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Why is reform of the USS both necessary and urgent?

In short, the USS is no longer affordable in its current form.

The USS is a private occupational pension scheme and as such falls under the remit of the Pensions Regulator. The USS Trustee is legally responsible for making sure that there is enough money in the fund to pay members' benefits, both past and future and are required to carry out regular valuations to assess how the scheme measures up against certain minimum funding standards. The indicative results of the most recent triennial valuation of the USS in March 2014 showed that the scheme deficit was £13,000,000,000 (£13 billion). At the time of writing, the deficit is now estimated to have risen to more than £20,000,000,000 (£20 billion) because of adverse market conditions. As well as being sizeable, the deficit is volatile and this volatility poses additional risks to the security of the USS and to HE sector employers.

Accordingly the USS Trustee Board *must* agree a 'recovery plan' to remove the March 2014 deficit over a reasonable period. The USS Trustee Board, which manages the scheme on behalf of the employers and members, is required by law to make provision for the pensions earned to date and it must be confident that the funds it has set aside will grow large enough over time to be able to meet these payments when they are due.

The potential proposed reforms are designed to address the current funding deficit and manage the scheme's funding challenges to set the scheme on the path to long-term sustainability. Before these benefit changes can be implemented they need the formal approval of the USS Trustee Board. This approval will only be forthcoming if the Board believes that the reforms will achieve the objective to address the funding deficit over a reasonable period and provide future service benefits that meet certain affordability criteria over the long-term.

If no reforms are made, the USS Trustee Board will be compelled to impose an immediate increase in contributions to the level required to continue to provide the current level of benefits. This would see members' contributions increase to around 12% of salary; a very significant increase from current members' contributions of 6.5% or 7.5% depending on which section they are in. The employer's contribution would increase from 16% to around 25%. The effects of this would be:

- Significantly less take home pay for university staff, on top of the increased National Insurance contributions that the Government is implementing from April 2016. Some members might find this level of contribution unaffordable and feel forced to opt out of the scheme; new staff may choose not to join.
- The breaching of the upper employer contribution limit identified by an independent review of the 'employer covenant' (the ability of the employer to support the pension scheme financially) commissioned by the Trustees and undertaken by Ernst & Young.
- Many universities would find this contribution rate unaffordable and would be left with little choice but to fund such an imposed increase by reducing long term staffing expenditure by recruitment freezes, greater salary restraint and redundancies. This in turn could affect the sector's ability to continue to attract top flight staff and students and damage its excellent reputation in the increasingly competitive global education market.

In such a scenario the long-term future of the USS would, necessarily, come into question as HEIs would find it impossible to continue to support a scheme that was damaging their viability.

Why is the USS no longer affordable in its current form?

A combination of factors has caused the scheme to become unaffordable. These include falling bond yields which have a negative impact on the implied net discount rate used to calculate the present day value of future liabilities. The discount rate is an important scheme assumption as a lower rate means a higher value on the scheme's liabilities. Put simply, the lower the discount rate the more money the scheme needs to have today in order to pay pensions tomorrow. Other factors that have contributed to the USS deficit include improvements in life expectancy. This means that people are drawing their pension for many more years than anticipated when the scheme was established and this trend is expected to continue.

Where can I find out more about the valuation and the deficit?

USS has produced information for members and a series of FAQs that explain in more detail the Trustee's approach to scheme funding and how it is required, by law, to conduct the 2014 valuation. These are available online in the 'News & Updates' section of the USS website at www.uss.co.uk.