

University and USS Pensions

This paper reviews the relationship between local schemes in Universities and the USS, with particular reference to the pension implications of adoption of the National Framework Agreement. It also reports on changes to be made in the USS which have a significant bearing on its relative attractiveness.

Historic background

The USS has, historically in practice, been reserved for academic staff and non-academic staff deemed to be of similar status or pay. The decision as to which non-academic staff are eligible for USS membership has been determined locally, though in consultation with the USS, and practice varies as between different Universities.

Where an employee is recruited or promoted into a post eligible for USS they have not been, or ceased to be, eligible for any other Scheme offered by their employer.

Promoted staff have, in relation to their past service, been offered the choice of a transfer of their pension rights into the USS or a deferred pension. As the agreed basis of transfer has been on a public sector transfer club basis, giving the member full value for their past service, it has generally been an attractive option.

It has been possible for Universities to agree with the USS to change the boundary for admission so that all staff be admitted to USS membership or to otherwise to modify it and extend the range of staff eligible for USS. These moves are perceived by the USS as being discretionary employer-driven events. In respect of past service rights of members, a different basis of transfer has been used (generally known as 'bulk transfer') which results in members losing pension value on the transfer unless their employer has been prepared to supplement the normal transfer value available. The problem has been compounded by widespread under-funding of the local schemes. The problems associated with dealing with past service rights has deterred most Universities from taking advantage of the opportunity to offer USS membership more widely.

The pension terms offered by local schemes and the USS have generally in the past been of a similar standard. However in recent years a substantial numbers of local schemes have, in the light of deficits and employer's unwillingness to pay the higher contributions required, moved to modify member benefits and contributions. This has created a more conspicuous gap in quality as between local scheme and USS pension terms. Universities have been challenged to justify why they are offering inferior pension terms to those, generally lower-paid employees not eligible to join the USS.

Implications of the National Framework Agreement

Adoption of the National Framework Agreement obliges employers to reconsider the boundary established for access to the USS. Generally it results in groups of staff being identified who are rated as doing work of equal value to staff with established access to the USS. These staff have to be offered access to the USS.

The USS have interpreted this situation as an employer-driven change of boundaries and deemed that the less favourable, and more problematic, bulk transfer basis of transfer of past service will apply. They have also, and related to this, decided that members can be given a choice as to whether they wish to remain in their local scheme or switch to the USS in respect of their future service. They have set no time limit on this choice except that it would expire if members are subsequently promoted to another job which is eligible for USS membership (when the member would be able to transfer on the more favourable public sector transfer club terms). The offer of a choice is further justified on the basis USS membership may not for some be perceived as being advantageous – a particular issue for older members is that access to early retirement terms has required 5 years USS membership.

This situation is starting to create problems in Universities as the National Framework Agreement is applied. Members are faced with a complex choice and are annoyed that they cannot transfer past service pensions on what they perceive to be a fair basis. This will often mean that they cannot access USS terms for the future without taking a loss on their past service benefits, either on transfer or as a result of having to defer them in the local scheme (and so lose the link with final salary). Employers are setting arbitrary time limits on the choice process and facing problems in communicating adequately the situation.

Changes to the USS Scheme

The USS has determined its response to its latest Valuation (in 2005). The Valuation had revealed a substantial deficit, although on a funding basis as would be regarded as extremely cautious by other funded scheme. It had also suggested that in order to maintain current benefits in the future an increase of around 2% in employer (or employee) contributions might be required

After consultation with the employers it has been decided not to increase contributions either to remedy the deficit or cover the increase as suggested was necessary to meet the higher cost of benefits. In respect of the deficit they believe it should be addressed by anticipating investment returns only slightly higher than those available from government bonds (gilts) and take comfort from the fact that the Scheme would actually be in surplus if assessed on the valuation bases generally advocated by the Pension Regulator. In respect of the future service costs these are addressed by a number of benefit changes, as follows :-

1. New joiners as from 1 March 2007 will have a Normal Pension Age of 65 and will receive reduced benefits if they retire before age 65, unless on ill health grounds
2. In respect of current members, any future retirement from now on before age 60 will require not only employer consent (as now) but also require the employer (rather than the Scheme) to pay the extra cost
3. It is proposed to introduce a flexible retirement arrangement by the summer of 2007 (likely to allow pension to be drawn while still working in some capacity)

These changes certainly suggest that any decision to join the USS would best be taken before 1 March 2007 and that for members who joined the USS before March 2007 access to early retirement before age 60 will be much harder to obtain.