UUK reforms ‘will cut USS pensions by up to 40 per cent’

Plans would ‘devastate’ members’ pensions, warns UCU after actuarial analysis

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Source: Alamy

New employees at the UK’s older universities will see their pensions slashed by about 40 per cent if proposed reforms to the sector’s largest pension scheme go ahead, a new analysis shows.

Under proposals put forward by Universities UK earlier this month, which would end the current system of defined benefit pensions for about 190,000 higher education staff now paying into the Universities Superannuation Scheme, those just beginning their careers would be hit hardest, according to a report by First Actuarial that was commissioned by the University and College Union.

USS pension reform plan an ‘undesirable’ and ‘retrograde’ step

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A lecturer starting on a salary of just under £40,000 a year who moves up the pay spine to £47,722 and works for 30 years would currently receive an annual pension of £15,400 in retirement, says the report published on 30 November. Under the UUK plans to switch to a defined contribution scheme – in which pension payouts depend solely on stock market performance – that individual would get a pension of just £9,400 a year. That is £6,000 (39 per cent) less than under the current system.

Someone starting on a similar annual salary of just under £40,000 whose pay increased more sharply over their career would lose far more, the study shows. If they moved up the pay spine to earn £58,655 on retirement, the £17,800-a-year pension they would get in the current arrangement would, under the proposed changes, be reduced to £10,500 – £7,300 a year less, a 41 per cent drop. A new employee whose earnings climbed to £110,217 – the salary paid to professors at some institutions – would see their annual pension cut from £21,700 a year at present to £12,100 under the proposed plans, £9,600 less (44.2 per cent) than under the current scheme. The retirement incomes of staff already paying into the scheme would be slashed by between 10 per cent and 30 per cent depending their length of service, the report adds.

Sally Hunt, general secretary of the UCU, which has opened a ballot over potential industrial action in February in protest against the reforms, said that the analysis "reveals just how damaging UUK's hardline plans for the pension scheme would be on an individual basis for people who have planned and saved for their retirement".

USS members – who are in the main based at pre-92 universities – who have paid into the scheme for longer periods would suffer less under the changes, but could still lose significant sums, the report says.

Someone who started on a salary of £33,518 in 2007, now with 10 years of service, would lose £6,100 a year (31 per cent) if the UUK changes went ahead – retiring on a reduced pension of £13,800 a year, down from £19,900, assuming they retired aged 68 in 2047. A person who started on that wage and now had 15 years' service would lose £4,100 a year (equivalent to a 27 per cent cut), ending on a reduced pension in 2037 of £11,200; while someone with 20 years' service who was due to retire in 2027 would see a £1,600 a year (10.5 per cent) cut. Those with substantially higher salaries – or prospects of much higher future earnings – are likely, however, to see higher losses in cash terms.

"Already offering worse benefits than other schemes available in the sector, these proposals would devastate USS members' pensions and could create a recruitment and retention crisis as staff jump ship to secure their futures," said Ms Hunt, who added that she "would urge all members to take a look at what these proposals would mean for them and then make sure they vote in the ballot for industrial action".

The union has warned of “chaos on campuses” in the new year if the dispute cannot be resolved. The postal ballot opened on 29 November and will close on 19 January.

However, a UUK spokesman said it did "not recognise these UCU calculations as accurate or credible".

"To maintain the current level of USS pension benefits would require an additional 11% of salary – this is simply unaffordable for many institutions and employees," he added, stating that "our benefit reform proposal would offer a sustainable and affordable solution as well as attractive pensions to employees".

UUK said it would shortly be publishing "clear and credible modelling on what the employers’ proposals could mean for members" and that it was "concerned that publishing figures, without setting out the context or assumptions made, such as the rate of investment return, is highly misleading for USS members".

It added that, unlike the government-backed and unfunded Teachers' Pensions Scheme, those universities which paid into USS had to bear the risk of the scheme. "If there isn’t enough money to deliver the promised benefits ... it could mean some employers have to use money earmarked for teaching or research to pay pension benefits and some may even face closure," UUK added.

However, the UUK plans have been recently criticised by Stuart Croft, vice-chancellor of the University of Warwick, who said he was "mystified" by the body's more conservative approach to cutting the deficit. Writing on his personal blog on 20 November, Professor Croft said UUK's plans signified a "very significant change, that if implemented, will greatly impact on a large number of colleagues in Warwick, as well as in other universities around the country", suggesting that the fund should perhaps explore the possibility of government backing for the USS.

"Whatever happens we will not let the current increasingly conservative approach to USS go unchallenged," wrote Professor Croft, adding that "as a university, we need to be able to offer a competitive and high quality pension scheme and we will seek to work with any other interested parties to identify whether any alternative, more innovative, solutions may be feasible."

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