Proposed Changes to USS ±Myths, Misconceptions and Misunderstandings

Many of the comments and claims that have been made against the case for necessary reform are based on misunderstanding or misinterpretation of the facts. Here we address some of the more common myths, misconceptions and misunderstandings (Ms).

For members currently in the final salary section of USS (who will change to CRB for future benefits), the impact of the proposed changes will very much depend on their individual circumstances. All members with salary above the proposed threshold will build up additional benefits in the DC section of the USS. The changes announced in the March 2014 Budget mean that such members may benefit from being able to take more of their pension as cash and will have significantly greater flexibility as to how and when they take this portion of their benefits.

M3: Employers will pay less under the proposed reforms

The employers will actually pay more under the proposed reforms.

The employers are prepared to increase their overall contribution to USS from 16% to 18% of total salary to help ensure the USS remains sustainable and benefits remain attractive. This additional investment is approximately £135m a year and follows an increase in employer contributions from 14% to 16% in 2009.

The overall contribution is made up of contributions to the CRB section, 12% contributions plus the optional 1% matching contribution to the DC section and deficit reduction volatile, deficit on this basis. Not only is it desirable to take steps to eliminate this deficit, the trustees are required by law to put in place a plan to do so and their plan must meet the requirements of the Pensions Regulator.

The USS L V E H F R P L Q J L Q F U H D V L Q J O \ µ P D W X U H ¶ D V S H Q V loners are living longer and the ratio of pensioners to active members is increasing. So, while the USS may be cash flow positive at the moment that will not always be the case. The most significant and fastest increasing liabilities are associated with the final salary section of the USS which is why it is necessary to close this section to bring costs under control. In March 2013, the USS was in deficit by £11.5 billion.

M6: The proposed changes are politically motivated to prepare the HE sector for privatisation

The proposed reforms are not politically motivated. They are designed to address the continuing funding deficit while providing attractive benefits that are sustainable and affordable over the long term. The employers recognise that a good pension scheme K H O S V W R D W W U D F W D Q G U H W D L Q W K H F D O L E U H R I V W D I I Q global reputation for excellence. Unfortunately, the current level of USS benefits is unaffordable over the long term and to continue to support it unreformed would result in funds being diverted away from core university activities and probable staffing cuts.

M7: The assumptions used to value the fund have been chosen to artificially create a large deficit

Valuing a pension scheme is an inexact science, as it is necessary to make predictions about future events, such as salary increases, life expectancy and investment returns. This is the job of the USS Trustees and, with the help of their professional advisors, they have modelled a wide range of possible outcomes, always bearing in mind that they are required to act prudently. While the Trustees changing the assumptions in this instant could affect the size of the deficit, it cannot change a deficit into a surplus. The deficit is sizeable and persistent and benefit reform is unavoidable, and expected by the Pensions Regulator.

M8: The changes will lead to a two-tier pension system at UK universities

The two main schemes for academic staff - 8 6 6 D Q G W K H 7 H D F K H U ¶ V 3 H Q V L R Q (TPS) ±have always offered different benefit scales and already have different employee contribution levels. Like USS, the TPS final salary structure has become unaffordable; to bring costs under control the TPS is moving to a CRB structure for all members with effect from next April.

But there are more differences than similarities between the schemes. Unlike the USS, the TPS is unfunded and operates on a pay-as-you-go basis, whereby pensions are paid from current contribution income. Being a public sector scheme, TPS is backed by the Government so any difference between the contributions coming in and the pensions going out can be picked up by HM Treasury and ultimately, the taxpayer.

In addition, TPS members pay more towards their pension; the average employee contribution L V   E X W   F R Q W U L E X W L R Q V   D U H   W L H U H G   E D V H G   R Q
range from 6.4% to 12.4%. The proposed member contribution to the reformed USS is 6.5% for all members.

The current USS scheme costs 23.4% of salaries and, without reform, this will continue to increase. Moving to a TPS equivalent scheme would require an overall contribution level of 43.9% m [()-3(i)5(5b3(.)-4(9wf)] J ET BT bo)14(iu)5(baff)5(ncreas)-4(id)-3(b)6(sc