University College London UCU Branch
President: Sean Wallis, Department of English Language and Literature
Secretary: Tony Brown, Information Systems Division
Enquiries: ucu@ucl.ac.uk, www.ucl.ac.uk/ucu

Monday, 04 April 2022

Dr Michael Spence AC
UCL Provost and President

Mr Victor Chu
UCL Chair of Council

Dear Provost, Chair of Council

I am writing on behalf of UCL UCU members with respect to the urgent matter of the USS pension scheme.

UCU is the staff representative organisation for Universities Superannuation Scheme (USS) members. It was UCU's forerunner, the Association of University Teachers (AUT), that set up USS in 1974 jointly with the Committee for Vice Chancellors and Principals (CVCP), the forerunner of Universities UK (UUK). We can also claim to speak on this question on behalf of all staff eligible to join the scheme.

I am requesting that you urge UUK to revoke their cuts to USS in light of the recent financial monitoring report, and to instruct USS to negotiate to implement UCU's proposals as the most sensible short-term solution ahead of a new valuation.

On Friday April 1, USS imposed changes to the pension scheme which reduce the value of future benefits by the order of 35% (a range of 30-40% is often quoted by pension models produced by UCU, UUK and USS).

The pension cuts and their impact

This loss in benefits is due to several changes occurring.

1. A guaranteed reduction in benefits of 11.6% is due to a cut in accrual rate.
2. These pension models indicate that the lion's share of losses in eventual value is due to the expansion of the Defined Contribution (DC) scheme at the expense of Defined Benefit (due to the reduction in the 'DB cap'), in part due to additional costs of DC schemes, but also because significant employer contributions to it are to be diverted to so-called 'Deficit Recovery Contributions' (DRCs). In the case of UCL, some £27m will be diverted from members' pensions to supplement USS's assets.
3. Finally, there is the introduction of a hard cap on pension indexation, meaning that future pension benefits will be vulnerable to periods of inflation in excess of 2.5%. Although the introduction of this cap is delayed to 2025, the change will apply to benefits accrued from April 1 2022.

The effect of these changes has been to substantially devalue the scheme in the eyes of its members – your staff – as well as in the eyes of university management teams.

These changes are not irreversible but action needs to be taken now.

Firstly, it is a large net loss in deferred pay to our members which is causing very considerable anxiety and distress. UCU has seen considerable evidence that members are actively considering resigning from the sector, they are so distressed about what they perceive as pension theft. It will affect whether members, particularly our youngest and lowest paid, will be able to eventually retire.

Secondly, members are questioning the value of the scheme itself and considering actively resigning from it, despite auto-enrolment. Unless changes are made to improve benefits now, lower paid staff starting their careers and research staff on fixed term contracts are most likely to leave, leading to further social inequity and longer-term problems for the security of the scheme. Members are losing faith in the long-term viability of the scheme and of universities' commitment to it.

Thirdly, this question is impacting on industrial relations. Some 89% of members who voted in the latest ballot on USS voted to strike, one of the highest ever recorded votes for strike action at UCL. Although that vote was not actionable, falling slightly short of the government-imposed threshold, there can be no doubt about the strength of feeling of our members. As you know we are currently re-balloting UCU members at the time of writing.

USS is in an improved financial position

Last week, the USS Trustee reported that the scheme is in a much more favourable position than was claimed throughout the negotiations. In their financial monitoring report, *Financial Management Plan: Interim monitoring of the 2020 valuation*[1], USS note that 'the increase in asset prices [is] greater than the increase in the Technical Provisions liability', and consequently that 'required deficit recovery contributions have decreased'. Assets have risen from £66.5bn on the 31 March 2020 valuation date to £88.8bn today.

Using the highly conservative 'self sufficiency' Technical Provisions of valuation, which models for scheme closure and a draw down in gilts (see Page 1 of the technical sheet in the PDF), the need for deficit recovery payments has disappeared, falling from 6.2% of salary to 0% (Page 2). The suddenly improved position is not primarily an increase in actual asset values (which have slightly fallen from a peak in excess of £90bn) but because long term gilt yields have improved due to the February decision to increase Bank of England base rates.

The author of the report comments that '[i]f a similar position to that indicated by the monitoring was established at the next valuation, it may be possible to reduce contributions or increase benefits or some combination of both.'

Paying these additional DRCs, while hugely costly for staff and universities, makes marginal difference to the total assets compared to stock market movements. The total DRC for the coming year amounts to £570m. Yet the scheme has seen asset value rises of the order of

[1] See enclosed. This can also be found at https://www.ucu.org.uk/media/12547/FMP/pdf/FMP.pdf

£10bn a year, and the recent fall in asset values of £1.4bn (from £90.2bn to £88.8bn) is more than twice this amount!

A way forward to protect staff benefits

UCU has offered a way out of this impasse. UCU negotiators made short term compromise proposals which could be improved upon in this current context. UCL and UUK negotiators responded previously to assert that they did not wish to increase contributions for employers and staff. However, the improved DRC position must oblige all concerned to revisit that question. We believe it must be possible to find an alternative.

UCL has an important voice in Universities UK. We should not underestimate the importance of any action that Provost and Council might make.

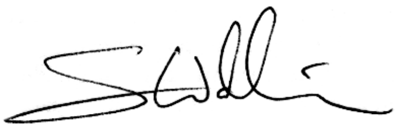
We believe it is time for UCL to speak up. We call on UCL to urgently use its influence with Universities UK to press for an agreement to resolve this dispute and take prompt action to divert DRCs to pension benefits, pending a new valuation.

As UCU General Secretary Jo Grady has written, ‘By accepting the latest financial report from the trustee, accepting UCU's compromise proposals and agreeing to a new valuation, employers can not only protect the benefits of staff but ensure they don't waste money closing a deficit that no longer exists.’

Neither UCL nor any other institution in USS should be wasting money on a non-existent deficit. This money should be going to members’ pensions. By pushing for UCU’s proposals to be tabled and passed you will be protecting the pensions of your staff.

And in helping to stop the devastation of our pensions, you will be protecting the future of your institution and UK higher education more widely.

Yours sincerely,



Sean Wallis
UCL UCU branch president

enc

cc: Council Members
cc: Jo Grady, UCU General Secretary