

# Universities Superannuation Scheme

## 2017 Actuarial valuation: employer consultation in respect of Cost Sharing proposals

### Report on consultation responses

#### Executive summary

This document reviews the responses provided by affected employees, employee representatives, and employers, to the cost-sharing proposals.

The consultation took place from 9am on 3 September 2018 to 5pm on 2 November 2018, and involved the distribution by 324 employers (25 chose to opt out of the consultation) of c250,000 consultation packs to members and prospective members of the Scheme. Approximately 4,400 individuals responded with their views on the proposals – amounting to circa 2% of the total current active membership of the Scheme – and this report sets out the key themes of those responses.

The primary theme advanced by members in response to the cost sharing proposals was concern over the affordability of the proposed contribution rates to be introduced, particularly those in October 2019 and April 2020.

35%-40% of those responding did not engage with the detail of the cost sharing proposals themselves but instead gave views in respect of the perceived validity of the valuation itself, often taking into account or quoting sources such as the stakeholders' Joint Expert Panel report or members of the University and College Union (UCU). Appendix 3 of this report sets out a template answer which covered many of the areas of contention with respect to the valuation, provided for member use by the social media group "USS Briefs".

After consideration of the responses which addressed the detailed cost sharing proposals themselves, and taking into account all other relevant factors, the Trustee decided at its 21 November 2018 meeting to adopt the proposed cost sharing proposals without amendment for the required consultation with employers on schedule of contributions and recovery plan. However the Trustee continued to express its hope that the stakeholders can agree a revised proposal based on the 2018 actuarial valuation to avoid the later phases of the cost sharing contribution rate changes.

A summary of the consultation responses has subsequently been shared with the stakeholders via the Joint Negotiating Committee (JNC).



## **CONTENTS**

- 1. Overview of consultation and proposals**
- 2. Consultation responses**
- 3. Trustee decisions and next steps to complete the 2017 valuation**

### **Appendices**

- APPENDIX 1: CONSULTATION STATISTICS
- APPENDIX 2: ANALYSIS METHODOLOGY
- APPENDIX 3: USS BRIEFS TEMPLATE ANSWER USED BY INDIVIDUALS



## 1. Overview of consultation and proposals

The USS Joint Negotiating Committee confirmed on 27 April 2018 that it was revoking the benefit proposals it had recommended to the Trustee in January 2018 (primarily the reduction of the salary threshold in the USS Retirement Income Builder to £0) and would not be recommending any replacement proposals.

As a result the Scheme rules required that the cost sharing provisions of rules 76.4-8 be implemented. The resulting proposals as determined under the scheme rules were therefore as follows:

- That the employer element of the 1% match cease from 1 April 2019 (the proposed date of change);
- That employee and employer contribution rates to the Scheme be increased on a phased basis, as follows:  
**From 1 April 2019: members 8.8%, employers 19.5%;**  
**From 1 October 2019: members 10.4%, employers 22.5%;**  
**From 1 April 2020: members 11.7%, employers 24.9%.**
- That the employee and employer contribution rates payable to the USS Investment Builder in respect of salary above the salary threshold remain at their current levels of 8% and 12% respectively (with the balance up to the overall contribution rates proposed above being paid to the USS Retirement Income Builder).

As the proposed changes to employee contribution rates, and the removal of the employer element of the match, are “listed changes”, a consultation between employers and affected employees was required. This consultation commenced on 9am on 3 September 2018 and closed at 5pm on 2 November 2018. 324 employers representing over 99.7% of the affected employee membership participated (25 employers chose to opt out as they fell below the minimum employee requirement under the consultation regulations), issuing c250,000 consultation packs to members and potential members of the Scheme in the two weeks ahead of the consultation start date.

A consultation website went live on 31 August with copies of all the consultation materials as well as presentation videos explaining the proposals and the background to them, a Q&A section and tables showing the potential impact of the changes on individuals’ take-home pay. From 9am on 3 September individuals could log into a secure area of the website to leave their consultation responses – individuals could (and did) also respond directly to their employer with their feedback.



During the consultation period, the Joint Expert Panel (JEP) convened by Universities UK and the University and College Union delivered its report on the first phase of its work. The consultation website and other scheme communications during the consultation period acknowledged the work and report of the JEP so that individuals understood the context of the consultation.

Over the 60 day period 4,333 responses with views on the proposals were received and this report sets out the key themes of those responses. This compares with the total distribution number of c250,000 packs, and amounts to 2% of the Scheme's current active membership of approximately 200,000.



## 2. Consultation responses

The consultation requirements as set out in the Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006 (the “Listed Change Regulations”) require that affected employees and any representatives that have to be consulted must be able to give their views to the employer on the impact of the proposals.

In order to help individuals understand and specifically address the key aspects of the cost sharing proposals the consultation was constructed as a series of questions. The response areas for each question allowed free text responses and were of unlimited length – this approach and the inclusion of a general question 5, ensured individuals could leave any response they wished. Affected employees were given access to a dedicated website with supporting information and a login area beyond which they could leave their feedback, although they could also pass feedback to their employer in any other way they wished.

### 2.1 Overview of the nature of responses received

The responses received could be broadly split into two types: those which gave views on the proposals (whether addressing the detail of the proposals or giving some other view on their potential impact or effect) and those which gave views on some other aspect of the valuation process which in their view meant the cost sharing proposals were not justified or should be abandoned.

The former are analysed in further detail in sections 2.2 to 2.6 below, by proposal question.

There were a number of forms of the latter of these, but the two most common were those that referred to the Joint Expert Panel (JEP) and its outcomes, or the template answer shared by the USS Briefs group. These are reviewed in section 2.7 below.

### 2.2 Proposal question 1: Removal of the employer match

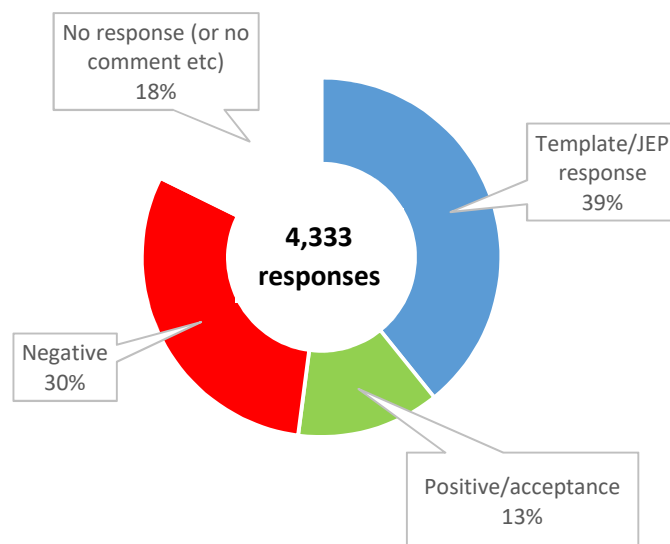
**As a first step in addressing the increased costs of the scheme, it is proposed that the employer match would be removed, which would have the effect of reducing the total combined contribution required from members and employers from 37.4% to 36.6%.**

**Under the rules, the 1% paid by a member who elected to pay the match will continue (members can elect to stop this).**

**If you want to respond to this point and/or suggest any changes to it please comment.**



3,805 (88%) of the individuals responding to the consultation provided a response to this proposal (including “no comment”-type responses), and the number of acceptance/non-acceptance responses were as follows.



The key messages that came out were:

- The match is a valued benefit and members see it as an incentive to save more for their retirements.

*“The loss of this benefit and incentive to make additional contributions to the Investment Builder is deeply regrettable.”*

*“Disappointing change, undoing a policy that incentivised people to contribute to their plan.”*

- However many perceived that if the costs of the core Scheme benefits were increasing, the match could act as a ‘pressure valve’ for both employers and members and therefore was an understandable, if regrettable, proposal.



*“Obviously I would like it to continue but I understand why it is a cost that needs to be saved.”*

*“I think this is a shame that it has to stop but I understand why.”*

- There was not a significant view expressed in relation to how the Scheme rules actually applied to the employer and employee elements of the match i.e. that even if the employer contribution ceases from 1 April 2019, member contributions will continue until the member actively chooses to stop them. Particularly, only 33 individuals said they thought the member contribution should be switched off, although some members took the opportunity to suggest there should be additional communication and support around the April 2019 change. Examples of each type of comment received:

*“I think if removed as a matching scheme, the extra 1% should not automatically continue.”*

*“Members should be reminded of this at the time with software support to stop the match.”*

- There was some indication that individuals would be stopping their own contribution if it would no longer be matched by an employer contribution, but again only a small number (69) indicated this. The following is an example of that response:

*“I currently do elect to pay this 1% because of the match. I am 'happy' for the match to discontinue, however, I will probably then opt-out of the 1% myself.”*

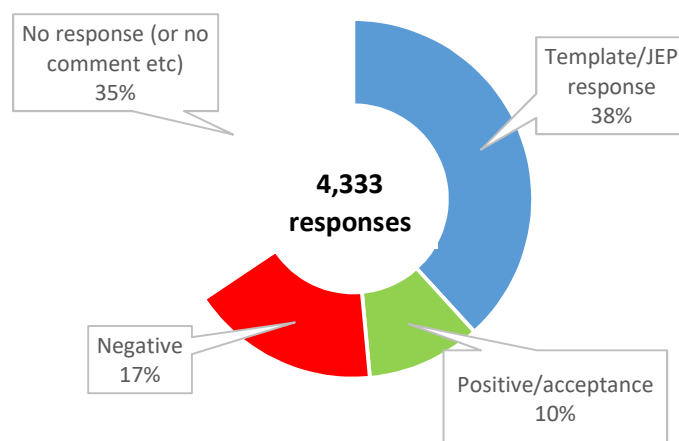
### 2.3 Proposal question 2: Contributions above the salary threshold

**It is proposed that members earning above the salary threshold and their employers continue to contribute 20% (members: 8% employers: 12%) to the USS Investment Builder. The remaining elements of member and employer contributions would go towards supporting the USS Retirement Income Builder section of the scheme.**

**If you want to respond to this point and/or suggest any changes to it please comment.**



3,224 (74%) of the individuals responding to the consultation provided a response to this proposal (including “no comment”-type responses), and the number of acceptance/non-acceptance responses were as follows.



The responses to the proposal in relation to contributions on salary above the threshold appear to have been mostly polarised between agreeing it is a progressive approach, and those who feel it penalises a group of the membership. It appears the response depends largely on whether the individual earns above or below the threshold, as would have been expected. However, responses were provided anonymously and the Trustee did not attempt to identify individuals, so it was only possible to identify this pattern where the individual stated it within their response.

*“I am not above the salary threshold so this does not apply to me. This seems sensible.”*

*“I think this is an important element of solidarity and equality and if savings have to be made (and I hold out for JEP report before I form an opinion on this), then this is one of the best ways in which this can be accomplished. I am very pleased that this has found its way into the proposals.”*

*“This appears very unfair and penalises higher earners. They are already receiving a less generous pension benefit pound for pound, than lower earners as they lost their right to a final salary scheme and had the income builder capped at £57,000. I object strongly to this plan to essentially subsidise the income builder scheme with higher earners contributions that should be destined for the investment builder.”*

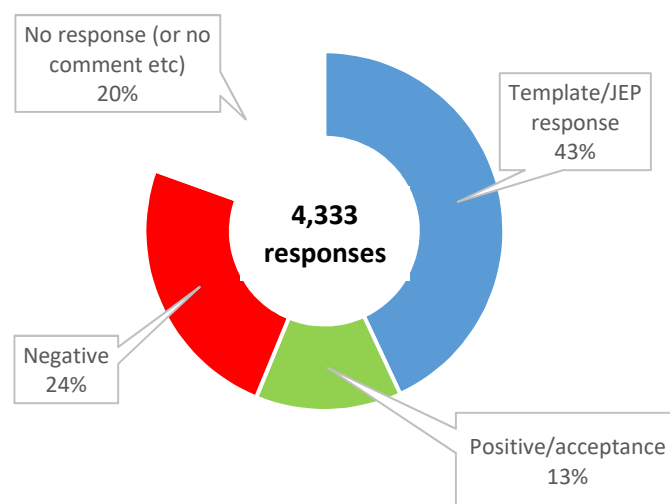
*“Even though this proposal would affect me negatively, as I am above the salary threshold, I note that it is progressive in nature. I think that on balance this proposal is preferable to a greater increase in the mandatory contribution rate for all USS members.”*

It is worth noting that across the questions a number of individuals mooted in their responses whether tiered contribution rates, which increased with salary (as used in public sector schemes for example), might be an equitable approach in future.

#### 2.4 Proposal question 3: Contributions shared 35:65 between members and employers respectively

**It is proposed that the required 10.6% increase in contributions be shared between members and employers at a ratio of 35:65 respectively. If you want to respond to this point and/or suggest any changes to it please comment.**

3,695 (85%) of the individuals responding to the consultation provided a response to this proposal (including “no comment”-type responses), and the number of acceptance/non-acceptance responses were as follows.



In isolation, it is generally an accepted principle that the costs of the Scheme are shared between the members and the employers: the 35:65 ratio is obviously familiar to some members, and appears broadly reasonable to more.

*“It seems fair that extra is split in this ratio since that is what was previously agreed.”*

*“I think this is fair solution and shares the burden appropriately.”*

A number of responses (c10%) indicated a view that the employer should absorb a higher proportion (often an arbitrary number was cited here but 30:70 and 25:75 were common among such responses) or even the total balance of the costs. The reasoning for this second view is often justified by reference to the period between 1 January 1997 and 30 September 2009 when the employer contribution rate was set at a level slightly below the future service cost level, due to the Scheme being in surplus at the time – the Trustee has previously addressed this question (see [https://www.uss.co.uk/~media/Project/USSMainSite/Files/About us/Valuations\\_yearly/2017 valuation/Historical contributions.pdf](https://www.uss.co.uk/~media/Project/USSMainSite/Files/About%20us/Valuations_yearly/2017%20valuation/Historical%20contributions.pdf)).

*“Given the many years' contributions increase 'holiday' the employers enjoyed (which members did not), it would be more appropriate for the ratio to better favour the members.”*

*“I note that while employee contribution rates have, with only minor exceptions, only ever increased since the inception of USS in 1967, the employer rate was cut sharply from 18.55% of salaries to 14% in 1997, and only recovered to 16% in 2009 and 18% in 2016. I feel that any USS deficit is therefore the result of under-funding by employers far more than by employees. As a result, I feel that a third of any increases now required, in part due to the alleged deficit, therefore seems the absolute \*maximum\* that employees should be required to contribute.”*

Finally, within this response, many individuals either noted they might agree with the cost sharing principles but did not agree with the actual increase in costs being proposed (10% of responses in total), or simply did not agree with cost sharing on that basis.



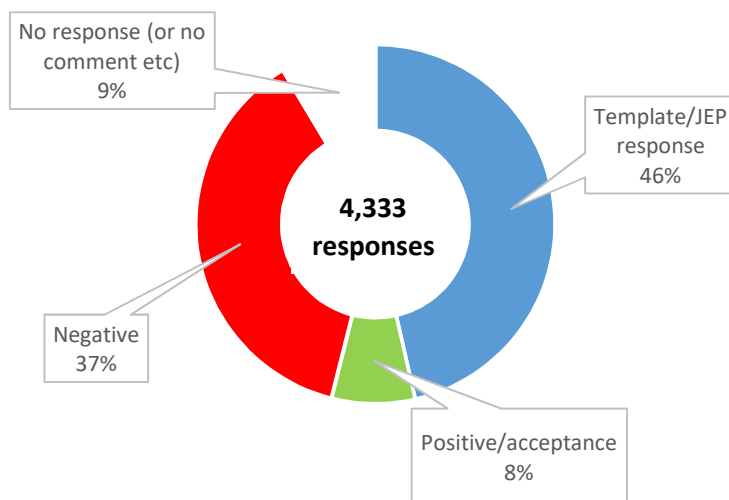
## 2.5 Proposal question 4: Increased contributions under the Cost Sharing rules

Under the cost sharing rules, member contributions would increase to 11.7% of salary. It is proposed that the increase would be phased as follows:

- to 8.8% from 1 April 2019;
- to 10.4% from 1 October 2019; and
- to 11.7% from 1 April 2020.

If you want to respond to this point and/or suggest any changes to it please comment.

4,034 (93%) of the individuals responding to the consultation provided a response to this proposal, and the number of acceptance/non-acceptance responses were as follows.



This question received the highest number of responses. Unsurprisingly the largest number of these raised concerns over the affordability of the proposed increases (often alongside other higher education issues. Whilst throughout the consultation there has been an underlying tone of greatly valuing the continuation of a defined benefit retirement arrangement, often the responses in this section emphasised that the higher contribution rates effective in October 2019 and April 2020 would mean individuals would need to reconsider very carefully all of the pressures on their take-

home pay. A number of responses (c15% of the total responses to Q4) showed individuals already believed they would not be able to afford these later increases.

*“This is unreasonable. To increase employee contributions from 8% to 11.7% is a huge increase which will negatively offset any small increase in pay over the period. This will have a much more detrimental impact on income than any of the austerity measures introduced in the wake of the financial crisis. I am strongly opposed to this.”*

Whilst many individuals focussed on the ultimate, post April 2020 proposals, there were some indications that the April 2019 proposals would be bearable:

*“I think that member affordability is key. Most members will accept the 8.8% contribution change, especially if they cease their matched contribution. I would strongly encourage the Trustee to take any necessary action to halt any further member contribution increases. If the proposed increases do proceed, I predict a very high opt out rate, which would in turn affect the scheme's predicted future funding position.”*

*“I regard the first phase of contribution increases as very tolerable, but the subsequent ones could be very painful. I am concerned that for members of the scheme with low incomes or heavy financial responsibilities such increases would make membership of the scheme unaffordable. Opt-out rates would likely increase, greatly to the detriment of those forced to opt out and left with no workplace pension scheme at all and potentially also of the Scheme itself. I think the phasing of the contribution increases is to be strongly preferred to their imposition in full in April 2019, but the imposition of the later phases of these increases should if at all possible be avoided.”*

A message around potentially opting out was given clearly in some cases (67 individuals):

*“Personally I cannot afford to pay any more than 9% of salary. I would need to leave the scheme if employee contributions rose above 9%.”*

*“From 8% currently to 11.7% is a massive jump and I ... would seriously have to consider withdrawing from the scheme and putting the money to use as part of a mortgage on a second property for example which would effectively become my pension pot rather than the ever shifting goal posts of USS.”*

A number of individuals thought that a higher cost would be worth paying for continuation of the defined benefit scheme, but that a longer phasing period would be more palatable and allow time for household budgeting:



*“This is a very rapid increase, extreme and unaffordable - making a significant impact upon take home salary. If these changes do need to be made they should be phased in over a 3 year period.”*

*“I would like to see any increase phased in over a longer period of time, in line with inflation. Wages are already stagnant and under pressure from increasing living costs. An additional 3.7% is a lot to find from household budgets in a year. A longer phasing period would also benefit employers, who could spread the increased cost over several financial years.”*

Finally, it is worth noting that there were individuals who felt the indicative costs which have been discussed during the valuation were too high and who would rather see a changed DB benefit structure, lower cost options, or even more radical change. These are discussed in 2.6 below.

## 2.6 Proposal question 5: Any other comments

**Members of USS and employees eligible to join the scheme are encouraged to share any views on alternative or additional proposals that they think could also address the challenges identified in the 2017 valuation and to share any other comments.**

**If you want to do so, please comment.**

This section was used for providing alternative or further suggestions/views, but also for restating or emphasising earlier responses. In respect of the latter, these have been discussed previously above.

In the case of the former, a number of individuals commented that they would rather have seen the benefits amended than the proposed contribution rates, either overall or as a ‘low cost option’.

*“A two-tier system where the employee can choose to pay in the full pension contribution or a lower pension contribution with different accrual rates.”*

*“A more flexible approach to the increase would be appreciated. I.E: if a member couldn't afford the increase they could pay less for less benefits?”*

There were also a significant number of views that the continuing increased costs indicates that a defined benefit scheme, where the benefits are also less flexible than a defined contribution scheme, is no longer a suitable arrangement. In some cases these individuals were clearly at an earlier stage in their careers and so felt they would have time to build up a suitable level of retirement provision based on a 30%+ total annual contribution.



*“There should be an option for members who would like to choose defined contributions rather than defined benefits. For the previous proposal, employee contributing 4% where employer contributing 13.25% directly to the employee's pension account should be available as an option. The USS will be running two types of accounts, i.e. defined benefits and defined contributions.”*

*“I think there should be an option to opt out of the defined benefit part and have all contributions from employer and employee paid into the investment builder part of the scheme.”*

However there is no question the defined benefit scheme is still seen by many as worth contributing to.

*“I agree with all of the proposals. It is much better to increase contributions, rather than to cut benefits.”*

## **2.7 Responses to the consultation provided for individuals' use by other organisations**

From the start of the consultation, some individuals were responding to the consultation using wording drawn from their national or local Union groups. These generally did not directly address the cost sharing proposals but instead commented on some other aspect of the actuarial valuation process or approach. As events occurred during the consultation, the balance and wording of these varied.

Prior to the release of the JEP report on 13 September these generally gave the view that the consultation should not be taking place as the JEP had yet to report.

*“Because the 2017 valuation is contested, and the JEP is yet to report, I do not consider the case has yet been made for even relatively minor changes to the scheme.”*

*“I highly value the current benefit package, and I support the retention of the defined (e.g. guaranteed) pension. The 2017 valuation is contested and is currently the subject of a report from the joint expert panel (JEP). I expect USS to engage seriously with any recommendations made by the JEP. I believe that serious engagement by USS with the work of the JEP is key to improving confidence in the scheme among members and avoid another strike from members.”*



On 13 September 2018 the JEP reported to its stakeholders in respect of its review of the valuation. As a result members' responses moved towards acknowledgment of this and referred to its outcomes.

*"No decisions should be made until the outcome of the JEP report has been fully discussed and negotiated."*

*"Having read carefully through the documents, including the now available report of the JEP I struggle to see the need for this measure. The JEP's report provides a clear analysis of the valuation, the assumptions made and of the overall process. I also understand from the report that the JEP has closely worked with USS and TPR throughout the process and its findings should not be of any surprise to either body. The proposed changes do not reflect the substantial criticism at the valuation reported by the JEP. I, therefore, see no reason why these changes should be implemented when there is in existence a carefully considered alternative."*

Throughout the consultation period the JEP and its aims/outcomes have continued to appear in individuals' responses. The Trustee has acknowledged the outcomes of the JEP in its member updates on 13 September (see <https://www.uss.co.uk/how-uss-is-run/valuation/2017-valuation-updates/statement-on-the-joint-expert-panels-report>) and on 2 October (see <https://www.uss.co.uk/how-uss-is-run/valuation/2017-valuation-updates/the-cost-sharing-consultation-an-update>). Particularly in the latter the Trustee noted *"UUK and UCU are now considering the JEP report, and we will continue to engage with them as they consider their respective positions. This is expected to inform subsequent JNC discussions later this year. We have repeatedly expressed the view that the JEP report could provide the basis for UCU and UUK to agree a way forward that could be introduced before the significantly higher phases of cost sharing increases come into effect, and we sincerely hope that comes to pass."*

Finally, on 22 October the "USS Briefs" group released a template set of answers for the consultation questions in light of the JEP and views on the valuation methodology including Test 1. This was shared widely via social media. Members could copy and paste text into the consultation response website and so there was a significant number of these responses received. The full text of this template is set out in Appendix 3, but in summary members' responses generally followed the pattern of not providing an answer for questions 1-4, and then providing a detailed response in question 5 citing UCU and JEP views and demanding: the consultation be suspended immediately, that USS consult with employers again, that USS produce a valuation that reflects "the Scheme's true health" based on the recommendations of the JEP and on the "new material evidence that has come to light", and that USS make a public statement to The Pensions Regulator explaining why this consultation and their previous employer consultation on the 2017 valuation were "insecure", and requesting to be exempt from any penalties during the extra time it will take to consult employers and members on the new information.



Over 1,300 of the responses received did not answer questions 1-4 and contained this text in question 5, sometimes with personal additions.

The Trustee responded to the particular challenge around the valuation methodology in a valuation update issued to members on 16 October (see <https://www.uss.co.uk/how-uss-is-run/valuation/2017-valuation-updates/claims-of-a-large-and-demonstable-error>).

## 2.8 Employer responses

Employers could also provide their views to the Trustee by uploading the responses to the consultation website.

27 employer responses were uploaded, and these varied in approach and level of detail. The primary messages were around supporting the adoption of the JEP proposals, and concerns over the affordability of the increased contribution rates for their lower paid employees: many stated they expected to see an increase in opt outs if the full schedule of contribution rates takes effect in the proposed timescales. This had a knock-on effect on the perceived value of the Scheme as an attraction and retention tool.

Some employers also noted the potential impact on themselves as well as their employees, particularly small charitable organisations and those who are not funded through student fees. Concern was also raised about volatility of funding and potential impact on future funding costs if potentially higher risk funding approaches were adopted.

Several suggested other approaches which could be considered by the stakeholders in future, including lower costs benefits, contribution rates tiered by earnings, greater defined contribution elements.

## 2.9 Union and member representative responses

There were no formal national Union responses to the consultation which have been provided. Employers have uploaded local Union branch responses (via letter, email and through employer/union meetings) from UCU, Unite, Unison and PCS and the key themes are summarised below.

### University and College Union (UCU) branches

- A theme throughout the UCU responses was the status of the 2017 valuation and the views of the Joint Expert Panel. In many cases the local UCU felt that as a result cost sharing was not required and should not be implemented (and in some cases that the consultation itself be



suspended). Some of the local branches went into detail on their views on one or more of the valuation approaches or assumptions, particularly Test 1 and de-risking but also discount rates, future salary increase assumptions and life expectancy.

- The match was felt to be a valuable benefit which should not be removed. However if it was removed one branch suggested the employer saving be used to support the costs of the Scheme for the lower paid employees.
- The proposal in respect of contributions on salary above the salary threshold was not generally addressed in isolation.
- The cost sharing proportions were also not addressed by many branches. Those that did address these commented either that the employee share should be no higher, or that employers should bear the full burden of cost sharing given the “contribution holiday” taken in earlier years. (This refers to the matter previously addressed by the Trustee at [https://www.uss.co.uk/~media/project/USSMainSite/Files/Aboutus/Valuation\\_yearly/2017\\_valuation/historical\\_contributions.pdf](https://www.uss.co.uk/~media/project/USSMainSite/Files/Aboutus/Valuation_yearly/2017_valuation/historical_contributions.pdf))
- In terms of the proposed contribution rates, many of the branches raised concerns about affordability and opt outs, particularly in respect of the lower paid employees, but also again noted that it was their view that following the implementation of the JEP proposals no cost sharing would be required (and/or that any increases should simply be met by the employers). Some branches gave views that such issues could be partially addressed by providing more flexible or tailored benefit design in future, such as a low cost or reduced accrual option. One branch mooted tiered contribution rates similar to those in LGPS.
- Several branches took the opportunity to restate the view that a primarily defined benefit scheme remained essential in their members’ views and that they would not welcome any proposal for a significant element of defined contribution provision.
- Finally in terms of strength of feeling, several branches noted or alluded to the resolve of USS members in challenging the various pensions (and other issues) seen in the sector and their concerns for the future of the Scheme in relation to perceptions of value and members opting out as a result.

#### **Unison branches**

- Unison also noted the conclusions of the JEP and its hope that they would be implemented and therefore cost sharing would not be required.
- Unison raised concerns over affordability (noting any more than a 10% member contribution was not suitable in its view) and member exits.
- One branch also gave its view in relation to not being able to represent its members under the current governance structure of the Scheme.

#### **Unite branches**

- Unite noted the affordability concerns, particularly for the low paid, but also reiterated its support for defined benefit pension provision. It stated its hope that the JEP conclusions would be adopted and implemented.



**PCS branches**

- PCS noted the need to retain defined benefit provision and not move to defined contribution. It also noted the JEP conclusions and the resulting implications for the cost sharing proposals.
- Finally it noted its concern particularly regarding the match.



### 3. The Trustee's decisions and next steps to complete the 2017 valuation

The Trustee board considered the outcomes of its consultation at its meeting on 21 November. It noted the number of responses provided which questioned the actuarial valuation and its approach (including those reflecting the USS Briefs text). However, the consultation primarily sought to address the cost sharing proposals and so the Trustee considered those responses in detail.

In respect of the match, the Trustee agreed no changes should be made to the proposals, but asked that the executive ensure members currently paying the match were provided with sufficient information, support and opportunity to ensure they could make an appropriate decision on whether to continue or stop their contribution ahead of 1 April 2019.

In respect of cost sharing, the Trustee noted that its proposal to phase in the cost sharing contribution rates between 1 April 2019 and 1 April 2020 (rather than move to the full required cost sharing contribution rate of 11.7% from the outset) would mean that the first stage of cost sharing would limit the financial impact on members. The Trustee has already made clear its hope that the later stages of cost sharing will be superseded by alternative proposals from the stakeholders, and is currently preparing a 2018 actuarial valuation. However, the Trustee felt that it could not further delay or suspend the cost sharing increases beyond the proposed dates having already factored in affordability concerns to its decision making.

The Trustee therefore decided to draft a Schedule of Contributions which reflected the proposed contribution rates, for consultation with employers in December/January.

Finally, the Trustee will consider further the responses received which gave views on future benefit design or benefit options, and share these with stakeholders, via the JNC, as appropriate.



## APPENDIX ONE: CONSULTATION STATISTICS

### Number of individuals responding to the consultation:

- Active Scheme members: 4,176
- Individuals eligible to join the Scheme: 157
- Total: 4,333
  
- Scheme active membership 31/03/2018 198,652 (consultation respondents therefore c2% of active membership)

### Total responses submitted to the Trustee by all parties:

	Number of responses
Individuals	4,333
Member representatives	28
Employers	26

### Distribution of responses from individuals:

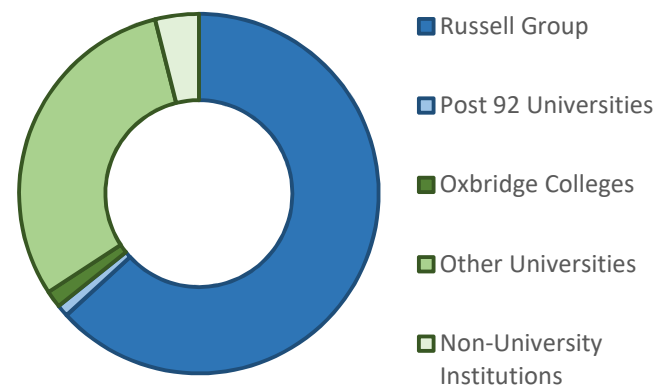
	Responses	Verbatims Q1	Verbatims Q2	Verbatims Q3	Verbatims Q4	Verbatims Q5
Number	4,333	3,805	3,224	3,695	4,034	3,560



### Responses by institution type

Number of institutions with affected employees providing one or more responses: 177

Distribution of institutions with one or more respondent, by type:



## APPENDIX 2: ANALYSIS METHODOLOGY

The consultation requirements state that affected individuals must be able to give their views on the proposals. The consultation was constructed as a series of questions on the cost-sharing proposals, but this was in order to help individuals understand and specifically address the key aspects of the proposals. The response areas for each question allowed free text and were of unlimited length – this approach and the inclusion of a general question 5, ensured individuals could leave any response they wished. Therefore, each response received could cover any points the individual felt were appropriate, and could be of any length.

Employers must read and consider all consultation responses. The employers had access to their own employees' responses via the employers' consultation website, and certified they had read all responses received, and that they had forwarded to the Trustee any responses which were received directly from employees (rather than via the website). The employers also uploaded to the website any responses received from an appropriate union or member representative, and could also upload to the Trustee their own views on the proposals, having read their employees' feedback.

The executive had access to all responses made on the employee consultation website. It downloaded the responses regularly over the period of the consultation and read each verbatim, assigning it to a headline category which identified firstly whether it was addressing the detailed proposals or the background to the proposals including the valuation. Then, in relation to those addressing the proposals, an indicator of the sentiment of that question response (i.e. positive/acceptance, or negative) was assigned.

The executive then further explored each of the discrete groups of responses to endeavour to understand the reason for them, so that a clear view could be brought to the Trustee alongside an appropriate weighting for that view. As part of this process a text analytics tool assisted in examining the verbatim responses.

It is important to note that all responses were submitted anonymously unless the individual chose to make their details known.



### APPENDIX 3: USS BRIEFS TEMPLATE ANSWER USED BY INDIVIDUALS

The following is wording taken from a Word document produced by the USS Briefs group to support members in submitting a response to the consultation:

#### *USS Consultation Response Template*

The following is a standard template response to the current USS consultation on USS's proposal to impose shared contribution increases on Scheme members and employers, rising from the current rate of 26% of salary to 36.6% of salary. It has been signed by a number of USS members, expert commentators, and UCU representatives, whose names and affiliations are listed beneath it. Members are encouraged to submit this response to signal their disapproval of the way in which USS has handled its 2017 valuation.

This is not simply a petition. Every member of USS has a right to respond to the consultation before its closing date of 5pm on 2 November 2018, and USS is obliged to consider the responses. There are several ways to respond, and we recommend that you respond in as many ways as possible (i.e. you can do all 4 options, below).

1. By logging into the official consultation website with your USS membership number and National Insurance number, and completing the online form.
2. By (as the consultation website puts it) 'contacting your recognised trade union or other recognised employee representative body'.
3. By (as the consultation website puts it) 'sending your response in writing to the Nominated Consultation Contact at your workplace, clearly marking it: "USS Employer Consultation". Your written response will then be read by your employer and submitted to the trustee on your behalf. If you want your written response to be anonymous, let your Nominated Consultation Contact know'.
4. By adding your details to a Google form here.

...

#### *RESPONSE TEMPLATE BEGINS HERE*

1. Removal of the match



As a first step in addressing the increased costs of the scheme, it is proposed that the employer match would be removed, which would have the effect of reducing the total combined contribution required from members and employers from 37.4% to 36.6%.

Under the rules, the 1% paid by a member who elected to pay the match will continue (members can elect to stop this).

If you want to respond to this point and/or suggest any changes to it, please comment.

*Please see my answer to question 5.*

## 2. Contributions above the salary threshold

It is proposed that members earning above the salary threshold and their employers continue to contribute 20% (members: 8% employers: 12%) to the USS Investment Builder. The remaining elements of member and employer contributions would go towards supporting the USS Retirement Income Builder section of the scheme.

If you want to respond to this point and/or suggest any changes to it, please comment.

*Please see my answer to question 5.*

## 3. Contributions shared 35:65 between members and employers respectively

It is proposed that the required 10.6% increase in contributions be shared between members and employers at a ratio of 35:65 respectively.

If you want to respond to this point and/or suggest any changes to it, please comment.

*Please see my answer to question 5.*



#### 4. Increased contributions under the cost sharing rule

Under the cost sharing rule, member contributions would increase to 11.7% of salary. The trustee proposes to phase this increase:

to 8.8% from 1 April 2019;  
to 10.4% from 1 October 2019; and  
to 11.7% from 1 April 2020.

If you want to respond to this point and/or suggest any changes to it, please comment.

*Please see my answer to question 5.*

#### 5. Any other comments

Members of USS and employees eligible to join the scheme are encouraged to share any views on alternative or additional proposals that they think could also address the challenges identified in the 2017 valuation and to share any other comments or any views you may have on any of the proposals.

If you want to do so, please comment.

*I have refused to answer questions 1–4 because I do not accept the premises on which this consultation is based. I have grave and urgent concerns that the contribution increases which USS is demanding from members and employers are unwarranted, and that they may cause members and even employers to exit the Scheme, causing irreparable damage to its long-term health.*

*Instead, I wish to offer the following response, which has been collectively agreed and signed by a number of other USS members, expert commentators, and UCU representatives. All signatories have endorsed the statement solely in a personal capacity. It can be found online at <https://medium.com/ussbriefs/resile-and-resubmit-uss-consultation-response-template-4809945fb6bc>*

*In light of extensive, publicly available analysis from multiple sources — including individual academics with specialist knowledge and the Joint Expert Panel (JEP) convened as a result of the recent industrial action by UCU — I subscribe to the following conclusions:*



*A. The employer consultations overseen by USS and Universities UK have misled employers, Scheme members, and the public about the health of the Scheme and the nature of employers' risk appetite.*

*B. In addition to this, USS has, for more than a year, failed to grant employer and member requests for crucial asset growth projections. These projections fatally undermine USS's central argument for its proposed 10.6% contribution increase. They also seriously call into question whether there is any deficit at all and any need for any increase in contributions whatsoever.*

*C. In light of conclusions A and B, the Scheme does not have a basis for its claim that the proposed 10.6% contribution increase is necessary. By insisting on it, and by failing to resile from its flawed valuation, USS is damaging members' trust in the Scheme and compromising the Scheme's long-term health.*

*My response to this consultation is that:*

*1. This consultation must be suspended immediately.*

*2. USS must consult employers again, making clear to them that previous consultation documents implying the existence of a deficit and the need for a contribution increase were based on incomplete data and erroneous assumptions and analysis. It must then produce a valuation that reflects the Scheme's true health, based on the recommendations of the Joint Expert Panel and on the new material evidence that has come to light.*

*3. USS must also make a public statement to The Pensions Regulator explaining why this consultation and their previous employer consultation on the 2017 valuation are insecure, and requesting to be exempt from any penalties during the extra time it will take to consult employers and members properly.*

#### **SOURCES**

*On the Scheme's asset growth projections and their implications, see the recent articles by Sam Marsh (<https://medium.com/ussbriefs/a-flawed-valuation-the-laypersons-guide-to-my-findings-on-uss-s-test-1-b9e0c53f5d67>) and Michael Otsuka (<https://medium.com/@mikeotsuka/uss-valuation-rests-on-a-large-and-demonstrable-mistake-691103c94ca6>)*

*On USS's inadequate responses to Marsh and Otsuka's criticisms, see the following article by Michael Otsuka: <https://medium.com/@mikeotsuka/test-1-de-risking-is-dead-long-live-de-risking-63540ad44e84>*



*For another example of USS's failure to consult employers properly about the nature of their valuation assumptions, see the following article by Mike Otsuka: <https://medium.com/@mikeotsuka/uss-failed-to-make-clear-the-high-level-of-prudence-of-the-september-valuation-a636d8c744f7>*

*For the Joint Expert Panel's criticisms of USS's misleading employer consultation processes and other flaws with USS's handling of employer reliance, investment strategy and future service contribution rates beside those identified by Marsh and Otsuka, see its first report: <http://www.ussjep.org.uk/files/2018/09/report-of-the-joint-expert-panel.pdf>*

RESPONSE TEMPLATE ENDS HERE

