

USS 2020 valuation current situation Q&A

Background

What is USS?

The Universities Superannuation Scheme (USS) is the scheme that staff at grade 5 and above at the University are eligible to join.

USS is the UK's largest private pension scheme. It is mutual in its nature in a number of aspects of the design:

- all employers pay the same contributions regardless of the strength or size of the institution
- all members are entitled to the same benefit structure
- the strength of the employers (the "covenant") is assessed at the aggregate level, not at an individual institution level
- it is a 'last man standing' scheme so if all but one of the participating institutions failed, all the liabilities of the Scheme would fall to the last remaining institution

What are the current benefits in USS?

USS is a hybrid arrangement with Defined Benefits (DB) up to a salary threshold and then Defined Contribution (DC) for earnings above the salary threshold.

The salary threshold is currently £59,883.65

In the DB part of the scheme, the **Retirement Income Builder**, members build up a "block" of pension equal to 1/75th of salary (up to the salary threshold) in each year. Then annual increases are applied to the block of pension between the time it's earned and the time it is eventually paid to help protect against inflation. Also, once a pension is in payment, it normally increases each year.

Annual increases are linked to the Consumer Prices Index (CPI) measure of inflation. USS match the full increases to the CPI for any USS benefits earned before October 2011. For any benefits earned after that date USS match these increases for the first 5% and pay 50% of any increase over 5%, up to a maximum increase of 10%.

In addition, there is a tax free cash lump sum of three times the total annual pension, which is a one off payment paid at the point of retirement paid in addition to the annual pension. You will also have the option to convert some of your pension for extra tax free cash or some of your cash for extra pension on retirement. USS will set out your options on retirement.

If a member earns above the salary threshold, then they'll also build up DC, **Investment Builder**, benefits on the salary above that threshold. A total of 20% of earnings above the salary threshold goes into the investment builder pot.

USS also provides death benefits and life insurance benefits if you die whilst paying into USS. You may also be entitled to enhanced benefits if you can't work due to ill-health.

For more information about all your USS benefits visit the "[Your pension explained](#)" and "[What you'll get as a member](#)" sections of the USS website.

What is a DB scheme?

A Defined Benefit (DB) scheme means that benefits are based on a predetermined formula. Defined benefit pension schemes pay a secure income for life that normally increases each year and the amount you're paid is based on the number of years you have contributed to the scheme and salary you've earned.

What is a DC scheme?

A Defined Contribution (DC) scheme is where contributions are paid by a member or employer (or both) into an individual's "pot" and at retirement, benefits are based on the amounts credited into the pot plus any investment earnings (or losses) on the money in the pot.

What do I pay into USS?

You pay 9.8% of your salary into USS – but the cost to your take-home pay may be less. This is because you get tax relief on your pension contributions. The University pays in 21.4% of your salary to USS. Contributions changed from October 2021. Prior to this, contributions since October 2019 were 9.6% for members and 21.1% for employers.

What is a valuation?

A valuation is an assessment of a pension scheme's financial health. It is a legal requirement for all defined benefit (DB) pension schemes to carry out a valuation at least once every three years. A valuation considers whether a scheme has enough money set aside to pay for all the benefits already promised to members. If there isn't enough money set aside, there is said to be a deficit and contributions will be needed to remove that deficit. A valuation also looks at how much needs to be paid in to pay for benefits building up year on year going forwards.

DB benefits represent long term financial obligations and as such, a valuation needs to make assumptions about the future over a long time horizon. Three of the main assumptions are expectations for future investment returns, expectations for future inflation and life expectancy (including projections for improvements in life expectancy). When setting these assumptions, regulation states that they must be set prudently – to ensure there is a better than 50/50 chance that there will be enough money set aside to pay for members' benefits.

What is the role of the USS Trustee?

The USS Trustee has a statutory duty to make sure benefits are paid when they fall due. The USS Trustee is responsible for determining the valuation methodology, assumptions and the overall contribution level required to ensure that the scheme remains sustainable. They are advised by their independent scheme actuary and are required to consult with Universities UK.

What is the role of UUK?

Universities UK (UUK) is the nominated formal representative of the 340 (or so) employers in USS.

What is the role of UCU?

The University and College Union (UCU) is the nominated formal representative for USS scheme members.

UCU represents academics, lecturers, trainers, instructors, researchers, managers, administrators, computer staff, librarians and postgraduates in universities, colleges, prisons, adult education and training organisations across the UK.

What is the role of TPR?

The Pensions Regulator (TPR) is the public body that protects workplace pensions in the UK. TPR works with employers and those running pensions (i.e. USS) to ensure that members benefits are paid and that the schemes are funded properly so that members can be confident about the safety of their pension.

What is the role of the JNC?

The Joint Negotiating Committee (JNC) is a body established under the USS rules. The USS Trustee establishes the contribution rate required for a particular level of benefits. The JNC is responsible for considering how any change in the rate is to be applied. If the contribution requirement is more than that currently being paid by members and employers, then it is for the JNC to decide how the cost of that increase shall be met – whether by changes to future benefits, future contributions, or a balance of the two.

The JNC is made up of equal numbers of UUK and UCU representatives, with an independent chair appointed by the committee itself.

What is the cost sharing process?

The ‘cost sharing’ process is set out in the USS Rules (Rule 76.4-8). Under cost sharing, any increase to the contribution rate required by the USS Trustee (that cannot otherwise be addressed by a JNC decision on benefit and/or contributions changes) is split 35:65 between members and employers respectively.

What is covenant?

A really important area that feeds into how prudent the assumptions are in the valuation calculations is “covenant”. The covenant is the employers’ legal obligation and financial ability to support the USS scheme now and in the future. So, covenant is about the strength of all the employers in USS combined and in particular, the ability for the employers in USS to be able to step up and make good any shortfall in the future if things turn out to be worse than assumed. Whilst some of the strongest institutions may be able to afford considerable increases in contributions if required, this is not necessarily the case for the USS employers as a whole. The stronger the covenant overall for all the employers in USS, the less prudent the assumptions can be that go into the valuation calculations.

What are the covenant enhancing measures?

In order to reduce the prudency of the assumptions used in the valuation calculations (and therefore to lower contributions), USS has been discussing covenant enhancing measures with employers in USS. The three covenant enhancement measures discussed are:

1. Debt monitoring (including triggers for action from USS if certain metrics are breached)

2. Pari passu (equal footing for USS as for other creditors) if an employer takes out a secured loan over a certain amount
3. A rolling moratorium which prevents any employer leaving USS without the express permission of the USS Trustee.

These measures (and in particular pari passu), represent significant commitments from employers.

2020 valuation and proposed benefit changes

What were the initial valuation results of the 31 March 2020 valuation?

On 3 March 2021, USS released its initial valuation calculation results and set out a range of contribution requirements that would be needed under three different levels of covenant support to allow for the scheme to offer the existing level of benefits. The overall contribution rate at the time was 30.7% (9.6% from members and 21.1% from employers).

- **Scenario 1** – a total contribution rate of **56.2%** assuming no additional covenant support (18.6% member contribution if the cost sharing rule was applied)
- **Scenario 2** – a total contribution rate of **49.6%** assuming a package of covenant support measures put forward by UUK (16.3% member contribution if the cost sharing rules was applied)
- **Scenario 3** – a total contribution rate of **42.1%** assuming a package of covenant support measures that USS considered adequate (13.6% member contribution if the cost sharing rules was applied)

What did UUK do in response to USS's initial valuation results?

When USS released the initial results of the 31 March 2020 valuation on 3 March 2021, UUK launched a formal consultation with employers in USS, to seek views on how the situation could be dealt with.

UUK set out proposals for adjustments to the covenant enhancing measures and benefits that they thought would result in being able to keep the contributions of 9.6% for members and 21.1% for employers. They also requested that lower cost and flexible benefit options be considered and suggested a full governance review of USS once the 2020 valuation was signed off. UUK also said they would like to discuss alternative benefit structures such as Conditional Indexation, which allows employers to suspend increases in pensions if they are financially stressed, once the 2020 valuation was signed off.

What were the UUK proposals for benefit reform?

UUK suggested the following changes for benefits building up from 1 April 2022:

- A reduction in salary threshold to £40,000
- A reduction in the accrual rate (pension build-up rate) to 85ths
- A limit on annual increases of 2.5% per annum

If the benefit reforms UUK suggested came in, what would the contributions be?

If the benefit reforms UUK suggested (i.e. salary threshold of £40,000, accrual rate of 85ths and a limit on annual increase of 2.5%) were introduced, USS calculated the contributions required would be 9.8% for members and 21.4% for the University.

What did the JNC decide about the benefits and contributions in USS?

The JNC were given until 31 August 2021 to make a decision on the way forward. The date that the valuation should have been signed off under legislation was 30 June 2021 and the Pensions Regulator had confirmed that there could be no further delays to an already late valuation. By casting vote of the Chair of the JNC, the JNC decided to progress with the UUK proposal for changes to benefits from 1 April 2022 (i.e. salary threshold of £40,000, accrual rate of 85ths and a limit on annual increase of 2.5% with contributions of 9.8% for members and 21.4% for employers).

Have UCU made any proposals on benefits?

In their press release on 31 August 2021, UCU said under its proposals:

- Employers would pay 24.9% (3.8% more than they do currently)
- USS members would pay 8.1% (1.5% less than they do currently)
- Accrual will be reduced from 1/75 to 1/80
- The salary threshold up to which defined benefits are accrued will be lowered to £40,000
- All benefits would receive the same protection against inflation as they do currently, via a system of trigger contributions payable by employers if inflation exceeds 2.5%
- Members would be able to choose to pay even lower contributions (0% or 4%) while receiving the same level of contributions from their employer and continuing to build up a guaranteed pension, at a proportionately lower accrual rate
- Members who spend less than two years (but over three months) in USS would be entitled to the same benefits as everyone else

However, UUK were not able to discuss these proposals with employers and, therefore, the proposals were not put forward formally to the JNC so they could not be voted on.

In a letter to UCU, UUK has asked that UCU's proposals be put forward formally so that they can be costed by USS and discussed as part of the member consultation.

Why isn't another valuation at 31 March 2021 the answer?

The Pensions Regulator said a 31 March 2021 could be carried out but the 31 March 2020 valuation must be completed and signed off as soon as possible (as the deadline was 30 June 2021). The Pensions Regulator also said that they would expect more "normal" parameters to apply given the financial conditions at that date. (They think the assumptions adopted for future investment returns and the length of time over which the deficit is to be paid back under the 31 March 2020 allow for the unusual financial conditions at 31 March 2020 caused by the pandemic.) USS have illustrated that a 31 March 2021 valuation date would result in even higher contributions than at 31 March 2020 given the reversion necessary to more "normal" parameters as suggested by the Pensions Regulator.

Member consultation

What is the member consultation for?

For benefit changes and / or contribution increases to be introduced, there is a requirement for a member consultation of at least 60 days. This is where members will have the chance to ask questions and feedback on the proposals.

How will I understand what impact the changes would have on me?

USS are currently producing materials to support members to understand the proposals including a modeller.

What is the timeline for a member consultation?

The consultation is expected to start in early November and run to mid-January. New benefits are expected to be implemented from 1 April 2022.

Will there be low cost or flexible options introduced?

All parties seem to be in agreement that low cost and flexible options should be introduced with those with short service (less than 2 years) being entitled to the same benefits as those with longer service. It is not clear yet whether these options will be included as part of the member consultation or if they will be available from 1 April 2022.

Will the changes affect the benefits I have already built up?

No. Any benefits you have built up in USS prior to the proposed date of implementation of changes (1 April 2022) are unaffected. In particular, the limit on increases proposed to 2.5% each year would only apply to benefits building up from 1 April 2022.

What happens if the benefit reforms don't come in?

USS has set out what contributions would need to be if some level of benefit reform from 1 April 2022 is not agreed by 28 February 2022. If benefits stayed as they are, USS has set out the required contribution schedule:

Back-stop	Members	Employers
April 2022	11.0%	23.7%
October 2022	12.9%	27.1%
April 2023	13.9%	29.1%
October 2023	15.0%	31.0%
April 2024	16.0%	33.0%
October 2024	17.1%	34.9%
April 2025	18.1%	36.9%
October 2025	18.8%	38.2%

Can't we just keep everything as it is and wait for a 31 March 2021 valuation to be done?

The Pensions Regulator has said that if benefit reforms don't come in and contributions are not increased accordingly in resolution of the 31 March 2020 valuation, it could result in the use of their powers under section 231(2) of the Pensions Act 2004 which could mean the Pensions Regulator imposing contribution rates and/or reducing the accrual rate. Also, USS has already said they don't expect a 31 March 2021 valuation to result in a different outcome.

General

Can I opt out of USS and join a different scheme?

Yes but the USS exclusivity rule prevents the University from paying into any other regulated pension arrangement for an individual who is eligible for USS even if they opt out.

Can the University withdraw from USS and provide a different pension arrangement?

The University could elect to withdraw from USS and pay a "section 75 debt payment" but this would currently be a very expensive proposition. However, the current moratorium on exits prevents any institution leaving USS without the prior express permission of the USS Trustee. So even if the University paid the section 75 debt (which would be £hundreds of millions) to leave USS and provide an alternative pension arrangement, if we didn't get permission to leave, we could still be on the hook for further debt payments if deemed necessary in the future.

Important notes

These Q&As have been prepared by Mercer for The University of Aberdeen to support communications in relation to the USS 31 March 2020 valuation and proposed outcome.

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