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Latest Q&As on the USS

11 August 2014

Employers are aware that the triennial valuation of the USS as at 31 March 2014 will show a considerable on-going scheme deficit. Although the formal results of the valuation are not expected until late 2014, the employers and the University and College Union continue to work together constructively to respond to the USS funding position. The following Q&As may benefit employers in communicating at institutional level.

Q1. Why is USS undertaking a valuation of the scheme?

Under UK legislation, Defined Benefit (DB) pension schemes such as the Universities Superannuation Scheme (USS) are required to undertake an actuarial valuation every three years. This is an assessment of the estimated current and future liabilities of a DB scheme at a set point in time (31 March) using a set of economic and demographic assumptions. The normal timescale for the completion of a valuation is 15 months which will include time for the [USS Trustee](#) - following consultation - to agree the assumptions unpinning the valuation. The 31 March 2011 actuarial valuation of USS indicated a £2.9bn shortfall between the value of the scheme assets and the estimated future liabilities. In March 2013 USS reported a 'snapshot' deficit of £11.5bn. The results from 31 March 2014 will not be available until the end of 2014 but are expected to indicate a continuing substantial deficit.

Q2. What needs to be done to address the deficit in the scheme?

At this stage there is a range of options under consideration, but the full extent of the measures required will not be known until the USS Trustee is able to determine what the revised contribution rate (covering the cost of future service as well as reducing the deficit) shall be. However it is the USS Trustee's view that the valuation will demonstrate that the cost of providing the current pension benefits defined by the scheme rules has gone up significantly and that employer and employee contribution increases and/or changes to the benefit structure would be required so as to ensure that the scheme remains affordable and sustainable. Although the results of the valuation will not be known until towards the end of 2014, the employers and the University and College Union (UCU) have already started discussions with the USS Trustee in order to respond to the USS funding position with the aim of developing proposals for reform that will secure an attractive, affordable and sustainable scheme for members and employers.

Q3. When will members be consulted on any changes to the scheme?

Employers are required to consult with affected employees on proposed changes to the benefits provided by the scheme. Prior to consultation with individual affected employees, the employers will need to agree their preferred option(s) for addressing the deficit, which may include changes to the scheme's benefit structure. Any changes to the benefit structure would need to be discussed with the USS Trustee and negotiated with UCU in the Joint Negotiating Committee (JNC), which was established by the USS for this purpose, before the scheme members are consulted. It is anticipated that work around deciding the employers' preferred option(s) for addressing the anticipated deficit will take place during the summer of 2014. Once a preferred option has been reached by the representatives of the participating employers and the UCU representatives at the JNC it will be presented to the USS Trustee. Individual employee members will then be consulted in relation to any changes to the scheme.

Q4. What is the composition and purpose of the JNC?

The JNC consists of eleven members: five members appointed by Universities UK representing the employers, five appointed by UCU representing individual members and an independent Chair, Sir Andrew Cubie. Any changes to USS scheme rules must be agreed by the Joint Negotiating Committee (JNC) before being put forward to the USS Trustee.

Q5. Is my pension safe?

Yes. The pension rights you have already accrued are protected by law and backed by robust employers within the higher education sector; these accrued rights are safe. Any changes to USS will be implemented with the aim of addressing issues around the on-going sustainability of the scheme while also ensuring that it remains attractive and affordable for individual members. However, there may be changes to pension benefits for future service and changes to contribution rates.

Q6. Can the EPF/UUK provide more information and detail about proposed changes to the scheme benefit structure?

UUK/EPF, along with UCU and USS, are still at the early stages of discussions around the measures that will be required to address the substantial USS deficit, including potential changes to the scheme's benefit structure. Currently the employers are not in a position to set out the exact detail of what their proposals for the future benefit structure might look like as this is still subject to discussions based around the initial results of the 31 March 2014 valuation and consultation with employers and will also be subject to a period of discussion with the UCU as the representative of scheme members. However UUK/EPF has recently issued a consultation document to the participating employers setting out its initial proposals for these changes. The consultation will run from July until 15 September 2014. UUK has also produced a document for USS employers to share with their employees which provides an outline summary of the currently proposed changes to USS benefits and explaining the processes being gone through in the coming months. An important further stage will be the employer consultation with affected employees.

Further information can be found at www.employerspensionsforum.co.uk/en/pension-schemes/uss/briefing-on-the-uss-july-2014.cfm

Q7. Why does the latest USS annual report show a surplus rather than a deficit, whereas the actuarial valuation shows a large deficit?

The USS actuarial valuation is fundamentally different from the USS annual report and accounts. The report and accounts set out the contributions and investment returns received by the scheme and the benefits paid out in a particular year. The actuarial valuation on the other hand is used to determine the total expected future cost of providing the benefits which members have built up (liabilities) and comparing this to the value of the scheme's assets at a given point in time (in this case 31 March 2014). The last actuarial valuation in 2011 showed that the expected cost of the scheme liabilities was £2.9bn higher than the value of the scheme's assets and this shortfall in the funding of the scheme has increased substantially in the period up to 31 March 2014.

Q8. Why are the employers concerned about a deficit in the valuation when contributions coming into the scheme are currently outweighing benefits being paid out?

At present the contributions received are greater than the benefits being paid out mainly due to there being a higher number of active members contributing to the scheme than pensioners receiving their benefits. However, this disregards the past service deficit which under UK pensions legislation the trustees of a pension scheme are required to pay down for a period agreed with the employers and the Pensions Regulator. USS currently levies deficit contributions as a percentage of payroll and the current combined cost of meeting pension promises and paying down the scheme's deficit is greater than the current combined employer & employee contribution rate. Furthermore, it is vital to consider the fact that USS is in the process of 'maturing'. A mature pension scheme is one which has a high ratio of pensioners to active members. Since 2009 the proportion of active members in the scheme has been reducing (2009 - 52.2%; 2013 - 48.9%) and this trend is expected to continue. There are also nearly 100,000 deferred members in the scheme who are not paying contributions but who will commence receipt of their pension benefits in the future (25,000 of these deferred members are aged over 50).

Q9. What are the issues with longevity and will they really impact on USS?

Yes, longevity issues do impact on USS. Current longevity patterns are significantly different to those when the scheme was set up in 1974. Then it was expected that a USS pensioner retiring at age 65 would live for 6 to 8 years in retirement so the cost of the scheme and the contribution rates were set on this basis. By 2014 the anticipated length of retirement is around 30 years, so USS pensions will need to be paid for a significantly longer period than they have in the past and this has increased the cost. Increasing longevity was a factor that impacted on the last valuation of USS in 2011 and this trend has continued such that in the 2014 valuation the scheme actuary is advising a further increase in the longevity assumption to reflect continuing improvements in life expectancy.

Q10. The global economy is improving so why are economic factors such a big issue for USS?

While economic conditions are slowly starting to improve, there still remains a great deal of uncertainty around global economic growth and financial stability both of which are inextricably associated with the unconventional monetary policies, such as quantitative easing (QE), adopted by major developed countries in response to the financial crisis. There is still concern around the exit from QE and whether

there will be a surge in long term interest rates, a sell-off in global equity markets and a sharp decline of capital inflows to emerging markets. Each of these scenarios could potentially have a negative impact on the USS funding position. This uncertainty means that the employers need to take steps to ensure that the scheme remains sustainable and that the cost of providing benefits does not increase to unaffordable levels.

Q11. Why are the UCU questioning the valuation methodology and suggesting that it does not provide a true picture of the scheme's funding position?

The UCU has raised issues relating to the methodology and assumptions adopted in the USS valuation but it is the USS Trustee who is responsible for agreeing the valuation assumptions on the advice of the Scheme Actuary, and after consulting the employers. The USS Trustee has written directly to the UCU in response to its questions setting out in detail its reasoning behind the valuation methodology adopted and in particular the Board's thinking behind the discount rate to be applied. While the valuation assumptions are still subject to consultation with the employers, the Funding and Benefits Work did ask USS to provide more information on the potential impact of changing the valuation assumptions in the way the UCU has proposed. Having heard the USS response, the employers' representatives are supportive of the arguments for retaining the approach that the USS Trustee has adopted previously. These include clear advantages in using a consistent method of establishing the discount rate from one valuation to the next. In addition, the current methodology is also widely used by UK pension schemes and, although variations exist, the understanding is that the methodology the UCU proposes would not give rise to a materially different outcome in relation to the size of the current deficit.

Further information

USS has produced a set of FAQs which provide information on the March 2014 valuation process. Further information can be found [here](#).

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