Summary
• Issues arose when the USS launched a consultation on raising member contributions in September 2017 to tackle the scheme's deficit, which stood at over £5 billion, following two rounds of cuts in USS benefits since 2011.
• In late 2017 to early 2018, UCU members voted in favour of strike action in a consultative ballot over plans by the USS and UUK to increase contributions and replace defined benefit (DB) aspects of the scheme with defined contribution (DC) aspects.
• Although the USS dropped plans to reform some DB elements to DC, strike action continues to this day over contribution rates and there seems to be no sign that an agreement will be reached in the near future.

Between a rock and hard place

With the ongoing stalemate between the Universities Superannuation Scheme (USS), Universities UK (UUK) and Universities and College Union (UCU) over proposed member contribution rate increases seemingly having no end in sight, Jack Gray investigates how we got to this point and analyses the current situation

In August 2017, then-Work and Pensions Committee chair, Frank Field, launched a probe into the USS's rising deficit. Its 2017 actuarial valuation revealed its deficit had risen to £7.5 billion on a technical provisions basis, which led to Field expressing "serious concerns" about how the scheme would tackle the deficit. To try and cover the funding gap, UUK, the representative body for universities, proposed replacing aspects of the DB scheme with DC aspects. The plan was met with opposition from UCU, whose members voted for 14 days of industrial action in January 2018.

Commenting at the time, then-UCU general secretary, Sally Hunt, stated: "Universities will be hit with levels of strike action not seen before on UK campuses if a deal cannot be done over the future of USS pensions. Members have made it quite clear they are prepared to take action to defend their pensions and the universities need to work with us to avoid widespread disruption. Even at this late stage we urge universities to work with us to reach an agreement that protects the defined benefit element of USS pensions."

Rising tensions

Following the disagreement over changes to the scheme, discussions between UCU and UUK on alternatives began. Strike action commenced in late February and concluded in mid-March. In that time an agreement was made between the union and UUK that would have seen a three year transitional period, effective from 1 April 2019, which would have kept the DC arrangement, with a promise to look at collective DC arrangements for future years.

However, following a meeting of UCU representatives, the union made a u-turn on the deal after members voted against it and called for urgent negotiations with UUK, demanding a better offer.

In April 2018 and following the strike action, an agreement was reached to have a continuation of the defined benefit aspect of the scheme and to set up a Joint Expert Panel (JEP) to assess the valuation of the USS, with members from UCU and UUK making up the panel.

The JEP published a report in September 2018, recommending changes to the 2017 valuation after it revealed concerns about the methodology, assumptions and tests of the process. The JEP unanimously recommended a re-evaluation of the employers' attitude to risk, which would also result in a re-evaluation of the scheme's reliance on the sponsor covenant. As a result of the recommendations and the protests, the USS conducted another review into its funding position in March 2018. The 2018 valuation revealed that the deficit had more than halved to £3.6 billion on a technical provisions basis due to, according to the USS, changes to realised asset return, mortality rates and expected investment returns.

Raising the bar

Despite the valuation adjustments and reduced deficit, the USS still needed to plug its funding gap. In December 2018, the USS trustee issued a consultation asking employers for comments on the proposed deficit recovery plan. The consultation also included a draft schedule of contributions that confirmed planned increases.

It stated that, for the period up to 31 March 2019, employees would contribute 8 per cent of their salary, before increasing to 8.8 per cent from 1 April 2019, then up to 10.4 per cent from 1 October 2019, before finally increasing to 11.7 per cent from 1 April 2020 onwards.

Employer contributions will also increase on the same dates, from 18 per cent to 19.5 per cent, up to 22.5 per cent and finally increasing to 24.9 per cent.

USS eventually put forward three options in May 2019. Of the three options, two include the same contribution rates which were consulted on earlier in the year, while a new third option, with a contribution rate of 30.7 per cent, was also offered.

However, UCU had adopted a stance of 'no detriment' to USS members and were not satisfied by any of the options. UCU head of higher education, Paul Bridge, said: "We have come a long way from the start of this dispute when we faced the end of the guaranteed pension at a cost to members of around £200,000 over the course of their retirement.

"While the union has made substantial progress in terms of avoiding the very large increases originally proposed by USS, none of the three options satisfy the union's no detriment policy position."

Escalation

The following month (June 2019), UCU threatened further strike action if universities did not rule out benefit cuts or contribution increases for USS members. It wrote to 69 institutions, warning them that if they did not confirm they would limit member contributions to 8 per cent or meet the cost of additional contributions, then it would call for strike action.

"UCU is running out of patience," warned Bridge. "It is possible to avoid a damaging dispute and strike action in the autumn of 2019, and potentially thereafter in 2020. All you need to do is commit to uphold the level of contributions no higher than 26 per cent (8 per cent for members)."

In response, UUK said that UCU's policy of 'no detriment' was unrealistic. A UUK spokesperson stated: "It is clear that a 'no detriment' solution where employers and members refuse to pay additional contributions will not be acceptable to the USS trustee or TPR.

"Any refusal to pay the contribution increases already scheduled would be unlawful, and would provoke a legal intervention. This is something employers are not willing to risk."

In August 2019, the Joint Negotiating Committee agreed to increasing member contributions from 8.8 per cent to 9.6 per cent, with plans for further increases in 2021. A spokesperson for UUK also said that it proposed a member contribution rate of 9.1 per cent to UCU's higher education committee during this month, which it said was rejected.

Present day

Following the agreement to increase contributions, UCU members voted to take strike action in late November and early December. A lack of progress followed, with both sides defending their positions and policies. Whilst resolution talks continued, UCU members voted for further strikes, which took place in late February and early March 2020.

Just before the strikes were due to commence, UUK launched a fresh consultation amongst employers on whether they should cover increases to USS contributions, make a new offer to UCU, or "hold the line" on its 21.1 per cent contribution offer. The consultation found that 84 per cent of employers voted to not fully cover the increases.

Following the consultation, UCU claimed that progress was being made, however a USS Employers spokesperson said that UCU's new proposal included "further conditions" that were not published, which are "wholly unacceptable" to the employers.

Although it had previously taken a 'no detriment' stance to negotiations, UCU confirmed that their negotiators would be willing to recommend a contribution rate offer of 8.4 per cent for employees in its new offer.

Despite this, the USS Employers spokesperson said: "We do not see this proposal as a serious move from UCU to find common ground."

Currently, progress has been halted again, although this time it is due to the coronavirus pandemic. UCU had planned to reballot on strike action, but has had to postpone the vote. During the crisis, the USS reported itself to TPR after breaching a funding measure from its monitoring and action framework due to market volatility.

A trustee board meeting on 26 March revealed an £11 billion scheme deficit on a technical provisions basis, up from £3.6 billion in 2018, as a result of the crisis. Assets had fallen by £9.7 billion.

USS said that its funding position had been "very volatile" but that it was still pressing ahead with its 2020 valuation.

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