

USS changes – financial overview



Samantha Foley
Chief Financial Officer

Some reminders and update

1. The Valuation story to date
2. Proposed changes from USS - impact on University finances
 - a) annual costs
 - b) covenants and other new restraints
3. What happens financially if we don't agree to these changes...

Valuation outcomes over time

USS funding position (TPs)

Valuation date	Deficit
31 March 2011	£2.9bn
31 March 2014	£5.3bn
31 March 2017	£7.5bn
31 March 2018	£3.6bn
31 March 2020	£14.1bn

The USS obligations...

- The USS Trustee is responsible for **setting the contribution rate required in order to deliver the scheme benefits.**
- It is legally required to have confidence that its assets (contributions and investment income) are sufficient to cover all its liabilities (pension payments to us as we retire).
- It has concluded that the valuation indicates that it does not have sufficient assets for the future, so it must act...

USS proposal: impact on UoR finances - annually

- October 2021 rises will take place, but now only up by **0.5%** : 0.3% for employers and 0.2% for employees, so new combined rate up from 30.7% to **31.2%**.
- Every additional **1%** on the employer rate adds **£1m** to our staff costs.
- Further contribution rises are still possible, but only if reforms to the scheme benefits are not agreed by February 2022 at the latest.

USS proposal: impact on UoR finances – new “Covenant support”

- Debt monitoring – annual measurement, and special measures for those that trigger the metrics. Gives USS powers akin to a lender to “protect” its contributions. In place from 1st October 2021.
- *pari passu* security – if a USS member takes out secured debt in the future then USS will demand equal security status up to that same value. In place from 1st October 2021.
- A rule change regarding the ability for employers to leave USS – we (and all others) cannot now leave for a rolling period of 20 years unless USS give their consent.
- **NB** – if these measures are not agreed, contribution rates will increase...

Summary

- The 2020 Valuation is now final.
- USS “light touch” valuation in 2021 concluded that the scheme was still unaffordable (similar trajectory to prior years with COVID as a “blip”/accelerating existing issues...)
- If no reforms are agreed, USS has the power to raise rates to 57% (combined employee and employer) on a phased time frame, with no further consultation.
- Changes will impact employees and the employer; the latter both in annual costs and restraints on business practice.
- **BUT:** The USS Trustee is acting to protect the pensions of existing and future members as it has to guarantee to be able to make those payments...

USS changes – member overview



John Brady
HR Director

Key changes to the benefit structure

- The Defined-Benefit salary threshold is reduced to £40,000 (from £59,585)
- The accrual rate (i.e. the rate at which you build up benefits as a percentage of salary) reduces to $1/85^{\text{th}}$ (from $1/75^{\text{th}}$)
- Indexation (i.e. the rate at which the pension is increased each year) is based on CPI and capped at 2.5%
- **NB** - benefits built up in the scheme prior to 1 April 2022 are fully protected (including how the inflationary increases are calculated)

What if the changes don't happen?

- Trustee accepted proposals on understanding they will be effective by 1 Apr 2022.
- If not, the Trustee will revert to increased contribution costs.
- A sliding scale up to October 2025.
- These are legitimate powers held by the Trustee which has an over-arching responsibility to ensure that pension promises **already** made can be fulfilled
- If the Trustee fails to act properly, TPR can step in – with powers to impose change

Rate increases if no reforms agreed

	Members	Employers	Total
April 2022	11.00%	23.70%	34.70%
October 2022	12.90%	27.10%	40%
April 2023	13.90%	29.10%	43%
October 2023	15.00%	31.00%	46%
April 2024	16.00%	33.00%	49%
October 2024	17.10%	34.90%	52%
April 2025	18.10%	36.90%	55%
October 2025	18.80%	38.20%	57%

Indicative impact on pension contributions

Grade 7 – Spinal Point 41

Current rate – 9.6%	October	October	October	October
Pension contribution	2021 - 9.8%	2023 - 15%	2024 - 17.1%	2025 - 18.8%
£373.74	+ £7.77	+ £210.21	+ £291.96	+ £358.14

Reforming the USS

- Joint work proposed to address structural issues and future-proof USS
- Explore alternative methods for scheme design (e.g. conditional indexation)
- Consider lower-cost pension options
- Governance review

UCU ballot

- UCU will ballot members at Reading only in relation to its USS dispute.
- Ballot opened on Monday 18 October, closes noon 4 November.
- Calling for strike action and ASoS (no indication of the number of strike days).
- If the vote is favourable action likely to begin before Christmas.
- ASoS described broadly as working to contract but includes elements that will be a breach of contract e.g. a marking and assessment boycott