

EPF Comments on the UCU Q&As

UCU's Question: What changes are the employers demanding?

UCU's Answer

The employers' negotiators have demanded that members not only pay more now, but that they sharply reduce their expectations for pension benefits from future service, so that, if at some future date the pension scheme's finances deteriorate sharply, the employers won't run any risk of having to pay more into USS. They have also demanded that UCU give up its equal share in decision-making on changes to benefits, contribution rates and the rules of USS

EPF's Comment

The EPF's proposals, which are not demands but put forward in a process of negotiation, mean that existing staff in USS retain a Final Salary scheme. If you are currently a member of USS and expected to retire at 65, the difference between the UCU proposals and the EPF's is a contribution increase of 0.15%.

The EPF's proposals contain no suggestion that the UCU should change its role (as the representative of all USS members) in USS. The statement that EPF has demanded UCU give up its equal share in decision-making is misleading. However, the EPF did ask whether UCU, which represents only 40% of the membership of USS (having claimed they have 50,000 members in USS), should continue to be the sole representative of the USS membership, and whether it may wish to consider allowing other unions to participate or any other type of employee representative.

UCU's Question: What would this mean for my pension?

UCU's Response

Benefits for existing members would be protected but the employees contribution would go up. Meanwhile new starters, including existing staff not yet in the fund, would have inferior pension benefits, losing thousands of pounds a year compared to colleagues. UCU's fear is that allowing the creation of a two-tier system will encourage the employers to seek to downgrade existing members' benefits at the first opportunity - especially as they made clear during the negotiations that their preferred option would be a career average revalued earnings (CARE) based pension system for all, rather than one based on final salary. The figures are complex and we are working out the impact in detail and will update the FAQs when this is done

EPF's Comment

Employee contributions under the UCU proposal increase from 6.35% to 7.35%, under the EPF's proposal these contributions would increase to 7.5%, a difference of 0.15% between the two positions.

Against a background of increasing longevity the EPF proposes introducing a career average revalued earnings (CARE) section to the USS scheme for new members joining the scheme – keeping a final salary scheme open for ever is simply unaffordable and extremely risky. This change to CARE – a good and equitable form of defined benefit pension - will be applicable for new entrants with effect from the implementation date of these rule changes. Employees that are currently in the Final Salary section of USS would continue to participate in the final salary section of USS. This method is fair and equitable because it will reduce substantially the risk to USS from members who receive higher than normal pay increases, particularly near to retirement age.

UCU are right to identify that EPF had initially argued for CARE for both new and existing staff. However, on the basis of the strong resistance to this proposal from UCU, the employers modified their proposal to one that enables existing members to remain in a Final Salary scheme. No such flexibility has been shown by UCU, whose proposals are unchanged from when they were first put forward in January.

UCU's Question: What is the financial position of the USS fund according to the experts?

UCU's Response

As with most serious questions, 'experts' can differ. UCU's professional actuarial advice, which we have every reason to believe accords with that given to the USS trustee company, is that the proposals for change made on behalf of UCU would, if implemented in a timely manner, and not stalled by the intransigence of the employers' negotiators, be sufficient to maintain the health of the scheme for the foreseeable future. It would also ensure that there would be no need for any future contribution rate increase following the next valuation in 2011.

EPF's Comment

The initial challenge put to the Joint Review Group actually came from the USS actuary in March 2009;

"We would encourage the Joint Review Group to discuss changes for the long-term which will set the scheme on a secure footing for decades, rather than just for a three year valuation period, whilst at the same time reassuring members that the security of the pensions they have already built up is in no way under threat. It would be our hope that our successors in the sector will look back in 30 or 40 years time and recognise that this was an important step in securing the long-term strength and viability of the scheme."

This challenge was clarified in the Joint Review Group 'principles' document issued in October 2009 which all parties to the negotiations agreed to, in particular that;

"The objective is to reduce the risks that are faced by the scheme"

We accept that the information received from UCU's own actuary does support their view, however as UCU says, experts differ. The actuarial advice that EPF received, and was outlined in the USS actuaries' documents, came to a different conclusion. These documents can be accessed at;

<http://www.employerspensionsforum.co.uk/en/pension-schemes/uss-review.cfm>

UCU's Question: Aren't all public sector pension funds going to have to make changes to save money. Why should academics have special treatment?

UCU's Response

USS is not a public service pension scheme, so it has to meet the same targets as other funded occupational pension schemes in the private sector. Its big advantages over such schemes are that the HE sector as a whole is less likely to go bust than any individual group of companies, so that it can afford to take a longer view. That does not mean that the politics of envy will not give traction to attacks on USS; but that is no good reason for the pre-emptive cringe that is part of what characterises the stance of the employers' negotiators.

EPF's Comment

One of the most striking comparisons of HE pension schemes with those in both the private sector and some of the public sector, has been the dramatic change in the nature of pensions offered to new employees. The Government Actuary's Department data published in March 2009 shows that of the 17,900 Defined Benefit schemes open to new members in 2000, only 2,240 were still open to new members by 2007.

USS, no matter what its scale, is not immune from the pressures that affect Final Salary schemes in either the public or the private sectors that arise from improvements in longevity and other factors. . The two-year negotiations between UCU and EPF up to this point have shared a common aim of ensuring that a pensions scheme that has not been reviewed in 35 years remains both affordable and sustainable for the next generation.

Q: Isn't it true that people living longer, putting a strain on the fund?

UCU's Question: Yes. The extent of the strain is of course guesswork because nobody can know whether increases in life expectancy will grow faster and faster, will continue at the present rate, or will slow down or even go into reverse. It is only fair, though, to take some early steps to provide finance for the more rapid increase that actuaries generally assume, because the later that adjustment is left, the more the older people get benefits to which their generation has not contributed its fair share, and the higher the level to which contributions will have to rise in the future. That is why UCU proposed that an increase of 1% of salary (subject to tax relief) in most members' contributions should form part of an agreement with the employers.

EPF's Comment

Yes, the challenges for USS, together with all other pension schemes, have arisen primarily from people living much longer. The increase from 14% to 16% in the employers' contribution rate from 1 October 2009 arose entirely from the changed assumptions about longevity applied by USS at its last valuation in 2008.

The USS actuary has also recently advised that at the next valuation it will be recommending the introduction of a "floor" (a minimum level of future mortality improvement), which will add a further 1.0% to future service costs and £2bn to the past service liabilities. Current longevity patterns are significantly different to those when the scheme was set up in 1974 and changes are now needed to ensure that the USS scheme remains sustainable, attractive and affordable for future generations.

UCU's Question: Would I have to work for longer under the employers' proposals?

UCU's Response

In almost all circumstances, yes, if pension benefits were to bear the same relation to final salary as under the existing rules.

EPF's Comment

The majority of employees in USS are employed with contracts that have a retirement age of 65, so for the majority of employees the move to a normal retirement age of 65 has no impact.

For those employees with age 60 as their current contractual age, the employers are looking to put safeguards in to protect those that are close to retirement.

It is true that under the employers' proposals we are looking to move the USS retirement age in line with any changes to the State Retirement Age. Under these proposals the first move in retirement age from 65 to 66, would not occur until 2024. And all benefits accrued up to that date would be based on an age 65 retirement.

UCU's Question: If the employers don't reduce their pension costs, will there have to be job cuts?

UCU's Response

Unless the finances of USS deteriorate to an extent we have no reason to expect, the cost to employers of participating in USS will not rise in the lifetime of the incoming Parliament. Evidently, if such costs went down, employers might, if the Treasury did not claw the savings back, have more money to spend on other things. Would they spend it on jobs? Who knows? For the employers' USS costs to fall, either the trustee board would have to reduce the rate of employer contributions (which seems unlikely), or the employers would have to reduce the aggregate salaries of USS members on their staff

EPF's Comment

UCU seem to have access to information that was not available to the Joint Review Group. Making the statement "*the cost to employers of participating in USS will not rise in the lifetime of the incoming Parliament*" is not just optimistic but is contrary to the information we have on longevity.

The USS actuary has also recently advised that at the next valuation it will be recommending the introduction of a "floor" (a minimum level of future mortality improvement), which will add a further 1.0% to future service costs and £2bn to the past service liabilities.

That 1% would cost the sector £55m per annum. The impact of this during a period when funding is being cut will be apparent to all.

This document was prepared by EPF on the 10 May and will be revised in due course.