

Parliamentary briefing on the USS pension scheme

July 2023

The Universities Superannuation Scheme (USS) is the largest private pension scheme by asset size in the UK and is used by over 330 employers. These employers range from large universities and research institutes with many hundreds of members to much smaller not-for-profit organisations which carry out related education and research activities.

Universities UK (UUK) is the nominated formal representative for employers in the scheme and leads and negotiates on scheme issues on behalf of the more than 330 employers. The University and College Union (UCU) is the nominated formal representative for scheme members.

What is a valuation?

At least once every three years, the USS Trustee¹, which runs the scheme, must carry out a valuation – an assessment of a pension scheme's financial health.

The 2020 valuation

During the last valuation in 2020, the USS Trustee calculated that the cost of providing pensions in the future had grown substantially and found that the scheme had a large deficit of £14.1 billion. As a result, the USS Trustee required much higher salary contributions – as high as 56% of salary – to ensure there was enough money in the scheme to pay for the pensions that had already been built-up and address the deficit, as well as continuing to build up new pensions which will be earned in the future.

Since neither employers nor scheme members could readily afford to pay higher contributions, UUK, the employer representative, developed a package of changes for the scheme. This

¹ The USS Trustee is run by the USS Trustee Board. The Board is comprised of four individuals nominated by UUK, three nominated by UCU, and five who are independent who are appointed by the Trustee Board itself.

The speed that future benefits would build up was slowed to 1/85th of salary from 1/75th, and the threshold for defined contributions of 20% of salary was reduced from c£60k to £40k. A 2.5% CPI cap on pensions increases was also introduced, but this element was deferred until at least April 2025.

The changes passed through the scheme's joint negotiating process and with the necessary agreement of the USS Trustee Board, the reforms were then implemented from 1 April 2022. With these changes to the scheme made, potential huge and unaffordable cost increases were avoided for both members of the scheme and employers, at a time of significant economic volatility and related financial pressures.

The UCU position was that the USS Trustee's approach to the 2020 valuation was flawed and that the Trustee should conduct a 2021 valuation to re-analyse the valuation outcome. This was despite the Pensions Regulator stating that the USS Trustee's outcome for the 2020 valuation was on the edge of compliance. The USS Trustee's approach to the 2020 valuation was on the edge of compliance. The USS Trustee's approach to the 2020 valuation was on the edge of compliance.

The extraordinary transformation in the scheme's financial position has been caused by the rapid and substantial rise in interest rates and, to a lesser extent, by the changes to the pension scheme, which were necessary in April 2022 when the USS Trustee projected a bleak picture. We should also recognise the additional financial backing – or covenant support – which USS employers have felt able to provide to the scheme, in being another major factor in the improvements which we can now see.

Next steps

The valuation process must be completed by the legal deadline of 30 June 2024, but under an accelerated target, the USS Trustee aims to implement any changes to benefits and/or contributions by 1 April 2024.

The positive signals continue on USS funding, and based on the latest information members of staff and employers within the scheme can look forward to significantly lower contributions (1.1 (s)-7.3 (a)0.6 ()10.6