

UNIVERSITY OF BRISTOL

Proposed response to UUK Consultation

19 July 2018

**(1) The ability of employers to pay higher contributions to USS of 21%**

Bristol University has modified our plans to generate sufficient financial capacity with which to afford a contribution rate of 21%. However, the actions that are required to generate this capacity (e.g. greater student numbers) increase the risk profile of the institution in a challenging external environment and significantly reduce our capacity to respond to additional financial pressures.

Higher contributions to USS cannot be considered in isolation of other factors, in particular, the Government's Post 18 Funding Review. An adverse outcome of the Funding Review beyond what we have assumed (tuition fees remain at £9,250 with the current levels of subject specific top up funding remaining) and/or further rises in the USS contribution rate above 21% and/or another unforeseen financial pressure will put significant pressure on our institution and would likely require a significant change to our structure and offering to manage expected additional costs and lower than previously forecast income levels.

Possible responses to further financial pressure could include divestment of some parts of our institution. We have strongly resisted such an approach to date, as it would potentially undermine our position as a civic university engaged in a full range of academic disciplines and the adverse impact on staff and the city of Bristol. We would also have to reduce the level of cross subsidy into research activity at a time when the Government is making more public money available to fund research. The research intensity of our institution underpins its success and global standing. Any diminution in our research activity could threaten the longer term standing of the institution and our ability to attract world class academics and students. Contraction in research activity would have implications for the size of our existing workforce, both academic and Professional Services.

**(2) Approach to increasing contributions – indicatively 21% in 2019/20 then 24.9% from 2020 onwards**

If higher contributions are unavoidable then they must be introduced gradually and with as much warning as possible.

From an employer perspective, we would favour moving to 21% in April 2019, as opposed to 19.5% followed by a further increase to 22.5% in October 2019. A move to 22.5% potentially establishes the employer contribution rate at a level that would require us to take challenging decisions for our local community. Contribution rates of 24.9% would require us to undertake some fundamental restructuring of the institution, which we do not believe is in the best interests of staff or the delivery of our academic mission. We are hopeful that the JEP process will deliver a future benefit solution to our staff within a cost envelope of 21%.

We do, however, favour a more gradual increase in member contribution rates. This is important to give staff time to adjust their household budgets to accommodate the increased cost. We are proposing that the USS Trustee implements the increased employee contributions at a slower rate than employer contributions. This would not affect the scheme's funding position and could help improve staff confidence in the USS valuation and the USS Trustees.

We would request UUK to lobby the USS Trustee to consider a further graduation of contribution rates beyond April 2020 for both employers and employees to provide a safeguard in the event that the conclusion of the JEP process takes longer than currently anticipated. The impact of institutions having to make significant expenditure cuts from April 2020 in order to afford higher contribution levels will have an adverse impact on the country's research and development activity and the student experience.

### **(3) Phasing the step to higher employer contributions of 21% over the 2019/20 year**

Please see our response to question 2 above.

### **(4) The impact of higher contributions on members**

We agree that there's a risk that some staff will choose to leave the scheme as a consequence of rising contribution levels. However, we believe that this risk is very low. Our experience with a local defined benefit scheme is that most staff are willing to pay more to retain the defined benefits which they value. 63% of our staff have opted to make higher contributions in order to receive a higher accrual rate.

The key challenge in the foreseeable future will be engaging staff in the reasons for the increased contributions at a time when the outcome of the JEP process is unknown. There will be a strong belief by many that the action of the USS Trustee in this regard is premature and unnecessary and we would urge the Trustee to levy the lowest of contribution increases on staff members until the outcome of the JEP process is known. As a general principle we would request the Trustee to allow the JEP enough time to complete its work before any changes are made. There is a significant risk that member contribution increases over the coming year will have an adverse impact on member engagement with the valuation process and the future of USS. We would expect for the USS Trustee to provide members with a contribution 'rebate' in the event that the additional contributions are later found to be unwarranted.

We welcome the communications for members that UUK have prepared to date and ask that they continue to support employers in this way on a pro-active basis. UUK should also consider other communication channels to reach members, for example, social media and the press. We would really like to see UUK working jointly with UCU on this issue given the joint support for the JEP process.

### **(5) Potential removal of the employer contribution on salary above the threshold (rule 76.5)**

All options need to be considered to enable the maintenance of a strong pension offering for staff, in particular, those in the lower earnings bracket who are likely to be less financially resilient in their older age. However, we disagree with implementing the proposal at the present time.

We consider that making this change prior to the outcome of the JEP process and consideration of the longer term structure for the scheme is premature. No substantive change should be made to the scheme until the outcome of the JEP is known. Making a substantive change at the present time risks disenfranchising a greater proportion of the membership over a period when it will be crucial to have positive engagement from all scheme members in relation to the future of their pensions for a relatively low financial benefit.

We note that the impact of this change has not yet been subject to an equality impact assessment, which we believe is fundamental. We have started our own impact assessment and our early conclusions are that the removal of employer contributions above the threshold would disproportionately affect older people who are closer to retirement age and have less opportunity for investment asset growth to fill the gap that lower contributions to their pension pots will leave.

#### **(6) Consideration of the broader implications of materially higher employer contributions**

Higher contribution levels for both employers and staff members does pose a risk to the long term sustainability of the USS scheme. Employers may seek ways within the constraints of the existing Scheme Rules to reduce their level of future participation in the scheme and an increasing number of staff may not participate in the scheme due to affordability constraints. Both of these actions would harm the future scheme cash flows.

We are extremely concerned that materially higher contribution levels may weaken a number of participating employers to the extent that they are at a high risk of failure. Many would have limited financial capacity with which to respond to any further increases in contribution levels that may be required to pay out the pension benefits that have been earned by staff members. This would place a further financial pressure on the wider group of USS employers who would likely be required to invest a greater proportion of their funds into USS for no direct benefit to their own staff.

We believe that it is in everyone's best interests at the present time to preserve the mutual structure of the scheme with affordable contribution levels and strong engagement from employers and staff. To do so provides us all with the best opportunity to provide a strong pension offering to our staff and represents excellent value for money.

#### **(7) The USS Trustee's requirement for a 12-month implementation period**

We support UUK continuing to challenge USS in a proportionate manner regarding the implementation of changes to the scheme. 6 months feels like a more reasonable timescale to implement any change. It would be helpful for UUK to remind employers at an appropriate time of the nature of the staff engagement, process and systems changes that will be required in the future to successfully implement any future changes to USS.

Our principal concern is effective communication and engagement with our members, in particular, giving them adequate advance notice of changes to contribution rates so that they can make changes to their household budgets.