

# Changes to USS - an update

From 1 April 2016, the benefits provided by Universities Superannuation Scheme are changing, as are the contribution levels payable by employers and members.

Since 2011 the scheme has reported a substantial deficit and, following a review of scheme funding, the trustee confirmed that substantially increased contributions would be required to continue to provide the existing arrangements.

As a result in January this year the employer and member representatives put forward a joint proposal which involves employer contributions increasing to 18% of salaries, alongside changes to the benefits provided by USS and increases in member contributions to 8% of salary.

Employers formally consulted people affected by these changes between 16 March and 22 May 2015. In light of the responses received, the employer and member representatives, within the Joint Negotiating Committee (JNC), agreed some modifications to the proposals.

The note below provides further technical detail about the changes and the agreed modifications which will be implemented in phases from 1 April 2016.

Currently USS provides two forms of defined benefit pension; Final Salary and Career Revalued Benefits (CRB). Both provide a pension which is linked to earnings, albeit in different ways – see the glossary at the end of this document. Going forward USS will provide defined benefit pensions on a CRB basis, alongside a new defined contribution section (as explained in more detail below). Defined contribution is a different kind of pension scheme for members to save for retirement; importantly the amount received from the defined contribution section will be based on the amount of money in an individual's account, which in turn depends upon the amount of contributions going in (paid by employers and members) and the investment growth gained on those contributions.

Final Salary provision will come to an end on 31 March 2016. Benefits earned up to that date (based on service up to, and final salary at, that date), which include any benefits gained from transfers in and any added years Additional Voluntary Contributions (AVCs), are secure being protected in law and in the scheme rules.

Current CRB members will also move into the new USS structure and will continue to accrue pension on an improved CRB basis as described below, and similarly benefits already earned are protected.

The new USS will be introduced in phases from 1 April 2016 and its key features, once fully implemented, will be:

- 1. Career Revalued Benefits (CRB) for all members on salary up to £55,000 accrued at a different accrual rate to that provided currently (the new accrual rate will be 1/75th of salary per year as pension, along with 3/75ths of salary as a lump sum) for details see below.
- 2. Defined contribution section for members based on salary above £55,000. A definition of defined contribution (DC) is available at the end of this document.



3. An option for all members to make additional contributions to the DC section of the scheme and to claim an additional 'matched' 1% from the employer contributions (provided the member contributes an additional 1%).

A more detailed explanation of these changes is below; these changes are complex and sometimes the trustee's communications need to be formal and sometimes technical in nature as it's important that we describe the changes correctly and in sufficient detail.

Additional information and resources will be made available in the coming weeks, not least around the new defined contribution section, which may be new to many members. A decision on the specific timing of the phased implementation will be taken towards the end of September and shortly after a modeller will be made available to enable members to estimate future pension benefits. In the autumn the trustee will issue a formal notification of the detailed changes to all members (anticipated to be available in November 2015). The trustee is committed to supporting USS members to understand the new section of the scheme and the new investment options and retirement choices which shall become available to you when the new pension benefit arrangements are fully implemented. The dialogue on scheme funding continues, with the trustee - and employer and member representatives - committed to ongoing engagement on these (and related) issues.

In the meantime if you have any questions please email <a href="mailto:communications@uss.co.uk">co.uk</a> or, for specific matters related to your own pension arrangements, please contact the person who usually manages USS benefits within your institution.



This communication summarises the headline changes and provides an outline of the agreed modifications. The scheme changes are summarised as follows:

# **Final Salary section members**

If you are currently a member of the Final Salary section of the scheme, the benefits you have built up to 31 March 2016 – your accrued benefits – will be calculated using your pensionable salary and your pensionable service up to, that date. Going forwards, those accrued benefits will be revalued in line with increases in official pensions (currently linked to CPI) subject to certain caps in relation to benefits earned from October 2011 where such increases exceed 5% in any one year. This will also apply to benefits which have been transferred into the scheme on a final salary basis, including any transfers made under the Public Sector Transfer Club, as well as to added years AVC benefits. If you are now paying regular instalment added years AVCs, it will be assumed that you will continue to make payments. However your added years AVC benefits will be based on your pensionable salary at 31 March 2016. You will have the right to stop paying such AVCs at any time.

#### **Career Revalued Benefits (CRB) section members**

If you are currently a member of the CRB section of the scheme, the benefits you have built up at 31 March 2016 will be revalued in the same way as they currently are, which is in line with increases in official pensions (currently linked to CPI) subject to certain caps where such increases exceed 5%. If you are paying regular instalment revalued benefit AVCs at 31 March 2016, it will be assumed that you will continue to pay such AVCs, and have the right to stop paying such AVCs at any time.

#### **Future CRB benefits for all members**

All members will accrue a pension of 1/75th, and a cash lump sum of 3/75ths, of salary for each year of service from 1 April 2016 which will be revalued in the same way as the current CRB section (i.e. in line with official pensions, currently linked to CPI subject to certain caps where such increases exceed 5%). A salary threshold will be implemented after 1 April 2016 (and no later than 1 October 2016), starting at £55,000 per year. CRB pension of 1/75th of salary and CRB lump sum of 3/75ths of salary will be provided from the date of implementation of the salary threshold only in respect of salary up to the threshold.

#### Salary threshold

The salary threshold will be automatically revalued each April (from 2017 onwards) in line with increases in official pensions (currently CPI), subject to certain caps where such increases exceed 5%, until the outcome of a review of the salary threshold to be completed by the JNC by 31 March 2020.

#### New section of the scheme - Defined Contribution (DC)

After 1 April 2016 (and no later than 1 October 2016), once the salary threshold is implemented, all members will have access to a new defined contribution section of the scheme which will be made up of an individual DC account for each participating member.



# Member contributions to increase to 8% of salary

From 1 April 2016, member contributions will increase to 8% of salary (increased from 6.5% for CRB section members and 7.5% for final salary section members). This includes salary above and below the salary threshold. From the date of implementation of the salary threshold and the introduction of the DC section (no later than 1 October 2016), member contributions made in respect of salary above the salary threshold will go into a member's individual account within the DC section of the scheme.

### Employer contributions to increase to 18% of salary

From 1 April 2016, employers will pay 18% of salary above and below the salary threshold for all members (increased from 16%). From the date of implementation of the salary threshold (and where a member's salary is above the salary threshold), an employer contribution of 12% of salary above the threshold will be allocated to the individual accounts of members in the DC section. The overall employer contribution will continue to be 18% of salary above and below the threshold; in addition to the amount allocated for CRB and DC benefit accrual, the employer contribution also includes allocations for deficit payments and administration costs. Employers have committed to pay 18% of salaries until the formal review of scheme funding as at 31 March 2020.

## Optional additional contribution into the DC section for all members

All members will be able to choose to contribute more to build up extra benefits under the DC section, once implemented. Any additional contributions will go into the member's individual DC account. A matching facility will allow members to have the option to make additional contributions of 1% of all salary (i.e. salary above and below the threshold) that will be matched out of the employer contributions of 18% (referred to above).

#### The agreed modifications arising out of consideration of responses to the consultation include:

- The subsidy from the employers towards investment management charges relating to the DC section of
  the scheme will now relate to the full range of investment funds under the DC section, and not to the
  default investment fund option only as originally proposed subject to an overall cap on costs of 0.1% of
  payroll. This subsidy will not apply to benefits transferred in from other pension schemes.
- Permitting staff who are promoted or re-graded into a USS-eligible post to remain, by waiver of exclusivity, as members of an occupational pension scheme sponsored by their employer, provided that the institution agrees to the scheme being within the scope of this provision and so long as the member is accruing defined benefits under it.
- The existing option of members to withdraw from full USS membership and continue death in service and ill-health early retirement benefits (enhanced opt out) is to be extended to all members from 1 April 2016.



In addition, the terms explained above relating to the assumed continuation of existing regular instalment added years AVCs and revalued benefit AVCs are a modification to the proposed scheme changes made after considering responses to the consultation (rather than requiring members to opt to continue the arrangement as previously suggested).

It is intended that within 18 months of implementation of the new DC section, members are to be given the option to access DC benefits from the scheme on or after age 55 without having to retire or cease eligible employment. In the interim, the trustee company will be looking to introduce flexibilities for members in relation to the way in which DC accounts can be accessed at retirement, and introducing flexibility to transfer those funds prior to retirement without having to withdraw from the scheme.



#### **Definitions**

#### **Accrual rate**

The accrual rate is the rate at which you build up defined benefit pension whilst you are an active member of the scheme. It is commonly expressed as a fraction; currently both Final Salary and CRB members accrue a pension at 1/80th of salary, under the new scheme structure, from 1 April 2016 all members will accrue a pension of 1/75th of salary. A smaller denominator (i.e. a higher fraction) delivers a higher benefit for the equivalent amount of pensionable service.

# Additional voluntary contributions (AVCs)

Under current scheme rules, members could elect to make AVCs, either by regular instalments or as a lump sum, in addition to the standard member contributions. Tax relief is available on AVCs under the current tax rules (within limits). USS currently offers two types of AVC arrangement:

Added years (for final salary members) or revalued benefits (for CRB members) – these provide additional defined benefits within USS in the form of pension and cash lump sum. The ability to start purchasing additional final salary benefits will be limited as the changes to the scheme are implemented.

Money purchase (MPAVCs) – contributions are paid to Prudential, the trustee's current provider, and the member can choose how they are invested. On retirement they can be taken as a cash lump sum (subject to limits), and/or as retirement pension.

There will continue to be an AVC facility going forwards, provided on a defined contribution basis.

#### **Career Revalued Benefits**

A type of defined benefit pension where benefits are based on each year's salary throughout the period of membership, with each year's accrual revalued broadly in line with an index (in USS's case, to increases on official pensions, which generally speaking means to CPI). Sometimes these schemes are called Career Average Revalued Earnings, or 'CARE', schemes.

#### **Defined benefit**

Defined benefit is a generic type of pension scheme (of which final salary schemes and CRB or CARE schemes are examples) in which the amount of benefits due is specified in the scheme rules, and is not dependent upon the amount of returns received on investments. In the UK it is a requirement that funding is set aside to provide the promised benefits, and it is the trustee's role to ensure that contributions from the sponsoring employers, and from members, are sufficient.



#### **Defined contribution**

Defined contribution is a type of pension scheme in which members can build up funds in an individual account. The amount of benefits provided is based upon the amount contributed (by employer, employee or both), how those contributions are invested and how those investments perform. Each member's individual account is subject to charges and transaction costs which the trustee will monitor to ensure it provides good value. Government reforms provide increased flexibility for people with defined contribution savings, subject to the individual rules of the particular scheme, enabling more flexible options for how that money can be withdrawn.

## **Final salary**

A type of defined benefit pension where benefits are related to members' pensionable salary when leaving the scheme or retiring, and the length of pensionable service.

The terminology provided in these definitions is purely to assist when reading the materials provided. The definitions in the USS rules may differ to the definitions above, and if so, the definitions in the USS rules will prevail at all times. This update provides a description of the benefit structure and employer and member contribution rates as decided in July 2015, both benefits and contribution rates are not fixed and may be altered following appropriate discussion with employer and member representatives.