

All Staff Briefing

Local Pension Provision at the University of Sussex

This briefing is designed for all staff in order to: (i) summarise the University's position on its pension proposal for future service pension provision for staff in USPAS eligible grades; and (ii) correct factually inaccurate statements that are currently in circulation.

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Further background information may be found at:

www.sussex.ac.uk/humanresources/uspas

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Local Pension Provision: why the University has needed to act

- USPAS is the University's local defined benefit (also known as final salary) pension scheme. It is a private scheme (Self Administered Trust) and, as such, is required by law to be fully funded. This is different to public sector schemes which are, in essence, funded by the government / tax payer. (USS is also a private scheme.)
- As a private scheme, USPAS has to be valued every 3 years. At its last valuation, USPAS had a funding deficit of £23.2m. At the most recent interim valuation, this deficit, which is in relation to past service accrued in the scheme, had increased to £28m.
- In law, it is the employer who is required to pay off any past service deficit and a Recovery Plan for doing so must be agreed with the Pensions Regulator. The University already has an approved Recovery Plan in respect of the £23.2m deficit and is meeting the full cost of this.
- A deficit arises where there is a shortfall between the liabilities¹ of a scheme and the funds in that scheme. At the last valuation, the liabilities of USPAS were £80m. By 2030, the liabilities are estimated to be £498m.
- The shortfall has arisen, as is very common with defined benefit pension schemes, because of 3 factors: people living longer in retirement; lower long-term investment returns; legislation giving rise to additional costs. All these facts are continuing and together with legislative valuation assumptions, the deficit is expected to grow when the next valuation takes place at 31 March 2009.
- This is the reason why the University needed to take steps from 2007 to ensure that future pension provision at Sussex is affordable and sustainable.

The University's approach over the last 18 months

- In March 2007, the University's Council approved the University's meeting the significant additional cost of funding USPAS, on a temporary basis only, pending an affordable and long-term solution being found for local, future service pension. Council required that the cost of such solution take account of the significant additional cost to the University of funding the past service deficit.
- Since March 2007, the University has engaged in consultations with UNISON and UNITE as well as with active USPAS members (i.e. current staff in USPAS).
- Initially, a number of presentations were held with the unions and active members to explain the USPAS situation. Thereafter, a series of 6 consultative workshops was held with the unions over a 6-month period. A survey and focus group sessions were also held with active members as well as with those staff who have chosen not to join USPAS.
- In May 2008, the University made its proposal to the unions for local, future service pension provision. Since May, the University has been engaged in negotiations with the unions. Regrettably, UNITE withdrew from this process in September.
- In parallel with the union negotiations, the University has also been engaged in consultations with active USPAS members. This is a requirement under the Pensions Act 2004. Information from these consultations has been fed into the union negotiations, as well as fed back to active USPAS members, to ensure a joined up process.
- As a result of the consultations and negotiations, management has revised its original proposal. The key elements of the revised proposal are set out at pages 5 and 6.

¹ i.e. the total pension liabilities of the scheme as accrued by a particular date in respect of all individuals who have paid into the scheme whether retired, deferred or active members

What the University has proposed

- The University will keep USPAS open for current members, which has been a key aim. In order to help do this, the University has proposed some changes to USPAS which have been revised following consultation with active members and negotiation with the trade unions.
- Without changes to USPAS, and without closing the scheme to new entrants, USPAS would not be affordable or viable as a scheme for current members or for the University. Any shortfall on funding of liabilities at £498m would mean very significant rate rises which current members do not want and massive exposure to financial risk for the University.
- The University is offering certainty of employee contributions for USPAS members until 2012 whilst the employer contributions are fully expected to rise after the 2009 valuation.
- The University has listened to the views of current employees who have not joined USPAS, totalling 45% of those who were eligible to join, and proposed the introduction of a flexible defined contribution pension, with the ability for employees to vary their contributions over time, up or down, should they so choose. This will be available for these current staff, as well as future staff. The proposal provides life assurance for this group of staff who do not otherwise have such cover from the University.

Myths and Facts

The University is aware of a number of “myths” currently in circulation. These are not helpful to staff, especially those in USPAS or those who chose not to join USPAS. As a result, and confirming points previously communicated by the University to UNISON and UNITE and to staff in USPAS eligible grades, the following points are addressed:

Myth

- That the University has reduced its Employer contribution to USPAS from 18.1% to 9.8% (as incorrectly stated in writing by UCU this week).

Fact

- Under its proposal, the University’s Employer contribution to USPAS is **24.6%**, increased from its contribution of **19.5%** prior to the last valuation. The table below shows the Employer contributions (i) prior to the last valuation; (ii) during the temporary period agreed by Council; and (iii) under the University’s proposal:

Employer %	Employer %	Employer %
Prior to last valuation	Temporary period agreed by Council in 2007	University proposal, from 1.8.09
19.5% = 11.8% for future service + 7.7% for past service	29.2% = 18.1% for future service + 11.1% for past service	24.6% = 13.5% for future service + 11.1% for past service
Additionally, the University will absorb the cost of the increase in contributions arising from the next valuation, in 2009.		

Myth

- That USPAS will become unaffordable to keep open as a scheme if its membership falls - i.e. if USPAS is closed to new entrants.

Fact

- Under its proposal, the University has proposed to **protect** employees from any increase in contribution rate due to the ageing effect² of members in the scheme once it is closed to new entrants: the University will bear the cost of this “ageing” effect itself.
- The University has also made clear that keeping the scheme open to new entrants carries substantial risk that would make the scheme unviable and would bring about its closure for current members.

Myth

- That the 45% of staff who have chosen not to join USPAS are being denied pension provision.

Fact

- The University has made special provision in its proposal to provide flexible pension provision for these staff plus life assurance which they do not currently have. An incentive of an additional Employer contribution has also been offered to these employees if they join the new pension scheme in its first year of operation.

Myth

- That female members of staff will be disadvantaged by the proposal.

Fact

- There are more women than men in USPAS. These women, and the men, have had their USPAS pension safeguarded by the University’s proposal.
- There are more women than men without pension provision because they have chosen not to join USPAS. These women, and men, will benefit from the flexible pension scheme in the University’s proposal.

Myth

- That the University is saving money under its proposal (as incorrectly stated in writing by UCU this week).

Fact

- The University will be paying more money into local pension provision under its proposal than prior to the last valuation.

These points above address some of the main myths which staff have indicated they are concerned about.

² In an open scheme, the contribution rate in respect of future service is expected to remain roughly constant (all other things being equal) due to an expectation that the average age of membership will remain roughly constant as older people who leave and retire are replaced by younger, new joiners. In a closed scheme, however, the contribution rate is expected to increase slowly because older leavers are no longer replaced with younger joiners; this may be described as an “ageing effect”.

Full Summary of the University's Pension Proposal

Current USPAS members:

- a. To phase-in an increase in Employee contributions from 6% to 9% over a three year period, with effect from 1 August 2009; the University to absorb any additional cost arising from the 2009 valuation for the period up to the 2012 valuation:

August 2009	August 2010	August 2011
7% employee	8% employee	9% employee

- b. To reduce the inflation cap on pension in payment in retirement, relating to service accrued from 1 January 2009, from 6% to 3%.
- c. To apply an actuarial reduction to the pension of staff who retire before age 65, except where the early retirement is "In the Management Interest" – i.e. at the request of management – or in cases of ill-health retirement.
- d. To share future increases in the cost of future service USPAS benefits, as determined at future valuations on a split in the region of 65% employer and 35% employee funding, with effect from the 2012 valuation.

Staff who did not join USPAS within their 6-month window of eligibility:

- a. To offer a flexible and portable Defined Contribution scheme with a contribution structure between employer and employee as follows:

Employer %	Employee %
6 + 1.1 additional NI + 0.75% for death in service	3
8 + 1.1 additional NI + 0.75% for death in service	4
10 + 1.1 additional NI + 0.75% for death in service	5 or more

- b. To provide death-in-service benefit of 3.5 times salary, paid as a lump sum.
- c. To promote the scheme actively to encourage a much higher participation rate than currently (rather than wait till 2012 when the government brings in auto-enrolment) at the 3% employee / 5% employer level. (The employee would be eligible to opt out if s/he chose).
- d. To promote the scheme further by offering a bonus payment into the scheme of 2% of monthly pensionable salary for each month the member of staff contributes to the scheme in its first year.
- e. To make a bonus payment of 2.5% of annual salary every 5 years that an employee is in the scheme, to boost savings in the scheme.
- f. To pay for an employee who is retiring from employment with the University to have a session with an independent financial adviser to assist them when making decisions on purchasing an annuity.

- g. To consider offering (i) a dependant's death-in-service pension and (ii) Permanent Health Insurance in the case of long term sickness (University seeking a costing before making firm proposal).
- h. To set up the scheme so as to all employees to change their contribution rate once a year (on a convenient anniversary date to be defined) or on significant life events, e.g. buying a home or starting a family.

NB This new scheme would not be contracted out of the State 2nd Pension Scheme; the employee would therefore pay additional National Insurance (NI) contributions on top of their employee contribution and would be entitled to receive the State 2nd Pension, not available to staff in USPAS.

Future Employees:

As for staff who did not join USPAS within their 6-month window of eligibility, excepting the incentive at point d. (See above).

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