How USS works

**Defined Benefit**

The USS Retirement Income Builder
Providing you with security

**Defined Contribution**

The USS Investment Builder
Providing you with flexibility

**Formula**

**Pot of Money**
Benefits in USS

- USS Retirement Income Builder (DB)
- USS Investment Builder (DC)

£58,589.70

Salary £000s

Copyright © 2019 Mercer Ltd. All rights reserved
Valuation

Are there enough assets to pay for all the benefits built up to now?

How much will it cost for benefits earned in the future?

REASSESSED EVERY 3 YEARS
The parties involved

- **USS**: Ensures the promised benefits built up are paid to all beneficiaries of USS
- **Universities UK**: Supports employers
- **UCU**: Represents members of USS
- **The Pensions Regulator**: Requires the scheme checks it is properly funded for the protection of members
- **JNC**: Approves amendments to the rules (made up of 5 UUK and 5 UCU members with an independent chair)
Brief (recent) history

- 2017 Valuation
  - £7.6bn deficit
  - Proposal to change to DC scheme
  - UCU industrial action
  - JEP report – employers and UCU accepted in full

Pre-JEP
- University contributions: 26.0%
- Member contributions: 8.0%

JEP report
- University contributions: 29.2%
- Member contributions: 9.1%
2017 valuation outcome

- Trustee concludes 2017 Valuation
- No change to methodology
- Increased costs, but benefits unchanged

Member contributions: 8.8% (April 2019), 10.4% (October 2019), 11.4% (April 2020)

University contributions: 19.5% (April 2019), 22.5% (October 2019), 24.2% (April 2020)

- 35.6% (April 2020)
Brief (recent) history

- **2017 Valuation**
  - £7.6bn deficit
  - Proposal to change to DC scheme
  - UCU industrial action
  - JEP report – 29.2%
  - Trustee concludes 2017 Valuation – no change to methodology
  - Increased costs, benefits unchanged

- **2018 Valuation**
  - No change to methodology
  - JEP recommendations watered down
  - £3.6bn deficit
  - Contingent contributions rejected
  - Range of options – “Option 3” = least worst option
  - Increased costs, but benefits unchanged......
2018 valuation outcome

- September 2019: 8.8% (Member contributions) + 19.5% (University contributions) = 28.3%
- October 2019: 9.6% (Member contributions) + 21.1% (University contributions) = 30.7%
- October 2021: 11.0% (Member contributions) + 23.7% (University contributions) = 34.7%
Cost increases

<table>
<thead>
<tr>
<th>Grade</th>
<th>Salary (FTE)</th>
<th>8%</th>
<th>8.8% From April to Sept 2019</th>
<th>Extra</th>
<th>9.6% From Oct 2019</th>
<th>Extra</th>
</tr>
</thead>
<tbody>
<tr>
<td>G6.6</td>
<td>£30,942</td>
<td>£206</td>
<td>£226</td>
<td>£21</td>
<td>£248</td>
<td>£21</td>
</tr>
<tr>
<td>G7.9</td>
<td>£40,322</td>
<td>£269</td>
<td>£296</td>
<td>£27</td>
<td>£323</td>
<td>£27</td>
</tr>
<tr>
<td>G8.7</td>
<td>£49,553</td>
<td>£330</td>
<td>£363</td>
<td>£33</td>
<td>£396</td>
<td>£33</td>
</tr>
<tr>
<td>G9.5</td>
<td>£59,135</td>
<td>£394</td>
<td>£434</td>
<td>£39</td>
<td>£473</td>
<td>£39</td>
</tr>
</tbody>
</table>

Note: increased costs shown are gross payments and do not take into account tax efficiencies or impact of salary sacrifice arrangements. Impact on net/take home pay will be less than increases shown.
### What's changing

- Member contributions increasing by **0.8%** of pay to **9.6%**
- **BUT** potential to increase to **11%** in October 2021

### What's the same

- **Benefits remain unchanged**
- Earnings above the threshold – still **8% + 12% DC contributions** (i.e. NOT **9.6% + 21.1%**)
What’s the problem?

• Valuation methodology
  • “Test 1”

• USS Trustee
  • Responsibility = Protecting past benefit promises
  • Listening?

• Governance
  • Is employer voice strong enough?
  • Is the member voice heard?
Common views?

What we agree on:

• JEP report should be adopted – 29.2% for same benefits
• Valuation methodology needs reviewing
• Need better engagement with Trustee

What we disagree on:

• How the increases should be split (employers did offer to reduce member contributions to 9.1% to April 2021 – in line with JEP proposals)

https://www.sheffield.ac.uk/hr/thedeal/pensionupdates/ussvaluation
Latest from USS

• tPR seeking an action plan
• Trustee view funding position deteriorated since 31 March 2018
• Stated deficit £3.6bn to £5.8bn deficit; cost = 32.4%

Potential actions:
• Bring forward 2020 valuation – what gain?
• Revise contribution levels – need to consult employers & lead time
• Additional de-risking, costs more – strong push back
Where do we go from here?

- UCU & UNISON ballots
- Potential industrial action
- JEP 2 report imminent
- USS Trustee views?
To Discover And Understand.