



Pension Town Hall

Thursday 1 February 2018

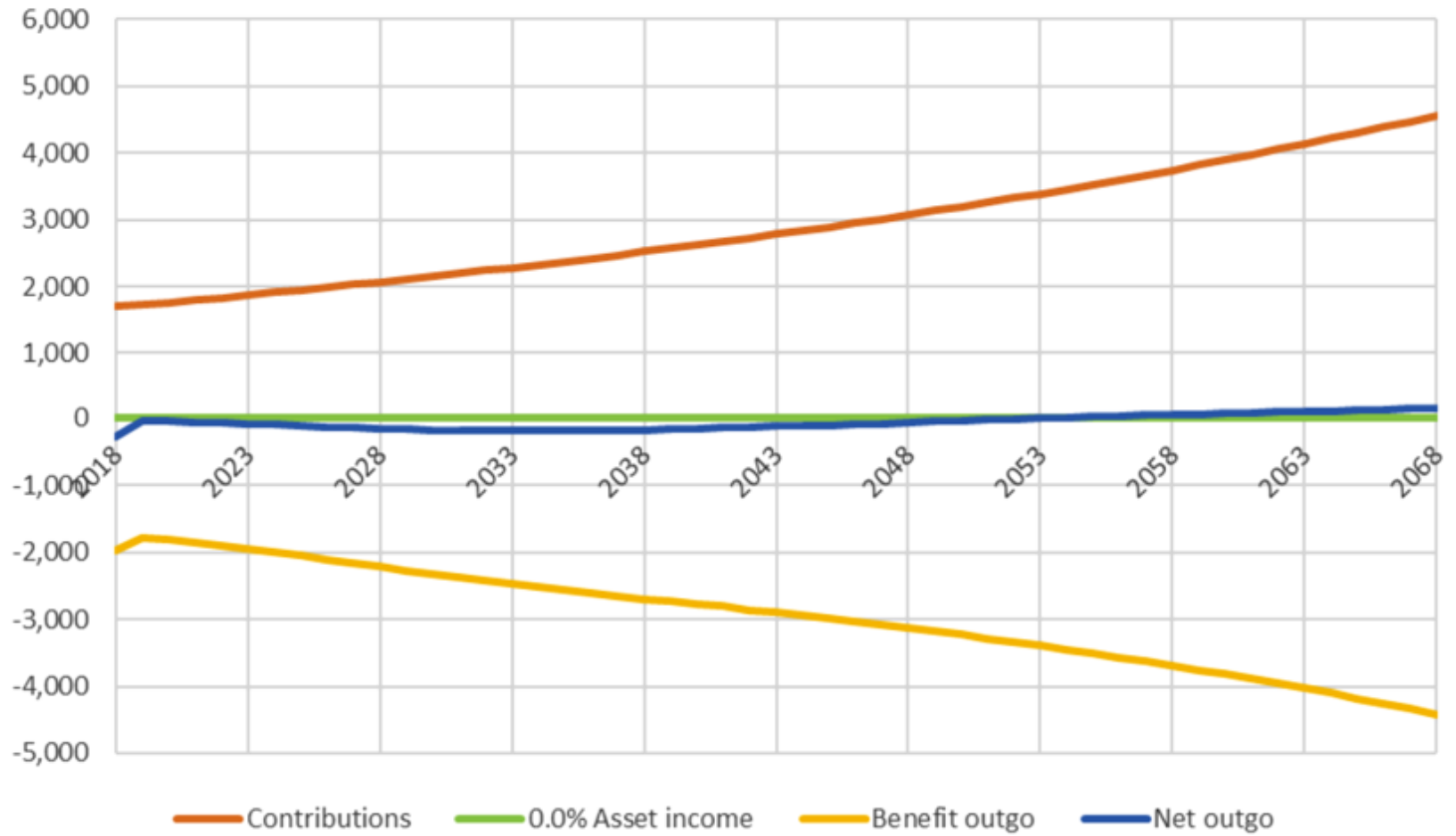
(10 slides)

The 2017 USS Valuation

- USS is solvent
 - Assets (balance)
 - **£5bn** in surplus
 - assets increased
 - +12% pa** last 5 years
 - Income and expenditure
 - projected to be equal (within 1%) into the foreseeable future (blue and green lines in graph)
- USS is in a better financial position than 2014
 - Why the ‘crisis’ headlines?

Cash flow £m

USS - Real cash flow relative to CPI 2% real salary growth over CPI



Test 1

- Argument about risk and ‘prudence’ (caution)
 - What is “Test 1”?
 - Test 1 says suppose we had no choice but to move assets into bonds and gilts. Would USS then be able to pay its pensioners?
 - Are universities about to go bankrupt?
 - USS is a multi-employer scheme
 - The best estimate (mean) deficit is **£8.3bn surplus**
 - But this estimate is **uncertain**
 - UUK says **the risk** of deficit is too great
 - this is why the “deficit” went from £5.1bn to £7.5bn in a month

Not a crisis of sector investment

- The university employers have never had it so good

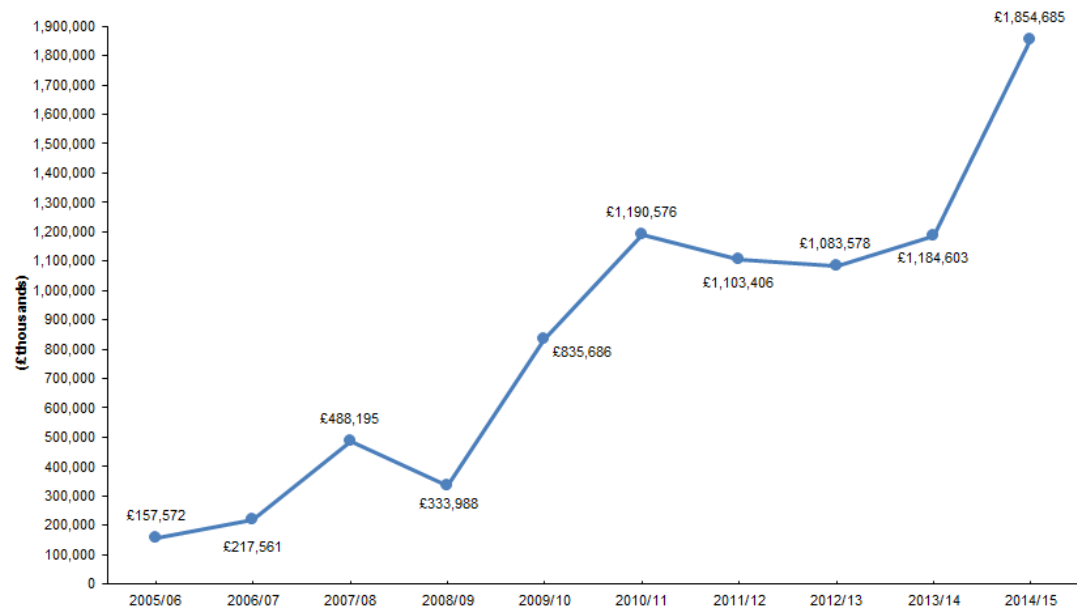
2005/6

- surplus = £158m
- USS = Final Salary

2016/17

- surplus = £1.5bn
- USS = “crisis”

Chart 1 - Surplus of net income over expenditure 2005/06 to 2014/15



Re-stated figures have been used for 2005/06 to 2013/14
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- Where has the money gone?

Defined Contribution

- Final Salary, Career Average are both types of **Defined Benefit** scheme
 - Your pension is based on a formula
 - e.g. under Final Salary, 40 years at 80% accrual rate means your pension is half your final salary
- We face the imposition of a **Defined Contribution** (undefined benefit) scheme
 - Your pension is based on the value of stocks and shares in your portfolio
 - If the stock market falls then your pension is hit
 - There is no “pension covenant” (guarantee)
 - **Risk to employer** of default = zero

Defined Contribution

- back to the Bad Old Days

- Dear Tony
 - As a fairly longstanding pensioner and retired UCU member, it was pleasure to read your lucid analysis of the USS pension scheme. I am so angry that you and all your colleagues are being removed from a Defined Benefit Scheme from which I am benefiting. **I was in FSSU before USS was introduced and I remember how badly we invested our pension pots and how everybody got different pensions according to how the stock exchange worked.** It was good to know exactly where you were when you retired.
 - Bill Stephenson

Defined Contribution + 1/4 Cut

- The bad news does not stop with the shift to DC
 - Currently, **Defined Benefit** has contributions of:
 - 18% from employers + 8% from employees = **26% of salary**
 - **Defined Contribution** has contributions of:
 - 12% from employers + 8% from employees = **20% of salary**
 - the remaining 6% goes into a ‘deficit recovery’ pot
 - pays into the assets to protect the employers from the deficit ‘risk’
 - some pays for early retirement due to ill health, etc
 - Result: pension contributions cut by a quarter!
- Projected losses:
20-40% (First Actuarial), 10-20% (AON)

What can you (we) do?

- Don't be fooled by the sales pitch
 - A huge cut in your pension
 - Risky: why gamble your future?
 - Irreversible
 - all risk shifts from employer to employee
 - naïve to believe employers will want the risk in future
 - Inequitable
 - the youngest get the biggest hit
 - Damaging
 - staff will leave UK university sector

What can you (we) do?

- Join the UCU - ucu.org.uk/join
 - Take collective action to defend pensions
 - 14 days of strike action planned (22 Feb onwards)
 - Call on employers to reopen negotiations (cheap) or make good our losses (expensive)
 - Raise demands on government (e.g. to pick up some of the risk)
- Support the action
 - Respect your colleagues taking action
 - Talk to students: bit.ly/2E8rv6R