Universities Superannuation Scheme

2020 Actuarial valuation: employer consultation on the 31 August 2021 resolutions made by the Joint Negotiating Committee

Report on consultation responses

Published on 3 February 2022

This report is intended to provide a summary of the main sentiments and themes arising out of the responses submitted by or on behalf of affected employees during the statutory employer consultation period. The views expressed within the report do not necessarily reflect the views of all affected employees.

We do not accept any liability if this report is used for an alternative purpose from that which is intended, nor to any third party in respect of this report.

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1. Executive summary

- This document has been prepared by the USS Trustee. It summarises the responses from the statutory employer consultation which ran between 1 November 2021 and 17 January 2022. It has been drafted in an accessible format.
- In total, 4,687 individual responses were received from affected employees. That is equivalent to 2% of the Scheme's active membership at 31 March 2021, the date of the latest USS audited Annual Report and Accounts. The Trustee read every response received and this report summarises the main sentiments and themes arising.
- The Consultation Regulations[1] set out the obligation on employers to consult with affected employees and representatives before a decision is made to make prescribed 'listed changes' to an occupational pension scheme. The JNC's package of proposed benefit changes, and the fall-back structure of contribution rate increases that would apply under the dual rate schedule of contributions if other proposals were not implemented by 1 April 2022, include listed changes.
- The main themes arising out of the consultation responses are as follows. (These themes take into account views expressed across all responses, not just the individual question relating to any particular proposal):
    - Whilst the levels of negative feedback are broadly similar across the main benefit proposals, the least-popular proposal is the 2.5% cap on inflationary pre- and post-retirement increases to defined benefits (DB) accrued on and after 1 April 2022, and to future indexation of the Salary Threshold after 1 April 2022. Next least popular is the proposal to reduce the accrual rate for DB from 1/75 to 1/85 of salary.

[1] The Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006 (as amended for multi-employer schemes).

- Views on the member contribution rate are polarised: many feel 9.8% of salary is around the limit of affordability, but understand DB benefits are valuable and need to be funded. On the fall-back proposal almost half of responses were negative, with a third of those feeling the proposed rates were unaffordable, and a third suggesting it would cause members to leave USS.
- However, many individuals have responded to the fall-back question that they would prefer to leave benefits unchanged. Some of these respondents did so on the basis that they would pay the fall-back contributions in full. Others responded with an alternative proposal whereby only the early fall-back contribution rates would be paid. This was on the basis that an extension of the same level of employer covenant support as has been put forward for the JNC's recommended package of benefit changes, and the outcomes of future actuarial valuations, could prevent the higher rates in the fall-back structure from actually becoming payable.
- Greater flexibility or optionality to fit building up benefits in the scheme around life events, careers and budgets could be agreeable or useful. But this would need to be accompanied by education and guidance.
- Many respondents gave their views on the timing and approach to the 2020 actuarial valuation. This is identified by many as a significant factor in contributing towards the rising costs of the scheme.

2. Background to the consultation

The Consultation Regulations set out the obligation on relevant employers[1] to consult with active and eligible employees ("affected employees") and representatives before a decision to make prescribed 'listed changes' to an occupational pension scheme can be taken. The JNC's package of proposed benefit changes, and the contribution rate increases that would apply from 1 April 2022 in the fall back-scenario as set out in the resolutions made by the JNC on 31 August 2021, include listed changes which therefore triggered the requirement for a consultation.

The Consultation Regulations require that the consultation period must be at least 60 days. The consultation period ran from 1 November 2021 to 17 January 2022 (77 days).

The Trustee also has obligations under the Consultation Regulations[2] as the party which has the power to amend the scheme rules to make listed changes which affect the scheme. These obligations include:

- to take reasonable steps to satisfy itself that the consultation was carried out in accordance with the Consultation Regulations;
- to consider the consultation responses received in the course of the consultation before making its decision as to whether or not to amend the scheme rules to make the proposed listed changes.

[1] The Consultation Regulations apply to employers of 50 or more employees (whether or not they are scheme members) although all employers were encouraged to consult.

[2] See regulation 3(1) and 6(1) of the Consultation Regulations.

Employers sent affected employees and representatives the statutory consultation notice by email, or by paper/accessible copy, before the start of consultation. The statutory consultation notice included information describing the listed changes and what the effect of such changes would be on the scheme and its members. It also included other relevant background information e.g. the reasons why the changes had been proposed. The notice also indicated the timescales on which the changes were proposed to be introduced.

The consultation was supported by a website with further supporting information. This included a modeller individuals could use to gauge the potential impact of the proposed changes on contributions and benefits. It also included factsheets on specific elements of the JNC's package of recommended changes, and FAQs.

Consultation responses could be submitted via the consultation website. The website set out questions on different aspects of the proposals with unlimited free-text answer boxes. Responses submitted on the consultation website were available to the individual's employer and the Trustee. Any responses provided directly to employers were forwarded on to the Trustee. Responses were by default anonymous, although individuals could choose to share their details if they wished.

3. Consultation responses

The Consultation Regulations require that a consultation be carried out 'in a spirit of co-operation, taking account of the interests of both sides'. Affected employees and representatives must be allowed to make any comments they wish about any proposal to make listed changes to the scheme. A consultation is not a vote on the relevant proposals, nor does it require that agreement of those consulted must be obtained.

To help individuals consider and respond to the key aspects of the proposals, the consultation was constructed as a series of questions which addressed each of the key elements.

The response areas for each question allowed free text (including blank) responses of unlimited length. This approach, and the inclusion of a final general question, ensured individuals could leave any response on any aspect of the proposals, or any other points they wanted to make.

3.1 Nil returns

Some respondents left some of the response areas blank, or simply responded "no comment" for example. Some provided a single general response.

The numbers of these responses are set out in the table in Appendix 3.

3.2 Responses that addressed wider issues

The question-based structure and the free text response format gave individuals the freedom to provide their views on the proposals and any other issues they wished to raise. Whilst not directly related to the proposals which were being consulted on, these responses on wider issues were analysed. The main themes are set out below. The total numbers of these responses are set out in the table in Appendix 3.

Individual not affected by that element of the proposal

Some individuals chose not to respond, explaining that they believe they are not, or will not be, affected by that particular proposed change.

2020 valuation and related issues

7% of the total responses submitted only their views in relation to the underlying driver of the increase in the required contribution rate for current benefits (which in turn triggered the changes recommended by the JNC) – the results of the 2020 actuarial valuation. The most common points made here were:

- The timing of the 2020 valuation i.e. the 31 March valuation date and co-incident asset values at that time, arising particularly out of the market reaction to the COVID-19 pandemic
- The perceived improvements since that date e.g. the increase in asset values since 31 March 2020
- The Trustee's approach to prudence and the resulting approach and assumptions adopted.

In some cases respondents stated, and in others implied, that an updated valuation would show the costs of the scheme have not increased and therefore benefit and contribution changes would not be needed.

Example responses covering these points:
"*These proposals seem to be based on a pessimistic and overly prudent valuation of the USS fund made in the middle of a global economic crash. Therefore the basis for this recommendation is flawed and therefore I think it should be reassessed on the basis of an updated valuation and more realistic prudence assumptions.*"

"I believe the 2020 valuation is overly pessimistic. I believe there would be no increased cost to address, and hence no need for any benefit adjustment, if the scheme is valued appropriately."

A number of these responses cited or directly quoted an FT article by Martin Wolf, published 14 November 2021.

Other concerns

Individuals also cited other concerns as reasons for not commenting on the JNC's proposals, many of which they believe again cast doubt upon the need for the proposals to be made and/or implemented. These other concerns include:

- How the proposals were arrived at, for example the JNC's discussions and the proposals it considered, and the process by which it arrived at its recommendation
- Eroded trust in USS and the Trustee, for example the lack of attention paid to the Joint Expert Panel's recommendations, issues with investment management performance and general scheme costs, and the need for a governance review. There is more detail on these points in section 3.10 below
- The current regulatory environment and how this has affected the approach to the valuation.

3.3 Question 1: Reducing, and capping future indexation of, the Salary Threshold

It is proposed that the Salary Threshold will reduce from £59,883.65 to £40,000 from 1 April 2022, meaning your USS Retirement Income Builder (that is, the defined benefit section of the scheme) benefits will be based on your salary up to that level for the 2022/23 year.

The Salary Threshold would continue to be increased annually in line with inflation but capped at 2.5% in any year.

Do you have any comments or suggestions in relation to this part of the proposals?

74% of respondents answered this question directly.

Total number of submissions	**4,687**
Nil returns	955
Response cited 2020 valuation/related views only	257
Number of responses analysed	**3,475**
- General sentiment: negative/decline	88%
- General sentiment: positive/accept	12%

The most common points made were:

- The reduction from £59,883.65 is too large (at least in one step). It would significantly reduce defined benefit pensions, in some cases to a point where the relative costs/benefits were felt to be unattractive.

  "I would prefer for this threshold to be reduced by a lesser amount, to ensure that the defined (guaranteed) pension on retirement for the vast majority of USS members is enough to ensure that the basic costs of living during retirement are adequately covered."

  A number of alternative figures were proposed between £40,000 and the existing Salary Threshold figure, with £50,000 being most popular.

- A small number of individuals said the £40,000 figure was also somewhat arbitrary. They said the Salary Threshold might be better being linked to employment grades/salaries, income tax threshold or similar. In that way, defined benefit accrual would continue in full for those not deemed as 'higher paid'.

  "This is well below the higher rate tax threshold set by govt, it is also not a salary point - would it not make more sense for this to be set at the first point of a G8 salary scale, rather than partway through G7 scale? It's a big enough drop already from top G9 to bottom of G8, without reducing to include G7 as well."

- There was concern about the resulting lower levels of defined benefits that would be provided by the proposed Salary Threshold. Responses also highlighted concerns about a greater reliance on defined contribution benefits, which respondents said were less secure and reliable.

  "This seems to be a significant reduction that will affect many people including myself. I am concerned about the risk associated with allocating the monies to the investment builder. This is a risk I do not feel should be forced upon us and should be a choice."

  The contribution structure here also received some comment - that 8% from the member's contribution and 12% from the employer's contribution on salary above the Salary Threshold is invested into an individual's USS Investment Builder fund. Respondents asked for more information on this if the proposals are implemented which would result in an increased proportion of the membership building defined contribution benefits.

- The proposal for a 2.5% cap on increases in the Salary Threshold to inflation, but capped at 2.5% each year until 31 March 2025 or, if earlier, the date of any change concluded by a review by the JNC of the amount of the Salary Threshold, was (in common with the other inflation-capped proposals) less well received, even where the proposal to reduce the Salary Threshold was accepted.

  "A reduction in the salary cap is in principle fine with me if necessary as it protects lower-paid staff. The 2.5% cap on annual increases, though, is not OK - this needs to be amended under any circumstances."

  "I am happy for the salary threshold to be reduced. I do not agree with the 2.5% cap."

  "This should be cut further (e.g. to £30,000) in order to preserve the inflation protection."

Respondents said that current high levels of inflation are exacerbating these concerns. This is both in terms of short-term exposure and in causing people to think more about the potential long-term effects of inflation and capping at any level.

12% of individuals who answered this specific question did not respond negatively to this proposal. Of these, many did so on the basis that if the cost of defined benefit accrual needs to be managed, they accepted adjustment of the Salary Threshold can be a tool in doing so.

"Obviously not very happy but if this is what it takes to make the scheme sustainable, so be it."

15% of individuals who responded to the proposal question itself also gave views about the 2020 valuation and related issues. This is in addition to the individuals who made similar points whilst not responding to this proposal.

3.4 Question 2: Reducing the accrual rate

It is proposed that the rate at which benefits are built up in the USS Retirement Income Builder (that is, the defined benefit section of the scheme) will reduce – currently members get 1/75th of Salary (up to the Salary Threshold) in DB pension each year (and 3/75ths as a lump sum) but it is proposed to change to 1/85th (and 3/85ths) respectively.

Do you have any comments or suggestions in relation to this part of the proposals?

71% of respondents answered this question directly.

Total number of submissions	**4,687**
Nil returns	990
Response cited 2020 valuation/related views only	364
Number of responses analysed	**3,333**
- General sentiment: negative/decline	91%
- General sentiment: positive/accept	9%

This proposal was less well received than the proposed reduction in the Salary Threshold (Q1), but not as poorly received as the inflation-capping proposals (Q3).

- Most respondents said this proposal would have a significant impact, both in isolation and in combination with the other proposed changes.

  "This proposed change in the accrual rate is another major reduction in the value of my pension benefits. The current accrual rate will provide me with a pension that would be 40% of my average lifetime income. The proposal reduces that to 35.29%. This is really disappointing."

  "I do NOT support this change to the accrual rate. Taken in conjunction with the salary threshold change, this significantly reduces the annual increase in pension return. This is a step too far."

- A number of individuals suggested that the proposal was particularly unfair for those on low salaries because it affected the whole of their pension provision, compared to those who have salaries above the Salary Threshold.

  "I believe this change is unavoidable but unfortunate as it will impact more greatly people on lower salaries which is unfair."

- In terms of alternatives put forward, the main message was a desire to leave the accrual rate unchanged. A small number said that an 1/80 accrual rate would be acceptable, that having been the accrual rate for final salary and CRB members until 31 March 2016. 7% of respondents said that they would prefer to pay higher contributions instead of reducing the accrual rate.

9% of respondents on this proposal did not give a negative response. This was generally because it was recognised as a tool in adjusting the cost of defined benefits.

> *"This is obviously disappointing as you end up with less overall, but I recognise the need to do something to reform the pension scheme as it is."*

> *"I feel this sacrifice is sensible and beneficial, as it means we can keep member contributions at the current rate. The alternatives would not work as well: increasing contributions would discourage the lowest paid from joining the pension and moving to a money purchase scheme would be insecure. This option provides clarity and security so people will know their exact pension amount and can plan for that. I am in favour."*

18% of respondents also gave views about the 2020 valuation and related issues.

3.5 Question 3: Capping inflationary pre- and post-retirement increases at 2.5% each year

> It is proposed that the increases (before and after retirement) to your benefits built up after 1 April 2022 to protect them against inflation will be capped at 2.5% in any year.
>
> (Note this proposal will not affect any benefits you build up before 1 April 2022).
>
> Do you have any comments or suggestions in relation to this part of the proposals?

74% of respondents answered this question directly.

Total number of submissions	**4,687**
Nil returns	1,074
Response cited 2020 valuation/related views only	138
Number of responses analysed	**3,475**
- General sentiment: negative/decline	93%
- General sentiment: positive/accept	7%

This question received the highest rate of negative responses. The strength of feeling was also high, and this issue was also mentioned in answers to other questions.

- Many individuals made reference to current inflation rates and expected short-term inflation levels. However, individuals did focus on the longer-term impacts of inflation capping. Some individuals said that a lower cap is more likely to generate a cumulative reduction in benefits from and after retirement.

  "Certainty is one of the advantages of a defined benefits scheme. The inflation cap removes this certainty, so I'm not in favour. In the current economic climate it is likely that the rate of inflation will exceed 2.5%."

  "A few years of higher inflation could have a major impact to retirement income making this a very scary prospect. I do not support the introduction of this at all."

  "This is the most concerning part of the proposals as if there are periods of high inflation in the future, the value of the DB portion of benefits would reduce massively in real terms. Once members are retired this is compounded even further."

  "Inflation cap of 2.5% is almost certain to reduce pensions in real terms, this is not a defined benefit scheme. Watching our pensions erode away in real terms will cause stress and anxiety to members, something having a defined benefit scheme should prevent. If it can't do that, then what's the point of having a defined benefit scheme?"

Of those who responded to this question but did not provide a negative response, the reasons for this (where given) largely reflected that it could be a way of managing the cost of defined benefits costs.

"This seems a reasonable mechanism to generate longer term planning stability."

> *"The least worst option of all the changes floated. It will provide some maintenance of benefits and is a change that I can agree with in a small way."*

However the potential impacts on benefits over the long term were still acknowledged in a number of responses. Some individuals cautioned that this proposal, if implemented, should be revisited regularly in light of future market conditions, even if other changes are not being proposed at that time. In that way, any long-term impacts of higher inflation could be avoided if possible.

> *"I don't see this as an issue in the short-term, however this should be considered for ongoing review if inflation is deemed to consistently be above the cap for an extended period."*

14% of individuals who responded to the question on this particular proposal also gave views about the 2020 valuation and related issues.

3.6 Question 4: Keeping the member contribution rate at 9.8% of salary

In return for the above proposed benefit package you will continue to contribute 9.8% of your total salary to USS (the rate which applies from 1 October 2021); your employer will continue to pay 21.4% of your total salary.

Note, if your salary is higher than the Salary Threshold (which is proposed to be £40,000 from 1 April 2022) then, as now, 8% from your contributions on your salary above the Salary Threshold (and 12% from your employer's contributions on your Salary above the Salary Threshold) will be paid into your fund in the USS Investment Builder (that is, the defined contribution section of the scheme) section.

What are your views on this?

68% of respondents answered this question directly.

Total number of submissions	**4,687**
Nil returns	1,321
Response cited 2020 valuation/related views only	186
Number of responses analysed	**3,180**
- General sentiment: negative/decline	78%
- General sentiment: positive/accept	22%

Respondents giving negative replies can be considered in four main groups. Note that some respondents made more than one of these points:

- Those who make the same points regarding the 2020 valuation in the context of the 9.8% rate itself (22% of negative responses)

- Those who said that 9.8% is too high a contribution rate, particularly for the proposed lower levels of defined benefits (7%)

  "The contributions remain very high. It is good that they have not increased as suggested at the beginning of negotiations, although it seems unfair that we are paying in the same for a much worse pension offer."

- Those who would rather pay more to alleviate some or all of the proposed changes to defined benefits (23%)

  "I prefer to increase my contribution and keep the current benefit structure."

- Those who do not like the structure of contributions to the USS Investment Builder on salary above the Salary Threshold. This is receiving more attention due to the proposed reduction to the Salary Threshold. (9%)

"I repeat my comment from point 1: it is not acceptable that member payments into the scheme is not 100% directed into the pension, whether DC or DB. In effect, the changes mean that a member earning 60K will lose close to 20% of their contribution per month. For higher earners the loss will be greater and this considerably negates the advantage of pre-tax pension saving."

Some respondents who gave non-negative responses to this question said that 9.8% was satisfactory as a defined benefit contribution rate. However, some respondents also note that 9.8% is close to the limit of their affordability:

"I was worried to read contributions might need to increase more than 9.8% as this would have made the scheme unaffordable for me. 9.8% is a much more reasonable percentage and I am happy paying this amount from my salary in return for proposed changes to the benefit package."

In contrast, some respondents said they would be willing to pay more if it meant keeping the current benefit structure. However, few indicated how much more they would be willing to pay:

"I'd be happy to pay more to retain current benefits."

3.7 Question 5: Addressing the costs of the Scheme

Of the following changes, please state the order of your preferred approach to addressing the increased cost of benefits?

A. Reduction in the salary threshold used to calculate defined benefits (from £59,883.65)
B. Reduction in the future accrual rate used to calculate defined benefits (from 1/75ths)
C. Introduction of a 2.5% cap on increases to pensions built up from 1 April 2022
D. Contribution increases (from a total of 31.2% of salary; 9.8% of salary paid by members and 21.4% of salary paid by employers)
E. Any other benefit adjustment (please specify)

84% of respondents answered this question directly.

Total number of submissions	**4,687**
Nil returns	355
Response cited 2020 valuation/related views only	407
Number of responses analysed	**3,925**

Question 5 asked individuals to say which of the proposal types they preferred for addressing increased costs in the scheme. It did not give any detailed figures for affected employees to calculate the impact of their choices - for example it did not show how much the Salary Threshold would have to change in order to maintain the current accrual rate.

The response area was free-text, so individuals could give any response or context they wished. As a result, the responses contained variations such as:

- All five options A-E in the individual's preferred order, for example:

  "*C E A B D*" (with and without commentary on option E)

- The individual's preferred sub-set of options A-E (not necessarily ordered), for example:

  "A. Most preferred D. C. B. Least preferred"

- Just the most preferred or least preferred option(s), for example:

  "D Then A"

  "NOT B or D"

  "The only recommended change that is plausible, although not ideal, is A. The other four proposed changes attack members' benefits to a point where the scheme is no longer worthwhile."

  "I am unable to put all of them in order of preference but C is my least preferred alternative and the part of the proposals that I am most concerned about."

- And a number of individuals provided answers without indicating preferences A-E. For example:

  "I do not see anything here that I am happy with. All the changes represent a large reduction in pensions."

Taking into account the variety of answers, some quantitative analysis can be done on the sub-set of responses which provide clear responses. One approach is to look at the elements of the proposals which have generated the strongest views, as more individuals appear to have been inclined to express these strong views rather than rank the full list of proposals. This is set out below.

Number of responses analysed	3,925
Number giving a most and/or least preferred option	3,270

	Most preferred	Least preferred	'Net rating'
A – Salary Threshold	17%	11%	6%
B – Accrual Rate	5%	15%	-10%
C – 2.5% Inflation cap	7%	51%	-44%
D – Contribution increases	52%	17%	35%
E – Other	19%	6%	13%
Total:	**100%**	**100%**	

In relation to the benefit proposals, the above reinforces the analysis of the responses received to questions 1-4 i.e. that the inflation cap and the accrual rate changes are felt to be the least supported proposals.

Addressing increases in costs through contribution increases is the most preferred, and has the best net rating, but is also the second least preferred (i.e. more individuals would not like to address costs that way than would not like to change Accrual Rate or Salary Threshold).

A significant number of individuals added further comment to their answers when expressing a preference for A to D. Also, individuals were encouraged to explain their alternative approach if they expressed a preference for E. (Note where option E was given as the lowest preference answer, this was largely due to individuals wishing to include all five of options A-E in their answer.)

Where an individual expanded on their answer, or gave a preferred option E, the following were the most common suggestions:

- Reconsider the 2020 actuarial valuation (12% of total responses expressing an opinion)
- Adjust the current proposals, or vary other elements of the benefit design (15%)
- Pay higher contributions than 9.8%, or the fall-back position (4%)
- Allow greater flexibility, or move towards larger/full defined contribution approach (6%)
- Employers to meet the increased costs (3%).

Suggestions relating to other changes which could be made to benefits or benefit design (excluding those relating to varying the current proposals) included:

- Tiered contribution rates related to earnings levels
- Reduced contributions on salaries above the Salary Threshold
- A nursery scheme for new joiners
- Some form of risk sharing, including conditional indexation-type approaches
- Reduce core contingent or peripheral benefits (for example, death and incapacity benefits)
- Explore adjustments to accrued benefits (although this would be challenging given legislative restrictions).

3.8 Question 6: the fall-back contributions under the dual rate schedule of contributions

If the JNC finds it cannot make a final recommendation on benefit and contribution rate changes before 28 February 2022 (in the form of consent to an executed deed of amendment) the current benefit structure would remain in place and member and employer contribution rates would instead increase. Under this fall-back proposal the rates would increase in steps every six months starting at 11% in April 2022 and rising until October 2025 where they would reach 18.8% for members and 38.2% for employers. This would remain the case unless and until an alternative benefit specification is proposed and agreed, or a subsequent valuation is undertaken and concluded which would reflect the economic, funding and covenant positions at the time of that valuation.

What are your views on this fall-back position?

82% of respondents answered this question directly.

Total number of submissions	**4,687**
Nil returns	278
Response cited 2020 valuation/related views only	568
Number of responses analysed	**3,841**
- General sentiment: negative/decline	47%
- General sentiment: non-negative	53%

These percentages suggest that Question 6 produced the most balanced sentiment of responses. But a more detailed analysis shows this was a nuanced area.

For the individuals who gave a negative response:

- 37% said the proposed increases are unaffordable taking into account other pressures on incomes.

  "These member contributions are too high in the current economic climate and rising cost of living. Member contributions of this level could result in the pension scheme becoming unaffordable to many."

  "An increase to 11% and beyond will be disproportionate and will have a huge impact on family budgets for very little gain. In real terms this means that take home pay will be significantly impacted."

- 35% of negative respondents said they believed they and/or their colleagues would be forced to opt out or reconsider their membership of the scheme if this approach was adopted.

  "I consider anything much above 10% contribution unsustainable, I would probably leave the scheme if the fall-back proposal was implemented."

  "If member contribution rates were to increase to 11% I would strongly consider removing myself from the pension scheme. As a member under the age of 30, I cannot contribute 11% of my salary

during this period of my life and I would therefore sacrifice my pension for later in life."

- There was some variance around what level of contributions individuals were considering under the fall-back proposal. Some considered the lower ends of the fall-back scale of contributions unaffordable. Some were more concerned about the higher rates.

  "If it went to 11% I would have to opt out of the scheme and I feel a lot of members who are on lower incomes would have to do that same."

  "I would struggle to cope with an 18.8% increase in my pension contributions. I am the main salary in the household and this would severely harm our net income in our household meaning I would need to consider whether I stayed in the USS scheme if this was to happen."

In the 53% of non-negative responses there were two main, but different, views expressed.

34% of all respondents to this question did not want the level of defined benefits to reduce, and accepted the fall-back structure of contributions in full:

"Honestly I like the current benefit structure far more than these proposals and would pay more to protect them."

"I would pay up to 18.8% of my salary in contributions to retain my current USS benefits. Increases in employee and employer contributions are preferable to the magnitude of the cuts to the DB pension as proposed in this consultation. An increase in contributions is preferable to a cut in benefits."

"Although it is obviously bad, I would accept this fall-back position. To me, this fall-back position, keeping all the current benefit structure but increasing the monthly contributions to eventually

> *18.8%, is preferable to any major reduction in the current benefits."*

However, some of these individuals also felt there would be risks with the fall-back approach.

> *"I could afford it but I'm not sure many could. I think people will leave the pension scheme."*

33% of all respondents to this question did not want benefits to reduce, and wanted to pay the required contributions as a short-term measure while a further valuation and related work is undertaken (the basis for this response largely being that this will produce lower scheme costs and would therefore mean that benefit change is not needed).

> *"The fall-back position is preferable until at least April 2023 to the cuts to pensions that employers are proposing. According to the consultation material, the stepped rises in contribution rates can be mitigated by increased employer covenant support. If employers extend the same level of covenant support to current benefits as they're offering on behalf of their own cuts, the modest rises in member contributions needed to retain current benefits until at least April 2023 are clearly preferable to the magnitude of the cuts to our pensions which such contributions would spare us. The consultation material also indicates that these stepped rises in contributions might be superseded by a new valuation. On any sensible new valuation of the financial health of the scheme, these rises would not need to continue beyond April 2023."*

As can be seen from the above figures, there were some respondents who made clear their support for both the full fall-back contribution approach and the short-term increased contributions approach.

Across the range of views on the fall-back proposal, some respondents also made comments about the 2020 actuarial valuation.

3.9 Question 7: Views on more choice and flexibility

This question is not a formal consultation question – it doesn't relate directly to the proposed changes to benefits or contributions from 1 April 2022. However, it's a chance for you to provide your views in some related areas and maybe help contribute to the development of specific options in the scheme in the future.

USS provides valuable pension benefits to members in return for a specific contribution rate. These benefits are valuable but around 15% of employees who are eligible choose not to be a member of USS – many citing concerns around affordability or portability of their benefits.

Employers, following the recommendation of the Joint Expert Panel, are considering whether there should be more choice and flexibility for USS members. This could be, for example, the ability for the member to choose to pay lower contributions and build up a reduced amount of pension.

What are your views on the introduction of choice and would any particular flexibility be attractive to you?

59% of respondents answered this question directly.

Total number of submissions	**4,687**
Nil returns	1,531
Response cited 2020 valuation/related views only	391
Number of responses analysed	**2,765**
- General sentiment: negative/decline	34%
- General sentiment: positive/accept	66%

66% those who responded to question 7 indicated some form of greater flexibility might be an agreeable or useful option, even if they could not see themselves taking advantage of such flexibilities. Many thought such an approach would be complementary to working lives and could overall lead to better pension outcomes even if the flexibilities were to allow lower accrual/contribution rates.

> *"More choice and flexibility for USS members is a promising idea and should be properly explored as an option. The traditional current one size fits all model is not ideal and does not take account individual members needs at different points in their career."*
>
> *"Yes, greater flexibility seems a very good idea to me. Almost everyone has periods in their career when they are able to pay more or less towards their pension."*
>
> *"Yes, a choice to pay lower contributions in return for a proportionally reduced pension would open the scheme up to more people, and would be welcomed."*

- However many also said that an option to pay more for higher benefits, as well as less for lower benefits, would be useful.

> *"Happy with this idea so long as there was also the option to pay more for a better pension alongside a pay less/get less option."*

- Generally respondents did not go into detail of how flexibilities should be facilitated. For those who did, there was no clear preference for flexibility in DB or DC. Both the security of DB benefits and the flexibility and control of DC benefits were attractive to individuals.

  In relation to DB variations, individuals suggested varying accrual rates (up and down) for different levels of contributions, an Local Government Pension Scheme-type 50/50 option, tiered or graded contributions like the Teacher's Pension Scheme, or the option to opt out partially/fully for a DC option (inside or outside USS) or a salary supplement.

In relation to DC variations, suggestions included the option to choose DC at any time with flexible member contributions, matching or unreduced employer contributions, bespoke or ethical investment options, and freedom to invest inside or outside USS.

- Other suggestions for benefit variations were also made, for example the ability to flex spouses' pensions and children's pensions or non-pension benefits such as the retirement lump sum benefit or life cover.

- One point that came up regularly related to concerns around 'portability', both between UK roles (as the sector becomes more mobile) and internationally. Some individuals also suggested their employers explore additional or separate non-USS offerings or supplements.

- A common theme was that additional flexibility must be supported with additional member education and information, so that members could make the right choices with full understanding of the implications.

The reasons individuals thought flexibility should not be available were (in order of most to least responses received):

- lower benefits would not be attractive to them, and could lead to poorer retirement outcomes for others
- it would undermine or weaken the scheme
- it would not address the problem of individuals opting out: these were generally more felt to be employment-related (e.g. casual or fixed term contracts, pay)
- the simplicity and value of the current single benefit structure (e.g. flexibility would add complexity) and
- it would add administrative and operational complexity to, and/or because of their general reduced levels of trust for, USS.

"I am against this kind of flexibility because it is human nature to think short term; employees who are early career, which in the world of academia means in their late thirties/early forties, juggling

the demands of a young family, high rents, low incomes etc. would be tempted to opt for the lowest contributions, and then, in old age, find themselves reduced to penury. I have seen the pension funds of my earlier working life make similar cuts as the ones USS are suggesting, and offering subscribers the opportunity to "fill the pension gap" themselves by opting to pay higher contributions. At that precarious stage in my career, I felt I would be selfishly robbing my young family if I would reduce my income even more just to ensure a reasonable income for myself in old age. It is better not to tempt people with such choices."

"Having a default contribution rate is more simple for people to understand and calculate the benefit of. I'm not sure offering alternative options would necessarily increase take up as the complexity of pensions is probably a significant factor in take up."

"Keep as is - across the board. The strength in a pension scheme is providing collective benefits based on the same rules, etc. Changing this would make things more complicated, increase admin costs, etc"

Around 7% of respondents said that flexibility would particularly affect younger, lower paid or minority colleagues.

"Many who take up any offer of reduced contributions and benefits will do so because they have no other choice, disproportionately influencing the lower paid, ECRs, women, parents, and disabled employees. A good affordable pension should be available to all employees."

4% of respondents also gave views about the 2020 valuation and related issues.

3.10 Question 8: Any other comments

Lastly, do you have any final comments or views you'd like to share as part of this consultation?

USS

62% of the respondents answered this question directly.
The most common themes arising out of these final comments were:

- The 2020 valuation and related issues: 40% of those responding made similar points to those raised throughout (see 3.2) relating to the timing of the valuation, asset value changes since March 2020, the approach to the valuation, prudence etc. Many respondents said that the proposed changes may not be needed if an updated valuation were carried out or the Trustee amended its approach.

- Trust: 23% of those responding raised trust concerns:
  - Primarily the comments relate to the Trustee. They most commonly link to the valuation concerns already covered elsewhere in this report, but also reflect concerns relating to governance, investments (e.g. fossil fuels and divestment from those, general performance), equality (see below), administrative costs, engagement, and transparency
  - Some individuals commented on the roles and actions of the employers and their representatives in the scheme and the valuation
  - Other parties were referenced, for example the Pensions Regulator and the perceived impact of its regulatory regime on defined benefit schemes, and the JNC and its decision-making (particularly that major recent decisions have required the Chair's casting vote and have been cast in favour of UUK proposals).

- Fairness and equality: there is a view that the continuing changes to the scheme are generationally unfair: the funding issues of the scheme are being dealt with by current active members whilst those close to or at retirement will receive full pensions based on better accrual rates (or even final salaries) having paid lower contributions over their working lives. Further, even within the current active membership the younger, earlier career members will be much more greatly affected by the proposed changes than those who are older or later in their careers.

- Flexibility: a number of comments suggest there is appetite or need for greater flexibility to fit around career paths/lifestyle changes, or simply to recognise a 'one-size-fits-all' approach is no longer appropriate. Individuals are used to having greater options and control in other financial matters and suggest this is reflected in their pension arrangements.

- Sustainability: there are references to the number of changes which have been made to the scheme in recent years. Individuals are keen that, if changes are implemented, they are made in a way that is sustainable for the scheme so that funding and related issues are dealt with and there can be stability and security for members. Potential future developments such as conditional indexation are growing in profile with members. And the impact of the Scheme on the HE sector is also raised – some are concerned that the Scheme should not act as a drag on recruitment and retention.

3.11 Short service leaver benefits

Although not a listed change under the Consultation Regulations, the proposed change relating to benefits for members who leave the scheme with three months' to two years' qualifying service was also communicated as part of the consultation.

A small number of responses addressed this proposed change, none of which identified any issues.

3.12 Union and member representative responses

Recognised Trade Unions and elected member representatives could submit responses directly to employers. Where employers have uploaded Union responses (via letter, email and through employer/union meetings) they have been listed in Appendix 4.

There do not appear to have been any formal template responses provided by Trade Unions / elected representatives to affected employees as there was in the case of the 2018 employer consultation on cost-sharing.

APPENDIX 1: THE PROPOSALS

On 31 August 2021 the Joint Negotiating Committee (JNC) recommended the following benefit and member/employer contribution rate elements to the USS Trustee.

- From 1 April 2022, each year members should build up a pension in the USS Retirement Income Builder at a lower rate of 1/85 of salary compared to the current 1/75 of salary, and a separate lump sum of 3/85 rather than 3/75, up to the Salary Threshold.
- From 1 April 2022, the Salary Threshold should reduce from £59,883.65 to £40,000.
- From 1 April 2023, the Salary Threshold should continue to increase annually in line with official pensions, which are currently increased in line with the Consumer Prices Index (CPI), but subject to a lower maximum increase of 2.5% a year until 31 March 2025 or if earlier, the date of any change concluded by a review by the JNC of the amount of the Salary Threshold.
- Benefits earned in the Retirement Income Builder from 1 April 2022 should continue to see increases applied annually before and after members retire, but subject to a lower maximum of 2.5% a year.
- For the above proposed benefits, the member contribution rate should be 9.8% and the employer contribution rate should be 21.4% (to reflect the total cost of 31.2% of salaries). This means that members' contributions would remain at the level introduced from 1 October 2021.
- From 1 April 2022, members who leave the scheme with more than three months', but less than two years' qualifying service, should be provided with full deferred benefits in the USS Retirement Income Builder (i.e. a pension of 1/85 of salary and a lump sum of 3/85 of salary up to the Salary Threshold for each year of active membership) rather than the current deferred benefit which is based on their contributions multiplied by an actuarial factor.

These proposed changes would not affect any benefits members have built up before 1 April 2022 - they will only affect future benefits earned from that date.

However, although the JNC proposed the above changes to the Scheme, in the absence of the JNC's (or other) proposed changes being agreed in the form of an executed deed of amendment by 28 February 2022, there was a proposed "fall-back" position, where contribution rates would increase every six months from 1 April 2022 as follows:

Fall-back contributions if no changes are implemented

	Members (% of salary)	Employers (% of salary)
From 1 April 2022 to 30 September 2022:	11.0%	23.7%
From 1 October 2022 to 31 March 2023:	12.9%	27.1%
From 1 April 2023 to 30 September 2023:	13.9%	29.1%
From 1 October 2023 to 31 March 2024:	15.0%	31.0%
From 1 April 2024 to 30 September 2024:	16.0%	33.0%
From 1 October 2024 to 31 March 2025:	17.1%	34.9%
From 1 April 2025 to 30 September 2025:	18.1%	36.9%
1 October 2025 onwards:	18.8%	38.2%

APPENDIX 2: CONSULTATION STATISTICS

Total responses submitted to the Trustee by all parties:

Total number of submissions	
Affected employees	4,687
Trade Unions / Elected representatives	10

Scheme active membership 31/03/2021: 203,995
Affected employee respondents therefore 2% of active membership.

Institutions where responses were received from affected employees, by institution type

Pre-92 Universities	63
Post-92 Universities	29
Colleges	32
Non-Higher Education Institutions	31
Total:	**155**

APPENDIX 3: RESPONSE SUMMARY

Summarised below is the number of responses received and the high level of analysis of each by question.

Question		Number of responses submitted				Analysis of net responses	
	Subject	**Total**	**Nil return**	**2020 val'n***	**Net**	**Positive**	**Negative**
1	Salary Threshold	4,687	955	257	3,475	12%	88%
2	Accrual Rate	4,687	990	364	3,333	9%	91%
3	Inflation Cap	4,687	1,074	138	3,475	7%	93%
4	Contribution 9.8%	4,687	1,321	186	3,180	22%	78%
5	Prefer A-E	4,687	355	407	3,925	n/a	n/a
6	Fall-back scenario	4,687	278	568	3,841	53%	47%
7	Flexibilities	4,687	1,531	391	2,765	66%	34%
8	Final comments	4,687	1,760	n/a	2,927	4%	96%

* This sets out the numbers of responses to each question which did not address the subject matter of that question but instead made points related to the 2020 actuarial valuation.

APPENDIX 4: RECOGNISED TRADE UNION AND ELECTED REPRESENTATIVE RESPONSES

The Trustee also received and considered responses from the following Trade Unions and representatives.

University and College Union (UCU)

- UCU Heriot-Watt University
- UCU University of Oxford
- UCU University of Stirling
- UCU Swansea University

UNISON

- Central UNISON response
- UNISON University of Stirling
- UNISON Trinity Laban

Unite

- Unite University of Stirling
- Unite King's College London

Other representative bodies

- The British Medical Association

APPENDIX 5: OVERVIEW OF ANALYSIS APPROACH

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 proposed benefit and contribution rate changes, 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 8, 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.

The Trustee could see and review all responses received via the website. Employers also had access to their own employees' responses via the employers' consultation website, but employees could also provide responses directly to their employer – the employer was required to forward to the Trustee any responses which were received directly from employees. The employers could also upload 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 Trustee downloaded the responses regularly over the period of the consultation. Each response was individually analysed by question with central tracking of response, download and individual question analysis numbers.

The following process was then followed:

1. For each question a first sift is done to identify if that question has not received a response (either blank responses, or those which consisted of "n/a", "no comment" etc). These responses were not analysed but their numbers were recorded.
2. If the question has received a response, that response is then read. If it contains an individual's views but they do not address the particular consultation question, the nature of that response is recorded – primarily these have been where the individual has declined to provide a consultation response and instead sought to give their views on the 2020 actuarial valuation (see 3.2 above).

3. Where the response addresses that particular question:
    - Firstly the general sentiment of that response (primarily whether the proposal is agreeable or not agreeable to that individual) is recorded as positive/negative;
    - The detail of the response is then considered to identify:
        i. Which element(s) of the proposal are particularly more- or less-favoured (if any);
        ii. The reasons for that position (if possible); and
        iii. Views on any alternative proposal(s) or approaches which might be acceptable.

All responses were submitted anonymously unless the individual chose to make their details known.