



University of Nottingham

USS Consultation Response

May 2021

In previous consultation responses the University of Nottingham has stated that the scheme requires long term reform so that it provides benefits to its members in a way that is affordable for members as well as employers. The University of Nottingham's position on this remains the same.

In addition, we have stated that the scheme has reached the limits of affordability both for the employer as well as for members – as a result we are keen to avoid the currently planned October 2021 increases. The University of Nottingham is very concerned about the level of opt out rates, in particular where the exclusivity clause means that no alternative employer pension scheme can be offered to these individuals.

We believe that we have now reached the point where change is urgently needed in order to ensure the long term sustainability of the scheme. The UUK proposal requires all parties to compromise to reach agreement: USS to revisit its valuation assumptions; employers to support debt monitoring; and members to accept some benefit reform. This is a fair and pragmatic way forward and one that the University of Nottingham is willing to support.

We have been running a series of staff roadshows across the University and have also carried out the UUK staff survey (results attached as appendix 1). As a result, we can say that staff value USS highly as part of their overall reward package, they are understandably anxious about any changes that could be made to it and there is a growing concern for the individuals who opt out of it for affordability reasons.

There are mixed views as to whether USS is now considered to be value for money and most staff, some 86% of respondents, would also be somewhat or very concerned if contribution rates were increased. Staff would welcome more choice and flexibility with the scheme. In addition, we can see that members of staff that are over 55 years old, are more senior and have been in the scheme for the longest, most strongly value the scheme. Whilst this group of staff are concerned about affordability, they are less concerned than younger, more junior members of staff who have been in the scheme for a shorter period of time.

Taking each of the questions posed by the consultation in turn.

COVENANT SUPPORT MEASURES

- 1. Would you be willing to support the alternative covenant support package which UUK has outlined in section 3, as the means to achieve a solution which might be acceptable in the round (see also question 15)?**

So far we have said that we will support debt monitoring and pari-passu to be in place on a temporary basis until a more sustainable solution is found. If debt monitoring is required as part of the longer term sustainable solution, then the University of

Nottingham will now support it.

However, the impact of this additional level of control and reduction in financing flexibility for universities should not be underestimated. The University of Nottingham will support the alternative covenant support package **only** if the other elements of the UUK proposal are also adopted by USS and by members.

- 2. If the USS Trustee is not willing to accept UUK's alternative proposal (should there be employer support for it), would you be willing to support the USS Trustee's scenario 3 covenant support package to obtain a 'strong' covenant rating? If not, why is this and what level of covenant support would you be willing to provide?**

We would, reluctantly, support the USS Covenant support package if the UUK proposal were rejected. However, our view is that this greater level of security must also bring with it a reduced cost to members and employers. To be clear, although we would accept the covenant support package we would not and could not support the scenario 3 contribution rates.

- 3. Are there areas of the covenant support measures which cause you particular concern, or which you would wish to see modified? Please provide details.**

We believe that debt monitoring should more explicitly relate to changes in debt incurred after the point when debt monitoring is put in place. It should ensure that it is focused **only** on changes in debt and must not stray into the realms of assessing changes in the overall financial strength of a university.

We want to see greater clarity around the sanctions that could be imposed should any of the debt monitoring thresholds be breached. We also believe that debt monitoring should only be imposed from a future date to avoid being caught up in the implications of Covid-19 on universities' debt levels.

It would be helpful if the USS requirements could better align with OFS monitoring requirements, so that the returns used for OFS could also be used for USS – rather than creating the need for additional returns.

- 4. Are there other areas of covenant support you would wish to consider such as contingent contributions or asset pledges?**

The University of Nottingham would **not** be willing to consider contingent contributions or asset pledges.

CONTRIBUTIONS

- 5. Do you agree that the current levels of employer contribution (21.1% of salary) and member contribution (9.6%) are the maximum sustainable – and should be the foundation for any solution?**

The University of Nottingham strongly agrees that the current contribution levels are the maximum of affordability for members and employers.

- a. If not, please state the level of employer contribution you would be willing to pay to USS following the 2020 valuation.**

Not applicable.

- b. We would welcome any commentary on the reasons for your views.**

In 2011, the University of Nottingham's employer contribution totalled £32 million per annum. This now stands at £42.3 million (a £10.3 million increase), and if the October increases are implemented, this will become £47.5 million (a £15.5 million increase from 2011). The USS proposed contributions would take this figure to somewhere between £57.1 million and £75.6 million per annum (an increase between £25.1 million and £43.6 million increase from 2011).

These very significant increases mean that the University has to reduce its cost base and planned strategic investment, which has a direct impact on our support for staff and students, as well as limiting the University's ability to carry out world class research.

- c. We would also welcome employer views on the level of member contribution.**

The University has approximately 300 individuals (7.5% of eligible membership) who we believe has opted out of the scheme for affordability reasons. The staff survey attracted a response rate of 25% of individuals eligible for USS and showed that 85% of respondents would be very or somewhat concerned about affordability if contribution rates were to increase – this is particularly strong for more junior and younger members of staff. This supports the University view that contribution rates have reached the limits of affordability for members as well as for employers.

BENEFITS

- 6. Do you support the broad principle of seeking to retain the hybrid benefit structure?**

The University of Nottingham supports retaining the hybrid structure as long as it is affordable for members and employers. This is supported by the results of the staff survey where 58% of respondents stated that the defined benefit element of the scheme is worth retaining. Staff that are older than 55 years old, have more years in the scheme or are more senior were most positive about the scheme being worth retaining.

- 7. Looking at the illustrative hybrid benefits which UUK has put forward, would you consider this an acceptable outcome in terms of benefits at this valuation – based on the positions on covenant support and contributions laid out?**

The University would accept the proposal put forward as an acceptable option as long as it ensures no increase in current contribution rates.

However, we ask that more options are considered to reduce the salary threshold to offer further assurance that this is adequate and ensures a long term sustainable solution.

8. Would you wish to explore conditional indexation or other conditional benefit models as a possible solution (likely longer-term, beyond the 2020 valuation)?

Yes. We would be like to explore conditional indexation and conditional benefit models, accepting that this is most likely to occur following resolution of the 2020 valuation.

9. If the illustrated hybrid would not be acceptable, what alternative benefit arrangements would you wish to provide (and please indicate alternative positions on covenant and contributions as appropriate)?

(For example, if the USS Trustee does not ultimately amend its assumptions, would you wish to offer a hybrid solution as set out in the USS Trustee's illustrations (p18 of the Update Report) or would you prefer to move to a different offering, such as DC provision?)

The priority is for a high quality pension that is affordable and represents good value for money for members and employers. If USS does not change its assumptions and contributions have to increase to fund a hybrid scheme, we accept that the only choice then is to look at alternatives rather than increasing the contribution rates.

FLEXIBILITIES AND OPTIONS

10. Would you like to see flexibilities implemented for members to move away from the current uniformity of the USS structure, and if so which flexibilities do you think are particularly important?

Yes, we would support this and possible areas for consideration include: relaxation of the exclusivity clause enabling us to offer an alternative scheme; flexibility around the salary threshold; and a gradual increase in contribution rates linked to salary levels.

In our staff survey, 51% of respondents stated that they would be supportive of flexible options that allow members of the scheme to pay in less than the required member rate.

11. Would you support the creation of a lower cost saving option for members and which of the parameters described in this paper are most important / or would need modification? *(If yes, we would welcome employer views on the options to achieve this (potentially informed via engagement with eligible USS employees).*

Yes, we would support this as a means of making the scheme affordable to younger and more junior members.

12. Would you support the creation of an option for members to switch (from the hybrid structure) to wholly DC pension saving?

(We invite employer views on whether the same deficit recovery contribution should be made for members choosing any new flexible DC alternative option, and what

levels of member and employer contributions devoted to DC pensions saving should apply).

Yes, we would support this as an option for members.

13. Would you wish to explore options for employers so that they can offer some variations to the USS standard benefits in the future – and if so, what would those variations be?

Yes, we would support this. As above, an option could be for members to be offered an option to switch to a Defined Contribution saving.

GOVERNANCE

14. We would welcome views from employers in relation to the governance of the scheme and the valuation process (including views on the Joint Negotiating Committee). Specifically, would you support a post valuation governance review, and what areas what you like to see covered in such a review?

The University of Nottingham strongly supports a review of USS governance. We would like to see USS operating in a more accountable, collaborative and transparent way, that ensures good representation of all members.

UUK ALTERNATIVE APPROACH

15. As part of a solution to the 2020 USS valuation would you support the alternative covenant support package illustrated by UUK (*headlines – moratorium of a minimum of 20-years with debt-monitoring and a pari-passu arrangement for secured borrowing above c15% of gross/net assets*), to provide a hybrid benefits package at current contribution rates in the order of (*pension accrual of 1/85 of salary [plus 3 times lump sum] up to a salary threshold of £40,000 with the CPI indexation of benefits [for active, deferred and pensioner members] capped at 2.5% per annum, and with DC above the salary threshold at an overall contribution of 20% of salary*), together with a lower cost alternative to address the high opt-out rate, as well as a governance review of the scheme and valuation process?

The University of Nottingham supports the UUK alternative proposal in its entirety provided that it can be delivered without any further increase in contribution rates for members and employers.

Appendix 1: Survey Results

USS Survey Basic Analysis (1133 Respondents)

Question	Answer	
1. I consider the USS pension to be a valuable part of my overall employment reward package.	Strongly agree	810 (72%)
	Somewhat agree	235 (21%)
	Neither agree nor disagree	48 (4%)
	Disagree	27 (2%)
	Strongly disagree	11 (1%)
2. When I started in my role, I considered the USS pension as an attraction of working at the University.	Strongly agree	581 (51%)
	Somewhat agree	248 (22%)
	Neither agree nor disagree	184 (16%)
	Disagree	89 (8%)
	Strongly disagree	29 (3%)
3. Do you consider the USS pension as an attraction of working at the University CURRENTLY?	Strongly agree	371 (33%)
	Somewhat agree	403 (36%)
	Neither agree nor disagree	158 (14%)
	Disagree	144 (13%)
	Strongly disagree	54 (5%)
4. Would you support a flexible option which would allow members of the scheme to pay in less than the required member rate (currently 9.6% of salary)...	Yes	578 (51%)
	No	309 (27%)
	Don't know	242 (21%)
5. Do you think the level of contributions to USS at the current rate of 9.6% of salary per-month is readily affordable, or concerning	Readily affordable	335 (30%)
	Somewhat affordable	474 (42%)
	Neither affordable nor concerning	106 (9%)
	Concerning	186 (16%)
	Very concerning	30 (3%)
6. Would you be concerned about affordability if your contribution to USS were to increase?	Not concerned	169 (15%)
	Somewhat concerned	549 (49%)
	Very concerned	402 (36%)
	Don't know	10 (1%)
7. Are you aware that the University also contributed over one-fifth of your salary (21.1%) into your pension?	Yes	1,074 (95%)
	No	54 (5%)
8. The USS pension scheme offers value for money.	Strongly agree	207 (18%)
	Somewhat agree	458 (41%)
	Neither agree nor disagree	283 (25%)
	Disagree	141 (12%)
	Strongly disagree	41 (4%)
9. Do you consider the promises provided by the Defined Benefit* part of the scheme (the USS Income Builder) to be worth retaining	Yes	657 (58%)
	No	132 (12%)
	Don't know	337 (30%)
10. Do you know that Defined Contribution (DC)* provision (the USS Investment Builder) forms part of the scheme design, and that it can offer extra options and flexibility?	Yes, aware of DC part of scheme and options and flexibility.	479 (44%)
	Yes, aware of DC part of scheme, but not options and flexi..	327 (30%)
	No, not aware of DC part of scheme or options and flexibili..	292 (27%)
11. Death and incapacity benefits, and leaving something for my family and other beneficiaries is important to me.	Strongly agree	766 (68%)
	Somewhat agree	262 (23%)
	Neither agree nor disagree	60 (5%)
	Disagree	32 (3%)
	Strongly disagree	11 (1%)

Full wording for Q.4 for reference only

Would you support a flexible option which would allow members of the scheme to pay in less than the required member rate (currently 9.6% of salary) for a short period of time, for a lower level of benefit*? (Please note that this option would not be a replacement for the main scheme, rather another option to help those members currently choosing not to participate in the scheme, often because the 9.6% contribution is too expensive for them right now).

*Benefits - Money received by an individual or their dependants from a pension scheme. Given at retirement or following other life events such as sickness or death.