

USS Pensions Session 4

University of Nottingham
2021

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Introductions and Agenda

- What happened on the USS valuation over the summer?
- Recap:
 - The process
 - UUK pathway
- JNC recommendation
- Benefit illustrations
- UCU proposal
- Longer term pension work-streams
- Q&A



Margaret Monckton

Chief Financial Officer, University of Nottingham

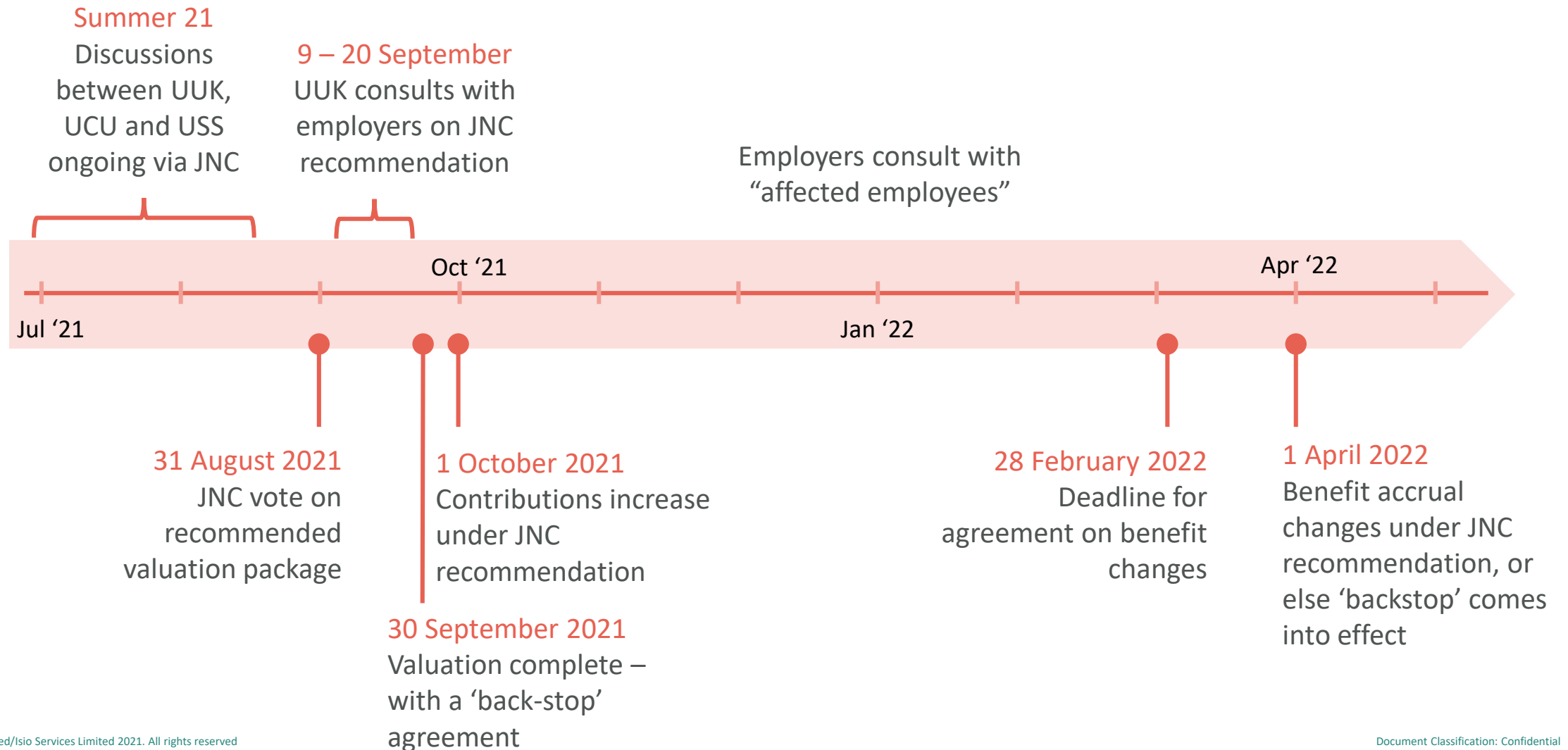
Professor Andy Long

Provost and Deputy Vice-Chancellor, University of Nottingham

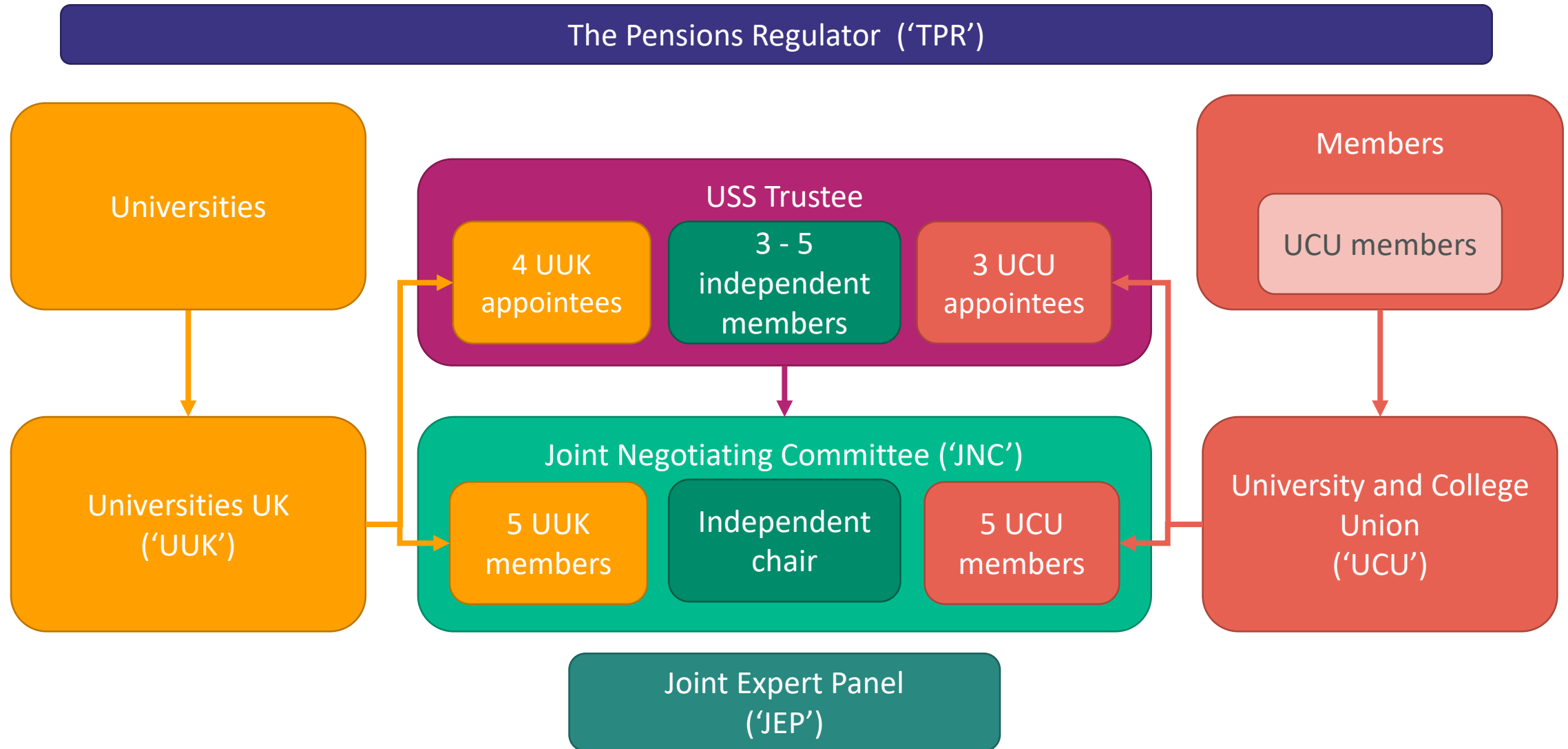
Sophie Ash

Pensions adviser, Isio

Current timeline – and what happened over the summer



Stakeholders



UUK pathway

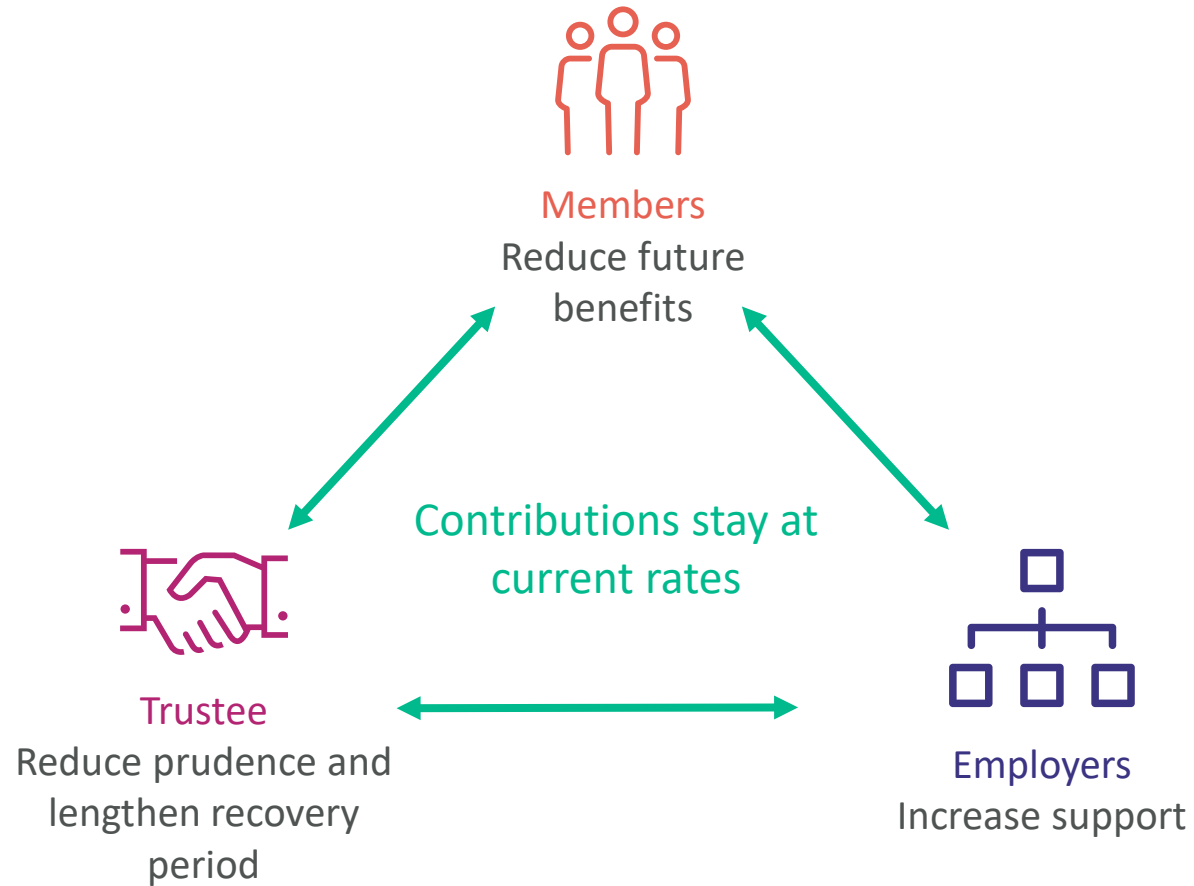
	Current position	UUK pathway
Covenant actions		
Ban on exits	None	20 years
Debt monitoring	None	Yes (for all but smallest universities)
Pari passu	Not in force	In force (with higher threshold)
Recovery period	10 years	15-18 years
Total contributions	34.7% (from 1 Oct '21) 23.7% - universities 11.0% - staff	30.7% 21.1% - universities 9.6% - staff
Future benefits	No change	Reduced
Salary threshold	£60k	£40k
Accrual rate	1/75ths	1/85ths
Increases	CPI max 10%*	CPI max 2.5%
DC contributions	20%	20%

*Pensions currently increase in line with CPI up to a cap of 5%, with 50% of the next 10% i.e. overall cap of 10% pa increase if CPI at or above 15% pa

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Source: UUK website.

UUK pathway - balance between stakeholders



JNC recommendation

	Current position	UUK pathway	JNC recommendation
Covenant actions			
Ban on exits	None	20 years	Accepted
Debt monitoring	None	Yes (for all but smallest universities)	
Pari passu	Not in force	In force (with higher threshold)	
Recovery period	10 years	15-18 years	
Total contributions (from 1 Oct '21)	34.7% 23.7% - universities 11.0% - staff	30.7% 21.1% - universities 9.6% - staff	31.2% 21.4% - universities 9.8% - staff
Future benefits	No change	Reduced	Other small amendments e.g. protections for members with less than 2 years' service
Salary threshold	£60k	£40k	
Accrual rate	1/75ths	1/85ths	
Increases	CPI max 10%*	CPI max 2.5%	
DC contributions	20%	20%	
			Back-stop: No benefit / covenant change, but contributions increase to 57%

*Pensions currently increase in line with CPI up to a cap of 5%, with 50% of the next 10% i.e. overall cap of 10% pa increase if CPI at or above 15% pa

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Source: UUK website.

Illustrative retirement benefits

Example member #1

- 45 years old
- Been in the USS for 10 years
- Salary of £40,000

Example member #2



- 55 years old
- Been in the USS for 30 years
- Salary of £55,000

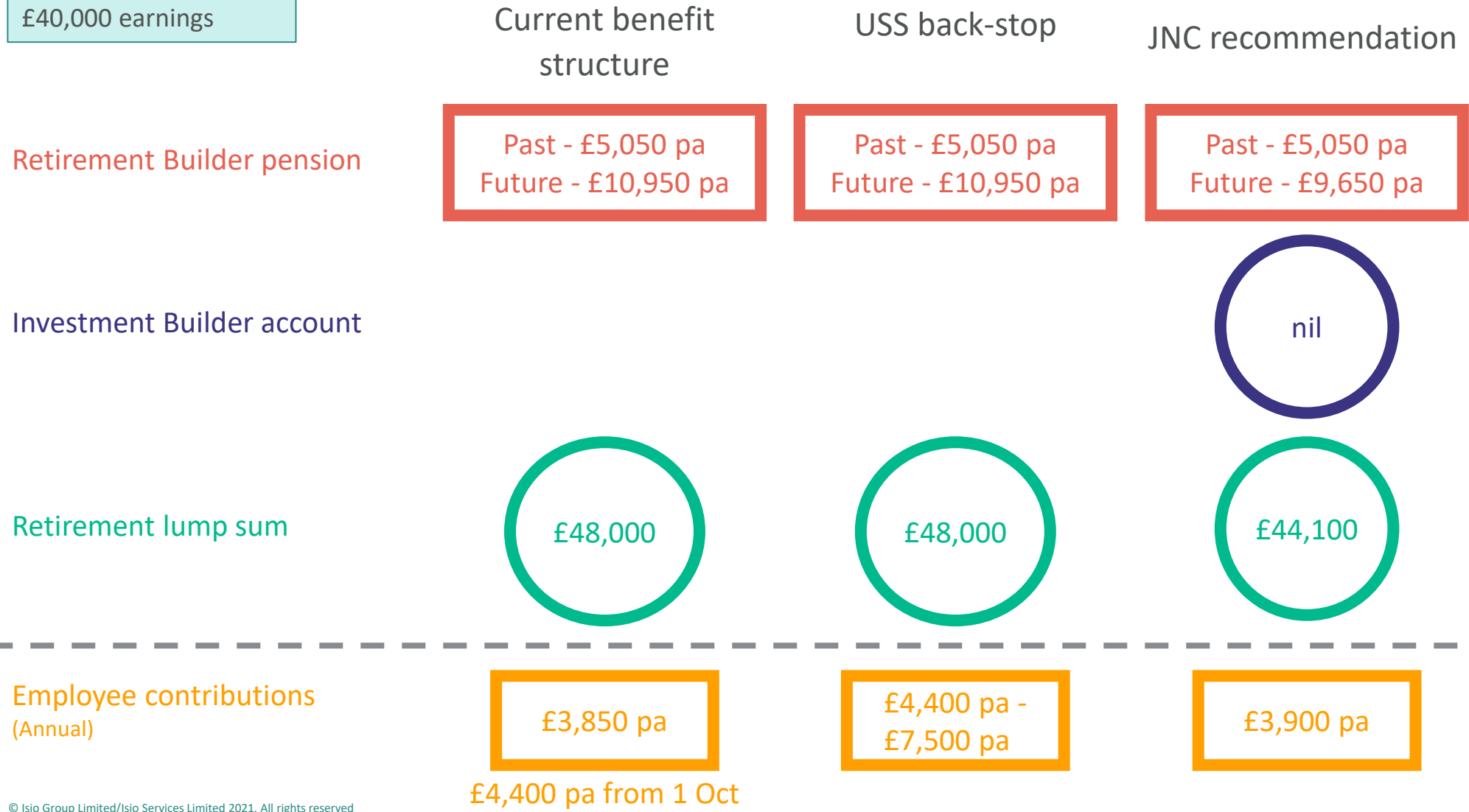
Note: We make a number of assumptions and simplifications in calculating the illustrative benefits that follow (in particular that net investment returns after expenses are 4% pa before retirement, that salary and inflation increase each year at a rate of 2.5% pa, and that members take 25% of the Investment Builder account as a retirement lump sum). The figures are quoted in present day terms, and are intended to be illustrative only.

Illustrative retirement benefits – example member #1

45 years old
10 years' service
£40,000 earnings

Key

-  Lump sum amounts
-  Annual amounts





Note – pension increases on future benefits also change under the UUK Main Option

Illustrative retirement benefits – example member #2

55 years old
30 years' service
£55,000 earnings

Key

-  Lump sum amounts
-  Annual amounts

Current benefit structure USS back-stop JNC recommendation

Retirement Builder pension

Past - £20,350 pa
Future - £7,850 pa

Past - £20,350 pa
Future - £7,850 pa

Past - £20,350 pa
Future - £5,050 pa

Note – pension increases on future benefits also change under the UUK Main Option

Investment Builder account

£26,450

Annuity - £650 pa
OR
Drawdown - £1,500 pa
OR
...

Retirement lump sum

£84,600

£84,600

£85,000

This includes £8,800 from the Investment Builder account

Employee contributions (Annual)

£5,300 pa

£6,050 pa -
£10,350 pa

£5,400 pa

£6,050 pa from 1 Oct

Source: Isio analysis.

UCU modeller – example member #2

55 years old
30 years' service
£55,000 earnings

Illustrated benefits for service from 1 April 2022 to age 66	Current benefit package	Proposed benefit package
Annual defined benefit pension	£15,939 per annum	£9,059 per annum
Defined benefit cash	£47,817 lump sum	£27,178 lump sum
Cash from DC Investment Builder	£23,324 lump sum	£127,344 lump sum
	£648.72 pa	£3,541.32 pa

Source: UCU modeller

Source: Prudential AVC modeller.

UCU proposal

- No proposal tabled formally by UCU for JNC to vote on, and no request made for a one-month extension
- Since JNC decision, UCU have released details of a proposal:

	Current position	JNC recommendation	UCU proposal
Total contributions (from 1 Oct '21)	34.7% 23.7% - universities 11.0% - staff	31.2% 21.4% - universities 9.8% - staff	33%+ 24.9% - universities (+ more with high inflation) 8.1% - staff
Future benefits	No change	Reduced	Reduced
Salary threshold	£60k	£40k	£40k
Accrual rate	1/75ths	1/85ths	1/80ths
Increases	CPI max 10%*	CPI max 2.5%	CPI max 10%*

*Pensions currently increase in line with CPI up to a cap of 5%, with 50% of the next 10% i.e. overall cap of 10% pa increase if CPI at or above 15% pa

31 March 2021 valuation?

Common question: *“Why not hold a 31 March 2021 valuation, when we know 31 March 2020 was such a bad date for financial markets”*

Summary –

It would make little difference because:

- Cost of future accrual would go up: Economic recovery means assets are more expensive to buy, so future benefit promises are more expensive to fund – so the part of the contribution rate going towards future benefits (i.e. most of it - 28.7% of the 34.7% contribution rate that was due to apply from October 2021, for instance) would actually go up
- Deficit makes relatively small difference to contributions: Only a relatively small element of the total contribution rate covers the deficit (6% of the 34.7% contribution rate that was due to apply from October 2021) - so any reduction in deficit doesn't impact the overall contribution rate very much
- COVID recovery already reflected: Some allowance for “exceptional” market conditions was already allowed for in the 2020 valuation i.e. USS already allowed for some of the economic recovery during 2020/2021

Longer-term pension work-streams

Major governance review – Agreement to review USS governance once 2020 valuation is complete.

Low cost option – Aim to consult on potential lower cost benefits options within USS, and aim to implement by 1 April 2022 alongside other changes.

Long term solution – Consider options such as Conditional Indexation to provide better value for money before the next valuation.

Valuation - what next?

- **7 – 20 September:** UUK consults with employers on the 0.5% increase in contributions
- **30 September** – valuation is completed with two tracks of contribution rates – subject to consultation with staff
- **1 October:** Contributions might increase by 0.2% (for staff) to 9.8%, in place of the 11% in the 2018 valuation and an extra 0.3% (for employers)
- **Late 2021/early 2022:** Employers consult with staff on benefit changes – 60 day consultation period
- **28 February 2022:** Deadline for changes to be implemented
- **1 April 2022:** EITHER
 - Benefits changed in line with JNC recommendation
 - OR
 - Back-stop: Contributions start to increase up to a level of 18.8% (for staff) and 38.2% (for universities) by October 2025

(depends on benefit & covenant changes being implemented)

Further information

USS

- Web: <https://www.uss.co.uk/contact-us> for an online contact form
- Tel: 0151 227 4711, lines are open 9am - 5pm, Monday to Friday
- Post: USS, 3rd floor, Royal Liver Building, Liverpool, L3 1PY

A benefit illustration tool can be found at <https://www.ussbenefitillustrator.co.uk> which can provide you with an estimate of your USS benefits at retirement

UUK

- More detail from UUK can be found on their USS-specific website - www.ussemployers.org.uk

UCU

- UCU benefits modeller can be found here - [Member Details - USS Modeller \(ucu.org.uk\)](http://www.ucu.org.uk)

University

- For further questions following this session – email ussqueries2021@nottingham.ac.uk

Q&A

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