USSEmployers

UNIVERSITY OF DUNDEE RESPONSE FORM

A consultation by Universities UK with employers on the indicative outcomes of the valuation

CLOSING DATE: 24 MAY 2021

REPLY TO: PENSIONS@UNIVERSITIESUK.AC.UK

MAKING YOUR RESPONSE TO THE CONSULTATION

We welcome responses to this consultation from each and every one of the scheme's participating employers.

We are keen to have the widest possible range of views and perspectives ahead ofthe next steps of the 2020 valuation.

Through this consultation we are formally seeking views and direction fromemployers on some key questions, particularly on:

- Covenant support measures
- Contributions
- Future benefit structures
- Addressing the high opt-out rate and flexibilities
- Governance
- UUK's Alternative Approach

This template form is optional and can be used for the response from your institution,you may also want to feedback this information another way.

With these views, UUK can then progress the negotiations with the University andCollege Union (UCU) within the Joint Negotiating Committee (JNC).

Please send the response from your institution to pensions@universitiesuk.ac.uk by 5pm Monday 24 May 2021.

COVENANT SUPPORT MEASURES

1. Would you be willing to support the alternative covenant support package which UUK has outlined in section 4, as the means to achieve a solution which might be acceptable in the round (see also question 15)?

The University is committed to supporting a solution which will provide a secure and dignified retirement, particularly for those on lower levels of pay, but which is also affordable to members and to institutions. In order to achieve this ambition, the University wishes to fully engage with a development plan for benefit reform and is pleased to see a proposal for alternative provision.

The University supports the covenant package as proposed by UUK provided the trustee will recognise this as a reduction in risk and consequently in price. Given the strength of the covenant measures offered, the University agrees to these only on condition of a meaningful price reduction as the current combination of contribution rates and inherent risk is already beyond our affordability threshold. The University is keen to hear the response of the trustee to this proposal.

COVENANT SUPPORT MEASURES

2. If the USS Trustee is not willing to accept UUK's alternative proposal (should there be employer support for it), would you be willing to support the USS Trustee's scenario 3 covenant support package to obtain a 'strong' covenant rating? If not, why is this and what level of covenant support would you be willing to provide?

Yes, if the trustee will not accept an alternative offer with reduced pricing, the University would support the scenario 3 package provided it led to a 'strong' covenant rating.
However, The University also recognises that this means the current level of benefit is unaffordable and therefore significant benefit reform would be required to balance deficit recovery cost with future service cost of an alternative provision.

COVENANT SUPPORT MEASURES

3. Are there areas of the covenant support measures which cause you particular concern, or which you would wish to see modified? Please provide details.

We do not have any further suggestions for covenant modifications which would still meet the trustees requirements and potentially be acceptable to the significant majority of employers.

COVENANT SUPPORT MEASURES

4. Are there other areas of covenant support you would wish to consider such as contingent contributions or asset pledges?

We do not wish to consider contingent contributions as we would much prefer the certainty of a defined schedule of contributions to enable us to reduce our financial planning risks. We would also prefer to avoid asset pledges to USS. We operate our own pension scheme for other categories of staff and we would prefer to retain equal standing of both schemes with no asset pledge or security to either scheme.

CONTRIBUTIONS

5. Do you agree that the current levels of employer contribution (21.1% of salary) and member contribution (9.6%) are the maximum sustainable – and should be the foundation for any solution?

a. If not, please state the level of employer contribution you would be willing to pay to USS following the 2020 valuation.

b. We would welcome any commentary on the reasons for your views.

c. We would also welcome employer views on the level of member contribution.

As we have stated in previous consultation responses, we agree the current levels of employer contribution are the maximum affordable. We draw your attention to our comments submitted for the Technical Provisions consultation in 2020 which remain valid:

"Given the figures presented, there is no outcome that is acceptable based on cost affordability

or risk for the University as an employer or, we would suggest, for our employees. This would be true even if the outcomes were finalised at the bottom end of the ranges. As a University with significant financial challenges we cannot accept continued open-ended risk on the Scheme or further increases to the cash contribution rate.

…..The level of employer contributions agreed as part of the 2018 valuation is already beyond the level of sustainable affordability for this University.

……As we have previously stated, the rate rise in October 2021 to total employer contributions of 23.7% is already beyond our level of sustainable affordability."

We had previously assumed that higher contribution rates would be unaffordable to our employees. We conducted a short staff survey to inform our response to this consultation which reinforces this view with the following results: (403 responses, 20% response rate from USS eligible staff):

- Do you think the level of contributions to USS at the current rate of 9.6% is readily affordable or concerning? 76% agreed affordable, 15% concerning.
- Would you be concerned about affordability if your contribution to USS were to increase? 88% concerned.

  '9.6% contribution from my salary is already affecting me badly. Any more contribution would leave me no choice but to leave the USS pension scheme.'

  'If the level of contributions goes up much more, and certainly if they were to approach the levels being suggested by USS, I would have no choice but to withdraw from the scheme and invest in a private pension that is affordable. I will not risk being unable to meet my mortgage payments…'
- 95% of staff are aware the University contributes 21.1% of salary into their pension.
- 65% agree the USS pension scheme offers value for money.

BENEFITS

6. Do you support the broad principle of seeking to retain the hybrid benefit structure?

We recognise that our employees value retention of a defined benefit element and on that basis we support the broad principle of retaining a hybrid structure which includes an element of defined benefit, along with death in service and incapacity provision.

We have been very clear the contribution uplift in October 2021 is not affordable to this University. We believe significant benefit reform is inevitable but do not underestimate the strength of staff feeling against changes to pensions. We recognise that any change to USS will

be difficult to deliver across the HE sector. We strongly support significant reform which goes far enough to ensure that further contribution increases are extremely unlikely for at least the next decade. We are also very keen to ensure that the benefits we can offer in the future are value for money and allow our staff to make provision for their retirement.
The University is committed to supporting a long term solution which will provide a secure and dignified retirement, particularly for those on lower levels of pay, with intergenerational fairness a vitally important consideration.

The relevant staff survey results regarding are as follows:

- Do you consider the USS pension as an attraction of working at the University currently? 74% agreed

  'Although contribution levels are high, the DB nature of USS provides an important degree of certainty and is a decisive factor in considering or continuing a career in academia.'

- Do you consider the DB element to be worth retaining, regardless of cost to you? 61% agreed.

- 78% of staff are aware of the DC element of USS and 52% are aware of the extra options and flexibility in the DC element.

- 92% of staff state death and incapacity benefits are important to them.

BENEFITS

7. Looking at the illustrative hybrid benefits which UUK has put forward, would you consider this an acceptable outcome in terms of benefits at this valuation – based on the positions on covenant support and contributions laid out?

Given the cost constraints and recognising the value our staff place on defined benefit, we recognise that this would be a reasonable outcome from an employer perspective.

However, we do not underestimate the employee relations difficulties the sector faces in agreeing any form of benefit change. Given the scale of this challenge the University of Dundee would wish to be reassured that this change will be sufficient to hold pension benefits constant for at least the next decade and well beyond the next actuarial valuation as an absolute minimum. As a sector we cannot afford uncertainty and disruption arising from pension concerns to become the norm, and our staff need to feel confident that their overall remuneration package is secure, fair and affordable. We must work together with our colleagues to ensure that any change we undertake now is a lasting one which provides a valuable and affordable pension for employers and employees.

This desire was reflected in a comment from our staff survey:

'I would like an end to the constant uncertainty over USS. If the scheme is to be changed please can it be a lasting change.'

BENEFITS

8. If the illustrated hybrid would not be acceptable, what alternative benefit arrangements would you wish to provide (and please indicate alternative positions on covenant and contributions as appropriate)?

(For example, if the USS Trustee does not ultimately amend its assumptions, would you wish to offer a hybrid solution as set out in the USS Trustee's illustrations (p18 of the Update Report) or would you prefer to move to a different offering, such as DC provision?)

The hybrid solution offered by USS provides a very low level of defined benefit and there is a risk that staff may feel IT does not offer them acceptable value for money. Although the positive point for our staff would be that an element of DB is retained, its level is so low it may not be viewed as a credible or meaningful alternative. We consider it is worth developing and modelling an alternative Defined Contribution offer, which would appear to be the only affordable alternative.

BENEFITS

9. Would you wish to explore conditional indexation or other conditional benefit models as a possible solution (likely longer-term, beyond the 2020 valuation)?

We do not believe that conditional indexation is worth pursuing for two reasons. Firstly because, as the question highlights, the expected length of time required to reach an operational solution means that it is not a viable option in the timescales we have available. Secondly, and more importantly, because it relies on an element of trust and confidence in the discretion of the trustees.
Given that trust and confidence in the USS trustees has been severely strained and weakened for some time, we believe it is highly unlikely that the USS members will accept this element of a conditional indexation solution.

FLEXIBILITIES AND OPTIONS

10. Would you like to see flexibilities implemented for members to move away from the current uniformity of the USS structure, and if so which flexibilities do you think are particularly important?

We have highlighted that the opt out rate across the sector is high (and rising) and this is a matter of concern for us as these staff members are not saving for their retirement or eligible for the other scheme benefits.
It is important that lower cost options can be offered for staff who are unable to participate at 9.6%, plus a greater ability to move benefits internationally. The flexible alternatives should also include some death in service and ill health cover, noting that 92% of our staff felt these elements to be important to them.

FLEXIBILITIES AND OPTIONS

11. Would you support the creation of a lower cost saving option for members and which of the parameters described in this paper are most important / or would need modification?

(If yes, we would welcome employer views on the options to achieve this (potentially informed via engagement with eligible USS employees).

We note that 55% of our USS staff supported a flexible option in USS and as the employer we completely support the need for a flexible option to be introduced.

FLEXIBILITIES AND OPTIONS

12. Would you support the creation of an option for members to switch (from the hybrid structure) to wholly DC pension saving?

(We invite employer views on whether the same deficit recovery contribution should be made for members choosing any new flexible DC alternative option, and what levels of member and employer contributions devoted to DC pensions saving should apply).

Yes, given the goal of flexibility and choice, we agree that providing members with the ability to switch from the hybrid structure to DC (and the reverse) should be an option. However, any move to a flexible model will need to include careful consideration of the question of fairness in meeting deficit recovery contributions (both for employers and employees).

For example, we are currently consulting on a proposal to change our in-house scheme to Defined Contribution. Ideally, the USS option would be similar to the alternative for our lower paid staff group. The extract is from our ongoing consultation for our in-house scheme and is included here to indicate the DC range that we consider to be reasonable.

Summary of Proposed Changes
New Defined Contribution Arrangement

The proposed contribution levels under the DC arrangement are set out below:

Category	You Contribute	The University will Contribute	Total Contribution into your Fund
Entry level	5%	10%	15%
Minimum level	2%	7%	9%
Maximum level	8%	13%	21%

- You would be enrolled at the entry level but you have the flexibility to pay more or less than 5%.
- You could pay between 2% and 8%, in 1% increments, the University would pay between 7% and 13%.
- You could also pay more than 8% although the maximum the University would pay is 13%.
- Contributions are expressed as a percentage of Pensionable Salary.

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FLEXIBILITIES AND OPTIONS

13. Would you wish to explore options for employers so that they can offer some variations to the USS standard benefits in the future – and if so, what would those variations be?

It is highly unlikely that this University would be able to afford additional benefits to a standard package in the foreseeable future. Our focus is on securing an affordable and fair standard pension offer for the sector, and feel that having a consistent scheme across the UK which continues to be transferable across participating employers is an important principle that we would wish to see retained.

GOVERNANCE

14. We would welcome views from employers in relation to the governance of the scheme and the valuation process (including views on the Joint Negotiating Committee). Specifically, would you support a post valuation governance review, and what areas what you like to see covered in such a review?

We recognise that trust and confidence in USS have been strained for some time and therefore endorse the recommendations for reform within the Joint Expert Panel 2019 Report.

UUK ALTERNATIVE APPROACH

15. As part of a solution to the 2020 USS valuation would you support the alternative covenant support package illustrated by UUK *(headlines – moratorium of a minimum of 20-years with debt-monitoring and a pari-passu arrangement for secured borrowing above c15% of gross/net assets)*, to provide a hybrid benefits package at current contribution rates in the order of *(pension accrual of 1/85 of salary [plus 3 times lump sum] up to a salary threshold of £40,000 with the CPI indexation of benefits [for active, deferred and pensioner members] capped at 2.5% per annum, and with DC above the salary threshold at an overall contribution of 20% of salary),* together with a lower cost alternative to address the high opt-out rate, as well as a governance review of the scheme and valuation process?

Yes, we fully endorse this option, provided there is sufficient headroom for the change to be a lasting one that delivers stability to institutions over a significant time frame (see response to Q7).

Please send your completed form to: pensions@universitiesuk.ac.uk by Monday 24 May 2021

Thank you for taking the time to respond to this consultation.

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