On 23 January 2018, at the meeting of the Universities UK-UCU Joint Negotiating Committee, the Chair of the USS Board Sir Andrew Cubie used his casting vote to push Defined Contribution onto all members of USS. We are all being forced to gamble our pensions on the stock market. Our pension contributions have been cut by 6% of salary.

The “deficit”

The £7.5 billion “deficit” is a projection using a methodology that is criticised by mathematicians, actuaries and pensions experts. Called “Test 1”, this was introduced in the 2014 valuation.

- The scheme’s assets have increased at an average of 12% per year over the last 5 years and now value more than £5bn – the scheme is booming
- Projected income and expenditure for 40 years show that payments to pensioners are covered by contributions paid in without touching the assets. See Figure 1.

USS is in a better financial position than in 2014. Why is the scheme in “crisis”?

Test 1 supposes that all universities go bankrupt tomorrow, and USS is closed to new entrants. The deficit model asks, if this happened, could USS afford to pay its pensioners?

The test generates a deficit because it presumes that (due to scheme closure) USS rapidly transfers its assets into government bonds and gilts. Thanks to Quantitative Easing and low Bank of England base rates, government stocks are performing at a level well below inflation. Over time they lose value, and this generates a large deficit. (This is the factor that has worsened since 2014.)

How likely is this scenario?

- The entire UK university sector is not about to go bankrupt. The university sector is booming. See Figure 2.
- USS is a scheme with more than 150 participating employers. Test 1 may be legitimate for a single-employer scheme but not for a multi-employer scheme like USS.
- The mean projected deficit (‘best estimate’) in the Test 1 scenario of scheme closure is an £8.3 billion surplus but there is great uncertainty around the actual figure. In November the stated deficit went from £5.1bn to £7.5bn when the employers stated that they would not accept the previous level of risk.

The scheme could pay its way without additional payments from employers, employees or cuts in benefits.
Colleagues with savings in banks might decide to invest in the stock market but would be foolish to invest savings they could not afford to lose.

- USS can pool risk across investments using its income to guard against short-term fluctuations. It can choose to sell stock at a time that benefits the fund.

- Individuals have no such flexibility. We can choose to gamble our pension by investing in higher-yield and higher-risk stocks and shares, or act conservatively and put our savings into low-interest gilts (and watch inflation erode value). As we age we will be forced into low-risk, low-yield options.

Our defence of USS is not based on self-interest. We also believe in inter-generational solidarity and the future of our universities.

These changes can trigger a spiral of future cuts if staff opt out. Some may prefer to take salary after tax into savings schemes, and forgo the 12% employer contribution. The next generation of staff may opt out of USS due to poor performance and cost. USS could then find itself in a real deficit, and unable to pay pensioners.

The decision of the USS Board to impose the employers’ 100% Defined Contribution plan now means that the only way of saving our pensions will be by pressure on university employers.

UCU has just completed an industrial action ballot of its members. Nationally, 58% of eligible UCU members returned their ballot papers with 88% voting for strike action and 93% for action short of a strike.

Strike action is planned to be hard-hitting and is likely to begin soon. It will be tough, but then the losses we face are devastating. The aim is to pressure the employers to reach a collective agreement with UCU that protects pensions.

Now is the time to join the union and take part in the action alongside your colleagues. UCU members will be asking colleagues to support them and respect the action, whether or not they are union members.

The employers could go back to USS to extend negotiations. The Board decision could be rescinded. We know that the Pension Regulator (the government regulator) is flexible around the valuation method and negotiation time-scale. The alternative, involving compensating staff for pension losses of hundreds of thousands of pounds, is far more expensive!

A key reason that we are in this ‘crisis’ concerns the estimated risk (liability) of employers that is factored into the deficit calculation. Like many VCs, we think that there is a lot more that Government could do to shoulder some, if not all, of this risk.

Our colleagues in many other European countries, post-92 universities, schools and FE colleges, the NHS and government, all have pensions underwritten and guaranteed by the state. Why should UK pre-92 universities have a pension scheme with no government guarantee? The employers have to pay their fair share but we need to put pressure on the Government to step in and support the pension fund.

More information and to join the UCU go to ucu.org.uk/strikeforuss