>Any changes agreed</td>
<td>March 2011</td>
<td>Details of any agreed changes will be provided to members and eligible staff.</td>
</tr>
<tr>
<td>Any scheme changes implemented</td>
<td>01 April 2011</td>
<td>The proposed date of implementation of any agreed changes.</td>
</tr>
</tbody>
</table>

Please note, you do not need to take any action during the consultation period unless you would like to provide a response.
3.2. Further information

A website has been set up with all the relevant information at: www.sheffield.ac.uk/uspsreview.

On the website you will find frequently asked questions (FAQs), and an audio visual version of the presentation that will be being delivered at the consultation meetings being held (as outlined below) and an opportunity to provide your response. There is also a basic modeller to help you to see how the proposed changes would impact on you.

A number of presentations will be held around the campus during the consultation period which will be open to all current USPS members and all staff eligible to join (staff on grades 1 to 5). Details of times and locations are given below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday 6 December 2010</td>
<td>10 am</td>
<td>Regent Court, John Pemberton Lecture Theatre, Room 2040</td>
</tr>
<tr>
<td>Thursday 9 December 2010</td>
<td>4 pm</td>
<td>Medical School LT02</td>
</tr>
<tr>
<td>Monday 13 December 2010</td>
<td>3:30 pm</td>
<td>Henry Stephenson Building, LT01</td>
</tr>
<tr>
<td>Friday 17 December 2010</td>
<td>2 pm</td>
<td>Alfred Denny Building LT01</td>
</tr>
<tr>
<td>Tuesday 21 December 2010</td>
<td>11:30 am</td>
<td>Medical School, LT03</td>
</tr>
<tr>
<td>Thursday 11 January 2011</td>
<td>9:30 am</td>
<td>ICOSS Conference Room</td>
</tr>
<tr>
<td>Friday 21 January 2011</td>
<td>2 pm</td>
<td>Psychology, LTG30</td>
</tr>
<tr>
<td>Wednesday 26 January 2011</td>
<td>10 am</td>
<td>Students Union, Gallery Room 4</td>
</tr>
</tbody>
</table>

For queries relating to this consultation process you may contact the USPS Review Helpline number on extension 24493 or e-mail uspsconsultation@sheffield.ac.uk.

3.3. Give your response

You may provide your response by visiting the website at www.sheffield.ac.uk/uspsreview and completing the on-line form.

If you do not have access to the internet, you can send your response via the internal mail or in person to USPS Review, Department of Human Resources, 10-12 Brunswick Street. A response form has been provided at the back of this booklet for this purpose.

You can also contact your trade union representative and express your views to them. The University will also be consulting directly with the recognised campus trade unions.
4. Proposed changes in detail

4.1 Closure of final salary arrangements in USPS

It is proposed that the existing final salary arrangements in USPS will be closed to future accrual. This will be either by the closure of the final salary section of USPS and the inclusion of a cash balance section or by the closure of USPS to future accrual and the introduction of a new cash balance scheme. This means that active members would no longer be able to make contributions to USPS to build up final salary benefits. Under these proposals, active members would become deferred members in respect of their final salary benefits in USPS.

A deferred member is someone who has built up benefits in the scheme, but is no longer actively contributing to them. The benefits accrued remain in the scheme, and can still be accessed by the deferred member on retirement.

All benefits previously accrued would be protected and would be paid upon retirement based on the deferred member’s final salary at the University. Closure would result in future equity for all eligible staff, rather than a two tier system, as all staff working at grades 1-5 would be eligible for the same pension arrangements. In addition, closure to future accrual of final salary benefits would help the University to manage the risks associated with a final salary pension provision. The University is committed to ensuring the deficit relating to the accrued final salary benefits will be paid off over a period of time.

The University is considering options to allow certain groups of current members to continue accruing final salary benefits for a limited period.

4.2 Introduction of a cash balance arrangement

It is proposed that pensions for future service from April 2011 would be based on benefits building up as a cash balance account.

A cash balance arrangement builds a base level of retirement savings that will not go down in value if paid at the normal pension age. It is a defined benefit scheme based on a stated amount of contributions and growth rather than the final salary of the member.

There would be a commitment by the University to provide members with a set amount each year which would be available in full when they reach normal pension age.

Under the proposals, each member would have an account which would be credited with a fixed percentage of salary each year (determined by the level of contributions paid by the member – see section 4.4 below for details) and the value of the account would be increased each year by the Consumer Price Index (CPI) up to a maximum of 2.5%.

It is proposed that the scheme rules would allow the capability to re-value members’ account balances by more than 2.5%, subject to the availability of scheme funds and by reference to the prevailing rate of CPI increases.

An illustrative example of how benefits would build up in a cash balance account is provided on page 9.

Consultation on proposed changes to USPS
Both the member and the University would contribute to the pension account each month and the funds would be invested by the pension scheme trustees, with the objective of those investments growing sufficiently to pay for the guaranteed cash balance account at the normal pension age. If the investments did not return enough growth, the University would provide the difference to give the member the benefits promised.

At the point of retirement the scheme member would use the cash balance built up during the course of their scheme membership to buy themselves an income during retirement – usually this would be provided by an annuity. An annuity can be bought from a range of providers and the retirement income can be tailored to each member’s needs.

The University would seek to provide assistance to scheme members to identify a suitable annuity or retirement income product in the lead up to their retirement. This may be through pre-retirement courses, securing preferential rates with a range of independent financial advisers, or working more closely with one or more annuity providers.

As the amount accumulated in the individual’s account would be guaranteed, the member would have the predictability of a simple, defined value with which to purchase a retirement income, from which it should be easy to calculate and target the required levels of benefit.

For those members who leave the University before retirement, the cash balance built up during their scheme membership could be moved to another pension scheme provider, for example with another employer (subject to the rules of that employer’s scheme). The value of the funds which could be moved would be clear to the scheme member and would be shown on the member’s annual pension statement.

Under a cash balance arrangement the risks are shared between the member and the University. This would allow greater cost control than provided by a final salary scheme.

Example 1

Barbara is currently 55 years old and earns £15,300. She has 10 years’ service built up in the final salary arrangements in USPS at 31 March 2011. She then continues to work at the University for another 10 years whilst accruing benefits in the cash balance arrangements. She contributes 6% of her pensionable pay into the cash balance arrangements. Her salary increases at 3% per year and at retirement is £20,000.

On retirement at age 65 she will receive a pension income from her accrued USPS final salary benefits of $10/80th X £20,000 =£2,500 plus a tax-free lump sum of £7,500.

In addition she will have accrued a fund value equal to 20% of her salary for each of the 10 years she was a member of the cash balance arrangements giving her more than £39,000. She could take almost £10,000 as a tax-free lump sum, and use the remainder to purchase an annuity to provide her with an additional pension income to suit her needs.
4.3. Relationship with State 2nd Pension (S2P)

The State 2\textsuperscript{nd} Pension, or S2P, is paid by the Government in addition to the basic pension entitlement on reaching the state pension age. It is broadly linked to earnings on which a person has paid national insurance contributions during the course of their working life.

The current final salary USPS is “contracted out” of the S2P. This means that members pay a lower rate of national insurance (NI) contributions but do not build up rights to the S2P for the period during which they were a member of a contracted out pension scheme.

It is not possible for a cash balance scheme to be contracted out of S2P. Members of the cash balance scheme would pay higher levels of NI than they do currently and would also build up entitlement to S2P whilst they are a member of the scheme. At current HMRC rates, a USPS member would see their NI contributions increase by 16% on earnings between £110 and £844 per week if they were to join the proposed cash balance arrangements. They would also have a greater entitlement to S2P on reaching state pension age. The University would also have to pay higher rates of NI for all members of the cash balance scheme instead of the lower rates of NI for current USPS final salary members.

Because the cash balance scheme could not be contracted out of S2P, it would not be possible to transfer any accrued final salary benefits built up in USPS into the cash balance arrangement. This means that all current members would initially have deferred final salary benefits in USPS. Members who leave the University would still be able to transfer their accrued benefits to another contracted out pension scheme (subject to the rules of that scheme).
4.4. Changes to member contribution levels

Currently members of USPS pay 6.8% of their pensionable pay into the scheme each month. The University currently pays 13.6% of pensionable pay for each member towards their future benefits. The University also currently pays an additional 8% of each member’s pensionable pay to address the scheme deficit outlined earlier. The University’s commitment to continuing to address the deficit situation is outlined on page 2.

Under the cash balance proposals, members would have a choice of contribution levels. The University would guarantee different amounts of credit to the members’ cash balance account to be available at normal pension age, dependent upon the level of contributions paid by the scheme member. The table below provides details of the proposed contribution levels in the cash balance scheme:

<table>
<thead>
<tr>
<th>Member’s contribution as a % of pensionable salary</th>
<th>Guaranteed credit to cash balance account at normal pension age as a % of pensionable salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>4%</td>
<td>15%</td>
</tr>
<tr>
<td>6%</td>
<td>20%</td>
</tr>
</tbody>
</table>

The proposed maximum level of member contribution is 6%. This is lower than the current 6.8% as a means of helping to offset the additional NI costs a scheme member would face compared to the NI payments under the final salary scheme.

It is proposed that members opt for a particular level of contribution and that changes could be made annually on 01 April each year, or on the occasion of a significant “lifestyle event” (for example, getting married, divorced, or having children. A full list of lifestyle events would be drawn up in the scheme rules).

It is proposed that members would be able to make their contributions under the existing Pay Plus for Pensions salary sacrifice arrangements.

**Example 2**

Barry has been working at the University for 3 years. He did not join USPS because he found the 6.8% contribution rate was too expensive. In April 2011, he decides to join the cash balance arrangements at a contribution rate of 2% so that he can save towards his retirement and benefit from the University guaranteeing him a fund value equal to 10% of his pensionable salary each year. Barry will have the option to change the level of his contributions each year on 1 April, should he wish to do so.
4.5. Eligibility to join the cash balance arrangement

The cash balance arrangement would be open to all staff on grades 1 to 5 aged between 18 and 75 years.

Members of staff who join the University after the normal pension age would be eligible to join the cash balance arrangement at the trustees’ discretion.

It is proposed that all current USPS members on grades 1 to 5 and eligible staff would be invited to join the new cash balance arrangement and to nominate the level of contributions they would wish to make.

Any member of the current final salary arrangements in USPS who is currently on grade 6 or above would not be eligible to contribute to the proposed cash balance arrangement. They would become eligible to join the Universities Superannuation Scheme (USS) instead.

Under the proposals, and in accordance with USS eligibility rules, at the point the final salary USPS arrangements closed those staff on grade 6 and above would automatically be enrolled into USS, unless they were to notify the University of their intention to opt out of USS membership.

For scheme members in this situation, the University is proposing to ensure that any benefits deferred in USPS remain linked to their salary at the point of retirement or leaving the University, whichever occurs first.

They would then have the option of transferring any benefits accrued in USPS to USS. Alternatively they could leave their benefits in USPS and be treated as a deferred member of the scheme. Staff in this position are advised to seek independent financial advice in relation to their own specific circumstances.

The University is currently exploring with USS the option of these staff being given the opportunity to join USS before any changes are made to USPS. This may enable those staff to enter USS under the final salary section, should these scheme members wish to do so.

Example 3

Roger is a member of USPS but, following the pay and grading exercise in 2005, his job is in grade 6. From April 2011 Roger is no longer eligible to be a member of USPS and so joins USS. The benefits he has accrued in the final salary USPS arrangements will be protected and will still maintain a link to his final salary at retirement (or on leaving the University). In order to ensure he’s making the right decisions in terms of whether or not to transfer his accrued USPS benefits to USS he seeks independent financial advice.
4.6. Auto-enrolment

As explained earlier, new laws are coming into force soon which will mean that the University must enrol all eligible staff members into a suitable pension scheme.

The proposed cash balance arrangement meets the requirements of the auto-enrolment laws, if staff are enrolled on the proposed middle contribution level (4% member contribution).

All eligible staff who did not respond to the invitation to join with effect from April 2011 would be auto-enrolled into the cash balance arrangements at the proposed 4% level of contributions at the point that the legislation comes into effect (this is expected to be in 2012-13). Those staff could decide to opt out of the scheme or to change their contribution levels to either 2% or 6% should they wish to do so at the time of auto-enrolment. Full details would be provided to those staff affected at the appropriate time.

4.7. Normal pension age

It is proposed that the normal pension age under the cash balance arrangement be set at 65, and that it would mirror changes in the state pension age in future.

The defined level of the cash balance built up by each member would be based on it being accessed at the normal pension age.

4.8. Early retirement

Scheme members with at least two years’ membership would be able to retire from age 55 and access their cash balance immediately in order to purchase a retirement income. In such circumstances an actuarial reduction would be applied to the balance to reflect the fact that the funds in the cash balance account had not had sufficient time to grow to the defined benefit levels at normal pension age. The age at which early retirement would be possible would be linked to any future amendments in legislation.

4.9. Late retirement

Scheme members would also be able to continue membership of the cash balance arrangement beyond the normal pension age. The scheme member would still be entitled to contribute to the scheme after the normal pension age, and the University would continue to contribute at the appropriate level based on the member’s contributions.

If the scheme member had benefits built up from contributions made prior to the normal pension age this cash balance may be enhanced based on an actuarial assessment. This would reflect the fact that benefits built up during that period would continue to be invested and continue to have the opportunity to grow and could be worth more than the defined benefit stated, based on the normal pension age.

Benefits built up after the normal pension age would be defined based on the overall contributions shown in the table earlier.
4.10. Flexible retirement

Scheme members with at least 2 years’ membership would be allowed one opportunity to access their cash balance account early, from age 55 and continue working at the University, subject to an actuarial reduction and consent from the Trustees and the University.

The member would be able to start up another separate cash balance account in relation to their pensionable pay whilst they continue to work at the University, after accessing their first cash balance account. The University would guarantee a credit to the new cash balance account at the relevant rate, according to the members’ contribution level.

4.11. Death in service benefit

The University is proposing to increase the level of death in service cover for scheme members under the cash balance arrangement. A target figure is currently 4 x annual salary, plus the return of the scheme member’s contributions with interest. The death in service benefit would only cover active members of the scheme. Eligible members of staff who chose not to join the cash balance arrangement would not benefit from death in service cover.

Life cover would apply to members up to age 75.

It is proposed that any members who access flexible retirement arrangements outlined above, and start a new cash balance account would subsequently qualify for death in service benefits of 1 x salary plus the return of the scheme member’s contributions to the new account with interest.

4.12. Ill-health retirement

If a member were to become too ill to continue working, it is proposed that they could be considered for two levels of ill-health retirement, provided they had at least five years’ cumulative membership in either the USPS final salary or cash balance arrangements.

4.12.1. Permanent incapacity

Where a scheme member is determined to be permanently and totally incapable of carrying out any work on the grounds of ill-health it is proposed that they could retire early, irrespective of their age. In these circumstances the amount available to purchase a retirement income for them would be 4 x their pensionable pay and the value of their cash balance account as at the date of ill-health retirement, subject to an actuarial reduction for early payment, if appropriate.

4.12.2. Partial incapacity

If a member is determined to be incapable of continuing or is unlikely to be able to continue to do their current job and they meet the criteria set out by HMRC from time to time it is proposed that they could access their cash balance account, subject to an actuarial reduction for early payment, if appropriate.
4.13. **Additional Voluntary Contributions (AVCs)**

Under the current final salary USPS, members can choose to pay Additional Voluntary Contributions (AVCs) over and above the 6.8% paid as normal. These AVCs are invested in a separate arrangement, operated by an insurance company on a “defined contribution” basis.

Under the proposed cash balance arrangement, members would still be able to make AVCs into a separate defined contribution scheme should they wish to do so.

4.14. **Deferred pensions for members who leave the University**

Under the current arrangements all accrued pension benefits of deferred members are re-valued each year in line with the Retail Price Index (RPI), up to a maximum of 2.5% over the period to retirement. The Government has announced changes to the way private pension schemes apply re-valuation factors to move from RPI to the Consumer Price Index (CPI) in 2011.

For benefits accrued after April 2011, in the proposed cash balance arrangement, deferred pension benefits for members who leave the University would therefore be re-valued each year in line with the CPI, and, as now, would be subject to a maximum of 2.5% per year.

If a deferred member of the cash balance arrangement were to die before reaching retirement, but after leaving the University, the value of the member’s cash balance fund would be paid to their nominated beneficiary (subject to the trustees discretion) with an actuarial reduction applied to reflect the early payment of the fund.

5. **Give your response**

You can visit the website at [www.sheffield.ac.uk/uspsreview](http://www.sheffield.ac.uk/uspsreview) and complete the on-line form.

If you do not have access to the internet, you can send the response form at the back of this booklet via the internal mail or in person to: USPS Review, Department of Human Resources, 10-12 Brunswick Street.

You can also contact your trade union representative and express your views to them. The University will also be consulting directly with the recognised campus trade unions.
### 6. Summary of proposed changes compared with current USPS benefits

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Cash Balance Proposals</th>
<th>USPS Final Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of benefits &amp; pension income</td>
<td>Cash account made up of a fixed %age of pensionable pay each year, which grows in line with CPI up to a 2.5% cap. At retirement cash balance is used to purchase an annuity to suit member needs.</td>
<td>Pension income based on 1/80th of final salary for each year of pensionable service.</td>
</tr>
<tr>
<td>Tax free lump sum on retirement</td>
<td>Up to 25% of the total cash balance account can be taken as a tax free cash lump sum.</td>
<td>3 x annual pension can be taken as a tax free lump sum.</td>
</tr>
<tr>
<td>Normal pension age</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Employee contributions</td>
<td>Choice of 2%, 4% or 6% of pensionable pay.</td>
<td>6.8% of pensionable pay.</td>
</tr>
<tr>
<td>Eligibility</td>
<td>University of Sheffield Staff on grades 1 to 5. University of Sheffield Union of Students eligible staff.</td>
<td>University of Sheffield staff on grades 1-5 plus some staff on higher grades following assimilation as a result of implementation of University of Sheffield grading scheme. University of Sheffield Union of Students eligible staff.</td>
</tr>
<tr>
<td>Early retirement before normal pension age</td>
<td>Yes from age 55 with reduction for early payment. University will count pensionable service in cash balance arrangements towards 20 years total service if aged 60 or above to allow members to access benefits accrued before January 2006 unreduced.</td>
<td>Yes from age 55 with reduction for early payment. Those with 20 years’ pensionable service and age 60 or above can take benefits accrued before January 2006 unreduced.</td>
</tr>
<tr>
<td>Late retirement after normal pension age</td>
<td>Yes and can continue to pay contributions, and receive University contributions. Benefits accrued before normal pension age enhanced.</td>
<td>Yes and can continue to pay contributions, and receive University contributions, with University and Trustee consent. Benefits accrued before normal pension age enhanced.</td>
</tr>
<tr>
<td>Flexible retirement</td>
<td>Access to reduced cash balance fund from age 55 and can open a new cash balance account whilst still working.</td>
<td>Access to reduced final salary pension from age 55 and can start to build up new final salary entitlement whilst still working.</td>
</tr>
<tr>
<td>Death in service benefit</td>
<td>4 x pensionable pay and return of member contributions with interest.</td>
<td>2 x pensionable pay and return of member contributions with interest. Spouse/dependants pensions paid where appropriate.</td>
</tr>
<tr>
<td>Ill-health retirement</td>
<td>Permanent and partial ill-health covered. Permanent incapacity attracts 4 x pensionable pay plus actuarily reduced cash balance fund.</td>
<td>Permanent incapacity only. Pension enhanced based on length of scheme membership up to a maximum of an additional 6 years and 8 months.</td>
</tr>
<tr>
<td>AVCs</td>
<td>Yes into a separate defined contribution fund.</td>
<td>Yes into a separate defined contribution fund.</td>
</tr>
<tr>
<td>Deferred benefits growth</td>
<td>Benefits re-valued at CPI up to 2.5% cap.</td>
<td>Benefits re-valued at RPI up to 2.5% cap (change to CPI in 2011). N.B. If benefits are deferred due to move to cash balance proposals, final salary link is maintained.</td>
</tr>
</tbody>
</table>

Consultation on proposed changes to USPS
Response to proposed changes to USPS

You are invited to provide your response to the following sections of the proposals:

<table>
<thead>
<tr>
<th>Section</th>
<th>Page Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing the current final salary arrangements to future accrual</td>
<td>p.7</td>
</tr>
<tr>
<td>The introduction of a cash balance scheme</td>
<td>p.7</td>
</tr>
<tr>
<td>The level of member contributions. You are invited to state which level of contributions you would most likely choose in the proposed USPS cash balance scheme</td>
<td>p.10</td>
</tr>
</tbody>
</table>
Eligibility to join the cash balance scheme (see p.11)

Other benefit proposals (normal pension age, early/late/flexible retirement, ill-health retirement, death in service, AVCs etc) (see pp.12-14)

Any other comments you wish to make.

OPTIONAL INFORMATION
Please provide your name and department.

Please note: we are unable to respond to questions submitted on the response form. Please direct questions via the telephone helpline on ext. 24493 or by email to uspsreview@sheffield.ac.uk