A Way Forward on USS

Although UMUCU members are not part of the current industrial action over USS, it is important that both members and our employer – one of the largest universities and most influential stakeholders in USS – understand the reasons for the dispute. UMUCU welcomes recent interest by the Senior Leadership Team (SLT) in setting up a joint working party on USS as a means of improving understanding and identifying areas of agreement and disagreement, which we hope may help find a way forward that will enable us to escape the seemingly perpetual cycle of disputes associated with three-yearly valuation exercises.

With that aim in mind, this paper provides an update on the current state of negotiations and explains why, having made significant concessions, UCU believes a solution is readily at hand if the University of Manchester and other employers are willing to be similarly flexible.

Background to current negotiations

In the USS 2018 valuation settlement, member contributions to the USS pension fund were set at 9.6% of salary and employer contributions were 21.1% making a total of 30.7%. These were due to increase to 11% and 23.7% respectively in October 2021. All parties hoped that, by agreeing to a March 2020 valuation, the October 2021 increases could be avoided.

However, as we all know, the 2020 valuation came at the worst possible time, with the stock market in turmoil due to Covid-19 (see Appendix 1). As a result, the valuation produced by USS indicated that very substantial increases in contribution would be required to maintain current benefits. Despite some strong initial protests about inappropriate valuation methodology, **UUK responded to the valuation by reneging on the October increases they had already budgeted for** and instead proposing huge cuts to members' pension benefits.

These UUK proposals to cut benefits have three main parts:

- **Reduction in accrual rate from 1/75 to 1/85,** which means, for example, that a member will need to work for 42.5 years to get a pension of half average salary instead of 37.5 years.
- **Reduction in inflation protection.** Before retirement, inflation protection for benefits built up will be capped at 2.5%; and after retirement, inflation protection for benefits received will also be capped at 2.5%. At present, pre-and post-retirement benefit rises are capped at 5% plus half of inflation rises between 5%-15%. Given the way inflation is rising, this reduction in protection is potentially very damaging.
- **Lowering of the Defined Benefits (DB) threshold from approximately £60k to £40k.** Guaranteed Defined Benefits will only be earned on the first £40k of salary; anything above that has benefits earned by Defined Contribution investment. Increases in the DB threshold to be capped at 2.5%.

The cuts to the future DB part of the pension vary depending on earnings and stage of career but they hit early career members hardest, ranging between 17% and 48% for CPI of 2.5% and between 28-56% if CPI is 3.5%. UCU initially estimated that the level of cuts to the future guaranteed DB pension for a typical member are 35%, reducing to an estimated 23% when the non-guaranteed Defined Contribution (DC) element is included. However, it turned in out that **UCU was actually underestimating the impact of the cuts, for the USS modeller calculation for the same typical career path predicts 40% cuts to guaranteed future pension, reducing to 29% when DC is**

included. UUK meanwhile disputes these figures, claiming that that the reduction is between 7% and 15% on future benefits for most members (See Appendix 2).

The UUK approach of shifting nearly all the cost of a poor valuation onto members is, to put it mildly, disappointing. There is a strong whiff of "Never let a crisis go to waste" about the response. When UCU put forward suggestions of its own last summer, UUK made no attempt to engage in negotiation and declined to provide them with the same level of covenant support as it said it would provide for its own proposals. Without commitments from UUK on covenant support, UCU's proposals became too costly, so UCU did not table them. Essentially, the situation facing UCU's negotiators was, "Take it - the UUK proposals - or leave it". The conclusion was that the UUK cuts to USS pensions were voted through the UCU-UUK Joint Negotiating Committee (JNC), but only by the independent chair's casting vote.

As required by law, the UUK proposals were put out to consultation, the results of which indicate, amongst other things, that **USS members would be willing to pay more to protect existing benefits**. This result (which did not surprise the UMUCU branch committee since our own branch survey last summer had produced the same finding) has in turn led to a new set of UCU proposals, which offer the opportunity for a fairer response to the 2020 valuation that would avoid the current draconian cuts to benefits.

The new UCU proposals

The UCU proposals were set out in a letter to the chair of the JNC on the 26th of January 22. They ask UUK to:

- call upon USS to issue a moderately prudent, evidence-based valuation of the financial health of the scheme as at 31 March 2022, i.e. roundabout when the economy has recovered to something like its pre-pandemic levels;
- agree to provide the same level of covenant support to the UCU proposals as they have to their own proposals to facilitate a cost-sharing of current benefits throughout the 2022/23 scheme year, starting 1 April 2022 at 11% member/23.7% employer until 1 October 2022, and 11.8%/ 25.2% thereafter;
- pay a maximum 25.2% and members a maximum 9.8% from 1 April 2023 so as to secure current benefits – or, if that is not possible, the best achievable contributions as a result of the call on USS to issue a moderately prudent, evidence-based valuation.

The UCU proposals allow for the fact that, in the event that UUK proposed cuts are not implemented, the increases in contributions required to preserve current benefits can be phased in over time. **This backstop position provides a window of opportunity to search for a better way forward.**

	Current Benefits		UUK Proposals	
Contributions from:	Member	Employer	Member	Employer
October 2021	9.8	21.4	N/A	N/A
April 2022	11.0	23.7	9.8	21.4
October 2022	11.8	25.2	9.8	21.4

Why the University should demand that UUK agree to the UCU proposals

Firstly, it is highly likely that a 2022 valuation would produce an outcome that is more representative of the health of the USS scheme. Secondly, even if it did not, a delay in implementing any cuts to benefits would create a better environment for discussions around different approaches to risk sharing, such as conditional indexation, which UCU members agreed to explore along with UUK at the last Higher Education Sector Conference. Thirdly, the UCU proposal indicates maximum contributions by UUK and USS members. Adjustments to benefits could be made if necessary, but as the outcome of agreed discussions rather than imposed by UUK.

As part of the agreement reached between UCU and UUK in 2018, it was agreed to continue discussions on comparability of USS and TPS, the Teachers' Pension Scheme, which is the main scheme in post-92 universities, FE colleges and school. **Lecturers joining TPS currently pay contributions between 7.4% and 11.7% depending on salary and TPS employers pay 23.68%**; pension accrues at the rate of 1/57 and is uprated at CPI+1.6% – where the higher accrual rate is partly accounted for by the fact that TPS members do not automatically receive a lump at retirement as in USS. What is evident, however, is that the UUK proposals mean that pensions in the Russell Group and other older universities will soon be vastly inferior to those in the newer, less rich, universities. Moreover, UUK's arguments that 21.4% is the limit of what it can afford is not credible given that the post-92 universities, FE colleges and schools are already paying almost 24%. And this is certainly true of the University of Manchester, which already contributes 24.6% of pensionable salary into its own in-house UMSS pension scheme for staff on grades 1-5.

The Money is already in the Kitty

Like every other university, the University of Manchester made provision in its budgets going forward for the October 2021 increases, when employer contributions were due to rise from 21.1% to 23.7%. Those increases were not implemented, however, which has saved the University millions in expected USS contributions. The higher contributions of 25.2% from October 2022 would undoubtedly cost the University; nevertheless, we estimate that between October 2021 and April 2023, the cost of implementing **UCU's proposal would be approximately £700k less than the costs the University would have incurred had the October 2021 increases gone ahead**. Hence, there are no financial grounds for declining to implement the UCU proposals.

UUK's proposals to reduce inflation protection received a strong negative response in the consultation that has just closed. UUK have responded by sending out a proposal that would restore the existing protection for a period of 3 years. This is a miserable response which only goes through the motions of addressing members' concerns. Other important findings of the consultation including the clear indication that members value current benefits and are willing to pay more to protect them are studiously ignored.

The university constantly tells us that staff are its most valuable resource, and with good reason. During the Covid lockdowns, staff at the University and elsewhere worked miracles to keep the university system open and to serve students in the best possible way often at huge personal cost. It is time for Senior Leadership Team to show real appreciation of staff efforts, not just warm words. Removing the security of a decent pension is not the way to do this.

UMUCU recommendation and request to the SLT

In its new proposals, UCU has made significant concessions. Although we still have grave reservations about the excessively prudent nature of the valuation methodology USS uses to assess the fund and pension promises, the union has moved away from the No Deficit/No Detriment position it held during the 2018 and 2019/20 strikes. UCU has also recognised that members value their guaranteed pensions so much they are willing to pay more for them.

The UCU proposals outlined above recognise this new state of affairs and offer a way forward that would mean further strikes could be called off and negotiations on reform of USS could proceed in a less confrontational atmosphere. For there is much that we need to discuss and agree upon: as well as the assumptions underpinning a 2022 valuation, conditional indexation, other possible risk sharing mechanisms, and ways of reducing the number of potential members who opt out or never join the scheme.

Regrettably, UUK has so far refused to engage meaningfully with the proposals and has instead claimed that an 31st March 2022 valuation ahead of April 2023 is impossible, that UCU's proposals would prolong the dispute rather than resolve it, undermine the established rule by which contribution increases are shared on a 35:65 basis, and be unaffordable to employers and members alike. All of these claims are specious and have been demolished by Mike Otsuka (see A rebuttal of Alistair Jarvis's reply to Jo Grady) and it is quite clear that some employers, including our own SLT, are calculating that the strikes over USS and Four Fights lack sufficient support and that they can sit them out. We shall see, but whether they are correct or not, in the long run, for the sake of future, healthy industrial relations and collegiality, this is no way to run Higher Education.

Thankfully, some other employers are more willing to negotiate with UCU than others. For example, last August, the Vice-Chancellors of Oxford and Cambridge Universities issued a joint statement with their UCU branches (**see this THE article**) calling upon UUK to engage fully with UCU's previous proposals, while just last week the senior managements and UCU branches at Birkbeck and King's College London (our President and Vice-Chancellor's *alma mater*) issued similar joint statements calling for UUK and UCU to work together to resolve the dispute by agreeing to contribution rises, a new valuation, and USS governance reform to protect benefits. **We want our senior management to do the same and work with UMUCU to resolve the dispute instead escalating it by threatening ASOS pay deductions.**

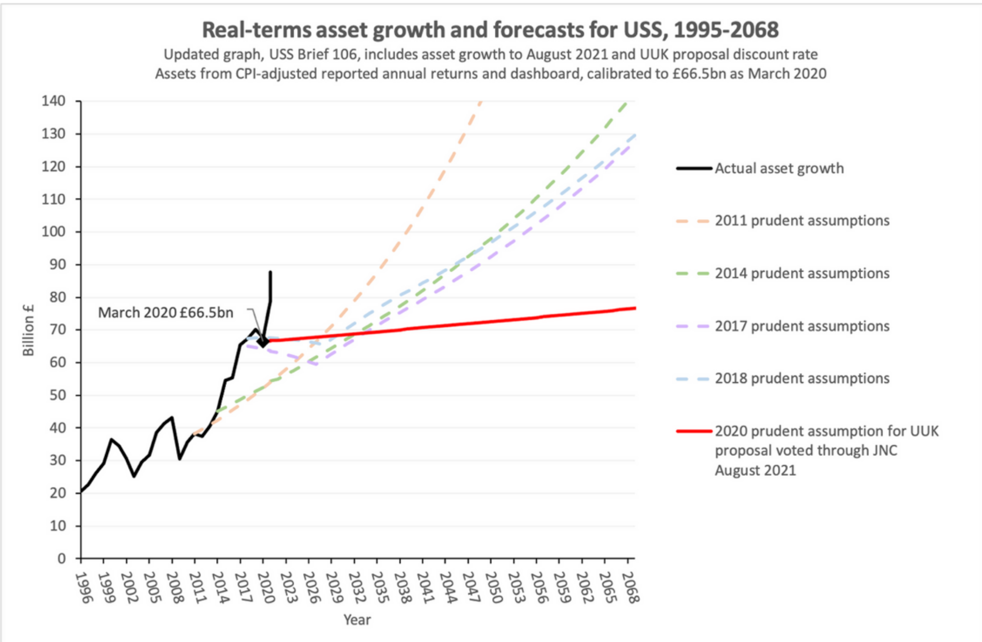
The future well-being of this University and the HE sector generally requires flexibility and a willingness to negotiate meaningfully on both sides. UMUCU cannot take part in the current industrial action over USS. Nevertheless, **we have written to the President and Vice-Chancellor asking her to join with other employers – like Oxford, Cambridge, Birkbeck and KCL – and issue a joint statement with UMUCU calling upon UUK to engage fully with the reasonable proposals put forward by UCU, which offer a way to avoid more strikes and unnecessary further deterioration of industrial relations in the sector.**

See below:
Appendix 1 – The Case for a New Valuation
Appendix 2 – Size of UUK Proposed Cuts and Misleading Statements from UUK

Appendix 1 – The Case for a New Valuation

The 31 March 2020 USS Valuation

The pension fund was valued in March 2020, a poor time to carry out a valuation as, due to COVID-19, the stock market was in turmoil with investment values and expected future earnings fluctuating wildly. In the words of one expert assessment: 'Given the exceptional circumstances at 31 March 2020, there is a danger that too much can be read into the conclusions of a valuation at that date' [UUK Actuaries AON, April 2021]. USS could have included post-valuation-date experience in their valuation, but they did not. The figure below highlights why the exclusion of post-valuation-date data in the valuation is a concern for UCU. In the figure the black line shows the historic returns on USS assets relative to CPI (Consumer Price Index). The dashed lines indicate the overly prudent assumption for asset growth for the last four valuations. As you can see, the fund has performed better than all these models. The red line, meanwhile, indicates the 'prudent' assumption on asset growth for the March 2020 valuation. The fund's current value is approximately £10 billion higher than the value it is predicted to have in 2068 under USS's ultra-pessimistic model. We have had no logical explanation from the SLT about how they accept this as a realistic trajectory.



We believe that the turbulent and fluctuating market conditions of March 2020 were used by USS as a reason to present extremely pessimistic assumptions as 'prudent' assumptions about the future of the USS fund. However, these 'prudent' assumptions based on the 2020 Valuation are both out of step with historic levels of prudence applied to USS and bear no correspondence to the actual asset growth. This is not simply the view of self-interested UCU members, it widely held by financial experts.

Concerns about USS have been raised by a range of experts. Martin Wolfe, the Chief Economics Commentator for the *Financial Times*, observed that: 'In the case of the USS [pension fund], the right option is to make conservative, but not insanely pessimistic, assumptions and conclude that it is healthy.' Wolfe wrote that while it would be easy to condemn striking university staff for disrupting their students' education, the staff 'are the victims of unduly risk-averse decision making at the Universities Superannuation Scheme, under the influence of misconceived regulation.' [Martin Wolf, Chief Economics Commentator, Financial Times, 27 June 2021]. The leading global financial services company AON, described the methodology used by the actuary employed to carry out the 2020 Valuation as 'misleading', and resembling a 'hall of mirrors' [AON report, April 2021]. Even the UUK, which now stands ready to oversee damaging changes to the USS scheme, wrote to the USS to describe the valuation as 'unjustified', 'unnecessary', and 'unaffected by the evidence presented' [public letter from UUK to USS, May 2021].

The UUK's own actuary commented on the financial position of the USS scheme as measured in the March 2020 valuation: 'This is not necessarily cause for concern as the scheme has a long-term investment strategy commensurate with an open scheme with a strong covenant, and one would expect the position to be more volatile. Volatility is not a problem, as long as the USS trustee does not react as if it were running a closed scheme' [AON report, April 2021].

Appendix 2 – Size of UUK Proposed Cuts and Misleading Statements from UUK

In addition to its claim that the reduction on future benefits for most members is between 7% and 15%, UUK has made a number of other misleading claims. **All of the figures below in bold are incorrect** [the correct values are shown in square brackets].

On 3 September 2021, UUK made the following claims on the cost of maintaining benefits:

> Without reform to the scheme, the contribution rates imposed by the USS Trustee would have hit the pockets of staff in USS through an initial **15% rise** [2%] in October 2021, meaning a scheme member earning £40,000 would have had to pay an additional **£47 each month** [£7] to maintain pension benefits. They would have increased even further in April 2022, by **£133 more per month** [£47] for the same benefits – compared to current levels. [our emphasis, USS Employers 3 September 2021]

The UUK calculations significantly overstate the contribution costs. Identical incorrect claims were repeated in the Press Release by the Committee of University Chairs, 10 September 2021, This was while the UUK consultation was open and University governing bodies were considering how to respond to the consultation.

At the same time, UUK also wrote to VCs with the following incorrect statements:

> based upon modelling prepared for the USS JNC the impact will be a reduction of between **7% and 15%** [21% in aggregate on actuarial calculation confirmed by UUK] on future benefits for most members, and without change staff could ultimately be facing a cut in their take home pay **of approximately £1,600** [£560] a year for those earning around £40,000. [our emphasis]

Again, all figures in bold are incorrect when compared to the AON Schedule of Contribution submitted to the Pensions Regulator at the end of August.

We hope the examples above serve to demonstrate the reasons for the high levels of distrust of UUK with regard to both their statements on USS and the validity of their consultations.