

USS Pensions Session 5

University of Nottingham
26 January 2022

isio.



Introductions and Agenda

- Reminder of where we are
- Developments since October 2021
 - UUK consultation modeller
 - Inflation
- What's next?
 - Next steps on the USS valuation
 - Longer term pension workstreams
- Further information



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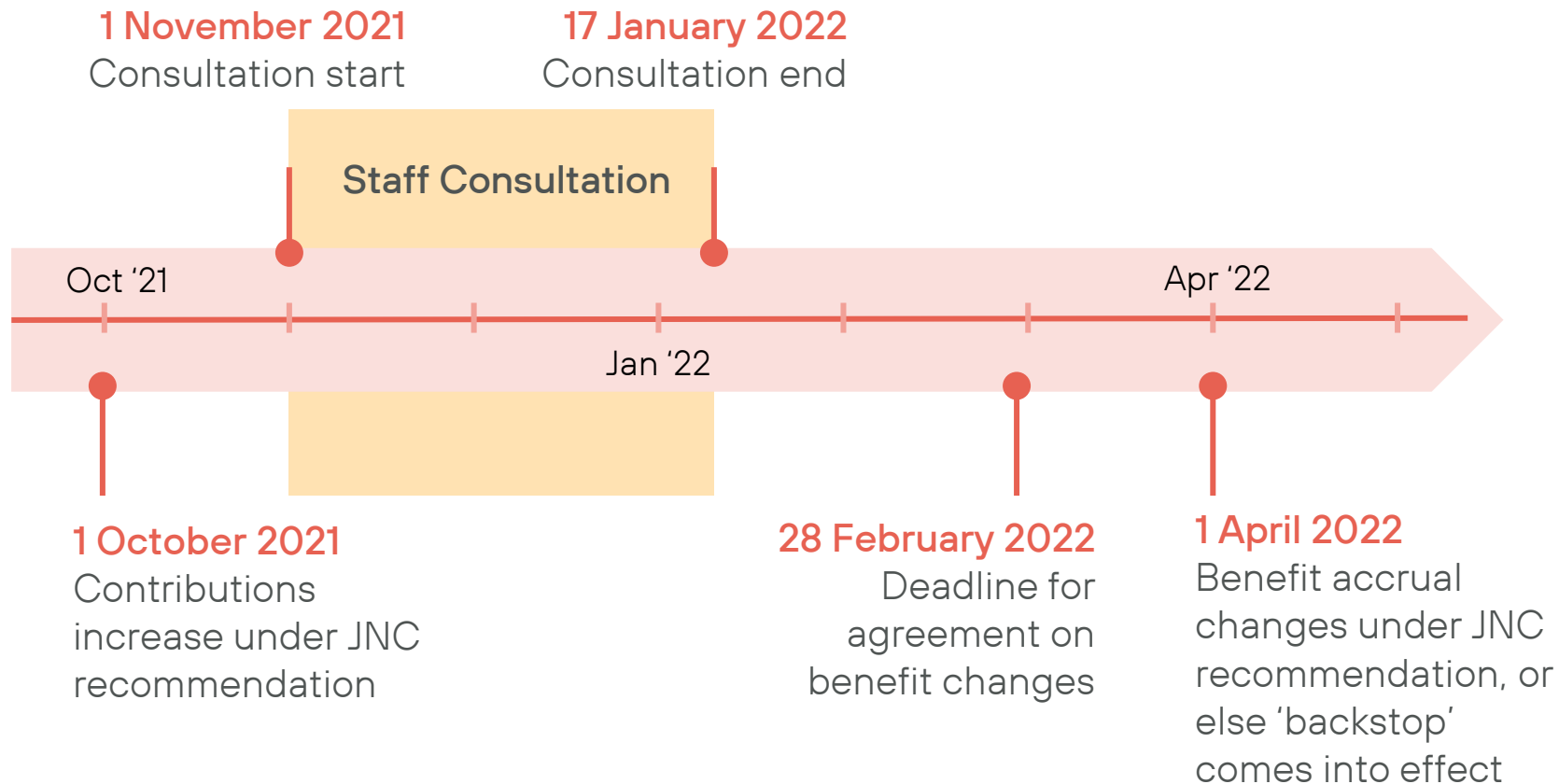
Pensions adviser, Isio

Tim Domanski

Pensions adviser, Isio

Reminder of where we are

Current timeline



Future workstreams

Low cost/flexible option
Governance review
Long-term solution

Proposed changes

	Back-stop	Proposal
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	18 years
Total contributions (from 1 Oct '21)	Current Total: 34.7% Universities: 23.7% Staff: 11.0%	Increasing to (by Oct 2025) Total: 57.0% Universities: 38.2% Staff: 18.8%
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%

Worth £1.3bn a year to the sector

Equivalent to £30m a year for the University

*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

Source: UUK website.

Consultation/121 feedback - themes

"How do the changes affect me?"

"I'm worried about the lower inflation cap"



"How are my other benefits affected (e.g. added years AVCs, death benefits).?"

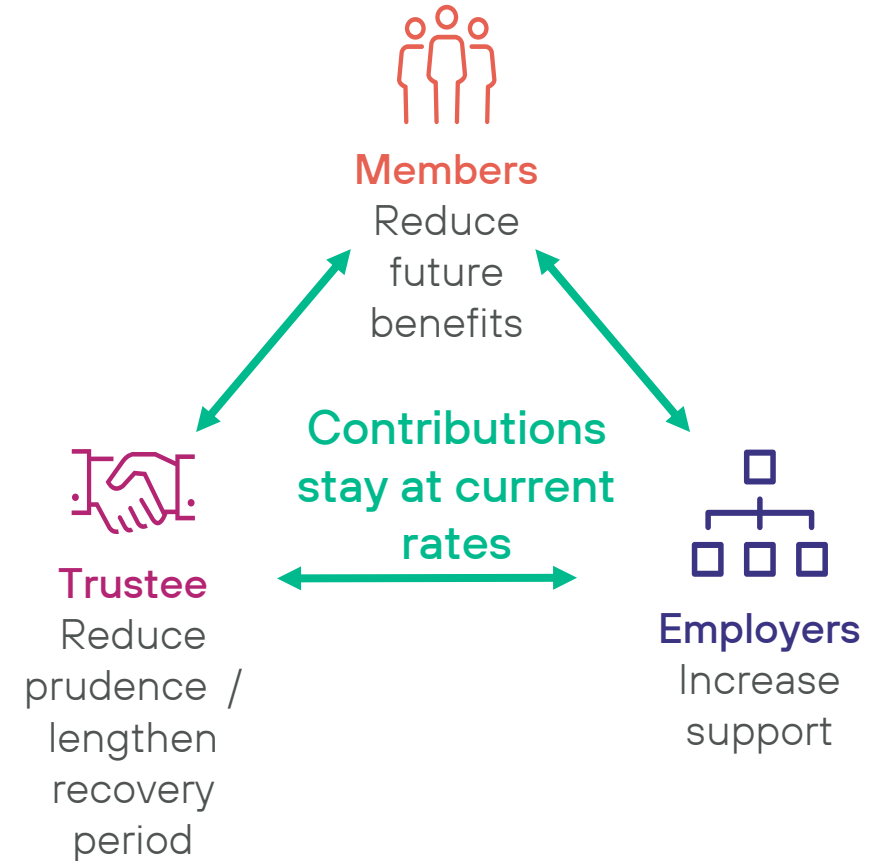
"What if things get better in the future, will my benefits be improved?"

"Can the University offer an alternative pension alongside USS?"

USS financial monitoring

USS financial monitoring on universities, as part of the package

- In force now
- Affects both existing and new borrowing
- University debt levels tested annually against a range of performance metrics (e.g. assets, income, cashflow)
- USS Trustee engagement if thresholds are triggered and may lead to remedial action
- “Pari Passu” for new debt



USS financial monitoring – the detail and impact for the University

Covenant A - Gross debt to Net assets less than 50% (UoN existing financing 60%)

Covenant B - Gross debt to Total income less than 50%

Covenant C - Gross debt to Net Operating Cashflows must not exceed 5 times

Covenant D - Net Operating Cashflows must be at least 4 times interest payable (UoN existing financing 1.1 times)

Covenant E - Gross Secured Debt to Net Assets must be less than 10%

If we breach all of A-D it will result in closer monitoring by USS

If any 3 of A-D are breached in consecutive years it will result in closer monitoring by USS

If E is breached in any one year it will result in closer monitoring by USS

If many Universities breach the covenants, then USS would have to consider either putting costs up across the sector for members as well as employers or benefits reform

Developments since October 2021

Illustrative retirement benefits

Example member #1

- 30 years old
- Been in the USS for 4 years
- Salary of £35,000

Example member #2

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

Example member #3



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

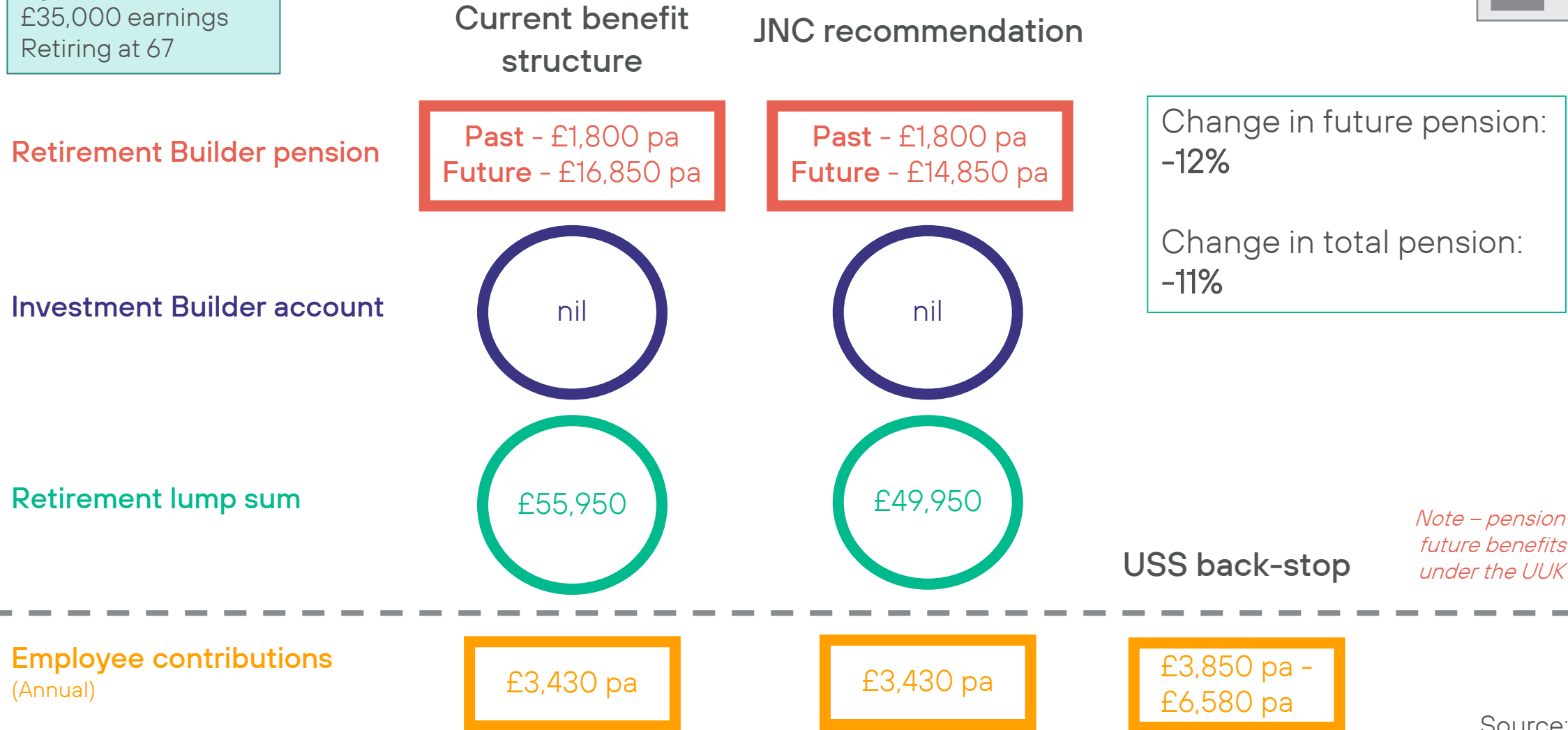
Note: We make a number of assumptions and simplifications in calculating the illustrative benefits that follow (in particular that net investment returns after expenses are 4% pa before retirement, that salary and inflation increase each year at a rate of 2.5% pa, and that members take 25% of the Investment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

Illustrative retirement benefits – example member #1

30 years old
4 years' service
£35,000 earnings
Retiring at 67

Key

-  Lump sum amounts
-  Annual amounts





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

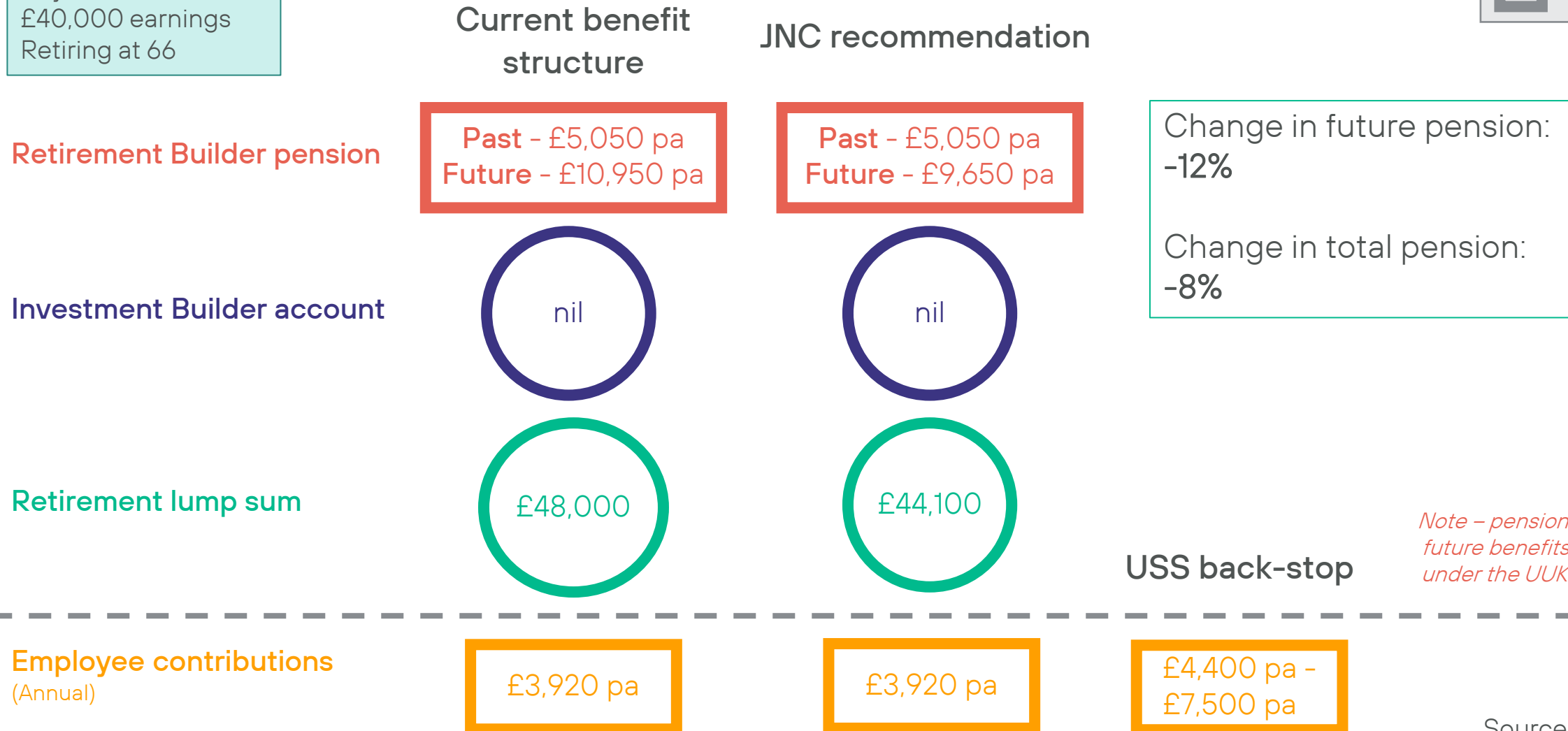
Source: Isio analysis.

Illustrative retirement benefits – example member #2

45 years old
10 years' service
£40,000 earnings
Retiring at 66

Key

-  Lump sum amounts
-  Annual amounts





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

Source: Isio analysis.

Illustrative retirement benefits – example member #3

55 years old
30 years' service
£55,000 earnings
Retiring at 66

Key

-  Lump sum amounts
-  Annual amounts

Retirement Builder pension

Past - £20,350 pa
Future - £7,850 pa

Past - £20,350 pa
Future - £5,050 pa

Change in future:
DB pension: **-36%**
DB+DC(drawdown) **-27%**

Investment Builder account

nil

£26,450

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

Change in total:
DB pension **-10%**
DB+DC(drawdown) **-5%**

Retirement lump sum

£84,600

£85,000

This includes £8,800 from the Investment Builder account

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

USS back-stop

Employee contributions
(Annual)

£5,390 pa

£5,390 pa

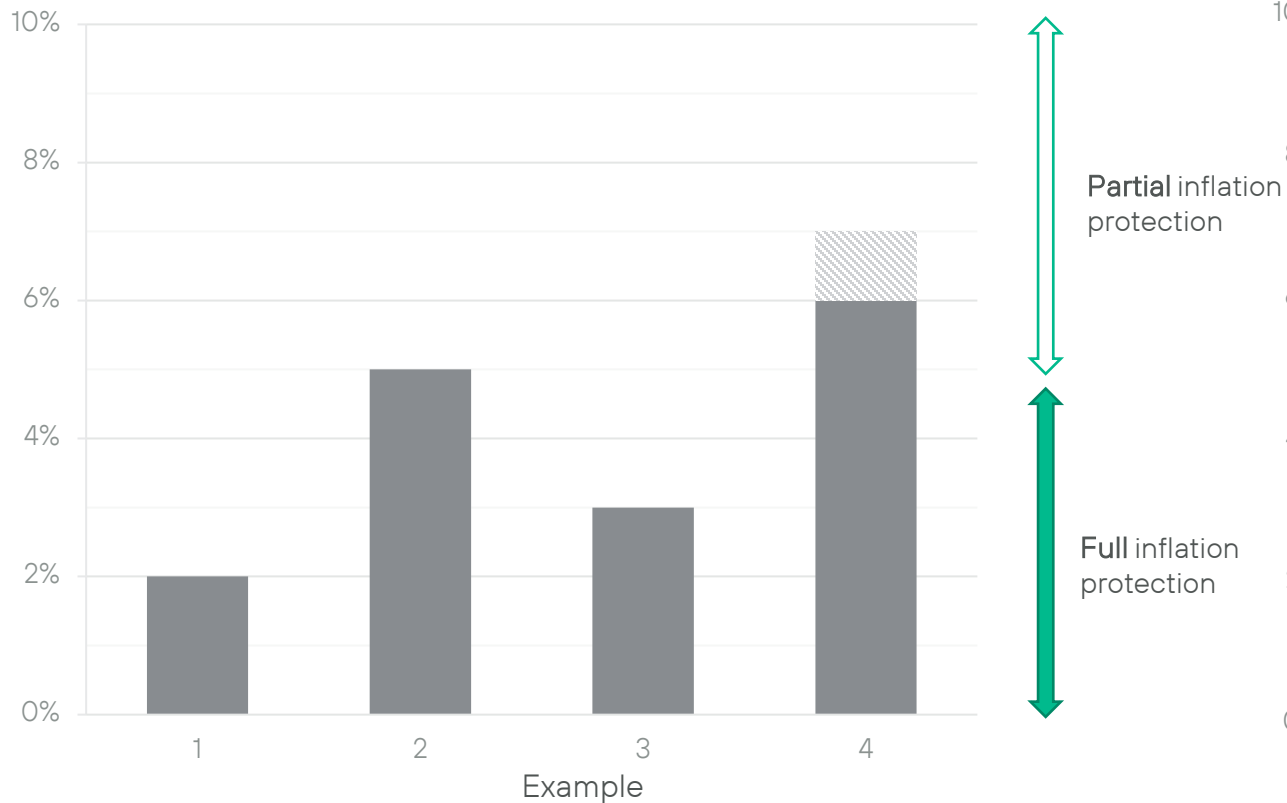
£6,050 pa -
£10,350 pa

Source: Isio analysis.

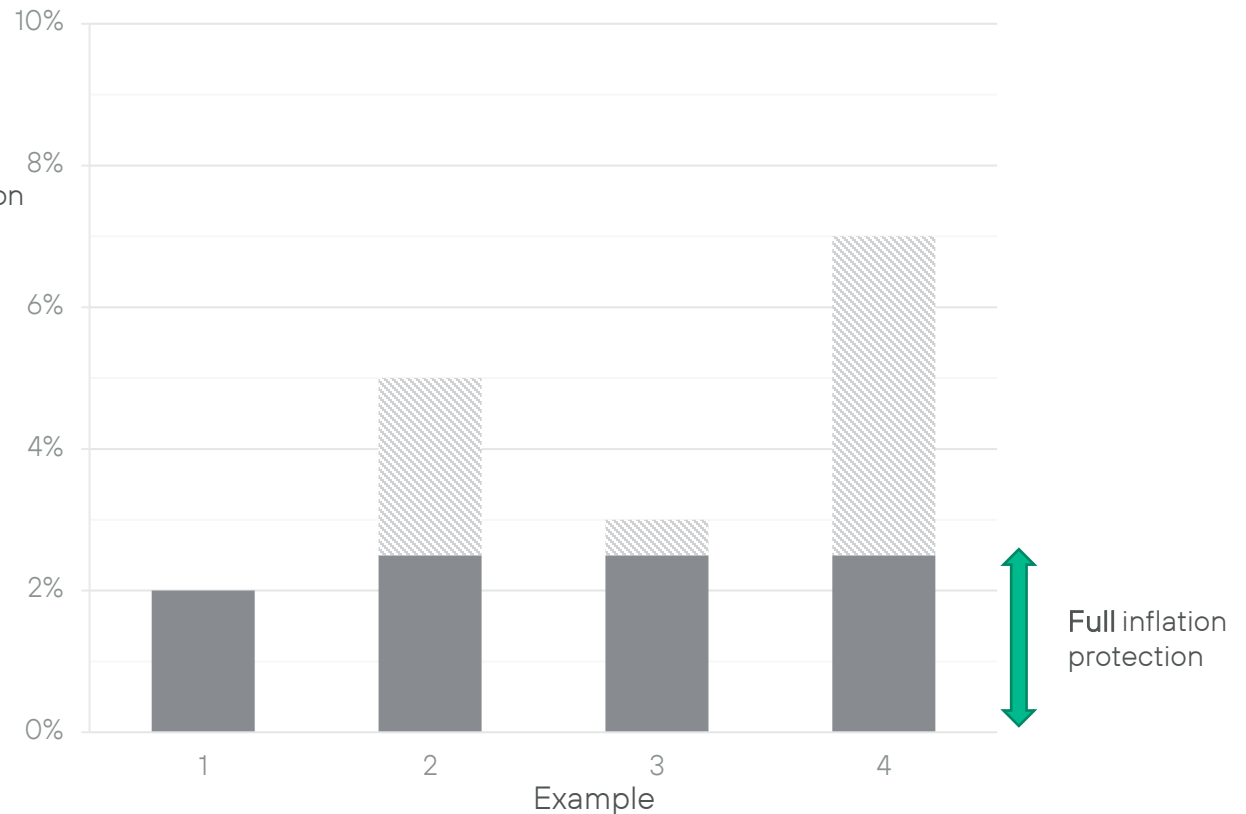
Illustration of pension increase change

- December 2021: 5.4%
- Bank of England target: 2%
- Over last 5 years, CPI has been above 2.5% 17 times
(source ONS data-based on monthly CPI)

How current pension increases work



How proposed pension increases would work



What's next

Valuation - what next?

- **January / February:** Response to consultation feedback
- **28 February:** JNC negotiation and vote
- **1 April:** EITHER

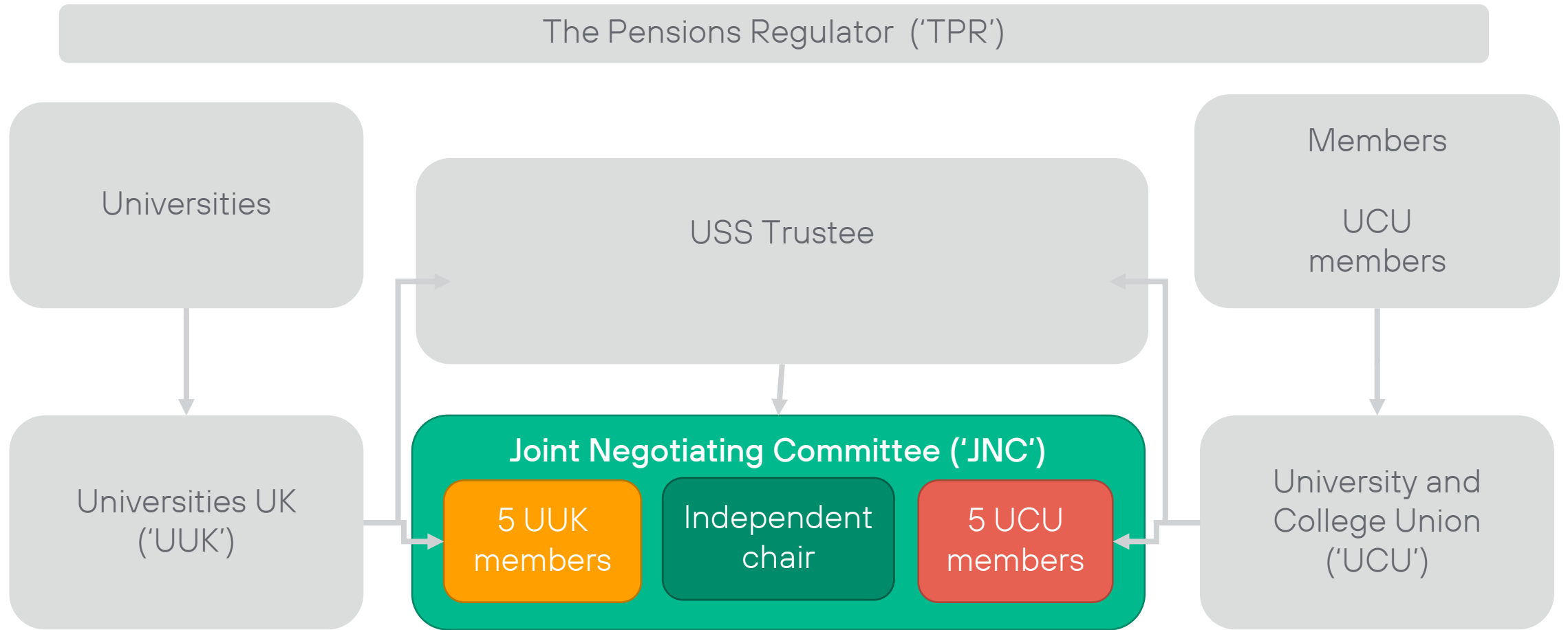
Benefits changed in line with proposal
(or with some adjustment, following consultation)

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)

Stakeholders



Longer-term pension work-streams

Employers have promised to work with UCU on the following:

Low cost / more flexible option – Working group formed to explore lower cost benefits options within USS, to report by April. First meeting was in December 21, including UUK and UCU representatives

Major governance review – Agreement to review USS governance once 2020 valuation is complete. Timescale expected to be 6 – 9 months.

Long term solution – Consider options such as Conditional Indexation to provide better value for money before the next valuation. Timeline planned for it to be included in 2023 valuation.

Q&A

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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

USS Consultation webpage (**noting consultation closed**): [USS Consultation 2021](#)

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 \(ucu.org.uk\)](#)

University

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

Disclaimers

- Please note details in this presentation do not override the formal documents which govern the USS. The Trust Deed and Rules of the Scheme, together with any overriding legal requirements, will always take precedence.
- Please be aware that we provide a number of indicative figures and illustrations in this presentation that are critically dependent on assumptions. These assumptions may not be relevant to your specific circumstances, emerge in the future and your personal circumstances could materially differ from illustrations given.
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