

# Parliamentary briefing on the USS pension scheme

July 2023

The Universities Superannuation Scheme (USS) is the largest private pension scheme by asset size in the UK and is used by over 330 employers. These employers range from large universities and research institutes with many hundreds of members to much smaller not-for-profit organisations which carry out related education and research activities.

Universities UK (UUK) is the nominated formal representative for employers in the scheme and leads and negotiates on scheme issues on behalf of the more than 330 employers. The University and College Union (UCU) is the nominated formal representative for scheme members.

## What is a valuation?

At least once every three years, the USS Trustee<sup>1</sup>, which runs the scheme, must carry out a valuation – an assessment of a pension scheme's financial health.

## The 2020 valuation

During the last valuation in 2020, the USS Trustee calculated that the cost of providing pensions in the future had grown substantially and found that the scheme had a large deficit of £14.1 billion. As a result, the USS Trustee required much higher salary contributions – as high as 56% of salary – to ensure there was enough money in the scheme to pay for the pensions that had already been built-up and address the deficit, as well as continuing to build up new pensions which will be earned in the future.

Since neither employers nor scheme members could readily afford to pay higher contributions, UUK, the employer representative, developed a package of changes for the scheme. This included providing additional financial backing – or covenant support – to the scheme, and a combination of a moderate increase to the prevailing contribution rates at that time, and adjustments to future benefits which would be built-up in the scheme, to keep contributions at more affordable levels.

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<sup>1</sup> The USS Trustee is run by the USS Trustee Board. The Board is comprised of four individuals nominated by UUK, three nominated by UCU, and five who are independent who are appointed by the Trustee Board itself.

The speed that future benefits would build up was slowed to 1/85<sup>th</sup> of salary from 1/75<sup>th</sup>, and the threshold for defined contributions of 20% of salary was reduced from c£60k to £40k. A 2.5% CPI cap on pensions increases was also introduced, but this element was deferred until at least April 2025.

The changes passed through the scheme's joint negotiating process and with the necessary agreement of the USS Trustee Board, the reforms were then implemented from 1 April 2022. With these changes to the scheme made, potential huge and unaffordable cost increases were avoided for both members of the scheme and employers, at a time of significant economic volatility and related financial pressures.

The UCU position was that the USS Trustee's approach to the 2020 valuation was flawed and that the Trustee should conduct a 2021 valuation to re-analyse the valuation outcome. This was despite the Pensions Regulator stating that the USS Trustee's outcome for the 2020 valuation was on the edge of compliance. The USS Trustee has since commented that a 2021 valuation would have yielded a similar outcome to that in 2020. Had the changes not been made the contribution requirement would have been at least 28.5% for employers and 13.65% for members – significant increases and unaffordable for employers and members alike.

Regrettably, this outcome led to several waves of industrial action by the UCU.

However, this action was subsequently paused following positive indications from the USS Trustee on the financial position of the scheme, which suggested a much-improved outlook for the 2023 valuation.

## **2023 valuation**

The latest valuation of USS is based on a snapshot of the pension scheme's financial position as of 31 March 2023.

With positive indications from interim monitoring figures in early 2023, UUK reached an agreement with the UCU that if these snapshot monitoring figures were confirmed by the valuation, then benefits could be improved to that of pre-April 2022 levels, where this could be done in a demonstrably sustainable manner. This agreement was echoed by joint statements in [February](#), [March](#) and [May](#) 2023.

In July 2023, the USS Trustee published its [Technical Provisions consultation](#) on the assumptions to be adopted for the 2023 valuation, which indicates that total contributions – from employers and scheme members – required to fund current pension benefits would (if the assumptions were confirmed) fall from 31.4% of salary to 16.2%, or to 20.6% if benefits were to be improved to pre-April 2022 levels. For example, an improvement to benefits to match those provided prior to April 2022 would cost members 6.1% of pay and employers 14.5% of pay.

The extraordinary transformation in the scheme's financial position has been caused by the rapid and substantial rise in interest rates and, to a lesser extent, by the changes to the pension scheme, which were necessary in April 2022 when the USS Trustee projected a bleak picture. We should also recognise the additional financial backing – or covenant support – which USS employers have felt able to provide to the scheme, in being another major factor in the improvements which we can now see.

## **Next steps**

The valuation process must be completed by the legal deadline of 30 June 2024, but under an accelerated target, the USS Trustee aims to implement any changes to benefits and/or contributions by 1 April 2024.

The positive signals continue on USS funding, and based on the latest information members of staff and employers within the scheme can look forward to significantly lower contribution levels and improved pension benefits.

The Technical Provisions consultation is a further pointer to an improved financial position. UUK will review the details with employers, and for now we reiterate our hope that this consultation provides the necessary stability and therefore the strong foundation which will allow us to consider sustainable scheme improvements.

UUK will also now consult employers on the USS Trustee's proposed Technical Provisions. The consultation will close in September 2023, and the USS Trustee is expected to confirm the valuation outcome in October 2023, assuming that the scheme employers and UCU agree the valuation should conclude in line with the recent joint statements. In the meantime, joint work with UCU continues, to bring about positive scheme changes as soon as we are able to.

## **Ensuring the long-term sustainability of benefits and contributions**

UUK and UCU are also taking forward joint work to ensure that the current, and future, valuations are undertaken on a moderately prudent and evidence-based basis, taking account of the open and long-term nature of the scheme so that disputes at each valuation can be avoided.

We want to end volatility between valuations and to this end, UUK has been exploring alternative scheme designs such as Conditional Indexation, which could provide added stability, as far as is possible with Defined Benefits, along the lines successfully implemented in Canada over the last decade.

In addition, we are continuing to work together with the UCU to engage with the Pensions Regulator and Department for Work and Pensions to make the case for a regulatory environment that better supports open Defined Benefit (DB) schemes.