USSEmployers

MAKING YOUR RESPONSE TO THE FIRST CONSULTATION ON THE JOINT EXPERT PANEL'S REPORT AND THE 2020 AND FUTURE ACTUARIAL VALUATION

Institution:

Durham University

Grade: D

Overall Feedback: This is a half-hearted submission which suggests a lack of commitment to the future of staff pensions. Working with staff was an option for this submission - doing so is vital in higher education and would have improved your mark.

ALTERNATIVE PATHS TO THE VALUATION

7. What are your views on the outlook for the scheme being that it is an ongoing scheme, and also the various references by the JEP to it staying open?

We remain supportive of the scheme and share its aspiration to provide comfortable retirement for those who have worked for the majority of their careers in the HE sector.

However, we are mindful of continued uncertainties in relation to funding and of the impact of increasing global competition.

The sector also faces increasing cost pressures, not least following recent valuations of USS and general inflationary pressure on costs (and in particular salary costs).

To counteract the uncertain consequences of these challenges on University revenues there is a requirement for the HE sector as a whole to become financially stronger. Some HEI's are already facing significant financial challenges and any additional pressure could bring into question the long-term sustainability of some HEIs. This would place additional pressure on the USS funding model.

However a DB Scheme does still have advantages including a guaranteed level of income in retirement. Furthermore, pensions are part of an overall remuneration package. If you reduce the value of the pension benefit to the members, then in a competitive market salaries may need to rise.

Another important consideration is the effect that closing the scheme has on duration and cashflow, both of which drive the investment policy towards lower risk and lower growth investments – increasing the technical provisions and therefore potentially increasing the deficit payments.

Staff salaries have been decreasing against inflation for a number of years. This statement would be more believable if you evidence Durham's position on making an offer to reverse this.

This statement offers only weak support for defined benefits pensions. A stronger argument is required here.

The question asks about the JEP's strong support for retaining USS as an open DB scheme. Why are you not answering the question?

5. What are your views on the specific recommendations as they apply to the trustee board, to the JNC, to UUK and to UCU?

We support the recommendation for increased transparency and the desire for more open communication. The creation of a valuation sub-committee could provide a greater focus and point of contact for the stakeholders throughout the valuation.

It is our opinion that the JNC does not work as well as it could as a negotiating forum. Greater input from and interaction with the Trustee earlier in the valuation process will allow the JNC to ensure any differences in opinion are highlighted and discussed earlier in the valuation process.

The current system of having one body to represent the employers for national pay negotiations (UCEA), and another for pensions (UUK) is confusing. There would be some potential benefit in having one body to represent the employers on both issues.

However designing, establishing and embedding a new model (whatever its form) to replace UUK representation at USS will take a period of time and effort. Therefore, any future benefits of the new structure will be delayed until that new structure is working at a level which supersedes the current UUK model. It is therefore appropriate that UUK would continue in this role for the duration of the 2020 valuation.

UCU should be asked to consider how they could better demonstrate they represent the views of all current and future members of USS given a majority of all USS members are not members of UCU. It would be helpful to have further details on this issue.

USS is unusual in that it does not have member nominated trustees and this is something to consider.

Good points.

Do refer to JEP2 report (p52):

'the information UCU provides is valued and trusted by union and non-union members alike'

The submission fails to indicate concern over the lack of USS accountability in the sacking of UCU's nominated trustee, Jane Hutton. This is a significant omission given your advocacy for 'increased transparency'.

9. Do you agree that the JEP's proposals regarding a dual discount rate approach warrants further analysis and examination?

Yes. We would support the JEP's proposal regarding a dual discount rate and that this warrants further analysis and examination. This is a widely used approach and could potentially offer a less cautious approach of employing a higher discount rate with a higher growth investment strategy.

A dual discount rate approach to the valuation that may be able to distinguish between pre and post retirement liabilities, potentially better reflect the demographics of the scheme and automatically evolve as the scheme matured would be something to consider.

A better, if brief, part of your submission. More of this quality across the other parts of your answer would have been welcomed.

11. Are you concerned with the level of opting-out of USS, and if so what do you believe the principal reasons for it are?

The USS continues to offer a competitive pension provision to its members. The future sustainability of the scheme does depend on new entrants joining and remaining in the scheme. Any level of drop out from the scheme should therefore be a concern.

Although we have not undertaken our own research into the reasons for scheme drop outs there is anecdotal evidence to suggest that the rigidity of the scheme in relation to member contributions, coupled with the increasing cost of the scheme for members (especially those starting out in their careers) could be a principal reason for increased opt out rates. Early career staff may face more competing demands on their finances and the current one size fits all for member contributions could be leading to drop outs. Drop outs may also be reduced if there were more flexible options to reflect significant life events.

The portability of the scheme is also cited as an issue, especially for international staff who may only intend to stay in the UK for a fixed period.

Improving pension education for members and prospective members about the concepts and benefits of the USS (to date the info provided is far too esoteric and detailed) may help reduce the opt out rates for early career members.

There should be additional information to explain that DB scheme benefits cannot be guaranteed with unchanging contributions and if members expect the benefits to remain constant and if the experts (based on agreed levels of risk) believe contributions have to rise, then either the benefits need to be reduced or the contributions have to rise.

Members should understand that when the employers set the scheme up in the 1970s, the UKHE sector was almost completely publicly funded, the world economy was very different and life expectancies were considerably lower. At that time, Universities agreed to contribute 12%, and never expected that eventually there would be a requirement to contribute 20% plus. The historical context alongside better, less complicated communication on current issues would set the basis improve chance of productive dialogue about reform to the scheme to ensure it is 'future-proofed'.

Why not? Doing more homework with staff would be advantageous and 'anecdotal evidence' is insufficient at this level.

Do avoid condescending statements like this.

Who are the 'experts' you refer to? Academics who research pensions have long highlighted flaws in USS valuation methodology, but have often been ignored.

This is an incomplete reference to USS history. There was a period when universities' took a 'contribution holiday' when USS was in surplus. Members contributions can't drop below 8% and instead have only gone up.

MUTUALITY

15. Do you support the view expressed by the JEP on the issue of mutuality within USS?

We remain supportive of the principle of mutuality.

However, we are mindful of the continued uncertainties over funding and of the impact of increasing global competition.

The sector also faces increased cost pressures, not least following recent valuations of USS and general inflationary pressure on costs (and in particular salary costs).

To counteract the uncertain consequences of these challenges on University revenues there is a requirement for the HE sector as a whole to become financially stronger. Some HEI's are already facing significant financial challenges and any additional pressure could bring into question the long term sustainability of some HEIs. This would place additional pressure on the USS funding model.

Good.

Much of this text is copied and pasted from an early part of submission. There is no need to self-plagiarise and equivocate on support for mutuality.