USS Valuation – Universities UK (UUK) has proposed changes to the USS pension scheme.

The Universities Superannuation Scheme (USS) is required by law to undertake a valuation every three years, the latest being as at 31 March 2017. Since the 2014 valuation, economic conditions for defined benefit pensions have worsened. As a result, the position at the 2017 valuation is much more difficult than expected. The greatest challenge at this valuation is the significant rise in the cost of future service benefits, which has risen by over a third since the last valuation. USS’s funding deficit has also increased to approximately £7.5bn. The Pensions Regulator has already written to the USS Trustee in September expressing concerns.

To maintain the current level of defined benefits in future would constitute an additional cost equivalent to at least 11% of salaries. USS employers currently pay 18% of salaries towards USS. This is a high level of employer contribution and reflects a clear and continued commitment to offering high quality retirement benefits. However, employers are not in a position to increase their contribution further, and it is clear that many employees would find an increase in their contribution of 8% challenging too.

The reason universities can’t afford to pay more is that it would require diverting money from other central areas, such as teaching or research, reducing universities positive impact in the areas most central to their core mission and purpose. Increasing contributions could damage the high standards that students, research funders and others rightly expect, and could undermine the sustainability of some institutions.

The USS Trustee requires the increased cost in future service benefits to be addressed at this valuation, and the Pensions Regulator and Trustee will also need to agree a credible plan to address the deficit. Employers believe that benefit reform is necessary to ensure the scheme is on a stable and sustainable footing for the long-term. The USS Trustee is required to sign off the valuation and submit its report to the Pensions Regulator within 15 months of the valuation date (i.e. by 30 June 2018).

UUK’s proposal is to move to a market-leading defined contribution saving (through the USS Investment Builder) to all employees, irrespective of salary. However, the defined benefit (DB) structure would not be closing entirely. The proposal has been constructed in order to offer a range of options (including the possible reintroduction of DB benefits) if scheme funding improves at future valuations.

Furthermore, it is proposed to maintain the provision of death and incapacity benefits on a defined basis so that employers continue to carry the risk in the most difficult of circumstances.

UUK’s proposal is designed to manage USS risk, whilst simultaneously offering high quality benefits to employees, both past and future.

Any potential changes to future member benefits or contributions are negotiated within the Joint Negotiating Committee (JNC) within the USS structure, and once decided upon in the JNC any proposed changes will be subject to a full consultation with all affected employees. This is likely to take place in Spring 2018.

Please note that members’ accrued pensions (those built up prior to any future changes in USS pension provision) are protected under law and will not be affected by any future change.

We fully appreciate that the prospect of pension reform will concern colleagues. We will be running a series of informative presentations in the coming weeks. Further details on our Valuation web pages: https://www.sheffield.ac.uk/hr/thedeal/pensionupdates/ussvaluation

Please also see the Q&As prepared by UUK which are available on this web page. In the meantime should you have any queries, please direct them to pensionmemberupdate@sheffield.ac.uk.