

A Letter about USS contributions increases from the branch pensions officer (UCU Reading branch)

22nd February 2019 marked a year from us being on the picket lines defending our USS¹ pensions. We stood united, braving the cold weather, sacrificing our pay cheques, worrying about the costs to our students and in the process built new networks of solidarity to disrupt the marketization of Higher Education. This short article attempts to capture where we are with the USS dispute, why we are now paying increased pension contributions when the Scheme is in surplus (or would be if all JEP recommendations were applied), and the implications for Scheme members

Context

A year ago, we took strike action, because employers and USS Ltd² (USSL) proposed to make changes to close the DB element of the Scheme and shift us all to a Defined Contribution. Their changes were expected to cost Scheme members circa £200,000 (each) over the course of their retirement.

After successes with granting themselves a decade of pension underpayments, followed by the closure of the final salary scheme and the imposition of cost-sharing of future contributions rises on members, what our employers had not counted on was our ability to mobilise credibly. It should not have surprised employers that members at UCU were in a unique position to scrutinise some of the detail behind their arguments to shift us to a Defined Contribution pension. Our membership consisted of experts in a range of areas – and much to the employers' chagrin, our collective expertise was vital in unravelling some (but not all) of the detail behind the proposed changes to USS. We began to understand that we had been cheated.

In the meanwhile, USSL was under pressure to agree the delayed and contested 2017 valuation. This pressure was of course, partly from the regulator. Although we are aware of other schemes with significantly longer delays than this, given the size and importance of USS, no doubt the regulator was paying close attention to it. It is also likely USSL wanted to legitimise the methodology of the 2017 valuation.

In Spring 2018 the employers reversed their proposal to abolish the Defined Contribution scheme and in the summer and early autumn the JEP and expert lay members of the Scheme produced significant evidence of the flaws in the valuation methodology and governance of the Scheme. In particular grounds for USS's 'de-risking' strategy of moving its investments into bonds (particularly Test 1) were roundly debunked.

¹ The Universities Superannuation Scheme (USS) is a multi-employer, hybrid¹, last-man standing¹ Scheme. The Scheme is the largest private sector Defined Benefit (DB) scheme and is worth circa £60bn.

² USS is managed by for us by USS Ltd (USSL) who are the corporate trustees of our pension. For all practical purposes, the directors of USSL take trusteeship responsibilities for our pensions and it is USSL executive (and corresponding executives at USS Investment Management) and these directors that we seek to hold to account.

Meanwhile USSL moved ahead with 'cost sharing' contributions increases, based on their November 2017 valuation while assuming no reductions in Defined Contribution benefits. You may also recollect that under cost-sharing arrangements members pay roughly a third of any such increases and a schedule was offered by USSL with a three-step increase in April 2019, October 2019 and April 2020. The October 2019 and April 2020 contributions increases were particularly onerous on employers as well as our members. (see rows 6-8 of the table at <https://drive.google.com/file/d/1M3u58Pu2oOSnc5D05kQjvKsEDab-1Vyd/view>). These were to be a 'fallback' solution in case all parties could not agree on the JEP's recommendations.

In October 2018 USSL began the member consultation (which you may have contributed to), about the cost-sharing contributions increases. UCU's National Dispute Committee and others have publicly commented on the lack of attention and consideration USSL paid to members' responses.

Bait and Switch

Towards the end of 2018, USSL offered employers an interesting conundrum. It is now public knowledge that USSL executives disclosed that if all the JEP recommendations were applied to data as at 31 March 2018, the fund would be £0.6 bn in surplus rather than £4.0bn in deficit as the JEP had estimated using 11 March 2017 data. (See rows 9 and 11 of the above table). It suggested that the JNC agree the 2017 valuation as a fallback and have it approved by the USSL Board, and the USSL Executive would quickly initiate a 2018 valuation. Although it appeared that April 2019 contributions increases could not be stopped, there was an expectation now that the October 2019 and the 2020 increases (i.e. the second and third steps of the 'cost sharing' increases) would be superseded by this 2018 valuation, which would show no need for contributions increases at all. Employers of course were particularly worried about the second and third step of increases. So, a quick agreement was reached on the 2017 valuation and this was lodged in December 2018.

Meanwhile USSL started to work on the 2018 valuation, but in the consultation document they published in January 2019 (<https://www.ussemployers.org.uk/sites/default/files/field/attachemnt/2018-technical-provisions-consultation.pdf>) they did not adopt 2 crucial JEP recommendations. They proposed a 'lower bookend' involving employee contributions of 9.3%, but only if UUK would accept a trigger mechanism of 'contingency contributions' allowing USSL to increase contributions without consultation to mitigate against the risks it suggested were present in the Scheme. This resulted in a further round of employer consultations which have only just ended.

We are now at a crucial juncture. The JEP is currently running its second phase. First, the JEP are conducting a review of USS governance. Several issues with governance have been brought to their attention. Next, they will move on to other issues with the valuation including Test 1 (which was not dealt with fully in the first round of the JEP).

Meanwhile the employers have completed their consultation and we are informed that employers are now negotiating their position with USSL over the proposed trigger contributions but many employers are insisting that such contributions be cost-shared with members.

USSL is apparently in discussions with the regulator on the strength of the employers' covenant and the regulator's view of risk in the Scheme.

It is indeed appalling that members in the meanwhile have since 1st April been paying an extra 0.8% of their salary in increased contributions which are unjustified and based on flawed valuation assumptions and tests, at a time when we are also enduring real-terms paycuts, increased workloads and deteriorating conditions. Given the glacial pace at which USSL are proceeding, it is becoming increasingly likely that this increase could become a 2.4% increase from the 1st of October 2019.

The National Dispute Committee met on Friday 5th April to decide the future course of the dispute, because clearly the 'No Detriment' position of the union has already been breached. NDC expressed concern about

1. the multiple failings of the USS 2017 and 2018 valuation documents,
2. USS has calculated the full implementation of the JEP proposals in the 2018 valuation leads to a £0.6 billion technical provisions surplus, requiring a contribution rate of 25.5%, which vindicates 'no detriment',
3. USS is imposing large 'cost sharing' increases in contributions, to 8.8% in April 2019, 10.4% in October 2019 and 11.4% in April 2020, whose rationale has been extensively debunked.

NDC has now raised a motion to Congress requesting the Higher Education Sector conference to resolve that these increases are unnecessary and violate UCU's position of 'no detriment' NDC has asked HESC to call on UUK to join UCU in resisting any contributions increases and to refuse to implement the October 2019 and April 2020 increases.

A further update will be circulated, once more news is available from employers and when the NDC arrives at any further conclusion