University of Bath
USS funding and benefits – consultation by Universities UK

1. General

1.1. We support the objective stated in para 11 of aiming for a longer term solution to the sustainability of the USS scheme which substantially reduces the risk of further employer contribution increases above the 16 to 18 per cent range, but still offers the opportunity to implement an attractive and flexible benefit package as well as allowing for an element of investment de-risking.

1.2. However, we are concerned that the employers have been presented with only one possible solution to consider. We would like to see further analysis of the range of possible solutions which would allow a more informed response with respect to the specific proposal on which the sector is being consulted. There is an appearance of the sector being channelled into the direction of the proposed hybrid scheme without full consideration of all options. This is a fundamental and irreversible change to an important and costly element of employee remuneration and employers need to be assured that the best possible solution has been reached.

1.3. The proposal does not contain any analysis of the attractiveness of the proposed scheme with comparable schemes in the HE sector e.g. TPS, LGPS or with international provision. It will be important not to disadvantage USS employers in a competitive market or to create unforeseen consequences e.g. increases in the cost base arising from the need to offer higher salaries to attract higher paid employees to compensate for perceived deficiencies in the USS benefits package.

1.4. We are concerned about the complexity of the proposals, both for USS and for administration within institutions. This could be a significant hidden cost and increase the likelihood of errors.

1.5. There is no discussion in the proposal about how the DC element will be provided i.e. whether USS are capable/best placed to provide the investment activity required for a DC scheme and the implications for USS if this substantial activity is placed outside the current structure. Similarly, whether a national DC scheme is proposed or whether each employer would have the option to source individual providers.

2. Structure of the hybrid proposal

2.1. Within the specific proposal of core CRB benefits and a flexible DC pot up to a Salary Threshold with additional DC benefits above the threshold, we support the principle that the Salary Threshold should be set so as to include as many members as possible whilst retaining an affordable model. We believe that the level at which the threshold is set is crucial to the acceptability of the proposal to members and to the future comparative attractiveness of employment at USS institutions.

2.2. The proposal has a clear balance between the element that adds to DB liabilities and therefore the Trustees perception of the risk of the scheme and those that do not. The level of the Salary Threshold is fundamental to achieving an acceptable balance, and whilst accepting the need to balance those elements, it would be beneficial if the Salary Threshold was set at a level that covered the career progression of the majority of members i.e. towards the top of the lecturer scale at around £50,000. We believe that this would greatly increase the acceptability of the proposed changes and would cover c. 70% of employees.

2.3. There is a lack of clarity over whether Salary Threshold refers to FTE or actual salary. This makes a significant difference to the percentage of employees whose salaries are below the threshold. The figures for the University of Bath are:

Salary Threshold	Actual salaries - % of employees below threshold	FTE salaries- % of employees below threshold
£40,000	48%	42%
£50,000	70%	68%

2.4. A mechanism will be required for increasing the Salary Threshold to reflect pay awards or cost of living changes. A link to the national pay award or to CPI would be possible. If it is decided to link the Salary Threshold to the national pay award, the implication of a delay in the agreement of the national pay award will need to be considered, possibly by uprating the threshold by the previous year's award.

2.5. It would be useful to see some sensitivity analysis around the cost implications of the various components of the proposed scheme e.g.

- The implications of a higher Salary Threshold,
- Dropping the 2% matching contribution and raising the salary threshold,
- Different levels of contribution to the additional DC pot above the salary threshold.

2.6. Para 18 mentions that the possibility of an increase in employees' DB contribution to provide a higher level of future service benefits than is currently available in the CRB section. The paper states that this has not been included in the illustrative benefit design because the concern at the moment is to limit future accrual in order to contain the growth of DB liabilities; however, it would be useful to have more detail of the potential impact of higher employee contributions on all elements of the proposed scheme and for work to be undertaken to explore whether employees would be willing to contribute more in return for improved benefits.

2.7. The modelling of winners and losers of the proposed changes shows that the future benefits of some groups of employees will be severely impacted and further modelling should be undertaken to see how these impacts can be mitigated to make the losses less severe.

2.8. We welcome the flexibility within the proposed structure to increase benefits if the funding position of the scheme improves, primarily through changes to the DC elements of future accrual.

3. Points for consultation with employees

3.1. Much is made of the increased attractiveness of a DC pot following the 2014 budget changes. This is not widely understood by USS members in an environment which until now has been wholly DB and will need a much fuller explanation. Similarly, it will be necessary to be more explicit and transparent about the transfer of risk to employees that a change to a DC scheme involves.

3.2. Should the proposed changes be adopted for consultation with employees, it will be very important to stress that the modelling and implications relate to future benefits only. This is particularly important for higher paid members. Additional modelling covering the implications of the change to past service benefits should be provided.

3.3. It is not obvious from the proposal as presented that the employers' contribution rate of 16% to 18% is funding the past service deficit contributions as well as the cost of future service accrual. At present it appears that the employer contribution rate of the proposed scheme will be well below the 16% to 18% level.