2017 USS Valuation: Briefing paper for USS Employers

Confidential – To USS Employers Only

Issued 5 July 2018

Introduction

This is a confidential information pack provided by Universities UK (UUK) to USS employers. It includes the latest information received from USS following the Trustee Board meeting on 3 July. This is an opportunity for employers to comment on the USS Trustee's proposal under Rule 76 and share their views with UUK.

We would like USS employers to:

- Ensure that senior colleagues with responsibility for pensions carefully review this document
- Consider and express your institutions views on the seven areas summarised in section B of this document
- We would welcome your comments and views across the summer. However, please return as many of your comments and views as possible to us at pensions@universitiesuk.ac.uk by 5pm on 19 July (so that we can review and consider ahead of the deadline of 20 July set by the Trustee).

Navigation of this pack of information for USS employers

To support employers' comments on the USS Trustee's proposals, this pack provides information as well as areas for consideration:

A. Background and establishment of the Joint Expert Panel – this section is a brief recap for employers on how we have arrived at the current position
B. Areas for employers' views – the USS Trustee has provided certain important information to UUK on proposed increases to contributions
C. Timeline – we intend to consult more formally with employers in the autumn once the JEP has issued its report. We set out a high-level timeline of the key milestones over the coming months
D. Factsheet: Rule 76 – The USS Trustee's proposal stems from Rule 76, which we outline in this factsheet
E. Frequently Asked Questions – we address some common questions

Executive summary of key information

The Joint Expert Panel (JEP) is currently assessing the 2017 valuation, and is planning to report in September 2018.

In the meantime, and separately to the JEP process, the Trustee is required to have a credible plan for completion of the 2017 valuation for the Pensions Regulator. The Trustee has therefore commenced the Rule 76 process that requires higher contributions from employers and members to address the increase cost of providing current benefits.

The Trustee has provided information to UUK on its approach. UUK has included this information in section B on the following 7 areas and welcomes employers' views on all of these areas.

(1) The ability of employers to pay higher contributions
- The Trustee believes employers are able to pay contributions of 21%
- UUK's previous collections of views indicated 19.3% was the limit for employers

(2) Approach to increasing contributions – indicatively 21% in 2019/20 (phased – see area 3) then 24.9% from 2020 onwards
- The Trustee has said it will require the above contributions from employers
- UUK does not believe this lead-in time to this magnitude of increase is sufficient, if indeed employers could afford contributions of that level

(3) Phasing the step to higher employer contributions of 21% over the 2019/20 year
- The Trustee is willing to use its discretion with regard to Rule 76 and accept contributions from employers of 19.5% from 1 April 2019 and 22.5% from 1 October 2019 (resulting in overall contributions of 21% over 2019/20)
- While UUK believes staging increases is preferable to no staging, even the initial level of contributions is above the level that employers have indicated to UUK previously.

(4) The impact of higher contributions on members
- The increases required by USS includes significant increases in member contributions (to 8.8% from 1 April 2019, 10.4% from 1 October 2019 and 11.7% from April 2020 compared to 8% currently)
- UUK believes this may contribute to a significant increase in members that opt out of the scheme, who would receive no pension provision due to the exclusivity requirements in USS

(5) Potential removal of the employer contribution on salary above the threshold (rule 76.5)
- The JNC is required by the Trustee to consider this question before 20 July
- For a number of reasons set out in this document, UUK does not believe it is appropriate to remove employer contributions on salary above the threshold

(6) Consideration of the broader implications of materially higher employer contributions
- UUK believes there may be a risk of actions taken that undermine the structure of the scheme due to the contribution increases proposed, and would like further analysis undertaken by the Trustee

(7) The USS Trustee's requirement for a 12-month implementation period
- UUK believes that any changes to the scheme should be implemented as soon as possible and not delayed

A. Background and establishment of the Joint Expert Panel

The recent history of events is set out below.

Date	Event
November 2017	Following engagement with stakeholders, the USS Trustee advised that the deficit as at March 2017 had increased to £7.5 billion, and the cost of building up benefits had increased by around one third compared with the 2014 valuation
13 November	UUK submitted a proposal to the JNC* on reforms to the USS
December – January 2018	UUK held multiple meetings with UCU and revised its reform proposals as a result
23 January	The JNC approved a proposal that there would be no further defined benefit (DB) build up for the following 3 years. USS would offer market leading DC benefits through the *USS Investment Builder*
February – March	14 days of industrial action at 64 institutions
5-12 March	Acas talks between UUK and UCU to agree a revised benefit proposal on 12 March
14 March	Acas agreement rejected by UCU branches
21-22 March	Second round of discussions at Acas results in JEP proposal
13 April	UCU member vote on JEP successful and proposal accepted by employers, industrial action paused
1 May	Trustee confirms Rule 76 process being followed (see Rule 76 factsheet) involving higher contributions from employers and members
May	Trustee commissions their covenant advisor, PwC to gather information on employer affordability
May	Establishment of JEP, first meeting 31 May

* The Joint Negotiating Committee (JNC) consists of UUK and UCU appointed members and an independent chair. The JNC is the body that initiates or considers alterations to the USS benefits.

The path ahead

In summary, UUK and UCU put in place the JEP to assess the 2017 valuation, particularly the Trustee's approach to assumptions and the funding requirements. The JEP is planning to report in September 2018. The JNC will consider the JEP's findings and discuss what changes it considers are appropriate to the scheme rules to address any funding shortfall. UUK believes the JEP's findings will also need to be considered by the USS Trustee and the Pensions Regulator. Further information on the JEP and its progress can be found here.

In the meantime, and separately to the JEP process, the Trustee is required by law to complete the 2017 valuation. Having now missed the statutory deadline, it needs to have a credible plan for the completion of the 2017 valuation. As such, and given the absence of a JNC decision on changes to the scheme, the Trustee has commenced the Rule 76 process that requires higher contributions from employers and members.

As part of this process, the Trustee has taken advice from its covenant advisers, PwC, on the level of contributions that would be affordable to USS employers. UUK has received initial information from the Trustee on this work, which we share in this paper. The full PwC report is expected to be delivered to the Trustee in July.

Following the JEP report, UUK will engage with employers (expected to be in September/October) and will work towards achieving a JNC decision. Our aim is to agree a package of reforms (contribution increases and/or benefit changes) which allow stakeholders to have a dialogue with the USS Trustee to look at how we transition as soon as possible from 19.5% (from April 2019) to a new figure, with the aim of avoiding the large contribution increases planned for October 2019 and April 2020.

UUK also recognise the communication challenge ahead particularly given the plan to consult with USS members in the autumn on the cost-sharing process and then for the JEP to publish its report and are in dialogue with the USS executive about communication resources.

B. Areas for employers' views

The USS Trustee asked its covenant advisor, PwC, to assess the employers' ability to pay higher contributions to the USS. The USS Trustee has shared some information with UUK which will have a significant impact on employers' costs.

Note that the purpose of UUK's note to employers is to share information in confidence and allow views from employers. UUK does not wish to undermine or pre-empt the work of the JEP. UUK is seeking to share information and gather views in seven key areas (see Table 1 below).

The USS Trustee states that its three principles are as follows:

(i) **From 1 April 2020** the contributions paid by employer and members must cover the cost of both future service benefits and deficit recovery contributions (24.9% for employers and 11.7% for members, an aggregate of 36.6%);

(ii) **Over the period 1 April 2019 to 1 April 2020** the contributions paid by employers and members must cover the cost of future service benefits (21.0% for employers and 9.6% for members);

(iii) **The USS Trustee has said that it is willing to use its discretion in relation to Rule 76 to phase the increase to the 21% level for employer contributions** over 2019/20 by requiring contributions of 19.5% from 1 April 2019 and 22.5% from 1 October 2019. This would result in contributions of 21% for employers over the 2019/20 year overall.

On the following pages, we set out detailed explanations of the areas for employers to consider. They are summarised as follows:

Table 1: Areas in section B of this paper
(1) The ability of employers to pay higher contributions
(2) Approach to increasing contributions – indicatively 21% in 2019/20 then 24.9% from 2020 onwards
(3) Phasing the step to higher employer contributions of 21% over the 2019/20 year
(4) The impact of higher contributions on members
(5) Potential removal of the employer contribution on salary above the threshold (rule 76.5)
(6) Consideration of the broader implications of materially higher employer contributions
(7) The USS Trustee's requirement for a 12-month implementation period

(1) The ability of employers to make higher contributions

- **The Trustee believes, based on advice given to it, that employers have the ability to increase their contributions to the USS to 21%**

The USS Trustee, along with its covenant advisers PwC, has undertaken further work to assess the ability of employers to make higher contributions should they be required. It is emphasised that this is an assessment of absolute ***ability*** of employers to make contributions, rather than an assessment of what would be ***preferred***. In its provisional report, we understand that a small number of USS institutions, covering one-third of the scheme's liabilities, were engaged. This was a survey of their ability to make higher contributions, and on the decisions which they would need to take should such higher contributions be required. The exercise also included an examination of latest HESA data for approximately 125 employers, which covers 95.5% of the deficit.

In short, the USS Trustee – based on PwC's provisional advice – continues to believe the participating employers provide a "strong" covenant to the scheme, although the amount of risk to that covenant has increased since their initial review in 2016. On the affordability front, the Trustee's conclusion is that the vast majority of employers covered by the HESA data could increase contributions to 21%, and acknowledged that increasing to 24.9% is more challenging.

We understand that the USS Trustee board will consider the final report of the PwC covenant review in early July; UUK has not had sight of that report.

UUK's initial views

Making assessments of the covenant provided by employers to the scheme is complex and is ultimately a matter for the USS Trustee. UUK continues to impress to the USS Trustee the spread and diversity of the employers that support USS and to ensure that any assessment is sufficiently comprehensive.

We are concerned that this assessment of ability to make higher contributions does not address in detail to recognise the very difficult decisions employers would have to make when contributions increase to 21% – or even 24.9% rate. We believe there are very real consequences and may include an impact on institutions':

- headcount,
- recruitment,
- reward,
- existing and new capital investment, and/or
- a potential slowing down of existing business projects.

These, and other, points need to be recognised as having a harmful effect on the sustainable growth of institutions, which is fundamental to the support which underpins the scheme and the security of members' accrued rights.

We are also concerned that the duration of any such higher contributions is considered fully by the USS Trustee. Whilst some employers may have the ability to support contributions of the order of 21%, they may have this ability to do so for only a limited period and beyond this the decisions made (for example on headcount) may well lead to instability.

Finally, UUK is concerned that the broader population of USS employers is taken into account, beyond those covered (for example) by HESA data. UUK has impressed upon the USS Trustee the potential impact of higher contributions on medium to small employers that participate in USS, and the events that could be triggered which could present a very real risk of destabilising the scheme.

Your views and comments

Whilst we recognise that the above represents only a very short summary of the USS Trustee's updated assessment of *ability* to pay higher contributions – and UUK itself awaits a fuller report – we would welcome your views on the emerging position of the USS Trustee views regarding 21% and 24.9% employer contribution levels, and on UUK's initial views.

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

- **The USS Trustee has advised that it requires employers and members to cover the cost of future service benefits (indicatively 21.0% for employers and 9.6% for members) for the year 2019/20.**
- **The USS Trustee would then require employers and members to cover the cost of future service benefits and deficit recovery contributions (indicatively 24.9% for employers and 11.7% for members) from the year 2020/21.**

While UUK and UCU will, within the JNC, be working on any changes required to the scheme after the JEP has reported in September 2018, the Trustee has set out a plan under Rule 76 which requires higher contributions (more information on Rule 76, and the Trustee's obligations, is available in this factsheet). These contributions would be in place until any alternative outcome decided on by the JNC has been implemented.

It is not yet clear from the USS Trustee how the future service rate and deficit contribution components would be calculated, and how they would be split between employers and members, in its proposal. UUK is engaging with the USS Trustee on this and other questions, which we believe is particularly important to USS employers' FRS102 positions.

UUK's initial views

A staged increase in contributions is preferable to the imposition of the full amount of 24.9% employer contributions from April 2019, although we do want to understand some further detail from the USS Trustee.

In practice, a step up to 24.9% from April 2020 includes deficit recovery contributions of 6% (compared to 2.1% currently). The Trustee would need to consult formally with employers on the recovery plan.

The Trustee has offered further staging of contribution increases in the 2019/20 year which is considered in the next section.

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

- **The USS Trustee has advised that it requires employers and members to cover the cost of future service benefits (21.0% for employers and 9.6% for members) for the year 2019/20.**
- **The USS Trustee has said it is willing to phase this increase for employers so that contributions of 19.5% are paid from 1 April 2019 and contributions of 22.5% are paid from 1 October 2019.**

The USS Trustee has said it is willing to phase contribution increases over 2019/20 by increasing employer contribution to 19.5% on 1 April 2019 and to 22.5% on 1 October 2019, so that employer contributions over the 2019/20-year total 21% overall.

UUK's initial views

This flexibility on the part of the USS Trustee is welcomed, however, even the initial level of contributions is above the level which employers have told UUK in March 2018 they would pay which is 19.3%. There is also some detail which UUK needs to understand, particularly around deficit recovery contributions. UUK is engaging with the USS Trustee on this and other questions.

Given the JEP is due to report in September 2018, and the Trustee has indicated it require up to 12 months to implement any reforms to the scheme, UUK has been engaging with the Trustee both to try to delay contribution increases to maximise the amount of time available for the JEP to report and the JNC to decide on reforms, and to question the Trustee on the time period they say is required to implement changes to the scheme (see area 7 below). UUK believes that reforms can be implemented in less than 12 months, and should replace the subsequent contribution increases.

Your views and comments

We would welcome views, comments and preferences from employers on the information outlined above in advance of 20 July.

(4) The impact of higher contributions on members

- **[Cost sharing rule 76] requires higher contributions on members as well as employers**
- **There is a risk that materially higher contributions will cause some existing members to opt-out, or for those eligible to join the USS choosing not to join**

The USS Trustee has confirmed the aggregate contributions required to fund the current future service benefits – and to support the funding deficit – would be 36.6%. This assumes that the matching contribution by employers is removed, an automatic step which has been confirmed by the USS Trustee (this lowered the aggregate contribution rate from 37.4%).

Under the USS cost-sharing formula, increases to contributions are shared on a 65:35 basis by employers and members respectively. The USS Trustee has advised that the cost-sharing formula, absent any other changes, would produce higher contributions for members of 11.7% from April 2020 (up from 8%). A phased approach to contributions for members is also expected over 2019/20 with members required to pay 8.8% from 1 April 2019 and 10.4% from 1 October 2019.

UUK's initial views

UUK is concerned that increasing member contributions to the extent described above – and even allowing for any phasing envisaged by the USS Trustee – would cause members to choose to leave the scheme on affordability grounds, or indeed not to join the scheme. UUK understands that initial work has been undertaken by the USS Trustee on the absolute and relative affordability of member contribution increases to assess this risk, and clearly the phasing of contribution increases is helpful. However, opting-out by members is, in UUK's view, potentially significant and UUK is engaging with USS further on this point.

Your views and comments

UUK would welcome the views of employers as to whether they share the same concerns that we will see a potentially material increase in members opting-out of USS, or choosing not to join. UUK believes this would be harmful to the overall scheme, to the contributions payable to the scheme deficit, and to the extent that it is able to meet its fundamental purpose of providing good workplace pensions (particularly given the exclusivity provisions present in USS).

(5) Potential removal of the employer contribution on salary above the threshold (Rule 76.5)

- **The USS Trustee is seeking a decision from the JNC as to whether to reduce or remove the contributions payable by employers to the USS Investment Builder**

Employers' current contributions are 12% of salary above the salary threshold (currently £57,216.50), to members' USS Investment Builder funds.

As part of the provisions of rule 76, the JNC must consider whether *to reduce or remove* the level of contributions payable by employers on salary above the salary threshold.

This would potentially mean that members with salaries above £57,216.50 would receive no employer contributions on their earnings above this salary threshold, and therefore would receive lower overall benefits compared with those provided presently. Removing these contributions would reduce the overall contribution rate required by 1.2% (36.6% less 1.2% = 35.4%).

The USS Trustee has advised the JNC that it has until 20 July to decide whether or not to reduce or remove this element of the employer contribution. UUK has already strongly asked for further time, particularly given the full detail of the Trustee's proposal was not received until after 3 July Trustee Board meeting, however the Trustee has continued to insist on a deadline of 20 July.

UUK's initial views

UUK believes that to reduce or remove the employer contribution on this tranche of salary would disproportionately affect a specific member group (namely those earning above the salary threshold). It would also set a potentially unhelpful precedent.

In practice, the removal of all DC contributions above the salary threshold would only reduce the required contribution rate by 1.2% of salaries. UUK believes that the benefit of reducing the future service cost by such a small amount is potentially outweighed by:

- the destabilising effect it is likely to have on scheme members
- the potential inequity of such a move; and
- the broader signals that might be sent as to which member groups are prioritised over others.

It would mean that all members above the current salary threshold (£57,216.50) would have no employer contribution above that amount. One potential outcome would be that those earning above the salary threshold may opt-out of the scheme, with the harmful disengagement of that member group.

UUK also does not wish to undermine the JEP by taking decisions now to change the benefits provided by USS.

Your views and comments

Reducing or removing the employer contribution could help to address the funding gap, but will adversely affect higher paid staff and may set an unhelpful precedent and undermine the JEP. We would welcome your thoughts and views on the UUK view above in advance of 20 July.

(6) Consideration of the broader implications of materially higher contributions

- **Higher costs might disenfranchise employers with less ability to absorb such costs, and could undermine the collective structure and funding architecture of USS**
- **This could lead to actions and behaviours by employers which could undermine the collective support for, and confidence in, the scheme and in the core principles of fairness and equity under which the scheme's liabilities build up and are allocated**

USS operates on a collective, non-sectionalised basis. This means that employers pay a single, uniform contribution rate to USS regardless of status, and the assets and liabilities are not segregated. It also means that if any institution were to fail, its liabilities in USS would be picked up by the remaining employers.

USS's rules include an "exclusivity clause" where institutions participating in USS must not offer another pension scheme to an employee who is eligible for USS membership. There is also a requirement to pay a "Section 75 debt", typically a very high cost, in order for an employer to exit USS.

In short, the materially higher contributions may cause employers to review the terms of their participation, to look seriously at ways to reduce their USS exposure, and potentially look at even more radical options which might bring participation in USS to an end.

UUK's initial views

Firstly, UUK recognises the risk in raising the profile of these issues by including them in this document, but the fact is that at least some of the options may legally exist and materially higher contributions may cause employers to pursue options which they would not otherwise consider.

UUK believes that a resolution to the funding challenges of USS is available and will provide longer term contribution requirements for employers which are affordable. UUK has asked the USS Trustee to undertake some level of assessment of the risks described in this area and to take them into account before finalising any contribution requirements. UUK is concerned about the potential damage to the scheme from actions employers may be forced to consider with high levels of contributions, even for a short period.

Your views and comments

UUK believes it is important to raise some of these potential consequences with employers and the USS Trustee. We would welcome the thoughts and comments of employers on their own sense of the risks that exist in this area.

(7) The USS trustee's requirement for a 12-month implementation period

- **The USS Trustee has asserted that it will most likely take 12 months following a decision of the JNC to implement reforms to the USS**
- **The USS Trustee does state that the precise implementation period is dependent upon the complexity of any changes proposed, and have outlined that they would seek to implement as soon as practically possible**

The JNC is the formal body for considering and deciding upon changes to the USS rules. Once a decision has been made by the JNC, the USS Trustee has informed UUK that:

a) Reforms will most likely take around 12 months to implement
b) The USS Trustee would plan, for operational reasons, to implement reforms in line with the scheme's year end (i.e. 1 April)

UUK's initial views

UUK appreciates that the USS Trustee will have to carry out considerable work to update systems, processes and materials in order to implement any reforms that are decided upon. However, UUK has impressed on the USS Trustee the importance of an early implementation should the JNC decide on any changes, especially given the materially higher contributions which employers and members would otherwise face. UUK has emphasised to the USS Trustee the importance of implementing any reforms in as short a period as practicable, and has stated that it believes employers will take all reasonable steps to assure their readiness to implement changes, for example through their payroll systems.

Your views and comments

We would welcome any views on the potential timings of future reforms, and in particular if employers believe that UUK should continue to press the USS Trustee to ensure they understand that any proposed changes which arise from a JNC decision are implemented as soon as practicable. Also, UUK would welcome views on the willingness of institutions to take steps to ensure their readiness to implement changes.

C. Timeline

UUK wishes to outline to employers the likely sequence of events over the next six months, but **employers should note that some aspects of the timeline are uncertain, because they are dependent on the JEP and the USS Trustee's proposed approach to implement contribution increases**.

JEP activity
The JEP is meeting regularly and we believe good progress is being made. It is hoped that the JEP will be in a position to issue its report on the USS 2017 valuation in September. We do not wish to prejudice or pre-empt the work of the JEP.

USS Trustee activity
The USS Trustee, in the absence of a formal proposal from the JNC on benefit reform, must fulfil its legal obligation to conclude the 2017 valuation. Whilst the valuation should have been concluded by 30 June 2018, this has not been possible. In order to demonstrate that the Trustee is taking all reasonable measures to conclude the valuation, the Trustee will rely upon cost-sharing rule 76.

Rule 76 sets out a process for imposing the increased costs on the employer and the members in a ratio of 65:35. To enact the cost sharing, the Trustee will require employers to conduct a statutory 60-day consultation with affected employees and their representatives. We anticipate that the USS Trustee will initiate the consultation in the autumn.

UUK activity
In the short term, UUK will be engaging with the USS Trustee to gain more clarity on its proposals and its plans for consultation.

Although we cannot be definitive on timing, UUK expects to formally consult with employers once the JNC has received the JEP's report. At this stage, it is anticipated that this consultation will take place in either September or October, and we would ask employers to be ready to respond during this period (and of course we will allow as much time as is possible, recognising the demand placed upon employers and their processes for the forming of views).

A high-level timeline of anticipated activity is set out on the next page.

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Indicative high-level timeline

	UUK activities	JEP and JNC activities	USS Trustee activities
July	— Seeking clarifications from USS Trustee on PwC report and on how increases will be phased in. — UUK seeking employer views.	— **20 July** – JNC presents decisions to USS Trustees on 76.5.	— **3 July** – Trustee Board meeting — **20 July** – JNC presents decisions to USS Trustees.
August			
September		— JEP expected to issue its report. — JEP shares findings with JNC.	— USS Trustee plans to initiate 60 day consultation on contribution increases. Dates to be advised
October	— UUK consults employers on JEP findings for around four weeks. Anticipated to be in October.		
November		— Engagement with USS Trustee and the Pensions Regulator.	— USS Trustee decides on final contribution requirements from 1 April 2019
December	— UUK considers employers' views. — Employer engagement on JNC decision. — Member consultation, if appropriate, launched in 2019.	— If appropriate, JNC makes a decision on changing scheme rules. — JNC takes decision to USS Trustee.	— Expected consultation with employers on Schedule of Contributions and Recovery Plan

D. Factsheet: Rule 76 and next steps

- The USS Trustee has a legal and regulatory obligation to conclude the 2017 valuation, due to have been completed by 30 June 2018, as soon as possible. Failure to do so risks criticism or intervention by the Pensions Regulator
- Under the scheme rules, in the absence of any benefit proposals being recommended by the JNC, a 'cost-sharing' rule 76 takes effect
- Removal of the "1% employer match" facility from April 2019 is an automatic step which reduces the overall cost from 37.4% to 36.6%. USS has provided more information at their website
- The JNC is required to make a decision regarding the rate of employer contributions towards the USS Investment Builder section for salary above the threshold (currently £57,216.50) – rule 76.5
- Rule 76 requires that the increase in the contributions is shared 65:35 between employers and members, respectively
- Before any increases can be finally decided upon by the USS Trustee, a statutory 60-day consultation must be undertaken with affected employees and their representatives
- The Trustee's intention is to apply its discretion to implement contribution increases progressively, or on a phased basis, over 2019 and 2020. UUK is in discussion with the USS Trustee about this
- UUK understands that the USS Trustee is working with employers to initiate the minimum 60-day consultation in the early autumn for implementation from 1 April 2019

Reforms following the JEP's report

- If the JNC, following the JEP issuing its report, makes a decision to take forward scheme reforms, then the Trustee has acknowledged that such reforms would in due course replace the subsequent contribution increases.
- The USS Trustee advises that it is likely that can only happen from later in 2019 or even from 1 April 2020, depending on the complexity of any scheme reforms decided upon

E. Frequently asked questions

What are the current contributions to USS?

Employers pay 18% and members pay 8%

What are the USS Trustee proposals?

The USS Trustee is implementing the cost increases identified by the 2017 valuation as required by Rule 76. This sets out a process for effecting the increases in the absence of a decision by the JNC on changes to the scheme. The USS Trustee intends to apply its discretion and phase the increases between 1 April 2019 and April 2020. UUK is seeking clarification on the detailed proposals.

To implement the proposals, a minimum 60-day consultation must be undertaken with affected employers and their representatives.

The USS Trustee is firstly seeking a decision from the JNC on the level of employer contributions to the Investment Builder section under Rule 76.5.

The 1% employer contribution match to the USS Investment Builder section is automatically ended under the rules, with effect from April 2019.

Why are you seeking our views now?

These are important developments which mean that employers and members face increased contributions to the scheme.

Why can't the USS Trustee wait for the JEP?

The USS Trustee has a legal and regulatory obligation to conclude the 2017 valuation, due to have been completed by 30 June 2018, as soon as possible.

Under the scheme rules, in the absence of any benefit proposals being recommended by the JNC, a 'cost-sharing' rule 76 takes effect.

Is this UUK engaging in formal consultation with employers?

No. UUK is not consulting with employers about reforms at this stage, because the JEP is still carrying out its work. Once it has delivered it report in September, we will engage in what we hope will be a four-week consultation with employers. We expect that this will happen in October 2018.

What is the JEP doing?

The JEP has been asked to consider the Trustee's March 2017 valuation. Updates on the work being carried out can be found on UUK's pensions page.

When will the JEP issue its report?

It is anticipated that the JEP will issue its report in September.

Will the trustee suspend its autumn consultation once the JEP has issued its report?

No. The Trustee has indicated that any decisions on reforms made by the JNC will be implemented as soon as practically possible.

What if the JEP fails to conclude in time?

We will endeavour to provide as much support as is necessary to ensure that the JEP can deliver its findings in September. We have set out an indicative timeline here. If it appears that the JEP will be significantly delayed, then UUK will consult employers to recommend a way forward.

Will employers get another chance to give views?

Yes. Once the JEP has delivered its findings, UUK will consult employers to seek views and to build a collective proposal. It is currently anticipated that this consultation will take place in October 2018.

Can the USS Trustee unilaterally increase contributions if employers disagree?

Yes, and that is why UUK is sharing this information with employers now. Rule 76 sets out the process the Trustee must now follow in the absence of a JNC decision.

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5 July 2018

If you have any queries about the information in this document please contact Universities UK (pensions@universitiesuk.ac.uk).