

# THE LATEST ON THE 2020 USS VALUATION

11 March 2021

**USSEmployers**

# USS is a pension scheme for higher education institutions and research charities

All 340 employers and 200,000 members pay the same amounts, per member

9.6%

of salary for all members

21.1%

of salary from all employers



# USS offers DB and DC pensions – what's the difference?

## **Defined benefit (DB) pensions**

Members are promised a set amount of pension benefits, based on their salary and length of service, which are (broadly) inflation-proofed.

## **Defined contribution (DC) pensions**

Members are not promised a set amount of pension benefits. The total amount of benefits members receive will depend on how much they and their employers contribute, the level of charges applied, and how well the pension scheme's investments perform in the global money markets.

**USS offers DB pensions for all up to the salary of £59,585.72 and DC pensions on salary above this. This gives members the best of both worlds.**

**DB benefits provide certainty whereas DC benefits provide flexibility and more choice.**

# USS is one of the UK's very best pensions

USS DEFINED BENEFITS IN RETIREMENT ARE  
ALMOST **3X THE NATIONAL AVERAGE**



**£7,000**pa

THE AVERAGE DB  
PENSION PAYMENT



**£19,000**pa

THE AVERAGE USS  
PENSION PAYMENT

Sources: Pension Protection Fund | Office for National Statistics | Department for Work and Pensions

# Why join USS?

- USS offers a secure monthly payment in retirement for the rest of your life.
- You also get a tax-free lump sum on retirement (x3 annual pension)
- Payments to your partner and children if you die before retiring (x3 annual income as lump sum and pension for life to your spouse or civil partner)

# 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.
- When a scheme has a deficit, additional contributions are needed to get the funding back on track or the benefits on offer need to change.
- USS currently estimates the deficit of the scheme ranges is as high as £17 billion.
- Your pension is safe: members' pensions built up before the valuation date are protected by law and won't be affected by any changes.

# USS VALUATION: WHO DOES WHAT?

THERE ARE FOUR STAKEHOLDERS WHO HAVE A ROLE TO PLAY IN RELATION TO ANY POTENTIAL VALUATION OUTCOME:



## THE USS TRUSTEE

The USS Trustee is responsible for the management and administration of the scheme, and has a fiduciary duty to act in the interest of all scheme beneficiaries (pensioners, deferred pensioners and active members). It is the USS Trustee who calculates and sets the required level of contributions.



## UNIVERSITY AND COLLEGE UNION (UCU)

UCU represents the scheme's members. Along with UUK, UCU sends representatives to the Joint Negotiating Committee to decide how the level of contributions required by the USS Trustee should be paid.



## UNIVERSITIES UK (UUK)

UUK represents all 340 participating employers in USS. It consults with them to determine a position whenever the USS Trustee issues information, and is responsible for communicating the views of employers back to USS.

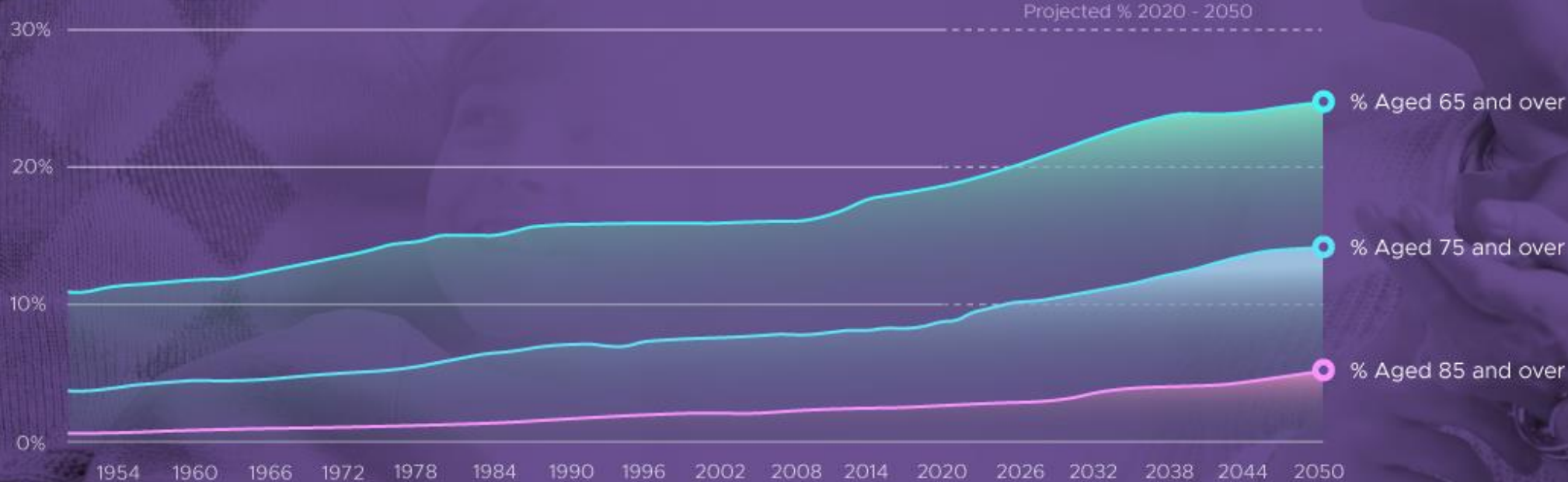


## THE PENSIONS REGULATOR

The Pensions Regulator is a public body that protects workplace pensions in the UK, by working with employers and those running pensions to ensure that people can save safely for their retirement. A submitted valuation must meet the Regulator's approval.

# People are living longer, so more money is needed for pensions

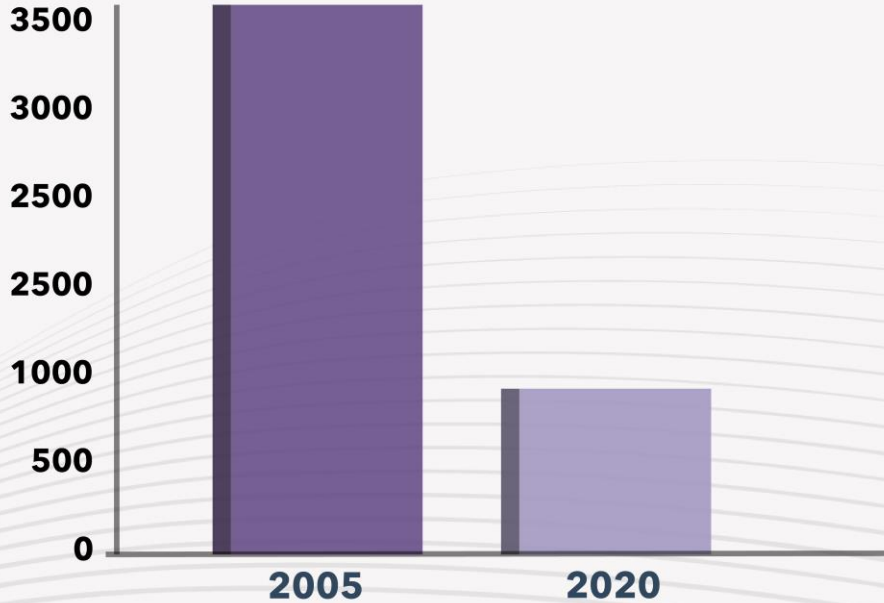
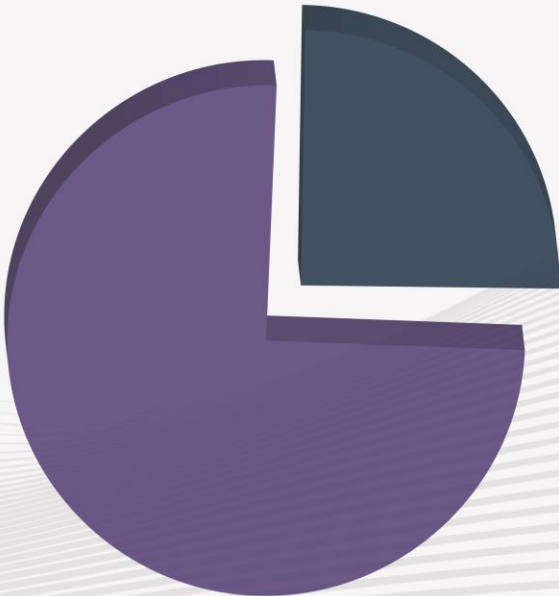
The graph below shows the percentage of people aged 65 years and over, 75 years and over, and 85 years and over in Great Britain, 1950 to 2050.



Source: Office for National Statistics



The cost of providing DB pensions rose by **1/4 from 2012-2018**



The number of private sector schemes in the UK has fallen from **3,500 to less than 800 in the past 15 years.**

Sources: Pension Protection Fund | Office for National Statistics | Department for Work and Pensions

# Financial impact of Covid-19

Absent favourable movements in financial markets, universities could only reduce this by taking on more risk, making further reductions in the pensions provided by the scheme, big rises in employees' contributions which would eat into their take-home pay, or some combination of these measures.

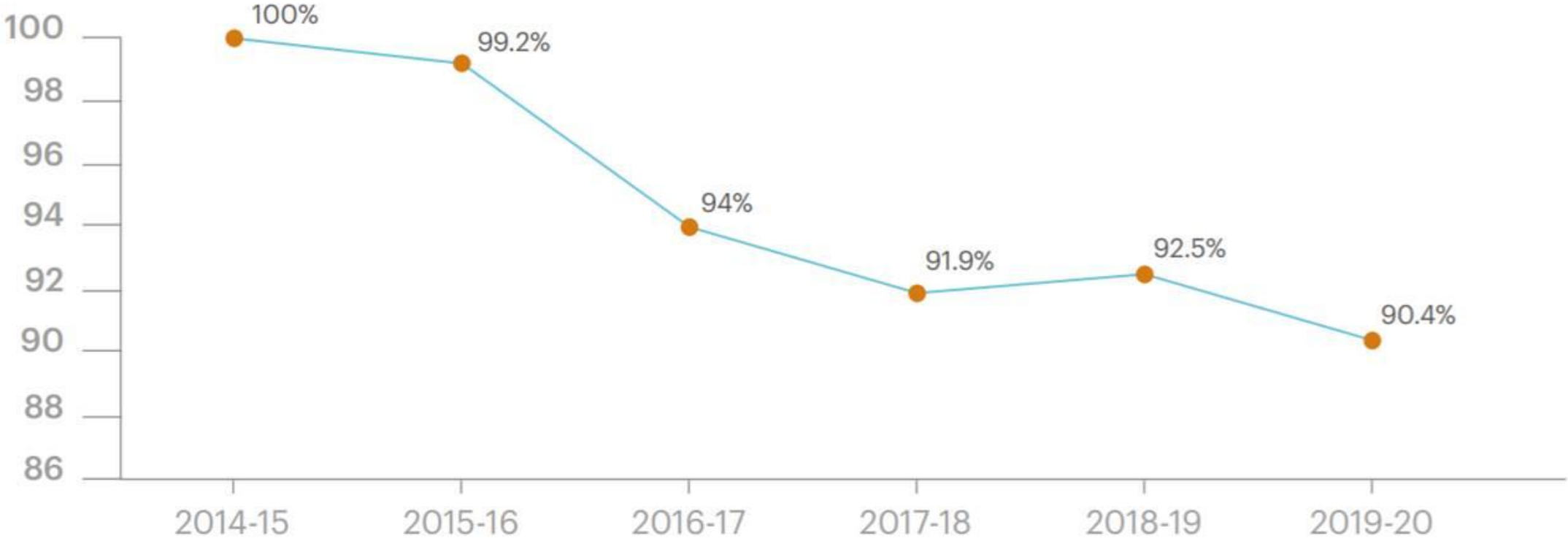
- Institute of Fiscal Studies

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The Institute of Fiscal Studies estimates that COVID-19 **could cost the higher education sector £10 billion in lost income**



# Real terms student funding drop in Scotland



# Employers' commitment – contribution levels

 **University payslip 2011**

Name: Example USS Member

Annual Salary: £40,000

Annual employee payment to USS: **£2,540**

Annual employer payment to USS: **£6,400**

 **University payslip 2021**

Name: Example USS Member

Annual Salary: £40,000

Annual employee payment to USS: **£3,840**

Annual employer payment to USS: **£8,400**

# Employers' commitment – staff spend

**UNIVERSITIES INVEST MORE IN  
THEIR STAFF *THAN ANYTHING ELSE***

**59%**

Total staff investment

**33%**

Other operating expenses

**6%**

Depreciation

**2%**

Interest and other finance costs



**University spending**

Sources: HESA Staff record, 2013–14 to 2018–19 | HESA Finance record, 2015–16 to 2018–19

**USSEmployers**

[www.ussemployers.org.uk](http://www.ussemployers.org.uk)

# Employers' commitment

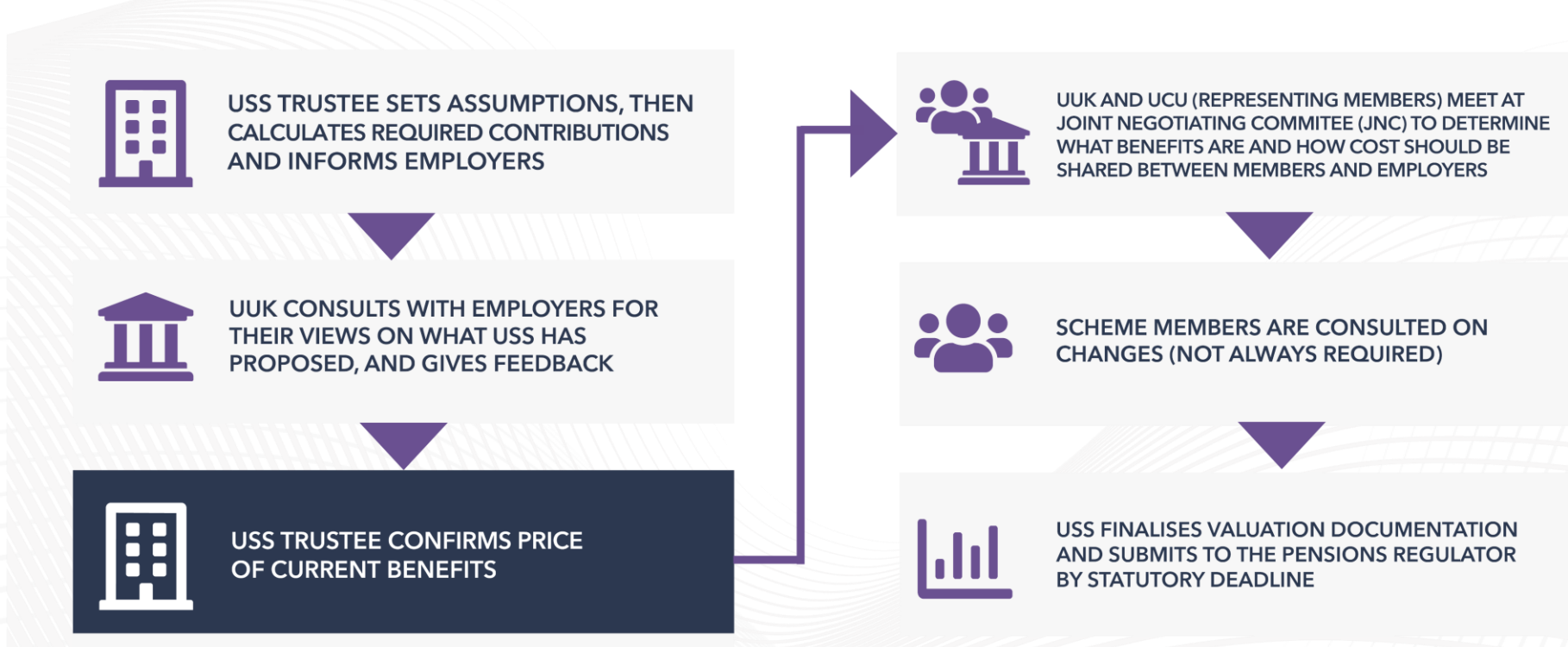
- Employers want USS to continue to be an attractive employee benefit – offering a valuable and market leading private sector pension providing a comfortable retirement for our people.
- Continue to analyse and challenge the USS' approach to the valuation.
- Difficult decisions will need to be made – employers are unable to pay more than they currently do.
- Opt-out rates are a concern, particularly among early career staff.
- Employers want to hear the views of all staff – including those opting out – on how we can create an inclusive, sustainable and attractive scheme.

# What's new with this valuation?

Constructive talks involving UCU, UUK and USS have led to closer working including:

- A new scheme purpose and shared valuation principles.
- New valuation methodology.
- Commitments to greater transparency from all.
- Increased levels of engagement and visibility from USS Trustees.

## USS VALUATION: HOW DECISIONS ARE MADE



CURRENT POSITION (MARCH 2021)



## Pricing scenarios for maintaining the current level of benefits

### Current contributions

Total payments: 30.7% of salary (21.1% for employers, 9.6% for staff)

#### Scenario 1

Total price for current benefits:

56.2% of salary

FSC: 37.0%, DRC: 19.2%  
Deficit £17.9 bn, 10 year RP  
Gilts+2% and 0.5% AOP

#### Scenario 2

Total price for current benefits:

49.6% of salary

FSC: 34.7%, DRC: 14.9%  
Deficit £16.1 bn, 10 year RP  
Gilts+2.3% and 0.75% AOP

#### Scenario 3

Total price for current benefits:

42.1% of salary

FSC: 33.6%, DRC: 8.5%  
Deficit £14.9 bn, 15 year RP  
Gilts+2.5% and 0.5% AOP

# In summary

- USS is a valuable pension scheme.
- Long-term challenging environment for pension schemes and real terms fall in income from students.
- Made worse by financial impact of Covid-19.
- USS has set very high prices to maintain current benefits in the 2020 valuation.
- Discussions will then take place between UCU and UUK on potential changes to the scheme. Your pensions built up to date are secure and can't be changed.
- Employers want to hear from all staff on how the scheme could best work for you.