

USS Pensions Session 3

University of Nottingham
2021

isio.



Introductions and Agenda

- Recap
- What needs to be agreed?
- USS scenarios
- UUK pathway
- Benefit illustrations
- Q&A



Margaret Monckton

Chief Financial Officer, University of Nottingham

Professor Andy Long

Provost and Deputy Vice-Chancellor, University of Nottingham

Aaron Paxton

Pensions adviser, Isio

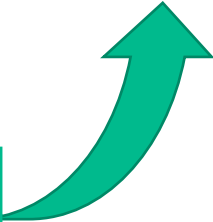
31 March 2018 valuation results



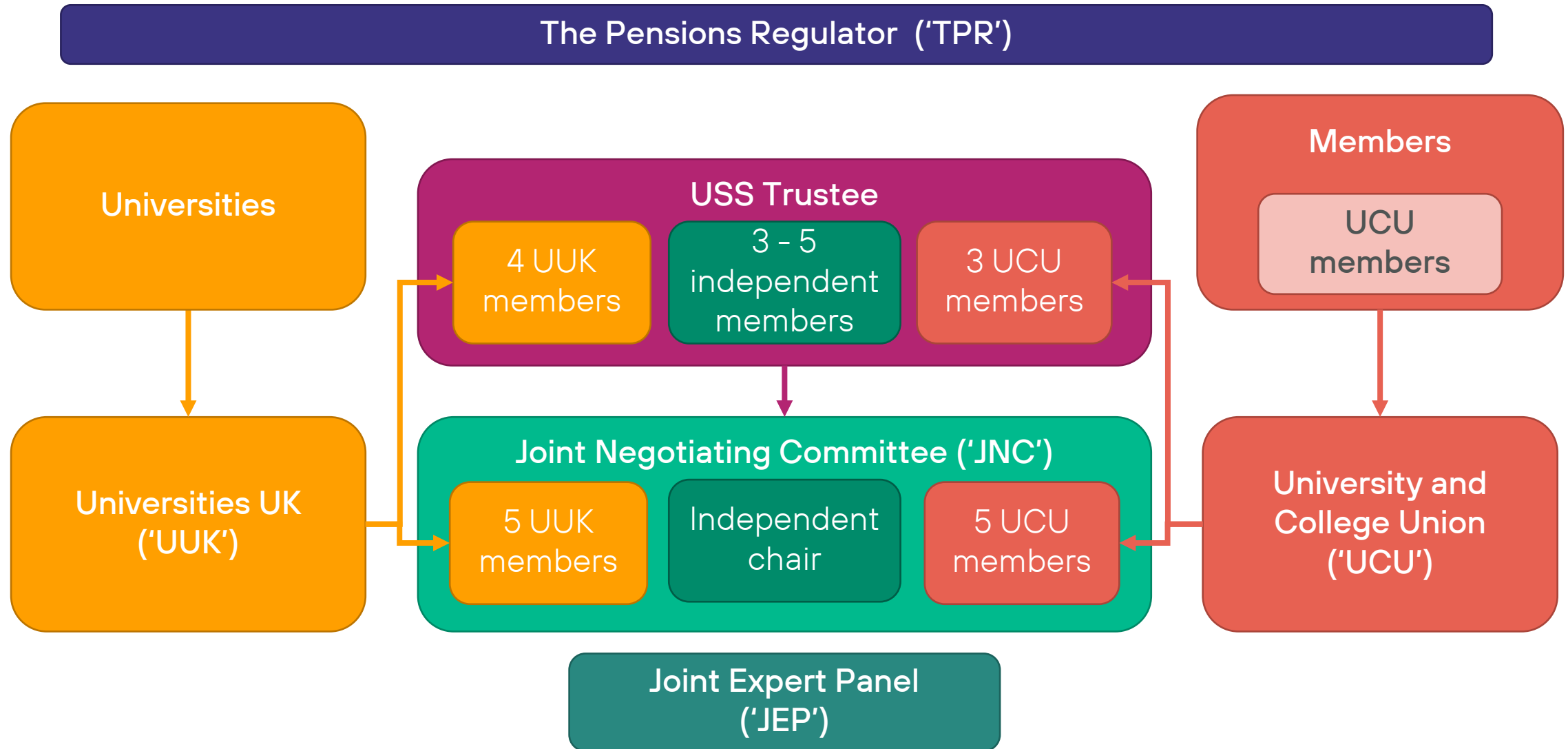
Source: USS website.

Contributions (% of pensionable salaries)		
Dates	Employer	Employee
to 30 Sep 19	19.5%	8.8%
1 Oct 19 to 30 Sep 21	21.1%	9.6%
1 Oct 21 onwards	23.7%	11.0%

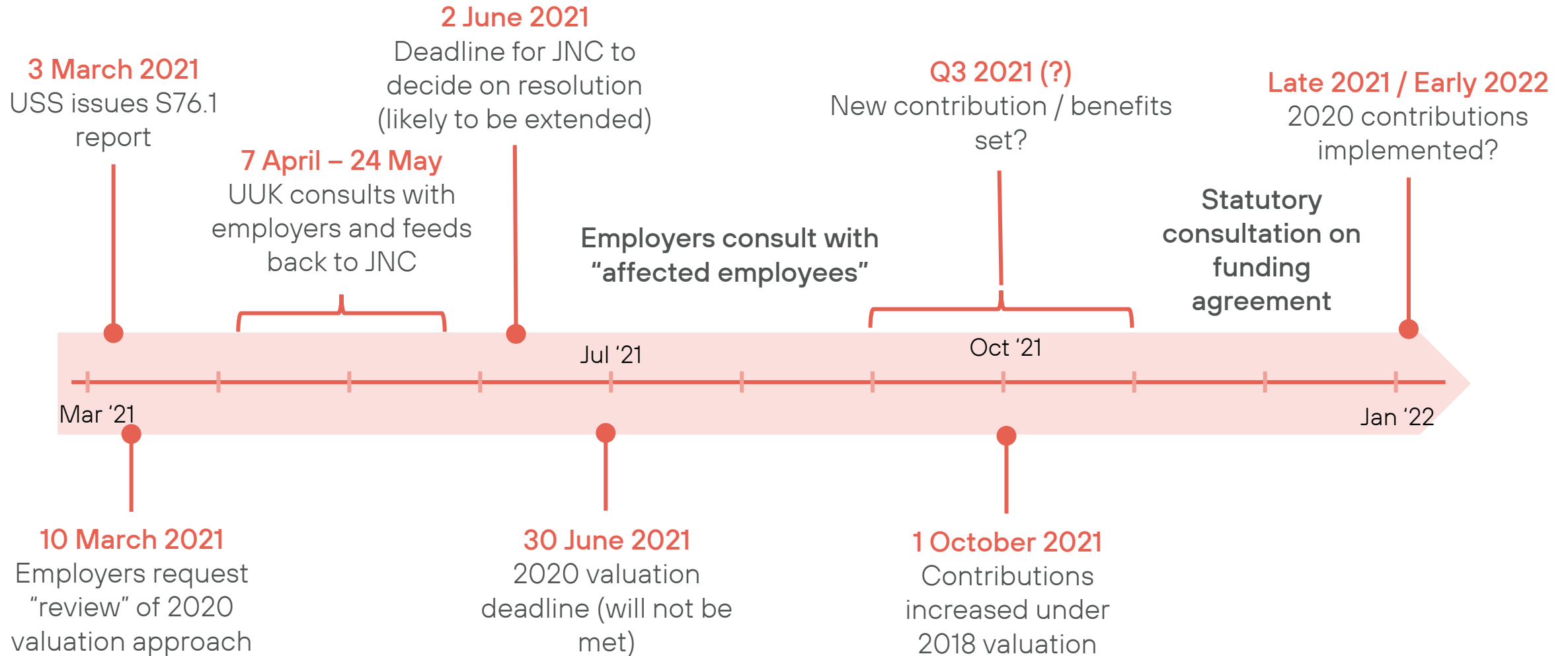
This includes shortfall funding of 6% of salaries



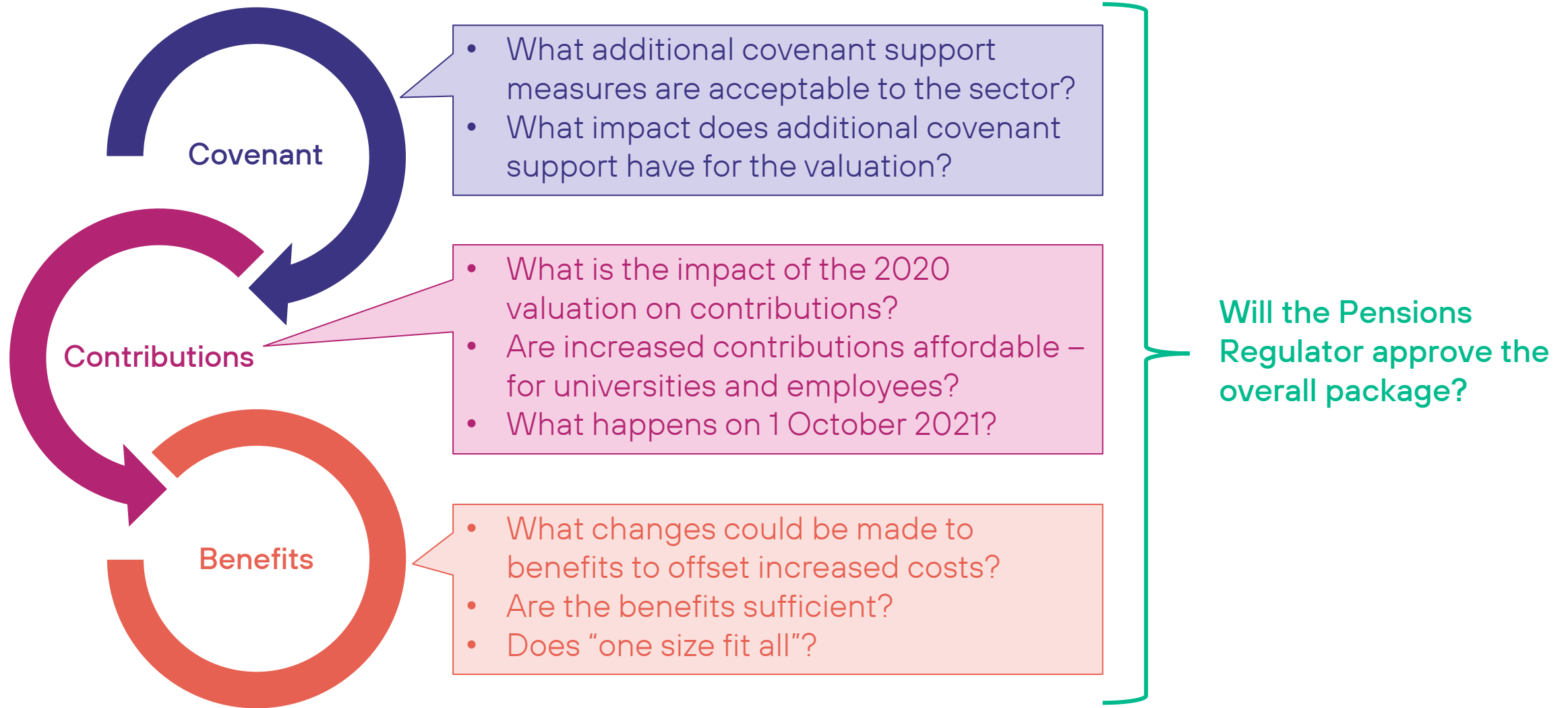
Stakeholders



Current timeline



What needs to be agreed?



USS scenarios

	Option 1 - No additional covenant support ('Status quo')	Option 2 – UUK package of covenant support	Option 3 – Adequate to fund on a strong basis	Current position
Covenant actions				
Ban on exits	None	9 years	15 years	None
Debt monitoring	None	Some	Yes	None
Pari passu	Not in force	Not in force	In force	Not in force
Recovery period	10 years	10 years	15 years	10 years
Total contributions (assumed from 1 Oct '21)	56.2% 37.6% - universities 18.6% - staff	49.6% 33.3% - universities 16.3% - staff	42.1% 28.5% - universities 13.6% - staff	34.7% 23.7% - universities 11.0% - staff
Future benefits		No change		No change

Source: USS website.

31 March 2020 valuation consultation

	31 March 2018 position	31 March 2020 position (USS S76.1 report)
Shortfall	£3.6b	£14.9b to £17.9b
Total contributions (%)	30.7% of payroll	42.1% to 56.2% of payroll
University cost pa	£44.9m (£9.8k per member)	£60.6m to £80.2m (£13.4k to £17.7k per member)
Employee cost pa	£20.4m (£4,224 pa for an average member*)	£28.9m to £39.3m (£5,984 pa to £8,140 pa for an average member*)

Source: USS website & Isio analysis.

*assumes pensionable salary of £44,000 per annum

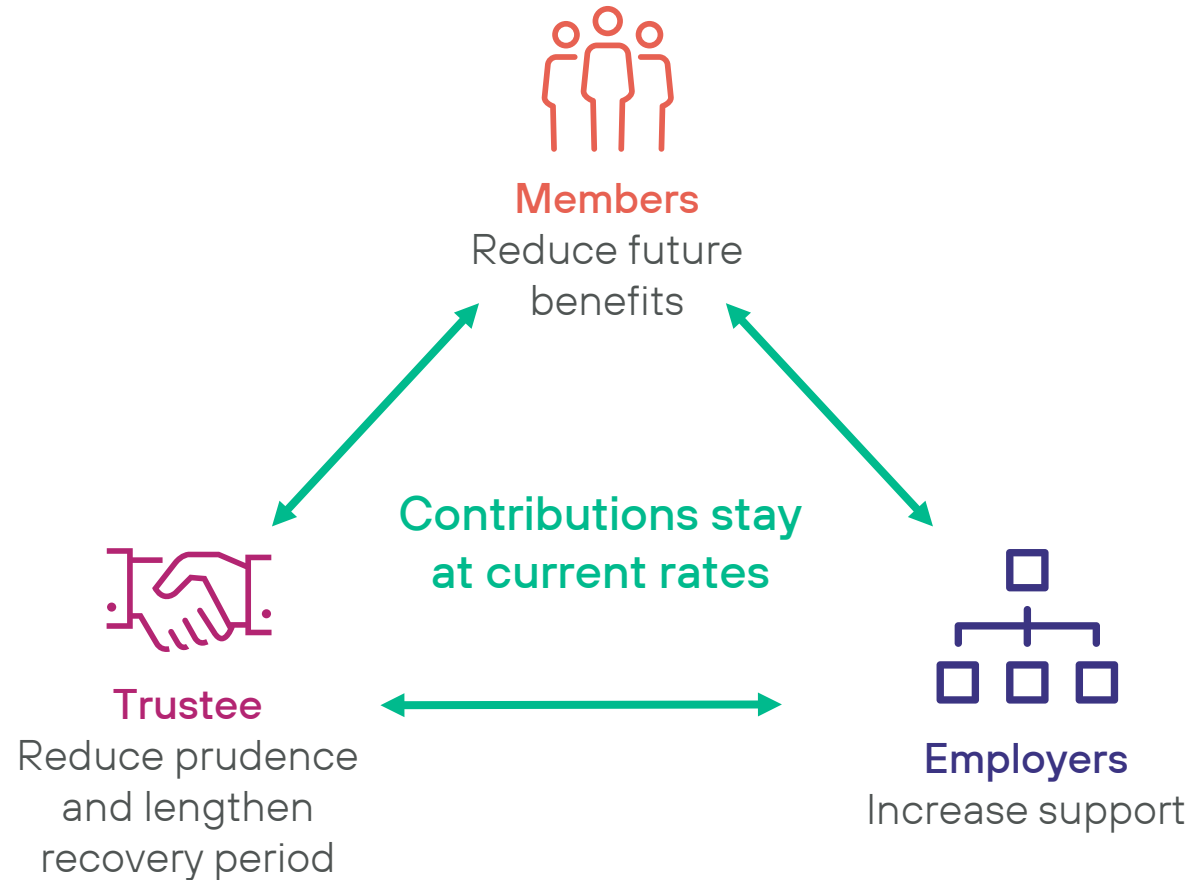
UUK pathway

	UUK - main option	UUK - Alternative	USS - Option 3	Current position
Covenant actions				
Ban on exits	20 years		15 years	None
Debt monitoring	Yes (for all but smallest universities)		Yes	None
Pari passu	In force (with higher threshold)		In force	Not in force
Recovery period	15-18 years		15 years	10 years
Total contributions (assumed from 1 Oct '21)	30.7% 21.1% - universities 9.6% - staff		42.1% 28.5% - universities 13.6% - staff	34.7% 23.7% - universities 11.0% - staff
Future benefits	Reduced	Reduced	No change	No change
Salary threshold	£40k	£30k	£60k	£60k
Accrual rate	1/85ths	1/75ths	1/75ths	1/75ths
Increases	CPI max 2.5%	CPI max 2.5%	CPI max 10%*	CPI max 10%*
DC contributions	20%	20%	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

Source: UUK website.

UUK pathway - balance between stakeholders



Principles behind proposed benefit changes



Protect lower paid staff - limit the change in accrual rate to 1/85ths, as reduced accrual impacts all members



Balance need to protect lower paid staff with maximising DB coverage – 43% of USS members have earnings of lower than £40,000 and 2/3rds have over 80% of earnings covered by this reduced threshold



Bring increases into line with other schemes – introducing the 2.5% cap brings the scheme into line with other schemes, and limits the other changes required to the benefits



Minimise the impact to the Investment Builder - a lower salary threshold will mean more members contribute to the Investment Builder than before

Note: the proposals have not been valued by USS (they were costed by UUK's actuarial advisers). It is not yet clear whether USS would agree to maintain contributions of 30.7% with these benefits, or whether the Pensions Regulator would accept the proposals

UUK consultation – high opt-out rate

Opt-outs are currently high

- c17% of members eligible for USS are choosing to opt-out – and 3 out of 4 of these are under age 40
- Opting out of the USS results in the loss of:
 - Build up of future pension
 - Employer contributions to your pension
 - Tax relief on your pension contributions
 - Lump sum death benefit provided by USS
 - Spouse/dependant pension

UUK's consultation considers ways of addressing this

- UUK have suggested increasing the flexibility in USS e.g. a "50-50" option where staff pay half the contributions and get half the benefits (but keep full ancillary benefits like death cover)

The survey recently issued by the University includes a question (Q4) about your view on the opportunity to temporarily pay lower contributions for lower benefits

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. Further details on the assumptions made are set out at the end of these slides.

Illustrative retirement benefits – example member #1

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

Key

-  Lump sum amounts
-  Annual amounts

	Current benefit structure	USS options 1-3	UUK Main Option
Retirement Builder pension	Past - £5,050 pa Future - £10,950 pa	Past - £5,050 pa Future - £10,950 pa	Past - £5,050 pa Future - £9,650 pa
Investment Builder account			nil
Retirement lump sum	£48,000	£48,000	£44,100
Employee contributions (Year 1)	£3,850 pa	£5,450 pa - £7,450 pa	£3,850 pa



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

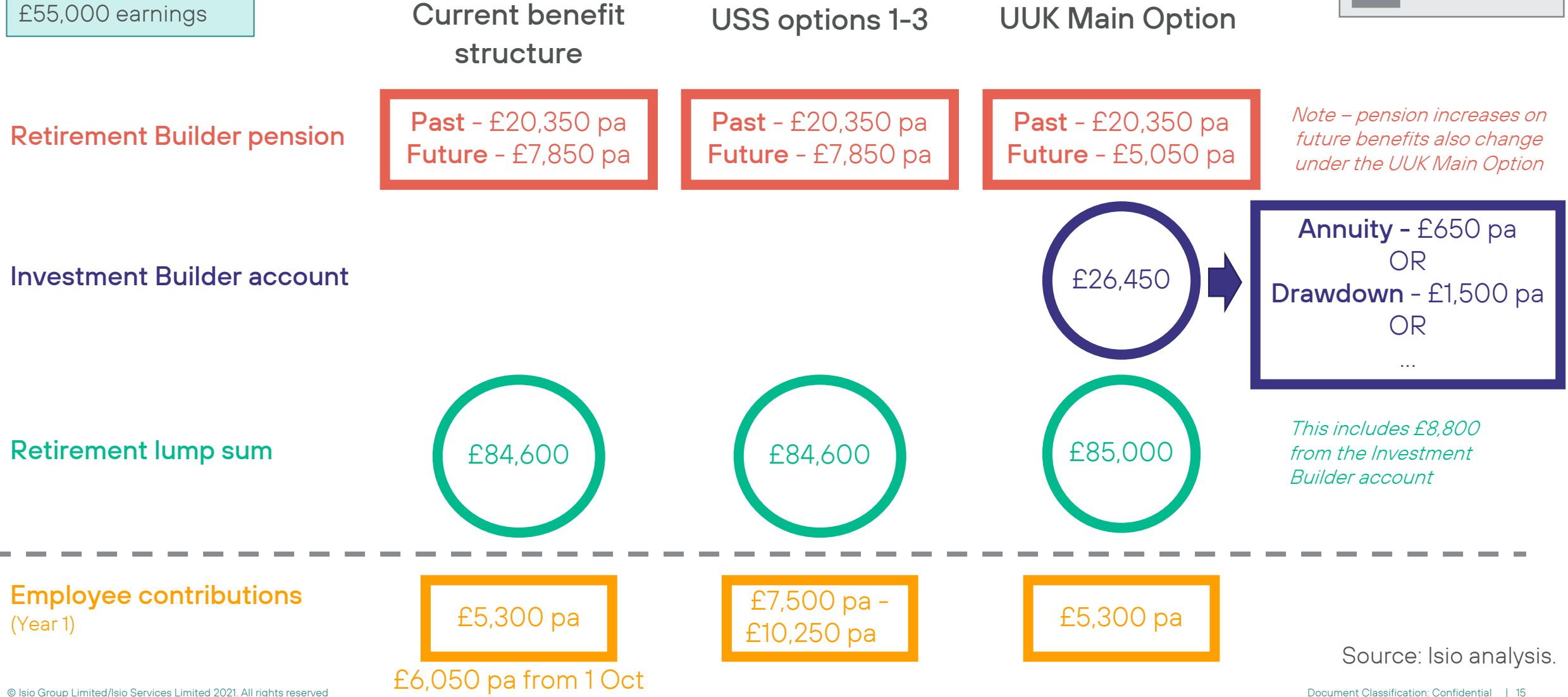
£4,400 pa from 1 Oct

Illustrative retirement benefits – example member #2

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

Key

-  Lump sum amounts
-  Annual amounts



Helpful sources

Staff survey

- Staff survey issued to those in (or eligible to join) the USS.
- Responses will be used to inform the University's response to the UUK consultation.
- If you haven't already, please respond to this survey by **7 May** so we can consider your views.
- Council will review the responses from the survey, and submit a response to the UUK consultation by **24 May**.

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 on UUK's consultation can be found on UUK's website - www.ussemployers.org.uk

University

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

Q&A

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Assumptions for benefit illustrations

The benefit illustrations contained in these slides are illustrations only and are calculated using assumptions about future investment returns and market conditions. Actual future investment returns and market conditions are likely to be different than expected and could result in different outcomes to those shown. It is important to remember that in the Investment Builder section of the USS the actual amount of pension savings built up to retirement date is uncertain and depends on the investment returns achieved, which could result in the amount being lower than the amount that has been paid in.

All figures are shown in today's prices, allowing a better comparison of possible retirement benefits against the cost of goods today.

Annual pension income is shown before any tax that may be payable. Employee contributions are shown before any allowance for the tax relief typically received on pension contributions under current legislation.

In these examples we've assumed:

- Members retire at age 66, and contribute to USS until retirement, and no allowance has been made for late retirement factors to apply on past elements of USS pension which have a Normal Retirement Age of 65 (or earlier).
- Inflation and salary increases (both future and historic) of 2.5% a year on average.
- Investment returns in the Investment Builder section of 4.0% a year (after allowing for annual charges) for the period to retirement.
- Allowance is made for the maximum tax-free cash lump sum of 25% of the Investment Builder pot to be taken at retirement.
- Members use their Investment Builder pension pot in one of the following illustrative ways:
 - to buy a guaranteed annual income for life (or 'annuity') that increases in line with inflation each year and includes a pension payable to a spouse on the member's death equal to 50% of the member's pension.
 - to draw a regular income from the account (known as 'drawdown') each year for 20 years – i.e. until the member reaches age 86 – at which point no further money would remain in the Investment Builder pension pot and the member would need to rely on other sources of income (such their State Pension).
- Annuities have been calculated in line with standard industry assumptions known as 'Statutory Money Purchase Illustration' (SMPI) requirements. This includes an allowance of 4% of the value of the annuity at retirement for expenses.
- The drawdown option assumes that there is an up-front cost of 4% of entering the draw-down arrangement, that during retirement the remaining Investment Builder pension pot achieves investment returns of 1.75% each year (after allowing for the annual management charge that would be deducted) and that payments out of the Investment builder pension pot are the same each year (i.e. do not increase with inflation).

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.
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- 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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