Questions and Answers.
(updated 15 October 2018)

The below Q&As include those raised during the staff meetings held in September and October 2018. Please also refer to the USS member contribution presentation (link) from Mercer, for a more detailed overview of the current proposals in relation to the USS employer consultation.

Q. **What is the outcome of the Joint Expert Panel (JEP) report?**
A. The JEP Report recommends four areas of adjustment to the valuation including:
   - re-evaluation of employer risk
   - consistency with 2014 valuation
   - fairness and equality between generations
   - updated market conditions
In addition, it recommends that greater weight should be given to the unique features and strengths of the higher education sector as a whole.

The JEP have suggested that total contribution rates need only increase from their current level of 26% to 29.2% if their recommendations are adopted in the USS valuation. This compares favourably to the 36.6% contribution rate currently proposed by USS under the existing valuation approach. The JEP report offers the prospect of maintaining the existing USS benefit structure at a more affordable cost.

Q: **Will UoB be supporting all the recommendations of the JEP?**
A: Yes, we welcome the findings of the report and support the recommendations made.

Q. **My contributions will increase from next April, will there be further increases following that date?**
A. The current USS proposal includes phased increased contributions for members as follows: 8.8% in April 2019, 10.4% in October 2019, 11.7% in April 2020.

Q. **Will the pension contributions that are proposed to go up to 11.7% stay at the rate forever, or will they change again? Is there a possibility where the perceived shortfall is being covered so that the rate can come down again?**
A. No, the contribution rates are likely to change after each three yearly valuation of the scheme. There is another valuation coming up in 2020, so the scheme position will need to be looked at again in terms of the health of it and the cost of the existing benefit structure. It is reviewed every three years. Because this is a private defined benefit scheme, the USS Trustees have to operate in a certain way under legislation and pensions regulations that means the scheme has to be valued on a general accepted of a set of principles. This is why the second phase of the JEP’s work is really important, to make sure that everyone is comfortable with how these principles will be agreed and applied going forward.

Q. **If you continue to pay the extra 1% as an employee will this go towards your DC once you have exceeded the DB threshold?**
A. Yes, however, you will not receive the 1% employer match after March 2019. It is important that you remember to cancel your additional contribution in advance of April 2019 should you no longer wish to make it.
Q. Will I lose the 1% that I’ve been putting in?
A. No, you won’t lose this as it has gone to your own defined benefit pension ‘pot’. The current proposal is for the 1% employer match to be removed.

Q. When is the best time to turn off the match?
A. It is best to leave this as late as possible to take maximum benefit of the match. The best time would be in March 2019. You have to physically log in and do this yourself, it will not happen automatically.

Q. The increases are a pay cut. So why can’t those who have enjoyed a career of low contributions pay more than those starting their career? i.e. by staggering increases?
A. The JEP has recognised that the methodology slightly penalises slightly younger people or those who have not been in the scheme for that long. Unfortunately, there is not really a lot more that can be done about this, but we do need to look into how we’re supporting younger people to make sure that they can build up good pension savings as well. There’s a risk that older people who do not have the benefit of a long membership of USS may also be penalised if contribution rates are increased for older members.

Q. Equities may be quite over-valued at present, this presents some risk. What are the future projected returns? Where are they invested? What are typical management fees?
A. You can find a summary of the USS investment strategy and projected returns in the ‘Fundamental Building Blocks approach to expected investment returns’ on the USS website. Management fee structures are not easy to discern for all parts of USS, as they have a blend of in house management and management fees that will be incurred as part of investments made into funds, or similar, that have their own managers. We believe the bigger issue is around the governance of USS and how the USS Trustees and Executive are held to account by members. We will work through UUK as the employer representative for USS to address these concerns.

Q. When looking at future share performance, has a possible hit on the markets due to Brexit been taken into account?
A. No, as it is unclear what the full impact of Brexit on the markets will be at this moment in time. The investment return assumptions applied to the valuation are a long term average and take account of the ‘ups’ and ‘downs’ that are experienced through market cycles.

Q. How is the increase in contributions going to be reflected in pensions?
A. The increase in contributions will be used to maintain the existing benefit structure. The USS Trustees have determined, based on the November 2017 version of the March 2017 USS valuation, that the cost of providing defined benefits (1/75th CARE up to £57,216.50 of pensionable salary) has risen.

Q. What is rationale behind contributions above threshold going to retirement income builder?
A. The deficit and increased cost of providing future defined benefits is in the retirement income builder part of the fund. This is why the entire increase needs to go there.
Q. Has the valuation in elements been revised since 2017, or is it the same?  
A. No, the valuation upon which the USS is currently proposing increased contribution rates for both staff members and employers is the same as in 2017, but the JEP report recommends four areas of adjustment to the valuation which include re-evaluation of employer risk, consistency with 2014 valuation, fairness and equipment between generations and updated market conditions.

Q. When was the legislative requirement to submit the valuations?  
A. It was June 2018. This is why USS are using the old valuation for consultation.

Q. Why do valuations take so long?  
A. Valuations on their own don’t take that long, but it’s the discussions around the assumptions made as a result of these valuations that can take more time. We have asked USS to release a version of the valuation model so that interested members can model different scenarios. This has not been published to date. We will chase again.

Q. How stable is this as a defined benefit scheme?  
A. Defined benefit schemes are inherently risky. There will always be a difference between the level of investments that scheme has been able to purchase and the pensions that are owned. 80% of private defined benefit schemes have been closed since 2006, as employers have no longer been willing to carry the associated risks. However, the USS pension scheme has a number of things going for it. First, the change to 1/75th CARE and scrapping of final salary link underpin the future financial stability of the scheme. The strength of the Higher Education sector’s covenant and the ‘last person standing’ nature of USS mean that while the Pensions Regulator are regulating the USS scheme as if it was BHS or Carillion, the University sector is different. As long as we’re sensible and measured in the way that we move forward, the scheme has stronger prospects compared to some others. We would, however, like the scheme to have a guarantee from government behind it to provide both the USS and the Pensions Regulator with further comfort over the strength of the Higher Education sector’s covenant. We are continuing to push for this at a national level.

Q. Could you explain that if with defined benefits, if you’re earning under the £57,216.50 salary threshold, you could buy an annuity and have a pension? Or does it meant that you can do something like a draw down for instance?  
A. If you earn under the threshold, you will receive a defined pension payment in a similar way to an annuity. You won’t need to purchase an annuity. You only have the option to go out and buy an annuity or another product if you’re in the defined contribution section and that’s where you’re exposed to the annuity market.

Q. Will this whole process that we’re going through now have an effect on the option to receive a flexible pension where you could reduce the number of days that you work and take between 20-80% of the pension fund available?  
A. There are no other proposed changes to the scheme at the moment.
Q. Is the main aim to shift risk for a guarantee to a non-guaranteed pension?
A. No. There’s no proposed change at present to the benefit structure of USS. You will continue to participate in a defined benefit pension scheme on pensionable earnings up to £57,216.50 and contribute to a defined contribution scheme on any earnings above this level.

Q. What is deficit recovery?
A. Deficit recovery is providing enough money over the coming years, for USS to buy the level of additional investments that it assesses that it will need, to have enough cash in the future to pay all of the defined benefit pensions that have been earned to date. It is currently assumed that the scheme has a deficit as the level of existing investments is not considered to be adequate to fund pension benefits earned to date.

Q. How likely is it that things may change again in the 2019 long term consultation?
A. It is hard to say. We hope that both UUK and UCU sit down early with each other and the USS Trustee to work through any potential future valuation issues. The second phase of the JEP’s work will look at how future valuations should be approached. However, nothing will be able to insulate USS from any big adverse market changes that may happen over the next few years for example, as a result of Brexit.

Q. If members make additional contributions in 2019 and if the JNC agree to revise the evaluation in accordance with the JEP, do excess contributions get refunded?
A. No, the contribution rates reflect the current estimated cost of the scheme. The real cost of the scheme will not be known until all pensions have been paid out in the future. The cost of the scheme will go up and down depending on market conditions, investment performance and the actuarial methodology and assumptions applied.

Q. With reference to cost sharing - surely the hope is that the JEP recommendations can be implemented by April 2019?

If the JEP view is accepted by the USS trustees and the regulator, when might this be instigated and amend the automatic cost sharing currently in place?

A. The USS Trustee is currently saying that it will take 12 months to implement any further changes. They probably don’t need this long if the change is only an alteration to contribution rates and not to the benefit structure. However, time is probably too tight now to make the changes recommended by the JEP for April 2019. This is because the changes need to be negotiated by UUK and UCU. They then need to be accepted by the USS Trustee and a 60 day statutory consultation will need to be undertaken with all staff who are potentially affected. USS will need to allow enough time following the consultation to consider all of the feedback that it receives. It is more likely that the JEP recommendations could be implemented before the proposed contribution increase in October 2019. It is worth highlighting that the proposed level of contribution increase in April 2019 is lower than the level of increase that the JEP are saying is required to maintain the existing benefit structure.
Q. **What happens next?**
A. USS will continue with its current plan to increase contribution rates to maintain the existing USS benefit structure, subject to the responses it receives from the current consultation which ends on the 2nd November. There will be no change to this plan until the Joint Negotiating Committee (JNC) agrees an alternative proposal relating to contribution rates and/or benefit structure. The JNC comprises of representatives of both UUK (on behalf of the employers) and UCU (on behalf of the employee members of USS) and an independent chair. UUK will need to consult with the 350 employers to obtain a mandate for further negotiations with UCU. UCU will also need to seek the views of its members.

UUK have commenced consultation with employers and we have drafted our response. We are asking staff to share their views with us, so that we can take these into account. We are hosting a Staff Pensions Working group on Wednesday 10 October where staff are invited to review our draft response and share their feedback before this is submitted. If you want to take part, please join us for lunch at 12.30pm in room G.02 1 Cathedral Square.

Q. **Do you believe that the current proposed contribution rates are too high and should be reduced?**
A. We are supportive of the JEP’s recommendations about the 2017 valuation. The JEP has estimated that if their recommendations are adopted then total contributions would need to rise to 29.2% (currently 26%) as opposed to the 36.6% currently being proposed by USS based on the existing valuation. Adoption of the JEP’s recommendations requires employers to confirm that they are prepared to take more risk in relation to the USS scheme. We are prepared to do this at the risk level associated with the JEP recommendations, given the importance of USS to our staff.

Q. **What level of increased risk is the University willing to take?**
A. The University is prepared to take more risk in relation to USS than we indicated in our response to UUK’s employer consultation in September 2017. Many staff have told us how much they value the USS scheme and we have re-assessed how much of our total ‘risk budget’ we are allocating to USS. Taking more risk on USS means that we won’t be able to take as much risk on other things. Our forward financial view doesn’t just need to take USS into account, it also needs to include the potential adverse impacts of the Government’s Post-18 fees and funding review. We will need to continue growing our student numbers on the Clifton campus to cover costs until alternative funding streams, such as the new courses at Temple Quarter, are available.

Q. **(In relation to funding increased contributions, you mentioned increasing student numbers) and talked about what in terms of faculties and schools, but how would it look in terms of professional services?**
A. Professional Services will also need to play its part in improving our margins so that we can afford increased pension contributions and other expected changes to income and costs. We need to change the way in which we work in Professional Services to make best use of new technology (e.g. MyERP and SLSP) and reduce the administrative burden in order to manage costs as the University grows further.
Q.  What possible impact can this consultation have? If the response is very negative, what are the alternatives? Are there any alternatives?

A.  The impact of the current USS proposal is that USS will most likely cost everyone a lot more. We recommend that members share their thoughts as part of the consultations and ask for the USS Trustee to defer any decision to increase contributions until the JEP process is finished. The additional contributions that the USS Trustee will collect over the time period that it is expected that it will take to consider the JEP’s recommendations, will not make a material difference to the financial health of the USS scheme. Raising contributions before the JEP process is complete is confusing for staff members and potentially undermines their confidence in the scheme.

Q.  Unlike the previous employer consultation, how will UoB be validating its submission?

A.  We will be validating our proposed submission with staff through the six open meetings we are holding and with the Trades Unions. We are also hosting a Staff Pensions Working Group on Wednesday 10 October where staff are invited to review our draft response and share their feedback. The final consultation response will be signed off by the Board of Trustees. All of our previous consultation responses relating to the 2017 valuation have been validated by the Board of Trustees.

Q.  The JEP report clearly shows that UUK and USS were wrong to propose to end our DB pension. We were right to strike. Will UoB give our strike pay back?

A.  We support the right for our staff to take strike action but will not be refunding strike pay. There is no such precedent to do so. This was a sector-based action and we did our best to support our strikers and spread the load of salary deductions for them.

Q.  Why are we being consulted on short term changes now, when the JEP process might lead to very different proposals very soon?

A.  We participated in a pre-consultation in July from UUK to employers and we made that argument strongly as we believe that the current action by USS to consult on increased contribution rates is premature. The amount of additional money that would go into the scheme over the next 6-12 months - before the changes that would have been made as a result of the outcome of the JEP report - is not material and it will really confuse staff members. What we care about is people having confidence in the scheme and participating to make adequate savings for their retirement. So please do feedback your concerns and comments to this and other points through this consultation.

Q.  It strikes me that I’m now benefiting from the industrial action that took place and this seems to be the only thing that brought the Universities and others back to the table to pick up discussions again. Are there lessons learned, were there things that could have been spotted before we got to this point? Who is looking out for the employer?

A.  We received strong feedback in lots of different ways – not just from the industrial action – which led us to move our position. We listened to what was important to our staff and therefore it was right for us to change in response to that, while accepting the risks that this carries. There have been learnings in terms of engaging more widely and broadly in relation to our consultation response, which is what we’ve been doing through recent meetings and the Staff Pensions Working Group.
Q. The 350 USS employers vary in size and importance. How much agreement/disagreement is there between employers?
A: There appears to be a general agreement that this is a good outcome. The UUK consultation includes three simple questions so we will need to see how individual employers will respond. It is likely that they will go with the majority view, but only 150 of these are HE institutions, with the rest smaller institutions such as research institutes with small staff numbers. We are enquiring with UUK as to how they will interpret the consultation responses to determine the mandate that they have from the USS employers to accept the recommendations of the JEP report. Will it be ‘one vote per member’ or will UUK take account of the relative size of each of the employers? The latter feels most appropriate.

Q. Where is the additional salary budget going to come from to fund the University’s increased contributions to USS?
A. We revised our financial plans between May and July last year, because we assumed that the cost of USS would increase. Our revised plans include greater levels of student recruitment. We have planned for a certain contribution level. Above that level, we haven’t yet planned changes to the University to cover the costs. A rise in the University’s contribution level above 21% would likely require us to review the range of activities that we can afford to continue with. Our forward financial view doesn’t just need to take USS into account, it also needs to include the potential adverse impacts of the Government’s Post-18 fees and funding review. We will need to continue growing our student numbers on the Clifton campus to cover costs until alternative funding streams, such as the new courses at Temple Quarter, are available.

Q. Isn’t likely that in reality there will be some bartering? If it became 20.2% will that break us?
A. No, a small increase above 20.1% would not break us. However, if it became 24.9% that would cause us a significant problem along with most of the other 350 employers in the scheme.

We need to remember that we are in a relatively good position compared to some of the other employers in the USS scheme. Student recruitment is going well for us and research funding also grew by 5% last year. Others will experience significant financial pressure even at 20.1%.

Q. Do we need a more nuanced response to the USS in relation to the difference between 20.1% and say 24%?
A. UUK sought our views in advance of the USS Trustee’s current consultation on contribution rates about the impact of increased contributions. You can find our response to UUK’s July 2018 consultation here. We consulted with a number of interested colleagues to help us make this submission to UUK.
Q. What if you lose employers from the USS scheme, what is the impact on that?
A. Legislation means it’s difficult for major employers to pull out since there is a significant cost to doing so. Employers have to pay their withdrawal debt to leave. The cost of the withdrawal debt is considerably higher than their share of the scheme deficit calculated by the actuaries for the purpose of the three yearly scheme valuations. This is because their share of the deficit is calculated on a much more prudent basis to ensure that they are fully recompensing the scheme for leaving and not leaving the potential for the remaining employers to fund any deficit associated with their members.

The position is different if employers leave the USS scheme because they go out of business. The remaining employers are required to fund the deficit associated with the ex-member in that circumstance.

Q. Is the University looking at any other ways they can reduce costs for staff in terms of discounts at cafes, more help with cost for transport, etc?
A. We are not currently looking at that, but this is a great suggestion for us to look into as part of our emerging People Strategy.

Q. How does the USS scheme and percentages paid in by members and universities compare with other schemes in the UK in terms of contributions and potential benefits?
A. Contribution rates for USS are in line with the average for national defined benefit schemes, but it’s harder to quantify comparative benefits. The benefits structure may not be as strong as others in the UK.

Q. Is the University looking at alternative pension provision that could be offered?
A. No, we are committed to the USS scheme. We would, however, like the scheme to have a guarantee from government behind it to provide both the USS and the Pensions Regulator with further comfort over the strength of the Higher Education sector’s covenant. We are continuing to push for this at a national level.

It is important to understand the difference between USS and our own local defined benefit pension scheme (UBPAS). The decision was made to close UBPAS, as it had become unaffordable. Total contribution rates had risen to 45% of pensionable salaries. A lot higher than where the USS contributions are. One of the key reasons why contribution rates are lower for USS is because there are 350 employers in the scheme with each employer effectively guaranteeing the financial contributions of the other employers. This means that the USS Trustees can place a greater reliance on the strength of the employer covenant to make future payments to fund defined benefit pensions to be paid, than the UBPAS Trustee can relying on the University of Bristol alone. The USS Trustees can therefore accept more risk from the employers and adopt less prudent valuation assumptions than the UBPAS Trustees. Less prudent assumptions generally result in lower contribution rates.

Q. Can we walk away from USS?
A. No, the cost would be enormous as we would have to pay our debt to the scheme.
Q. Who is Mercer and what is their role?
A. Joanne Arnold is a member of Mercer’s Higher Education Group and is assisting the University with the communication of the consultation on the proposed increase in USS member contributions. Joanne is based in Mercer’s Leeds office and there is no link between them and the USS Scheme Actuary, Ali Tayyebi (also Mercer), who is based in Birmingham. There is no sharing of files; Joanne is not in the same managerial group as Ali; does not work with Ali at all on any clients; there is no sharing of information between them; and there is a complete Chinese Wall between the offices. The only information Joanne has about USS comes from USS directly or from universities: never from Ali or colleagues who work with Ali. Mercer’s Higher Education Group are well known in the sector for providing pensions education sessions and are strictly neutral in terms of the differing points of view on the future of USS: their role for our University is to present facts – respecting the differing points of view that exist - and to give all colleagues an opportunity to ask questions to help them to better understand what is going on, who the different parties are that are involved, and what might happen next.

Q. Have the pensions Regulator been involved with the JEP deliberations?
A. The Chair’s report of the JEP meeting held on the 12th June highlights that the Pensions Regulator’s views on the 2017 valuation had been sought: “Finally, the Panel also took evidence from the Pensions Regulator (TPR) about their views of the valuation, including their assessment of the strength of the covenant, their attitude to different investment policies and their general approach to valuations.” However, there is no record of the Pensions Regulator being involved in the preparation of the JEP's recommendations. There is a risk that the Pensions Regulator may not be comfortable if the USS Trustee implements the JEP’s recommendations.

Q. Is it a question of what the regulator will accept?
A. The Pensions Regulator is there to protect the pension benefits that have been earned to date. As long as the Trustees are adopting a valuation approach that accords with the range of valuation assumptions adopted by defined benefit pension schemes with an employer of equivalent financial strength as the aggregation of the 350 employers who make up USS, then the regulator is unlikely to take any regulatory actions.

Q. Does the regulator have the power to force a solution?
A. Yes, but they haven’t used these powers on any UK pension scheme to date. We are hoping that all parties will work positively together using the JEP recommendations to find an acceptable way forward.