SUITABILITY AND SUSTAINABILITY:

PENSIONS IN THE HIGHER EDUCATION SECTOR

Universities UK

UCEA
UNIVERSITIES & COLLEGES EMPLOYERS ASSOCIATION

Employers
Pensions
Forum
for Higher Education

ABOUT THE EMPLOYERS PENSIONS FORUM

The Employers Pensions Forum (EPF) was established by Universities UK (UUK), the Universities and Colleges Employers Association (UCEA) and GuildHE in 2007 as a broad-based forum for institutions to discuss current and longer term pensions issues and to develop a strategy that enables the higher education sector to continue to offer staff access to high quality pensions schemes as an important part of the total remuneration package.

Membership of the Forum consists of representatives drawn from vice-chancellors, finance directors, human resources directors, registrars and chairs of governing bodies, all with considerable experience in this area.

The EPF Chair since April 2015 is Professor Koen Lamberts, Vice-Chancellor of the University of York. The EPF has two subcommittees,the USS Group which focuses on the Universities Superannuation Scheme (USS), and the Local Government and Teachers' Schemes Group, focussing on the various Teachers' Pension Schemes and the Local Government Pension Schemes. The USS subgroup is chaired by Professor Koen Lamberts and the TPS/LGPS subgroup is chaired by Professor Nick Petford, Vice-Chancellor of the University of Northampton.

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Overview

Pension provision in the higher education sector has experienced significant change over the past decade. Schemes have seen increases to employer and member contributions and changes to the form and structure of pension scheme benefits. To date these developments have largely been driven by financial pressures and changes in government policy.

Recognising the divergence in higher education pension provision as well as wider changes in the sector, the Employers Pensions Forum (EPF) instructed Universities UK (UUK) and the Universities and Colleges Employers Association (UCEA) to consider a long-term higher education sector position on pension provision. This document summarises the evidence considered and puts forward a set of principles, designed to underpin decisions on pension provision, and practical recommendations. These recommendations provide a framework within which institutions and their representatives can act to influence each scheme, where possible, to ensure higher education pension provision is sustainable and remains affordable and attractive for employers and employees.

Review findings

Need for stability and sustainability

Many schemes continue to face financial pressures. More than ever, institutions believe that achieving long-term stability of pension provision is critical and that cost and risk must be better controlled. This is important for institutions, so that they can set reliable budgets for their costs in order to plan and invest strategically for the future while remaining financially resilient at each stage in the economic cycle.

Long-term sustainability is also critically important for current and future employees. Employer promises made in relation to past service must be honoured, and equally employers need to provide attractive and affordable pensions in the future. Many employees in the higher education sector have faced changes to their pensions in recent years. If changes become a continuing aspect of retirement planning, that uncertainty could erode confidence in pensions savings and lead to pensions being undervalued and potentially under-utilised by employees.

Employer promises made in relation to past service must be honoured, and equally employers need to provide attractive and affordable pensions in the future.

Desire for flexibility

It is evident that uniform pension solutions are no longer suitable for an increasingly divergent higher education sector. Institutions have different strategic priorities, with some wanting more flexibility in the reward package they are able to offer. While most employees appear to value the pensions that institutions offer them, some would prefer more flexible options, such as lower member contribution rates.

Need to improve employee support and communication

Good communication is critical in helping employees benefit fully from their retirement savings and helping institutions get full value from their long-term investment in pensions. This is more important than ever in the light of changes to sector schemes over recent years and the highly complex financial challenges currently faced by many schemes in the sector, which can be difficult to explain.

Individual institutions, the EPF, UUK, UCEA, member representatives, and pension schemes all play an important part in pension communication. There is scope to better coordinate communications activities between these key stakeholders and to adopt specific improvements such as using plain English and ensuring information is readily available and accessible. Communications must be proactive, engaging and targeted, to make sure that the right messages are getting through to all concerned about this important aspect of the higher education reward package.

Principles

Based on these conclusions, a set of principles has been developed that set out institutions' priorities for the future of pensions. When taken together, these principles emphasise the continuing wish of employers to provide good pensions, albeit with control and predictability as the key elements of any arrangement, within a structure which is adaptable to likely changes in future demands and behaviours. Employers will need to determine how to achieve the right balance between these principles, acknowledging that the priority given to each principle will depend on the context and the influence an institution has on their relevant scheme.

Principle 1: Institutions should continue to offer pensions which are valued by employees

Pensions are an important and valued part of an institution's reward package. Institutions should continue to provide a quality pension to all employees, which meets their pension saving needs and helps institutions attract and retain talent.

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Principle 2: Pension provision should be sustainable in the long-term

Pensions must be sustainable in the long term, where sustainability is about managing risk as well as cost. Pension costs must be predictable for both employers and employees and the funding arrangements should not increase the pensions risk to which institutions are exposed. At the same time, strategies should be available to help employees predict their pension outcomes. Sustainability also means achieving greater fairness and equity between generations of scheme members, meeting employer commitments to promises in relation to past service and supporting good future pension outcomes.

Principle 3: Pension benefit design should be predictable and stable

Employers and employees have a desire for certainty in benefit design, as far as possible, so that they can plan for the future. This means a stable benefit design in the longterm, which builds trust and can be communicated consistently.

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Principle 4: Institutions should have more flexibility to adapt pension provision as appropriate to their needs and those of their employees

The operating environment for institutions is evolving and with that the sector's workforce is becoming more diverse. Employers should have the flexibility to personalise and optimise their pension arrangements through flexible scheme architecture. The framework for flexibility should be designed to meet the differing needs of groups of employees.

Principle 5: Employees should have more choice and control over their pension contributions and benefits

Employees should be able to save towards their pension in the way that suits their needs. They need choices which allow them to flex the amount they save and which reflect their specific career plans and portability needs. Employee options should be adaptable to reflect the development of contemporary retirement solutions.

Recommendations

Practical recommendations, grouped into five broad areas have been suggested to help achieve the long-term objectives for higher education pension provision.

A. In order to manage the costs and risks associated with defined benefit (DB) pension schemes:

- For UUK when representing Universities Superannuation Scheme (USS) employers, and UCEA when representing higher education employers on public-sector scheme boards, to negotiate following scheme valuations on the basis of the principles set out above and to take account of the content of this report.
- For UUK to publish an online library of documents for sector employers explaining USS pensions risk, so that information is held in one location and kept up-to-date. This should include an annual statement on risk and quarterly monitoring updates led by a subgroup of the EPF–USS group focused on risk.
- For UCEA to work with the Local Government Pension Scheme (LGPS) advisory board and individual institutions to ensure there is no negative impact on the higher education sector as a result of the review of scheduled employers with no tax raising powers, particularly if this changes the status of higher education employers in the LGPS.
- For UCEA to work with institutions and the LGPS to consider ways of developing a suitable framework for managing exits from that scheme and reassess the statutory obligation to offer LGPS to employees.

B. To increase flexibility for employers and employees:

- For pension schemes to provide UUK and UCEA with analysis of trends in opt-outs and the take up of existing pension flexibilities by members.
- For the EPF to develop guidance for HR leaders on how they might work with employees to understand their appetite for pension flexibility, attitudes to retirement saving and reasons for member opt-outs; including an improved understanding of workforce and generational differences.
- For UUK and UCEA, in conjunction with sector pension schemes, to prepare an 'options for pensions flexibility' strategy paper for further consultation.

C. To improve employee communications:

- For UCEA and UUK, in conjunction with pension schemes, to review scheme communications and the range of advice available to members with the aim of identifying where these can be improved.
- For UCEA to work with HR leaders and pension professionals to develop guidance on pension communications to support higher education employers.
- For UCEA to gather data on financial information available to employees and institutions' use of independent financial advisors and to raise awareness of the options and services available to employees.

D. To develop ways to consider pensions as part of the total reward package:

- For UCEA to work with higher education employers to determine if there is a desire to have greater strategic alignment between pay, pensions and other elements of reward and, if so, to explore the implications and how this could be achieved.

E. To conduct a review of retirement trends:

- UCEA, UUK and HR leaders in conjunction with sector schemes conduct a full review of retirement trends in the higher education sector to include:
  - **a.** understanding whether the existing scheme flexibilities are meeting the needs of employers and employees
  - **b.** assessing the use of flexible retirement policies by institutions and whether guidance on a consistent approach is warranted
  - **c.** analysing how the higher education sector can become an industry leader in harnessing the skills of older workers and turning an ageing workforce into a positive for institutions and the wider UK economy
  - **d.** understanding how employers are using pensions to support the evolution of their workforces

INTRODUCTION

Today a range of different pensions are offered, including final salary, career average, hybrid and defined contribution.

Pension provision in the higher education sector has changed significantly in recent years. A decade ago most employees accrued defined benefit (DB) pensions via a final salary scheme. Today a range of different pensions are offered, including final salary, career average, hybrid and defined contribution (DC).

There are many reasons for the changes to higher education pension provision, with regulatory and operational reforms, and changes in working practices all playing a part. However, the main driver for change has been the persistent financial pressure, principally caused by low interest rates and improvements in life expectancy, which has led to a substantial increase in the cost of DB pensions.

In this context, UUK and UCEA, as two of the key Employers Pension Forum (EPF) partner organisations, began work in 2016 on a project to consider the future of pension provision in the higher education sector. This was particularly pertinent given that all the main pension schemes in the sector were undertaking actuarial valuations with effective dates in 2016 and 2017. These valuations (where completed) have been challenging and those still ongoing are also expected to result in difficult decisions for stakeholders in the higher education sector. This all comes at a time when the sector faces a range of complex issues including the impact of deregulation and greater competition, financial austerity, the considerable uncertainties presented by Brexit and the new regulatory environment.

This report summarises the work undertaken by UUK and UCEA with institutions and employees through meetings, surveys and employee focus groups. Based on engagement and research, it outlines a set of principles, informed by this research, on which to base future higher education pension provision. These principles have been used as the basis for a set of recommendations designed to provide a framework within which institutions and their representatives can act to influence each scheme, where possible, to ensure higher education pension provision is sustainable and attractive for all.

OVERVIEW OF APPROACH

This report looks at the variety of schemes offered to higher education employees with a particular focus on the three main schemes by member numbers – the Universities Superannuation Scheme (USS), the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS) (and its devolved equivalents). It also considers the collection of self-administered trusts (SATs), which includes the Superannuation Arrangements for the University of London (SAUL)[1].

The project looked at a range of factors that might affect the pensions that institutions wish to provide, including the needs of employees, changes in the sector's workforce and operational environment, recent and expected developments in UK pension policy, and trends in pension provision. This research helped identify the key drivers steering the future of pension provision in the higher education sector which, in turn, form the basis for the following objectives:

- To develop a proactive and long-term approach to pension provision which sits within a considered and balanced employee reward strategy.
- For that approach to deliver greater stability and predictability of costs for institutions.
- To underpin the development of that approach with a greater understanding of employers' and employees' views on reward.
- To deliver more control of both cost and pension provision offering within an increasingly divergent sector, in which pension provision itself is diverging from an originally similar base.

UUK and UCEA have worked closely with institutions and their employees in the sector to develop these objectives and make practical recommendations. Engagement included regular meetings and events with institutions, sector agencies and representative bodies, a survey and events with USS employers, a survey of institutions offering the LGPS and a series of eight focus groups with higher education employees at four institutions.

[1] Most institutions offer two or more of these schemes to different groups of staff. An overview of each of these schemes is provided in Annexe A.

BACKGROUND

DB pension provision is more prevalent in the higher education sector than in many other sectors. The costs and underlying risks associated with DB schemes are profoundly affected by economic conditions, demographic change and reforms in government pension policy and regulation. As the 2007–08 financial crisis unfolded, the EPF published two reports on pensions. The first of these, the 2007 Hewitt report[2], set out the results of a strategic enquiry into higher education pensions. This concluded that pension costs were too high for employers to afford and that there should be increased risk sharing between employers and members. However, there was no consensus on how to achieve these objectives at the time.

In 2008 the Thompson report[3] built on the conclusions of the Hewitt report in the light of increasing concerns about rising pension costs and sustainability. This report set out a number of possible solutions, including reviewing the normal pension age in line with state pension age changes, sharing cost increases between members and employers and adjusting benefits to reflect a longer retirement benefit payment period. A number of the solutions set out in that report were adopted by the higher education sector, such as the cost-sharing provisions introduced into the USS rules.

In the decade following the financial crisis there have been significant changes to all the major pension schemes in which higher education institutions participate. These have, primarily, been driven by funding pressures caused by persistently challenging economic conditions. Differences in the governance frameworks and financial positions of schemes (particularly between public and private-sector schemes) have led them to respond differently to economic pressures. This has caused a greater divergence in pension provision between and within institutions.

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Issues facing DB pension schemes

DB pension schemes throughout the developed world are facing financial challenges caused by a combination of factors including: continuing low interest rates, the longer-term expectation of lower investment returns, improvements in life expectancy and ageing populations due to low birth rates. These have led to a significant increase in the costs and risks associated with providing DB pensions and this is affecting employers' finances and their ability to remain competitive.

Figure 1 shows the value of the assets and liabilities of FTSE 350 DB schemes between January 2007 and July 2017. This illustrates how the growth in DB pension scheme liabilities has significantly outpaced the growth in their assets.

[2] Hewitt Report (2007) available from http://www.universitiesuk.ac.uk/policy-and-analysis/reports/Documents/2007/enquiry-into-pension-arrangements-for-he.pdf

[3] Thompson report (2008) available from http://www.universitiesuk.ac.uk/policy-and-analysis/reports/Documents/2008/pension-provision-in-higher-education.pdf

The significant increase in the value of DB liabilities presents employers with higher immediate costs. Many employers face demands for both higher regular pension contributions to fund future service costs and additional payments to address deficits, either as a percentage of payroll or annual lump sums. Uncertainty about future pension costs is not eliminated by these measures.

FIGURE 1: ASSETS AND LIABILITIES OF FTSE 350 DB PENSION SCHEMES, 2007 – 2017 (£BILLION)

Source: AON Pension risk tracker

It is not just employers that are impacted by the costs and risk of DB pensions. Often scheme members have seen their contribution rates increase, their benefits reduced or their normal pension age increase. In addition, higher DB pension costs are starting to limit the ability of employers to enhance other areas of reward. A recent report by the Resolution Foundation[4] has suggested that DB pension deficit payments are diverting between £1.4bn and £2.2bn a year (approximately £200 per employee) from salaries and into DB schemes. While the impact on pay may not be substantial, this suggests that the cost of meeting legacy DB promises is a significant drag on employer resources and has implications for intergenerational fairness.

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Changes to higher education accounting

A recent change in higher education accounting rules, with the introduction of Financial Reporting Standard 102 (FRS102), has made pension deficits more visible on many institutions' balance sheets. Previously, for many organisations pension costs were simply the amount of employer contributions paid into a scheme and, as these were treated as operational expenditure, there was no balance sheet impact. This was because the schemes (USS and SAUL) were non-segregated, in other words the assets and liabilities applicable to individual institutions could not be identified discretely.

[4] Resolution Foundation (2017) *The Pay Deficit*

Now, under FRS102, organisations participating in a multi-employer scheme with non-segregated assets must recognise:

- A liability in their balance sheet equal to the net present value of future deficit reduction payments. These payments are discounted to the present value using the market yield on high quality corporate bonds.
- A finance cost in their profit and loss account equal to the 'unwinding of the discount rate'. This will be broadly equivalent to the annual deficit payment.

This change has only affected institutions that participate in USS and SAUL; institutions in an LGPS scheme have been required to recognise pension assets and liabilities on their balance sheets for many years under the old accounting standard, FRS17. However, inconsistencies in relation to the reporting of pension costs in institutions' accounts remain. For example, the TPS is an 'unfunded' scheme with notional assets and liabilities that are not recognised on institutional balance sheets, as the liability to meet the pension promise rests with the government.

Trends in DB provision

The public and private sectors have responded differently to the rising cost of DB pension provision. In the public sector the main pension schemes have moved from using final salary to career average salary as the basis for calculating pensions, with protections for those members closest to their retirement age when the reforms were implemented. The public-sector schemes also retained the final salary link for past service for those members who moved to the career average scheme.

The public and private sectors have responded differently to the rising cost of DB pension provision.

In contrast, the private sector has moved away from DB, and DC pension arrangements are now almost universal for new employees. In a survey conducted by consultants Willis Towers Watson in 2017, 98% of responding FTSE350 companies' main pension schemes for new employees was a DC arrangement.[5] The survey also indicated that 42% of FTSE250 companies had closed their DB scheme for all employees. Figure 2 shows how this trend translates into numbers of members in each type of scheme.

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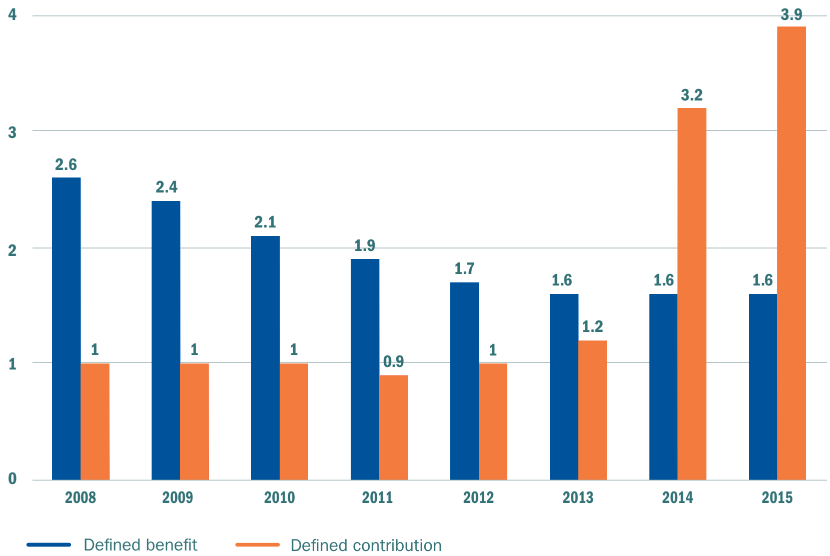
[5] Willis Towers Watson (2017) FTSE 350 Defined Contribution Scheme Survey 2017 https://www.willistowerswatson.com/en-GB/insights/2017/02/Infographic-FTSE-350-defined-contribution-pension-scheme-survey-2017

FIGURE 2: UK ACTIVE MEMBERSHIP OF PRIVATE SECTOR OCCUPATIONAL PENSION SCHEMES BY STRUCTURE, 2008 TO 2015 (MILLION)



Source: ONS Occupational Pension Schemes Survey, 2015 (the most recent year for which data is available).

The prevalence of DC arrangements in the private sector has raised a number of important questions about the adequacy of pension provision, particularly in relation to automatic enrolment minimum contribution levels. This has led to a drive by the Pensions Regulator to improve DC scheme governance. The pensions industry is also considering how to improve employee communications and engagement, to ensure that members understand their DC schemes and can manage their income needs in retirement.

DC schemes in higher education

The rise of DC schemes is a significant issue for those institutions competing with private sector employers as well as those concerned about increased competition from alternative higher education providers. New entrants to the market do not bring with them the legacy of DB arrangements and the associated costs and risks, and have more flexibility in relation to employee reward.

The rise of DC schemes is a significant issue for those institutions competing with private sector employers as well as those concerned about increased competition from alternative higher education providers.

Over the past decade, the sector has seen a growing number of institutions offering DC schemes to employees. This is mainly due to new DC arrangements being introduced to meet automatic enrolment requirements and the movement of many SATs towards DC for new entrants and/or for all employees. Some institutions now offer several DC schemes for different groups of employees. For example, they may have a group personal pension for their support staff and offer membership of a multi-employer scheme such as NEST, NOW:Pensions or The People’s Pension, to meet automatic enrolment duties for casual workers, staff employed at a subsidiary or for some re-employed pensioners.

In addition to 'pure' DC schemes, many institutions now offer the new hybrid structure of USS which provides a core mix of DB and DC. This type of hybrid scheme sits alongside the existing money purchase additional voluntary contribution facilities offered by the majority of DB schemes in the higher education sector.

DC in SATs

As noted above, there has been a significant movement of SATs towards DC in recent years. In July 2013, 28% of pre-92 institutions with their own pension arrangement for support staff had moved to DC for new joiners; by July 2016 this was 47% (see Annexe A for further information).

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Moving to DC for support staff

As early as 2002, one institution had closed its DB scheme for support staff to new members over concerns about increasing employer costs, though the scheme remained open to future benefit accrual for existing members. A DC stakeholder scheme was set up for new staff, who also received an enhanced salary as part of more flexible remuneration package. In 2008, the institution set up a group personal pension which is now the main scheme for new support staff.

Institutions with DC schemes are still paying generous employer contributions. Pre-92 institutions that have a flat (ie non-matched) DC contribution structure have average employer and member contributions of 10% and 5% respectively.[6] In comparison, FTSE100 companies have an average employer and member contribution rate of 9% and 2% respectively. Therefore, while pre-92 institutions pay higher contributions than the average private sector employer, members are also expected to pay a higher amount than those in FTSE100 companies.

Institutions with DC schemes are still paying generous employer contributions.

Many institutions allow scheme members to pay a higher level of contributions, which they will match up to a maximum limit. There are number of different approaches including:

- Employers pay double the rate of member contributions up to a certain limit.
- Employer contributions exceed member contributions by a fixed amount. For example, in one scheme the employer matches the member contribution and pays an extra 2%.
- Employer contributions exceed member contributions by an amount which increases when members contribute more. For example, if a member contributes 3%, the employer contributes 5%. But if the member contributes 6% the employer contributes 11%.

[6] Not including multi-employer schemes offering DC (such as USS)

The significant contributions that higher education employers make towards DC savings demonstrate that the continuing trend towards DC in the sector is not driven by cost alone and that institutions want to offer good pension outcomes while achieving greater stability in their pension costs.

Higher education pensions abroad

UUK conducted research into the pension schemes offered by universities in other countries to consider the global competitiveness of what UK universities offer and to learn from initiatives and developments overseas. In reality, the scale and complexity of international schemes when considered within their local social security context means that a detailed and meaningful comparison is outside the remit of this exercise. In some countries there are pension schemes designed specifically for the higher education sector, including UniSuper in Australia and Unisaver in New Zealand. Findings so far identify a range of different schemes in other countries, from full DC options to DC/DB hybrid schemes. While it is clear that offering a DB scheme is not uncommon in universities around the world, many of the schemes identified are DC only. For example, the top universities in the United States predominantly offer DC pension arrangements.

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THE CHALLENGES FACING HIGHER EDUCATION PENSION SCHEMES

Universities Superannuation Scheme (USS)

USS is one of the largest funded trust-based pension schemes in the UK by fund size, and offers a combination of career average and DC benefits to its members. As a private-sector DB scheme USS is required to undertake a funding valuation every three years. Since the 2011 valuation, USS has had a substantial funding shortfall, meaning the value of assets held were not sufficient to deliver the required return to meet all the pensions promised as they fall due. This shortfall has led to two significant sets of benefit reforms (see Annexe A) designed to address both the future service cost and the scheme's deficit. Work on the 2017 valuation is underway and this is expected to show a significant further increase in the cost of providing benefits.

In order to engage with USS employers on their preferences for the future, a series of town hall events took place in September 2016. During these events, USS, UUK and Aon (in its role as UUK's actuarial advisors) delivered presentations to over 100 delegates at three venues. The events were followed by a survey of all USS employers in October. Further valuation events were held at three locations in May 2017 to inform employers of the latest USS trustee position on valuation assumptions and to seek views on risk and benefits.[7]

Details of the events and survey findings can be found in Annexe B. In summary, USS employers expressed a desire for a long-term pension strategy which would ensure the attractiveness and sustainability of USS while avoiding the reactive cycle of reform at triennial valuations. Control of cost and risk, as well as increased flexibility, were also noted as key requirements for USS employers.

The table below summarises the key challenges facing USS.

TABLE 1: AN OVERVIEW OF USS CHALLENGES

ACTUARIAL VALUATION 31 MARCH 2017	Indications are that as at 31 March 2017 a sizable deficit remains. This deficit is accompanied by a more apparent increase in the cost of future benefits. It is likely that further reforms will be necessary. These will be negotiated through the Joint Negotiating Committee (JNC) which consists of an equal number of trade union and employer representatives with an independent chair who has the power to exercise a casting vote if the JNC cannot agree.
MEMBER PARTICIPATION	Employers have indicated concern that the current 8% employee contribution is at the limit of affordability for some scheme members. The data shows a recent increase in the number of members opting out of USS. This trend concerns employers and its reasons need to be understood.

[7] The USS survey received responses from 115 USS employers, representing 94% of USS membership. The May USS events were attended by 89 delegates from 76 institutions, representing 84% of USS membership, as well as representatives from USS and UUK's actuary Aon.

COMMUNICATION CHALLENGES	The current USS hybrid benefit structure is challenging to communicate to members. Employers are concerned that this is leading to members undervaluing their pension benefits.
MUTUALITY	Some USS employers are concerned about the mutual structure of USS and wish to better understand any possible cross subsidies this may cause, as well as the 'last man standing' nature of the scheme.
EXCLUSIVITY	Some USS employers feel constrained by the rule that prohibits them from offering alternative benefits to employees in USS-eligible roles.
DIVERGENCE	Changes to USS pension benefits have led to a greater divergence of pension provision between and within higher education institutions. Since USS left the Public Sector Transfer Club[8] in April 2016 it has no longer been possible to transfer between sector DB schemes on a 'like for like' service basis, limiting the portability of benefits.
COST AND DB LIABILITIES	For some employers, the recent contribution increase from 16% to 18% has been a significant financial challenge. However, the high costs of exit (section 75 debt), coupled with a lack of repayment options are barriers to employers wishing to exit the scheme.

Teachers' Pension Scheme (TPS)

TPS is an unfunded statutory public-sector scheme for England and Wales, with devolved equivalents in Scotland and Northern Ireland. As part of the public service pension reforms, TPS moved to a career average benefit structure in April 2015.[9] In September 2015, the employer contribution rate was increased from 14.1% to 16.4% and a new administration levy of 0.08% was introduced, paid by employers as an additional amount incorporated into their contribution rate (see Annexe A). Member contributions were also adjusted, with changes to the number of tiers. Overall, some members saw an increase and others a decrease, with contributions ranging from 7.4% to 11.7%.

The next valuation of TPS across the UK is as at 31 March 2016. Due to the size of the schemes the result of these valuations will not be made public until later in 2017 or early in 2018.

[8] The Public Sector Transfer Club is a group of some 120 salary related occupational pension schemes, not all of whom are based in the public sector, that provide employees with broadly equivalent credits when they transfer their pensionable service to their new scheme. More details on the club can be found at http://www.civilservicepensionscheme.org.uk/media/181387/tpstc-apr-16.pdf

[9] Final salary benefits remained in place for past service and for existing members who were close to retirement.

The table below summarises the key issues facing TPS.

TABLE 2: AN OVERVIEW OF TPS CHALLENGES

PARTICIPATION	For institutions classified as Higher Education Corporations (HECs) (or post-92 institutions) the TPS regulations require qualifying employees to be enrolled into TPS. There is no process under the regulations for a statutory employer to exit TPS. Therefore, there may be issues for HECs that change corporate status.
ACTUARIAL VALUATION 31 MARCH 2016	TPS is an unfunded scheme but still has a notional deficit. The central discount rate used by HM Treasury for all public-sector pension schemes has been reduced. This is excluded from the calculation of the employer cost cap so it is possible that employer contributions will increase further, following the increase to 16.48% in September 2015. The earliest any contribution increases or benefit changes could apply would be April 2019.
ADMINISTRATION	A new administration levy was introduced in 2015 and this is currently being reviewed. The levy is set by the Department for Education.
MONTHLY DATA COLLECTION	All employers must move to monthly data collection (MDC) which is a significant change to HR, administration and payroll processes. Implementing MDC is a complex and time-consuming exercise for many institutions.
ACCESS FOR SUBSIDIARIES	A number of institutions are considering mergers with further education institutions which raises a number of pensions issues. In some cases, if the further education institution is set up as a subsidiary, continued participation in TPS would not be allowed.

Local Government Pension Scheme (LGPS)

The LGPS is a funded statutory public-sector pension scheme. As part of the public service pension reforms, the scheme moved to a career average benefit structure in April 2014 (April 2015 in Scotland and Northern Ireland).[10] The 31 March 2016 valuations for LGPS funds in England, Wales and Northern Ireland have recently been completed and many institutions are paying higher regular employer contributions plus annual payments to address funding shortfalls. Scottish LGPS funds undertook their valuation in March 2017 with results expected by March 2018.

[10] Final salary benefits remained in place for past service and there is a final salary underpin in place for those existing members who were close to retirement.

The table below summarises the key issues facing LGPS.

TABLE 3: AN OVERVIEW OF LGPS CHALLENGES

PARTICIPATION	Institutions participate in LGPS in one of two ways: • Scheduled bodies – HECs are required under the regulations to enrol any employee not eligible for another public-sector scheme (generally professional service staff) into the LGPS. This may cause issues if an HEC changes corporate status. • Admitted bodies – these institutions have an agreement with their local fund to enrol a particular group of employees. This may be all professional services staff or a smaller group, for example employees transferred from another employer. In these cases, the terms under which the institution is admitted can be changed, for example, to stop allowing new employees to join LGPS. But there may be funding and cost implications.
ACTUARIAL VALUATIONS 31 MARCH 2016 ENGLAND AND WALES (COMPLETE)	The 2013 and 2016 valuations led to significant increases in LGPS costs for many institutions. Much of this is driven by local funds' assessments of the employer covenant which categorises higher education institutions as being at greater risk than the local authority or other public-sector employers backed by government. This has led many institutions to consider their future participation in the scheme.
THE IMPLICATIONS OF REDUCED HIGHER EDUCATION PARTICIPATION IN LGPS	Two scheduled institutions have set up subsidiaries where new staff are employed and are offered a DC scheme instead of LGPS; others are running a DC scheme for employees who opt out of LGPS to join. Other institutions have adjusted the terms on which they participate as an admitted body in the LGPS. In each case institutions are reducing their exposure to LGPS and may have a longer-term plan to exit LGPS completely. There are potential funding and cost implications of limiting the number of new entrants to LGPS. Member representatives have raised concerns about subsidiaries and LGPS and this may lead to a request that the Scheme Advisory Board considers recommending that all wholly-owned subsidiary companies are automatically required to participate in the LGPS.

LONGER-TERM SUSTAINABILITY	The Scheme Advisory Board in England and Wales is undertaking a project to review 'tier 3' employers. These are scheduled bodies that do not have tax-raising powers and this includes higher education institutions. It is possible that changes could be made to the way institutions participate in LGPS to give them greater flexibility, however it would take some time for this come to fruition as regulatory changes would be required.
COST MANAGEMENT PROCESS	Alongside the local fund valuations, the Scheme Advisory Board assesses the cost across each scheme. This uses financial assumptions set by HM Treasury and demographic assumptions set by the secretary of state on guidance from the government actuary. As with TPS, not all costs are managed within this process and it is possible that the overall employer cost will increase. If the process triggers a reduction in benefits the impact will not be reflected in local fund valuations or employer contribution rates until the next valuation in 2019 (2020 in Scotland).
NEW FAIR DEAL	New Fair Deal[11] is due to be reviewed. It is likely that member representatives will once again request that this policy is extended to cover higher and further education employers (therefore requiring any employees transferred out of the sector, for example, on outsourcing a function, to be entitled to remain in their current pension scheme) and the sector will need to lobby government for the current position to remain unchanged.

In recent years, a growing number of institutions have become concerned about the rising costs of participation in the LGPS and, in particular, the lack of control they have over the benefits offered to members and contribution rates.

The case studies below summarise the approaches taken by two institutions to reduce their LGPS exposure. The first case study is an admitted body which has closed LGPS to new entrants through an adjustment in its admission terms. The second is a scheduled body that set up a subsidiary to offer new support staff a DC scheme in place of LGPS.

[11] New Fair Deal is designed to protect the pensions of staff transferred out of the public sector on a compulsory transfer. It replaces the requirement for the receiving employer to offer a broadly comparable pension scheme with transferred staff being able to retain membership of (or eligibility for) their public sector pension scheme. This applies to compulsory transfers from the public sector to the private sector but does not currently apply to higher education. https://www.gov.uk/government/publications/fair-deal-guidance

Case study A
Admitted body closing LGPS to new entrants

A higher education institution which was an admitted body in LGPS had an exit clause in its admission agreement that enabled it to cease admitting new members. Following a review of its participation in the LGPS, a decision was made to cease the participation of new employees in the LGPS and to offer a DC scheme instead. The institution discussed its proposal with its administering authority and, following negotiations, a supplementary admission agreement was drawn up.

The terms of the agreement ensured that the institution would retain membership of the LGPS for active and eligible employees. It was agreed that, subject to the administering authority being reasonably satisfied with the institution's covenant, there would be no request for any cessation deficit arising when the last active member leaves to be paid as a single cash sum but that cash contributions could be made to remove the deficit over a reasonable period of time. Importantly, the institution retained the ability to re-open access to the LGPS for new entrants when the last active member was about to leave to ensure that it would not be faced with a substantial debt it could not reasonably plan for.

Case study B
Scheduled body offering alternative to LGPS via a subsidiary company

A higher education institution was concerned about the sustainability of its participation in LGPS. This was due to increasing employer costs and a pressurised financial operating environment, along with significant financial risk that could not be controlled and high numbers of member opt-outs. The institution recognised that its LGPS liabilities were forecast to grow substantially decided that the best way to ensure more stable employer pension costs, without diluting the quality of pension provision or reducing their overall pension spend, would be to offer new professional services staff access to an alternative DC scheme.

The institution already had a DC scheme in place which was set up to meet its automatic enrolment duties. Plans were put into place to create a professional services company to employ new support staff. Trade unions were informed of the institution's plans at an early stage and agreed to the proposed solution. They agreed because the DC scheme being offered in place of the LGPS was generous, addressed some member affordability concerns and was an appealing option for staff.

The institution now employs professional services staff through the newly established subsidiary company. To date, the institution has not seen any negative impact in terms of recruiting new staff into the subsidiary.

NHS Pension Scheme (NHSPS)

The NHSPS is an unfunded statutory public-sector pension scheme. As part of the public service pension reforms, the scheme moved to a career average benefit structure in April 2015 and the employer contribution rate was increased to 14.3%. In April 2017, the employer contribution rate was increased further by 0.08% to pay for a new administration levy. The next NHSPS valuation is at 31 March 2016 with results expected in late 2017. The cost management process described above for TPS also applies to NHSPS and this raises similar issues for the higher education sector, with increases in employer contributions possible.

A further issue in the higher education sector is the number of new medical schools that are opening and wishing to recruit staff from the NHS. To allow such staff to continue as members of the NHSPS, institutions must apply for Direction Body status, either for the new medical school as a whole or for individual staff and this introduces pensions complexity. In addition, changes to department and/or course structures that result in collaboration across disciplines or courses being open to non-medical or dental students, mean that the terms of the Direction Body Orders, which allow institutions to participate in the NHSPS, may no longer apply.

SATs and SAUL

Thirty two pre-92 institutions operate their own pension arrangement for non-academic staff. Many of these SATs have seen significant reforms, with closures of final salary schemes and moves to career average and DC pension provision for new and/or existing staff. There are still, however, a few SATs that offer final salary benefits to new as well as existing staff.

Pre-92 institutions based London and south-east England participate in SAUL, which implemented changes in 2012 and 2016 designed to address the cost of future service benefits and a funding shortfall. Work on the SAUL valuation at 31 March 2017 is currently underway, more details can be found in Annexe A.

DRIVERS FOR CHANGE

The many developments in the wider pensions environment in recent years have taken place against the backdrop of a decade of operational change in the higher education sector. Changes to funding regulation and government policy, greater competition nationally and globally, and changing patterns in the sector's workforce, all have implications for employer and employees' position on pensions.

Employee views and priorities

The EPF's research, through focus groups and engagement with HR directors, found that employees' views on pensions are diverse. Annexe C summarises the findings of the employee focus groups. While most employees appear to value the pensions that institutions offer them, there are some for whom the current pension offering, comprising predominantly DB benefits and relatively high member contribution rates, is not appropriate and who want more flexibility. This was a particular concern for international staff, low to moderate earners and those in the early stages of their career. There are several ways in which greater flexibility for members could be achieved. An example of a more flexible scheme explored for this report is Unisuper, the primary scheme for employees in the Australian higher education sector.

Younger staff generally appear more unsure about pension saving. The employee focus groups suggested that this was due to a myriad of factors, including a lack of trust in pensions, and other financial priorities such as the cost of living, paying off debt and aspirations to get on the property ladder. Many staff, particularly those who are younger, lack confidence in the government in relation to future pension reforms believing that they will not be able to retire until much later than current state pension ages.

Employee choice in Unisuper

Unisuper is the main occupational pension scheme for the higher education sector in Australia and offers a high degree of employee choice and flexibility. The construction of Unisuper is quite distinct from its closest UK equivalent, USS, in that employers are not responsible for funding any DB deficit.

In Unisuper, full-time, permanent employees can choose both the level of contributions they wish to make to their pension saving and the means of saving they prefer. Within two years of enrolment, members can choose to move from a DB/DC hybrid scheme to a DC ('accumulation') fund. Around one fifth of members choose to do so. In both the DB/DC and the DC schemes, members can choose how much they want to contribute to their pension from 0% of their salary up to 7%. Member contributions affect the level of benefit at retirement, but not the level of employer contributions.

This enhanced choice for employees is accompanied by system of support and financial advice whereby Unisuper financial advisors and consultants are based in campus offices. Levels of member engagement and responses to member surveys suggest that this service is highly regarded and utilised.

Pension communication in a time of change

While most employees value the pensions that institutions offer to them, there was a lack of understanding about how schemes work in practice, what can be expected at retirement and how much institutions pay towards pensions. Employees demonstrated limited awareness of how generous their DB scheme still is in comparison to the pensions offered by many private-sector employers, despite recent changes.

Overall, this emphasises the importance of effective communication and advice for employees in the higher education sector, particularly in the wake of benefit changes. Research across a range of sectors suggests that employees generally trust their own employer and their communications on pensions more than communications directly from their pension scheme.[12] Although there are limitations to the level of information and advice that employers can provide, it is clear that they have an important part to play alongside pension schemes in supporting employees on pensions matters.

Research across a range of sectors suggests that employees generally trust their own employer and their communications on pensions more than communications directly from their pension scheme.

Higher education workforce trends

There have been several notable trends in the sector's workforce over the past decade that have implications for pension provision. These are set out below.

[12] A 2015 survey of 100 charities by employee benefits provider Mybenefitsatwork found that 82% of employees believe the responsibility to communicate benefits rests with their employer.

An overall increase in staff numbers

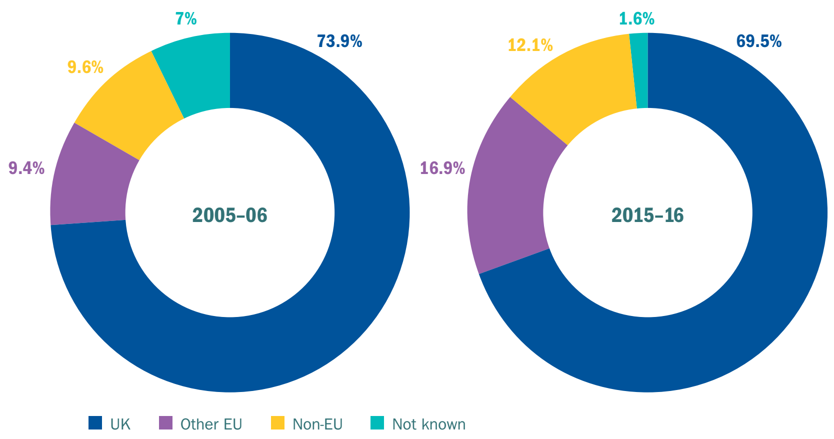
There has been a significant increase in staff numbers at higher education institutions in recent years, which reflects an increase in university activity over the same period. In the past 10 years, the number of employees at UK universities increased by 12.6%. This was driven by growth in both academic and non-academic staff numbers, which each hit a 10-year high in 2015–16. However, academic staff numbers have risen especially quickly, accounting for 68% of the growth in total staff numbers. Overall, the increase in higher education employees, as well as the government's policy of automatic enrolment has led to an increase in pension scheme membership in the sector.

An increase in the proportion of international academic staff

There has been a particularly marked increase in international academic staff. In 2015–16, EU nationals accounted for 17.0% of all academic staff with known nationalities while non-EU nationals accounted for 12.4%. This compares to 9.4% and 9.6% respectively in 2005–06. This trend has significant implications for pension provision; university employers are concerned that current pension provision is not attractive to international staff, particularly those who are only in the UK temporarily and therefore want a more flexible, easily transferable pension.

In 2015–16, EU nationals accounted for 17.0% of all academic staff with known nationalities while non-EU nationals accounted for 12.4%... university employers are concerned that current pension provision is not attractive to international staff.

FIGURE 3: ACADEMIC STAFF AT UK INSTITUTIONS BY NATIONALITY, 2005–06 AND 2015–16



Source: HESA staff record

The European Commission (EC) undertook research which demonstrated that many internationally mobile researchers face difficulties in preserving their workplace pension benefits when moving between countries and organisations. As researcher mobility is well known as a driver of excellence in research, the EC is supporting a consortium of employers, through Horizon 2020, to develop RESAVER, a pension scheme specifically designed for such employees.

The European Commission's RESAVER scheme

RESAVER is a multi-employer, multi-country DC scheme designed to facilitate researcher mobility in the European Economic Area by allowing continuity of pension savings across organisations and countries. The scheme is in its infancy, launching initially in Hungary and Italy with the first contributions being paid in 2017. Over the next two years the goal is to see organisations from six further countries joining RESAVER. The EPF will monitor the take up of RESAVER and engage with the sector to understand whether there are any recruitment or retention issues arising from the UK's non-participation.

Changes in the academic staff age profile

One of the main reasons why DB pension costs are increasing is that people are living longer. The number of individuals aged 50 and over as a proportion of the adult population is projected to increase from 42% in 2010 to 50% by the mid-2030s.

TABLE 4: COHORT LIFE EXPECTANCY ON REACHING AGE 65 IN THE YEAR SHOWN

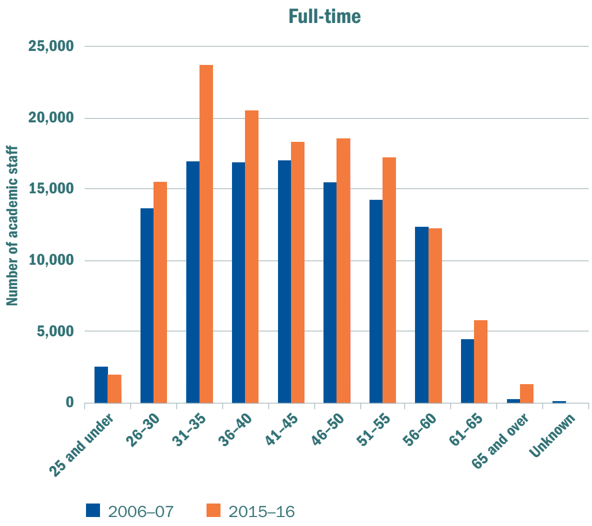
						YEAR OF 65TH BIRTHDAY
	2011	2015	2020	2030	2040	2050
WOMEN	23.8 years	24.3 years	24.9 years	26 years	27.1 years	28.2 years
MEN	21.1 years	21.7 years	22.2 years	23.4 years	24.6 years	25.8 years

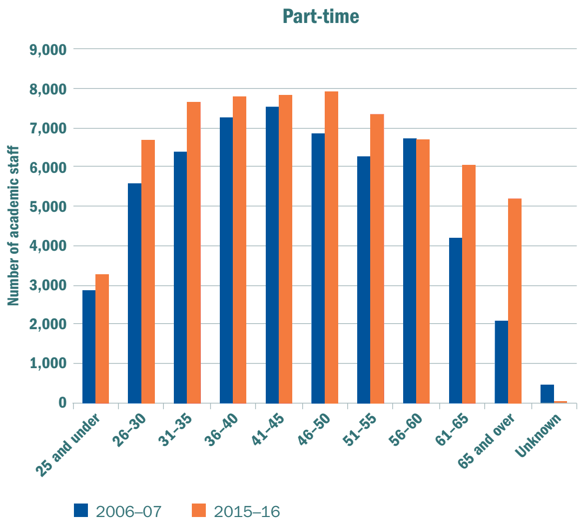
Source: ONS Cohort expectations of life 2015[13]

The age profile of academic staff working both full and part time at institutions has changed in the past 10 years. Growth in academic staff numbers has occurred across all age groups, except for a small decrease in full-time staff aged 25 and under. However, some age groups have grown faster than others. Examining academics on full-time contracts, the most significant growth was in those aged between 31 and 40. Conversely, amongst those on part-time contracts there has been a particularly marked increase in those aged between 61 and 65 and those older than 65. Part-time academic staff numbers in these age groups increased by 44.1% and 148.5% respectively, albeit from a low base. Overall, the trend observed is a shift in the age profile of academic staff on full-time contracts towards younger age groups, and in part-time contracts towards older age groups.

[13] More details on the ONS's estimates of cohort life expectancies can be found at https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/methodologies/periodandcohortlifeexpectancyexplained

FIGURE 4: CHANGE IN AGE PROFILE OF ACADEMIC STAFF BY MODE OF EMPLOYMENT BETWEEN 2006–07 AND 2015–16[14]





Source: HESA staff record

This change in age profile could have a number of implications for the pension schemes in the sector. First, if the population of current members ages, particularly in schemes or sections of schemes that are closed to new entrants, providing DB pensions will become more expensive. Second, the increase in older staff on part-time contracts may indicate that older academic staff desire greater flexibility in order to phase into retirement. This is demonstrated by the increase in the number of USS members taking flexible retirement, which more than doubled from 233 in 2012 to 569 in 2016.

As the wider UK population ages, it is likely that government policy[15] will focus on encouraging employers to adopt practices to increase labour participation of older employees. Allowing flexibility in working practices and in access to pension benefits will be key to engaging with this agenda.

Total reward

A number of institutions take a total reward approach to employee pay and benefits. However, it has always been difficult to communicate DB pension benefits as part of this approach. At times of pay restraint, in particular, increasing communication about the value of pensions can be viewed very positively by employees.[16] UCEA has prepared infographics[17] to help employers communicate the total

A number of institutions take a total reward approach to employee pay and benefits. However, it has always been difficult to communicate DB pension benefits as part of this approach.

[14] Universities UK (2017) *Patterns and Trends in Higher Education*

[15] Department for Work and Pensions, Fuller Working Lives Report (2017) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/587654/fuller-working-lives-a-partnership-approach.pdf

[16] In 2016, NHS Employers commissioned the Institute for Employment Studies to conduct an evidence review into total reward and employee engagement. This indicated that well executed reward practices and processes, both financial and nonfinancial in combination, can help to build and improve employee engagement.

[17] UCEA Infographics (various) http://www.ucea.ac.uk/en/news/communications-materials/infographics.cfm

cost of employment and demonstrate that pay is just one element of the reward package.

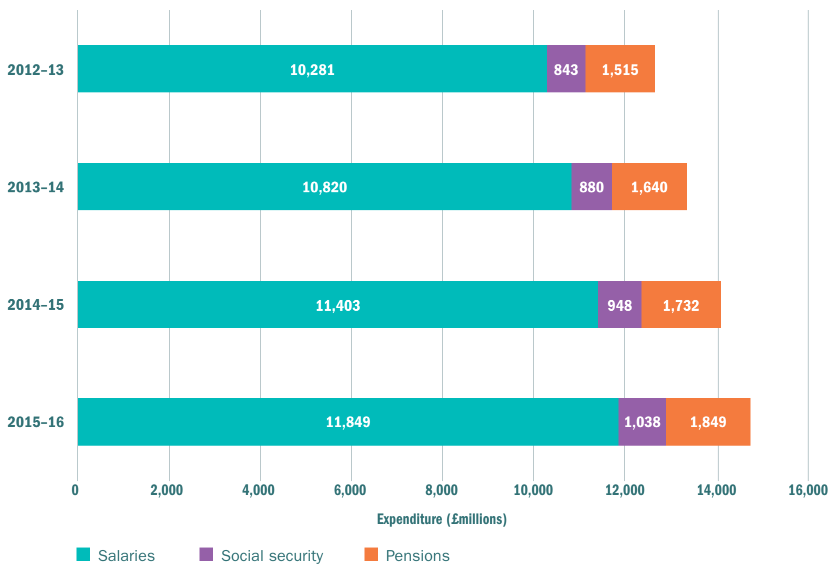
All institutions have seen an increase in pension contribution levels over the past decade. This has meant that pension costs have come to represent a higher proportion of total staff expenditure. The costs of pensions and social security for English universities are expected to increase faster than other staff costs. This reflects rising employer contribution rates as well as the substantial amounts institutions are paying to manage increasing deficits. Increases in employer National Insurance contributions from April 2016 represent a further significant increase in staff costs (estimated at around 2 to 2.5% of payroll).

This has meant that pension costs have come to represent a higher proportion of total staff expenditure.

Figure 5 shows the evolution of pension costs over a four-year period. In 2012–13, pension costs were equivalent to around 14.7% of expenditure on salaries; in subsequent years, this percentage rose steadily to 15.6% in 2015–16. Any further increases to pension contribution rates would involve increasing the proportion of reward budgets spent on pensions. Institutions are considering the implication of this holistically and whether this rebalancing of the reward budget is appropriate.

In 2012–13, pension costs were equivalent to around 14.7% of expenditure on salaries; in subsequent years, this percentage rose steadily to 15.6% in 2015–16.

FIGURE 5: BREAKDOWN OF ENGLISH INSTITUTIONS' STAFF EXPENDITURE 2012–13 TO 2015–16



Source: HEFCE[18]

The pension policy environment

In addition to the funding challenges faced by pension schemes across the UK, changes to pension policy in recent years are also likely to impact on employees' retirement plans and expectations. Institutions, through their schemes, must ensure that these changes and future policy developments are fully considered as part of the pensions offer from the sector. There are two main themes which appear to be

[18] HEFCE (2017) *Financial Health of the Higher Education Sector*

driving government policy in relation to workplace pensions, which are likely to continue:

- A focus on DC – almost all the recent changes are much easier to apply to savings. This includes automatic enrolment contribution requirements and monitoring tax allowances. These are much more complicated to apply to DB schemes and to communicate to members of those schemes.
- A move towards greater personal responsibility – a number of recent government policies require greater engagement by individuals in their own pension savings. Examples of this are the move away from scheme-based, trustee monitored tax limits to a single individual pensions tax allowance and the introduction of pensions freedom giving people greater choice in how they draw their retirement benefits.

Pensions tax policy[19]: Reductions in the Annual and Lifetime Allowances since 2011 and the introduction of the tapered Annual Allowance in 2016 have had a significant impact on a large number of higher earners in higher education pension schemes. The potential for sizeable tax charges has led to an increase in opt-outs and many institutions are reassessing their reward policy in the light of this. The issue is further compounded by the complexity of assessing and managing DB pensions against these allowances. For many institutions it can be difficult to identify who might be affected.

USS offers various solutions to deal with the issue of pensions tax but nothing has been made available for members of public-sector pension schemes (and this is likely to remain the case). There is, therefore, a concern that opt-outs will increase as more members are affected over time or that members will choose to retire earlier than they would have done otherwise, leading to a loss of skilled senior staff.

USS offers various solutions to deal with the issue of pensions tax but nothing has been made available for members of public-sector pension schemes (and this is likely to remain the case).

Another concern for institutions is that significant changes to tax relief on pension savings is possible in the future. In a consultation in 2015, the government sought views on moving from an exempt system, where contributions are paid from income before tax is deducted, to a system where contributions would be paid out of taxed income. This would generate a substantial increase in short-term tax revenues, but it would also have a serious impact on DB schemes in relation to contribution rates, cashflow management and investment, as well as requiring payroll changes and a significant investment in member communications by employers.

State pension reforms: The new state pension scheme, which replaced the basic state pension and additional state pension for those who reach state pension age (SPA) after 5 April 2016, was welcomed by many as it provides a more streamlined system. However, a consequence of this has been an increase in national insurance for institutions as schemes are no longer 'contracted-out' of the state second pension. For many schemes in the sector it was not possible to

[19] Further detail on the pensions tax regime is available on the UCEA website: http://www.ucea.ac.uk/en/empres/pensions/pensions-tax/ptbriefings.cfm (requires UCEA login)

amend the benefit structure to reflect this change and this has led to an additional national insurance bill of approximately 2% of payroll for sector employers since 2016.

The recent review of the SPA is also expected to have a major impact on higher education sector schemes. In July 2017, the government announced that, following consultation, it intends to increase SPA to 68 by 2039; under the current timetable SPA would increase to 68 between 2044 and 2046. This change will have a knock-on impact on the normal pension age for a number of schemes in the sector, in particular the public-sector schemes. All things being equal, an increase in retirement age should help to reduce DB liabilities as scheme members will have to work for longer before their full pension comes into payment and will be expected to receive their pension for a shorter period.

Increasing DC and increasing choice and flexibility: The introduction of 'freedom and choice' in relation to DC pensions in April 2015 has led to DC being viewed much more positively by members. In the first year, lump sum cash withdrawals increased from £1.4bn to £4.3bn and drawdown withdrawals increased from £1.3bn to £3.9bn[20]. The desire to access this flexibility is demonstrated by the increase in members transferring their DB benefits into DC arrangements before retirement.[21] DB to DC transfers are prohibited in the unfunded public-sector schemes, but there was a marked increase in transfers just before this ban was enforced.

Increasing choice and flexibility are key objectives of current pensions policy. As DC provision grows within the higher education sector institutions have important issues to consider. These include how to set contribution rates to ensure adequate outcomes for members in retirement, the impact of investment choices and charges, and how to equip members to make informed decisions when drawing their benefits.

Intergenerational fairness

The issue of intergenerational fairness needs to be considered in the context of higher education pensions. Outside the sector most younger workers in the UK are enrolled into a DC scheme, whereas their predecessors benefited from generous DB pensions. Within the higher education sector, while institutions continue to offer DB scheme membership to many employees, there is a need to ensure that this remains affordable and sustainable for the future. This has an impact on institutions' views on risks as they do not wish to make promises today that could preclude them from offering good quality schemes to their employees in the future.

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Another consideration is that the tuition fees paid by students make up a significant share of English institutions' income and it is crucial that institutions deliver value for their students' investment. The rise in DB pension costs is, in part, met by tuition fee income

[20] ABI pensions freedoms one year on factsheet

[21] Willis Towers Watson survey of DB member choice (page 4) https://www.willistowers-swatson.com/en/insights/2017/03/DB-member-choice-survey-2017

from students, many of whom will not benefit from DB pensions themselves in their careers.

Furthermore, it is becoming clear that the current member contribution rates are unaffordable for some employees. Some younger employees facing a high cost of living and debt repayments are choosing not to participate in pension schemes. For example, there is a much higher level of opt-outs from TPS by employees in the London region than elsewhere in the country[22]. There is also a growing body of evidence[23] that younger employees are choosing different working patterns and practices to their older colleagues and this raises the question of whether the current DB schemes remain appropriate for the needs of all employees.

Some younger employees facing a high cost of living and debt repayments are choosing not to participate in pension schemes.

Changing landscape of long-term savings: The recent introduction of the Lifetime ISA (LISA)[24] could herald the start of a more fundamental shift in the configuration of long-term savings in the UK. For some, the LISA risks undermining the work undertaken to encourage pension saving through automatic enrolment. Within the higher education sector employees may well be better off remaining in their workplace pension scheme (DB, DC or hybrid) rather than opting-out and paying into a LISA given the lack of employer contributions and tax relief attached to such a savings vehicle. However, it is worth considering whether flexible early access to pensions might become a possibility in the future or if employees would prefer flexible benefits and access to other savings vehicles.

The higher educational operational environment

In recent years, institutions across the UK have seen significant changes in their financial and operational environment. Many of these changes have been driven by pressures on public spending and an increasingly competitive environment. Further funding and regulatory transformations are under way, with the implementation of the new Higher Education and Research Act for England and the UK-wide impact of the negotiations for exiting the EU.

Key financial trends and future challenges are detailed in UUK's *Patterns and Trends in Higher Education 2017* publication.[25] With the diversification of the higher education sector as well as differing regulatory and funding regimes in England, Scotland, Wales and Northern Ireland, risks are likely to affect various parts of the sector differently. However, the key financial concerns noted by policy makers are[26]:

- falling liquidity and an increase in higher education sector borrowing
- uncertainty around home/EU student recruitment in an increasingly competitive market

[22] TPS opt out data provided regularly to UCEA by Department for Education.

[23] An example is the PWC report *Millennials at work: reshaping the workplace*

[24] The government adds a 25% bonus to LISA savings, up to a maximum of £1,000 per year, see https://www.gov.uk/lifetime-isa for more information.

[25] Universities UK (2017) *Patterns and Trends in UK Higher Education 2017*

[26] HEFCE (2017) *Financial Health of the Higher Education Sector*

- future challenges to achieving non-EU student recruitment targets and uncertainty around the future status of EU students
- increasing pension liabilities
- the potential financial impact of Brexit
- the potential impact of Brexit and any future immigration system on university recruitment

Recruiting and retaining staff

Higher education institutions are knowledge-intensive industries and their success depends on their ability to attract and retain talented staff from around the world. As institutions recruit staff in a globally competitive environment, they need to consider their competitiveness against other UK employers and other universities abroad. In the UK higher education sector many UK-based employees consider pension provision to be an attractive part of their reward package so it is important that the pensions offered continue to be valued and meet the needs of employees. The attractiveness of UK pensions to non-UK nationals may not be the same.

The need for flexibility in a diverse higher education sector

The EPF's engagement with the sector made it clear that institutions continue to see their pension as a key part of staff recruitment and retention. However, there is a variety of views amongst employers as to what a good pension and wider reward package look like. The sector is becoming increasingly diverse, with different institutions facing different financial circumstances, workforce trends and approaches. Similarly, employees do not have a uniform view of what they want from their reward package. In this context, institutions recognise that further divergence is not necessarily problematic and could, in fact, be desirable if driven by the differing needs of employers and their employees.

Ten years ago, the types of benefits offered by institutions to different groups of staff were more similar than they are today. Over time, the pension schemes offered by institutions have diverged, with responses to funding pressures and differing governing structures pushing them in opposing directions. Divergence in provision may be problematic from a number of perspectives: it may hamper staff mobility between institutions especially following the exit of USS from the Public Sector Transfer Club, make recruitment from other sectors or abroad more challenging, or make promotions less attractive. However, at this early stage there is limited evidence to suggest that divergence in pension provision is causing workforce challenges to institutions.

Cost and risk

In the current economic and political environment, institutions are investing strategically to ensure their long-term financial resilience. In this context, institutions are concerned about the potential for further increases in the cost of DB pensions and the longer-term risk this places upon them. In a UUK survey of USS employers, 97% responded that the risks associated with DB pension provision represent a significant financial uncertainty for their institution.

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Staff costs are by far the greatest expenditure by institutions, totalling over £18 billion or the equivalent of 55% of income, in the 2015–16 academic year. Pension costs represent a significant proportion of total staff costs. The Higher Education Funding Council for England (HEFCE) reports pension costs in their annual 'Financial Health of the Higher Education Sector' report. In 2015–16, approximately 12.5% of total staff costs of English universities were on pensions.

TABLE 5: BREAKDOWN OF STAFF EXPENDITURE, 2015–16

	2015–16	% TOTAL STAFF COSTS
SALARIES AND WAGES	£11,849m	80.2
NATIONAL INSURANCE	£1,038m	7.0
PENSION CONTRIBUTIONS	£1,849m	12.5
CHANGES TO PENSION PROVISIONS	£15m	0.1
OTHER STAFF-RELATED COSTS	£32m	0.2

Source: HEFCE[27]

The rising cost of pension contributions in multi-employer pension schemes is particularly challenging given the differing financial strategies of individual institutions in an increasingly diverse higher education sector.

Control

It is clear that institutions have become more concerned about the rising cost of pension provision and the risk they are underwriting, and they are keen to see these issues addressed.

Furthermore, institutions would like more influence and flexibility in the pensions arrangements they can offer in order to address the varying needs of a diverse workforce and to meet their own strategic priorities. As the main schemes in the higher education sector are multi-employer arrangements, the ability to influence and control is limited. This issue is particularly apparent in LGPS, NHSPS and TPS where institutions represent a very small proportion of the participating employers and overall membership. Where institutions do have greater control over pension provision, particularly in relation to their SATs, there have been a more extensive set of reforms aimed at meeting the needs of individual institutions. These institutions have been able to manage their costs and risk at the same time as using discretion to adapt pension provision to the needs of their staff.

[27] HEFCE (2017) *Financial Health of the Higher Education Sector*

PRINCIPLES

Each of the pension schemes offered in the sector presents its own distinct challenges, though there are shared issues relating to the funding of DB schemes. To help address these challenges UUK and UCEA, through engagement with the higher education sector, have developed five principles. When taken together, these principles emphasise the continuing wish of employers to provide good quality pensions, albeit with control and predictability as the key elements of any arrangement, within a structure which is adaptable to likely changes in future demands and behaviours. Employers will need to determine how to achieve the right balance between these principles, acknowledging that the priority given to each principle will depend on the context and the influence an institution has on the scheme in question. The principles are set out below.

Principle 1: Institutions should continue to offer pensions which are valued by employees

Pensions are an important and valued part of an institution's reward package. Institutions should continue to provide a quality pension to all employees, which meets their pension saving needs and helps institutions attract and retain talent.

Principle 2: Pension provision should be sustainable in the long term

Pensions must be sustainable in the long term, where sustainability is about managing risk as well as cost. Pension costs must be predictable for both employers and employees and the funding arrangements should not increase the pensions risk to which institutions are exposed. At the same time, strategies should be available to help employees predict their pension outcomes. Sustainability also means achieving greater fairness and equity between generations of scheme members, meeting employer commitments to promises in relation to past service and supporting good future pension outcomes.

Principle 3: Pension benefit design should be predictable and stable

Employers and employees have a desire for certainty in benefit design, as far as possible, so that they can plan for the future. This means a stable benefit design in the long term, which builds trust and can be communicated consistently.

Principle 4: Institutions should have more flexibility to adapt pension provision to meet their needs and those of their employees

The operating environment for institutions is evolving and with that the sector's workforce is becoming more diverse. Employers should have the flexibility to personalise and optimise their pension arrangements through flexible scheme architecture. The framework for flexibility should be designed to meet the differing needs of groups of employees.

Principle 5: Employees should have more choice and control over their pension contributions and benefits

Employees should be able to save towards their pension in the way that suits their needs. They need choices which allow them to flex the amount they save and which reflect their specific career plans and portability needs. Employee options should be adaptable to reflect the development of contemporary retirement solutions.

RECOMMENDATIONS

More than ever, institutions believe that it is critical to reach a position where pension costs and risks are brought under control so as to achieve long-term stability and sustainability of pension provision. Institutions need to be able to set reliable budgets for their costs over the longer term, so they can plan and invest strategically for the future and ensure financial resilience in a challenging environment. Long-term sustainability is also critically important for current and future employees. Employer promises made in relation to past service must be honoured, and equally employers need to provide attractive and affordable pensions in the future.

Many employees in the higher education sector have experienced changes to their pensions in recent years. Uncertainty about future benefits makes it difficult to plan for retirement and this can erode employee confidence in pensions savings and lead to pensions being undervalued.

The following practical recommendations are proposed to help achieve the long-term objectives for higher education pension provision.

Recommendation A: Managing the costs and risks associated with DB pension schemes

Background to recommendation

DB pension issues now represent a key item on institutions' risk registers and are a persistent and significant concern.

Institutions are working to better understand the costs and risks of each pension scheme, their overall liabilities, the potential for future cost increases and the options available to better manage and mitigate costs and risks. This is particularly important given the current environment institutions are operating in and the drive for greater efficiencies across the sector.

Due to the nature of the multi-employer schemes that institutions participate in, employers often have little direct control over their participation, the benefits provided and the cost of those benefits. However, steps are being taken which should help improve the position:

- Where the sector and/or individual institutions have a greater level of influence over the scheme benefits (USS and SATs), recent reforms have been implemented with the aim of reducing the likelihood of increases to employer contribution rates and the risk borne by employers. In addition, those institutions participating in the LGPS have been encouraged to engage with their local fund in relation to valuation results and this has seen some positive results for those institutions.

- Where the sector has little direct influence (LGPS, TPS and NHSPS) the voice of higher education has been strengthened by UCEA or sector nominees' inclusion on the relevant governing bodies and by engagement with government departments. This has led to higher education issues being considered at the highest level. In particular on LGPS where a review of higher education participation has just been started by the Scheme Advisory Board.

The EPF recommends:

- For UUK when representing USS employers and UCEA, when representing higher education employers on public-sector scheme boards, to negotiate, following scheme valuations, on the basis of the principles set out above and to take account of the content of this report.
- For UUK to publish an online library of documents for sector employers explaining USS pensions risk, so that information is held in one location and kept up-to-date. This should include an annual statement on risk and quarterly monitoring updates led by a subgroup of the EPF–USS group focused on risk.
- For UCEA to work with the LGPS scheme advisory board and individual institutions to ensure there is no negative impact on the higher education sector as a result of the review of scheduled employers with no tax raising powers, particularly if this changes the status of higher education employers in the LGPS.
- For UCEA to work with institutions and the LGPS to consider ways of developing a suitable framework for managing exits from that scheme and reassessment of the statutory obligation to offer LGPS to employees.

Recommendation B: Increasing flexibility for employers and employees

Background to recommendation

Institutions are aware of the diverse reward needs of their staff, but currently feel constrained in their ability to offer the choice in pensions benefits needed to accommodate diverse preferences. In many cases, where an individual chooses not to join the main scheme they are entitled to, there is no alternative scheme available.

In addition, while institutions are committed to providing a quality pension to their staff, what constitutes a quality pension scheme will vary depending on the circumstances of employees or potentially through the employees' lifetime.

Higher education employers recognise that some of their employees, particularly low-to-moderate earners, are less likely to save towards their pensions due to the level of employee contributions. This challenge is particularly acute for university staff located in areas with a high cost of living and this may be exasperated in the long term by increasing inflation. The DB pension offer may be unattractive to some international staff, particularly those who only intend to remain in the UK higher education sector for a limited time. For international employees as well as employees unable to pay the relatively high contributions required for DB, a DC-only pension, where flexibility of cost can be achieved, might be more appropriate.

While greater flexibility in sector pension provision is desirable, it should be pursued with careful consideration to ensure a high likelihood of sufficient retirement incomes for employees. Options should include: allowing employers to use pension as a more strategic element of the reward package; and allowing employers to offer a supplemented package of pensions benefits in line with their employees' reward priorities or to increase competitiveness with other employers. Equally employers wishing to focus on other areas of reward for some or all their staff should have the tools to do so.

The EPF recommends:

- For pension schemes to provide UUK and UCEA with analysis of trends in opt-outs and the take up of existing pension flexibilities by members.
- For the EPF to develop guidance for HR leaders on how they might work with employees to understand their appetite for pension flexibility, attitudes to retirement saving and reasons for member opt-outs; including an improved understanding of workforce and generational differences.
- For UUK and UCEA, in conjunction with sector pension schemes, to prepare an 'options for pensions flexibility' strategy paper for further consultation.

Recommendation C: Employee communications

Background to recommendation

Good employee communications are more important than ever following recent benefit changes and given that many schemes currently face challenging valuations. The employer focus groups carried out by UCEA on behalf of the EPF emphasised the variable levels of knowledge exhibited by employees of their pension savings and future needs.

In order for employees to benefit fully from their pension and for higher education institutions to get full value from their long-term investment in pensions, employee engagement, communication and support is essential. Individual institutions, the EPF, UUK, UCEA, member representatives and pension schemes each have an important role to play in this. However, there is scope for better coordination of employee communications and improvements such as the use of plain English to ensure accessibility. Ideally, communications should be more proactive, engaging and targeted, to ensure that the right messages are getting through to employees in the clearest way.

The EPF recommends:

- For UCEA and UUK, in conjunction with pension schemes, to review scheme communications and the range of advice available to members with the aim of identifying where these can be improved.
- For UCEA to work with HR leaders and pension professionals to develop guidance on pension communications to support higher education employers.
- For UCEA to gather data on financial information available to employees and institutions' use of independent financial advisors and to raise awareness of the options and services available to employees.

Recommendation D: Consider pensions as part of the total reward package

Background to recommendation

Pensions are a major part of the overall reward package in the sector, but are not always considered in this context. Generally, reward should be balanced in such a way that it maximises value for employers and for employees. The level of employer pension contributions should be appropriate within this context, with any increase in pension costs having implications for other areas of reward.

This leads to the question of whether there is a strong desire within the higher education sector to achieve some strategic alignment of pay and pensions and, if so:

- Is this at individual employer or sector level?
- How broadly should 'pay' and 'pensions' be defined – does this encompass the total reward and benefits package?
- Should the focus on alignment be through the lens of reward or cost?

The EPF recommends:

- For UCEA to work with higher education employers to determine if there is a desire to have greater strategic alignment between pay, pensions and other elements of reward and, if so, to explore the implications and how this could be achieved.

Recommendation E: Review of retirement trends

Background to recommendation

Work needs to be undertaken to understand how pension provision should evolve to meet the challenges created by changes in the higher education workforce and working practices. In particular the sector needs to consider how the traditional concept of retirement as a 'full stop' to working life is changing into a gradual transition into retirement, and the issues this raises in relation to workforce planning.

The EPF recommends:

- UCEA, UUK and HR leaders in conjunction with sector schemes conduct a full review of retirement trends in the higher education sector to include:
  a. understanding whether the existing scheme flexibilities are meeting the needs of employers and employees
  b. assessing the use of flexible retirement policies by institutions and whether guidance on a consistent approach is warranted
  c. analysing how the higher education sector can become an industry leader in harnessing the skills of older workers and turning an ageing workforce into a positive for institutions and the wider UK economy
  d. understanding how employers are using pensions to support the evolution of their workforces

CONCLUDING REMARKS

Changes to pension schemes are subject to discussion and negotiation. The level of influence that institutions have in these negotiations will vary from scheme to scheme. However, this report is intended to set out a long-term direction for pensions in the higher education sector. It offers a clear set of principles that will guide higher education employers and their representatives through pension policy developments and scheme reforms in the future.

These principles signal a new approach, with a greater emphasis on sustainability, that considers the needs of both current and future employees. This approach recognises that member communication and support are amongst the greatest challenges facing higher education pension provision. Taking forward the recommendations to improve engagement with members will be essential to ensure that the value of the pensions offer in the higher education sector can be fully realised.

ANNEXE A: OVERVIEW OF MAIN HIGHER EDUCATION SECTOR PENSION SCHEMES

This annexe summarises the main pension schemes offered to employees in the higher education sector and the reforms that these schemes have experienced in recent years. In particular, it considers: the Universities Superannuation Scheme (USS), Teachers' Pension Scheme (TPS), Local Government Pension Scheme (LGPS) and Self-Administered Trusts (SATs). Figure 6 broadly summarises these four types of schemes by their main higher education employers (pre-92 institutions or post-92 institutions) and the most common occupation of members (academic or non-academic).

FIGURE 6: SUMMARY OF THE LARGEST SCHEMES BY MEMBER NUMBERS

	PRE-92 INSTITUTIONS	POST-92 INSTITUTIONS
ACADEMICS	Universities Superannuation Scheme Active members: c.190,000	Teachers' Pension Scheme Active members: c.45,000
NON-ACADEMICS	Self-administered trusts	Local Government Pension Scheme Active members: c.51,000

In addition, there are variations between the public-sector schemes in England and Wales, Scotland and Northern Ireland. In most cases their benefit structure is the same, but the contribution rates for employers and employees may differ and each scheme has separate governance arrangements. Devolved schemes include:

- Teachers' Pension Scheme (England and Wales)
- Teachers' Pension Scheme (Scotland) (STSS)
- Northern Ireland Teachers' Pension Scheme (NITPS)
- Local Government Penson Scheme (England and Wales) with 89 separate local administering authorities
- Local Government Pension Scheme (Scotland) with 11 separate local administering authorities
- Local Government Pension Scheme (Northern Ireland)
- NHS Pension Scheme (England and Wales)

- NHS Pension Scheme (Scotland)
- Health and Social Care Pension Scheme (Northern Ireland)

Universities Superannuation Scheme

USS is a multi-employer scheme offered by 354 employers and is one of the largest private pension schemes in the UK by fund size. Academic and academic-related staff at pre-92 institutions make up the largest share of USS's membership, but some institutions have extended membership to cover their professional services staff. USS is also offered to some academics/academic-related employees at post-92 institutions as well as other sector bodies and higher education-related employers.

The scheme is managed by a trustee company, USS Limited, and is subject to the law as it applies to UK private sector pension schemes and to supervision by the Pensions Regulator. The trustee board is comprised of between 10 and 12 members: four appointed by UUK; three appointed by the University and College Union; and the remaining members are independent directors appointed by the board.

Since 2011, USS has reported a funding deficit which has necessitated reform. Any changes to scheme benefits and rules must be negotiated through the Joint Negotiating Committee (JNC), which comprises UUK and UCU representatives and an independent chair. The independent chair may choose to cast a deciding vote if the employer and employee representatives are unable to agree a position on any proposed reform. The 2011 reforms required the chair to use his casting vote, however the 2016 changes were agreed by the JNC.

In 2011, a career average scheme was introduced for new members. Later, in April 2016, all members moved into the career average structure for future service (based on an improved accrual rate of 1/75th of pensionable salary each year, revalued in line with the consumer price index (CPI) plus an automatic lump sum). From October 2016, a salary threshold (currently set at £55,550) was applied to the career average benefits, with members accruing DC benefits on earnings above the threshold. All members can choose to pay an additional 1% of pensionable salary, which will be matched by their employer, to build up a separate, flexible DC fund.

The employer contribution rate increased from 14% to 16% in 2009 and then to 18% from April 2016 for at least the period up to 2020. Employee contributions increased from 6.5% and 7.5% in the career average and final salary sections respectively to 8% of pensionable salary in 2016.

Teachers' Pension Scheme

TPS is an unfunded, statutory scheme for England and Wales, with equivalents in Scotland (STSS) and Northern Ireland (NITPS), intended for teaching professionals. While employees at institutions comprise a small proportion of total membership to these schemes, TPS is the main pension scheme offered to academic and academic-related staff at post-92 institutions.

As a public-sector scheme, TPS and its devolved equivalents experienced a significant period of reform since 2011, led by HM Treasury. These reforms were based on the recommendations made in the Hutton report[28] which included an increase in employee contributions and a move to career average based benefits for all members, with retention of the final salary link for past service, and a normal pension age that increases in line with the State Pension Age. In terms of future benefits from 1 April 2015, HM Treasury set an actuarial 'cost ceiling' for each scheme and stated that each reformed scheme had to fit the Hutton design criteria and remain within the cost ceiling.

As a result, TPS, STSS and NITPS moved to career average accrual for future service with an accrual rate of 1/57th of pensionable salary a year, revalued in line with CPI plus 1.6%, with the option to exchange some pension for a lump sum at retirement. For England and Wales, the employer contribution rates also increased in September 2015 (the increase was delayed to September in order to align with the academic year), rising to 16.48% (including 0.08% for administration costs) up from 14.1%. At the same time in Scotland the employer contributions increased from 14.9% to 17.2% in Northern Ireland from April 2015 increased from 13.6% to 17.7%.

New member contribution tiers also came into force from April 2015, with a reduction in the number of tiers from eight to six. This means that some TPS members now pay slightly higher or slightly lower rates of contribution than previously, depending on their salary.

Local Government Pension Scheme

LGPS is a funded public-sector pension scheme intended for employees working for local authorities and public service organisations other employers that become admitted bodies. Most higher education employers in LGPS are post-92 institutions, who participate in LGPS for their non-academic staff. However, some pre-92 institutions have members in local LGPS schemes too.

LGPS was also affected by the HM Treasury-led reforms of public sector pensions to increase the normal pension age and manage costs. LGPS made the required cost savings in a slightly different way to TPS because it is a funded scheme. The Department for Communities and Local Government has tried to minimise the risk of an increase in employee opt-outs by limiting increases in employee contributions and creating the '50/50' section which provides half the pension for half the employee contribution. From April 2014, the main scheme is a career average arrangement with an accrual rate of 1/49th of pensionable salary a year revalued in line with the CPI with protection for those members closest to their normal pension age. In Scotland

[28] HM Treasury (2011), *Public Service Pension Commission: Final Report*

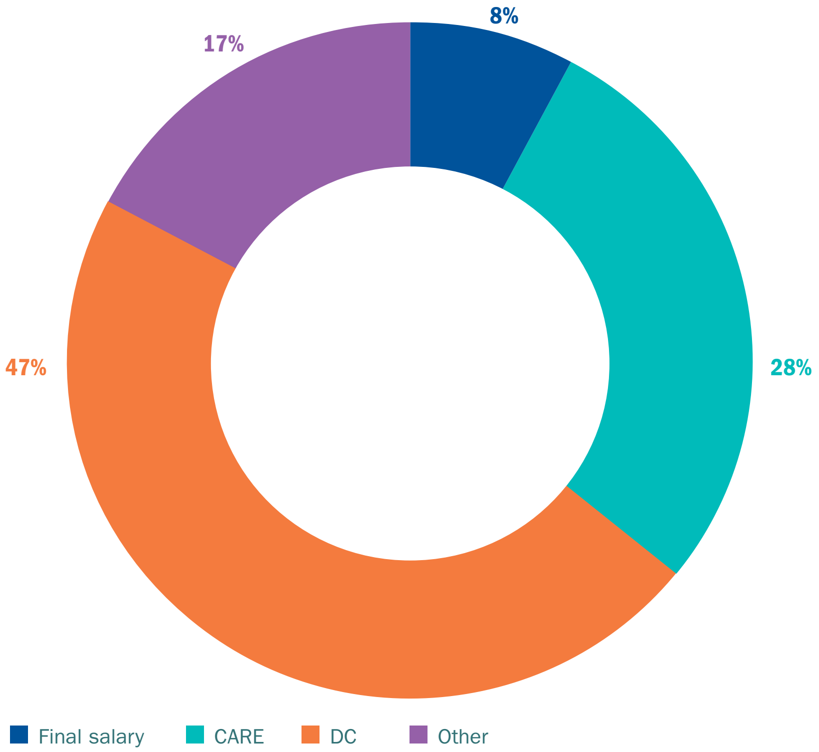
and Northern Ireland scheme changes introduced in April 2015 mirrored those in England and Wales with some local differences. Increases in employer contribution rates and deficit reduction payments in LGPS were implemented from April 2014 in England and Wales and in Northern Ireland (the valuation cycle in Scotland is a year later), with many higher education employers facing increases in their LGPS scheme costs based on the results of their local fund valuation.

SATs and SAUL

Currently 32 pre-92 institutions run their own pension scheme (commonly known as a Self-Administered Trust (SAT)) for non-academic staff. Benefit levels and contributions vary between these schemes.

In 2016 UCEA reviewed financial documentation, including actuarial valuations and summary funding statements, for 29 SATs. This review revealed that while there are still some open DB arrangements, there has been a significant shift towards DC benefits in recent years, with many DB schemes closing to future accrual.

FIGURE 7: TYPE OF PENSION SCHEME OFFERED TO NEW NON-ACADEMIC STAFF IN PRE-92S (EXCLUDING SAUL)



A key driver for the reform of SATs has been the rising costs of DB pension provision. Two of the SATs reviewed have recently completed further reforms and moved from DB to DC provision. Another SAT has just concluded a consultation which will move all members to career average benefit basis. Further reforms amongst the SATs and moves towards DC provision are anticipated. In 2015 the average funding level of higher education SATs was 84%[29]. Among the 29 SATs reviewed, the mean employer and employee contributions were 17% and 7% respectively. In 2015–16, institutions paid £175m[30] in contributions to their SATs.

SAUL

Pre-92 institutions based in London and south-east England participate in SAUL. SAUL implemented changes in 2012 and 2016 designed to address the cost of future service and a funding shortfall. This included a move to a career average benefit structure combined with an enhancement to past service final salary benefits. Employer contributions increased from 13% to 16% in 2016; employee contributions remained at 6%. SAUL continues to provide career average benefits to all members and work on the scheme's 2017 valuation is ongoing.

The valuation is expected to show a continued shortfall in funding and increase in the cost of future service benefits which may lead to benefit reforms and/or increases in contribution rates. This will be decided by the SAUL Negotiating Committee which is made up of trade union and employer representatives. However, unlike USS, there is no independent chair who can exercise a casting vote.

[29] Statutory Funding Objective basis

[30] Includes deficit reduction contributions

ANNEXE B: 2016 USS SURVEY AND EVENTS

As part of the 2017 USS valuation process the EPF held a series of events and conducted a survey of USS employers in Autumn 2016. The purpose of the events and survey was to gather employer views on the possible approaches to the 2017 USS valuation and to consider longer-term views on the future direction of USS.

	TOWN HALL EVENT	SURVEY
EMPLOYERS REPRESENTED	89	115
% OF USS ACTIVE MEMBERSHIP REPRESENTED	83	94

USS employers recognise pensions as an important benefit

In the survey 95% of respondents indicated that they strongly or somewhat agreed with the statement 'My institution highly values pensions as an important recruitment tool and benefit to employees'. Such widespread agreement indicates that any approach towards pensions must continue to ensure a quality scheme remains available to the sector. In practice, this requires a clear understanding of what employees and employers most value in the context of what is both affordable and sustainable.

MY INSTITUTION HIGHLY VALUES PENSIONS AS AN IMPORTANT RECRUITMENT TOOL AND BENEFIT TO EMPLOYEES

NUMBER OF RESPONSES	115
STRONGLY AGREE	68%
SOMEWHAT AGREE	27%
NEITHER AGREE OR DISASGREE	5%
SOMEWHAT DISAGREE	0%
STRONGLY DISAGREE	0%

USS employers are concerned about cost and risk

In the survey 97% of respondents either strongly or somewhat agreed that the risks associated with current DB pension provision represent a significant financial uncertainty for their institution.

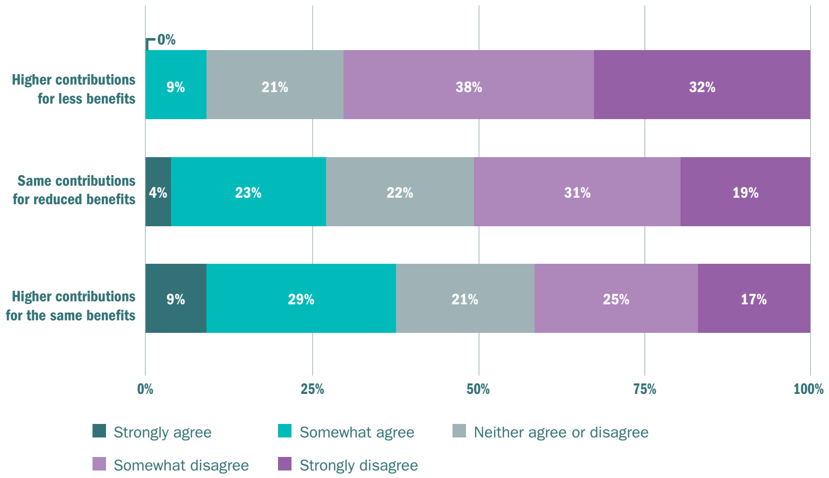
THE RISKS ASSOCIATED WITH DB PENSION PROVISION REPRESENT A SIGNIFICANT FINANCIAL UNCERTAINTY FOR MY INSTITUTION

NUMBER OF RESPONSES	115
STRONGLY AGREE	80%
SOMEWHAT AGREE	17%
NEITHER AGREE OR DISASGREE	2%
SOMEWHAT DISAGREE	1%
STRONGLY DISAGREE	0%

The sector's views on the affordability of further employer pension contribution increases has not changed significantly from the position at the last valuation in 2014. Most survey respondents (91%) indicated that 18% was the limit of contributions that they would be willing to pay, a position which also closely aligns with comments made by delegates at the town hall meetings.

Many employers also expressed concerns regarding the ability and also the willingness, of employees to pay higher contributions. Nearly three-quarters of employers felt that employees would not be willing to pay higher contributions for reduced benefits. It is critical that the costs associated with the scheme are sustainable in the long term for employers and employees alike.

SURVEY RESPONSES TO THE QUESTION: DO YOU THINK THAT EMPLOYEES WOULD BE WILLING TO CONTRIBUTE MORE TO THEIR PENSION ALONGSIDE EMPLOYERS IF REQUIRED?



USS employers desire stability

The last two USS valuations have brought changes to benefit design. These have had implications for both employees and employers. Employers are concerned that frequent changes to the benefit structure will cause employees to undervalue their pension and feel unable to plan for the future and increase the risk of members opting out of pension schemes. 62% of pre-92 institutions indicated that they were concerned that future benefit reform may lead to staff opting out of pensions altogether. There are also implementation challenges as well as communications issues with ongoing benefit reform, which must be considered when determining a long-term approach to USS.

At the town hall events delegates noted a need to break the cycle of triennial reform. From the employers' perspective this would allow cost planning; from the employees' perspective it would provide more certainty, ensure ongoing engagement and improve confidence in the overall benefit package. Employee engagement was discussed at all the town hall events, with delegates emphasising the need for a pension scheme that is easy to understand. Having a clear approach to benefit design in the long term should aid employee engagement, as there would be greater clarity for members.

USS employers desire more flexibility

From discussions at the town hall events and in the responses from the survey it is evident that it is becoming difficult to align a uniform pension solution for the sector with an increasingly divergent sector. Different institutions have different strategic priorities and many want more flexibility in the pensions they can offer to help them provide a reward package suited to their needs and the needs of their employees. This principle of flexibility aligns closely with the other guiding principles and should be considered closely alongside scheme sustainability, approach to risk, affordability considerations and the needs of employees.

The town hall events and surveys demonstrated the breadth of areas in which flexibility would be desirable. Institutions need to have the flexibility to rebalance reward packages and resources to meet the differing needs of staff. In particular, employers indicated a need for a more holistic approach, with any discussion about future pension needs being considered alongside a more fundamental review of the overall reward package, including salary, reward and performance. If institutions are to remain competitive, they need the tools of a flexible total reward package to meet their strategic needs.

The uniform contribution rate for both employers and employees offers little flexibility to address concerns about costs. Almost a quarter of respondents to the survey indicated that additional pension costs have been a barrier to their institutions' longer-term sustainable growth.

HOW HAS THE RISE IN USS EMPLOYER CONTRIBUTIONS FROM 16% TO 18% IN 2016 IMPACTED YOUR INSTITUTION?

NUMBER OF RESPONSES	115
The increased expenditure on staff pensions was sufficiently offset by, for example, increased income or reserves	29% agree
The financial impact was considerable, but manageable through cost savings that will not impact significantly on the ambitions of my institution	17% agree
The additional pension costs are a barrier to my institution's longer term sustainable growth	2% agree

USS employers want to offer their employees more choice

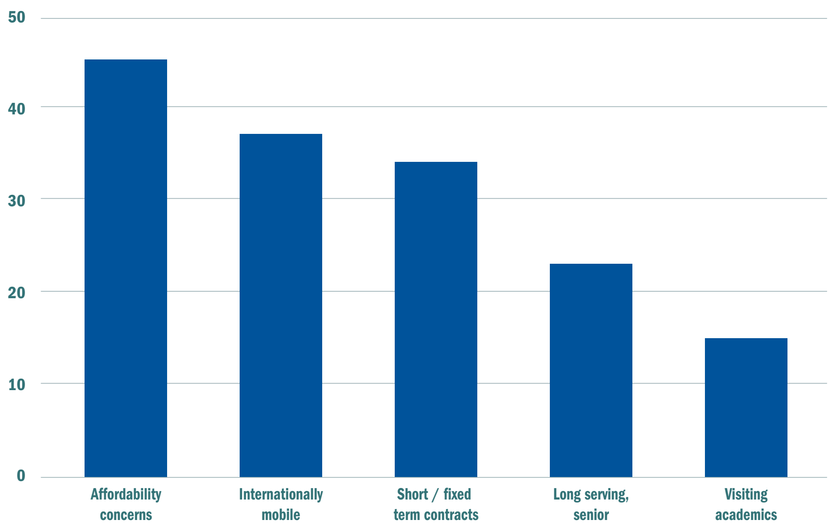
While employers would welcome more flexibility themselves, they also believe that employees should have more choice and control over their pension saving. In particular, many institutions would like to be able to offer a choice of pension benefits to particular groups of employees. A number of employers commented that the exclusivity rule has prevented them from offering valued alternatives to staff for whom a USS pension may not be a suitable option. Overall, a majority of employers (75%) indicated that they would strongly agree or somewhat agree to greater flexibility in the pension options available to employees.

MY INSTITUTION WANTS GREATER FLEXIBILITY IN THE PENSION OPTIONS AVAILABLE TO EMPLOYEES

NUMBER OF RESPONSES	115
STRONGLY AGREE	31%
SOMEWHAT AGREE	44%
NEITHER AGREE OR DISASGREE	16%
SOMEWHAT DISAGREE	8%
STRONGLY DISAGREE	2%

Focusing on pre-92 employers who offer USS to academic and academic-related staff, over three quarters of those 53 pre-92 employers (77%) indicated they would like to be in a position to offer alternative pension benefits to those with affordability concerns. Over half of respondents from pre-92 institutions also indicated a desire to be able to offer an alternative to internationally mobile staff (64%) and those on short/fixed-term contracts (55%).

NUMBER OF SURVEY RESPONDENTS WANTING TO OFFER ALTERNATIVE BENEFITS TO PARTICULAR GROUPS OF EMPLOYEES



ANNEXE C: EMPLOYEE FOCUS GROUPS

The EPF was keen to understand the view of employees on pensions and retirement as part of this project and UCEA, in conjunction with Ignition House, conducted eight employee focus groups.

PRACTICAL DETAILS

DURATION	Sessions took place between October 2016 and February 2017 with each session lasting 2.5 hours
PARTICIPANTS	57 members
LOCATION	Hertfordshire, Lincoln, London and Sheffield
METHOD FOR SELECTION	Members were self-selected so may have more of an interest in pension matters than the member population as a whole and, therefore, may not be wholly representative
AGE PROFILE	Participants were aged between early 20s to early 60s with most in their mid-40s to mid-50s
SEGMENTATION	Members were segmented by pension scheme; either USS or SAT at the pre-92 institutions and TPS or LGPS at the post-92 universities

DISCUSSION FORMAT

UNDERSTANDING MEMBERS	Warm up session to explore members' personal circumstances and work histories and the importance of pensions as a savings vehicle
UNDERSTANDING PENSIONS	Education session to see what members understand about pensions and where any common areas of confusion lie
VALUE OF PENSION	Answer booklet exercises to capture thoughts on the importance of their pension as a workplace benefit. Moderator-led discussion to stress test whether pensions still fit with their wants, needs and working lives
GUIDANCE, INFORMATION AND ADVICE	Moderator-led discussion exploring members' thoughts on information, guidance and advice
POTENTIAL MEMBER SERVICES	Discussion to explore appetite for additional member services, such as savings/investment products, advice ideas for other employee benefits

Findings

The focus groups provided insights into the level of understanding of pensions in general, as well as higher education pensions-specific issues including recent reforms and employees' views on retirement and retirement planning. Two key findings were:

- A lack of understanding of pensions, including their cost and value, caused partly by their complexity but also because of unclear communications.
- A significant proportion of staff who attended the focus groups indicated that they were planning to take flexible retirement.

There were a number of reasons why focus group participants were aiming for a phased retirement. Some wanted to take this approach because they enjoy their job, the interaction with colleagues and the mental stimulation and are worried about being bored in retirement. Some expressed concerns that they might not be able to afford to retire at their scheme /state pension age. Participants closest to retirement age saw themselves transitioning from a full working week to a part week. Younger members felt less sure of their approach to retirement with references to retirement as 'a pipe dream'.

Most telling are the views on pensions awareness and the impact of the communications from schemes in the sector. Despite the value placed on pensions, many participants were unsure how their scheme worked in practice; more education on the basics could be beneficial. In addition, members were critical of current communications and would like to see improvements, in particular websites were felt to be very difficult to navigate.

Key findings from the focus groups included:

- Surprise at the value of the state pension – if an equivalent pension was purchased through an annuity with an insurance company it would cost around £250k plus – and hence the value of their occupational pension.
- Lack of confidence in the government in relation to future pension reforms and a belief amongst younger staff (early 20s) that their state pension age will be well into their 80s and by that time there will no longer be a state pension.
- Lack of understanding of the structure of their occupational scheme and also what their employer pays in on their behalf.
- Difficulty understanding all the various reforms and the impact they have had on the individual's overall pension benefits.
- A recognition that older staff members have been fortunate to save into a DB scheme.
- Salary was deemed the most important element of any job by most people attending the focus groups, with a good pension coming second. Some older staff really valued having a good/ enjoyable/flexible job over the salary/pension.
- Younger staff are still very unsure about pension saving, lack trust in pensions and have other priorities such as debt and housing.
- Interest from younger staff in the LISA.
- Most attendees in the early/mid-50s who have been thinking about their retirement envisage some form of flexible retirement when they reach their early 60s, not necessarily because they cannot afford to retire but because they like their job and the interaction with colleagues.

Universities UK

Universities UK (UUK) is the representative organisation for the UK's universities. Founded in 1918, its mission is to be the voice of universities in the UK, providing high quality leadership and support to its members to promote a successful and diverse higher education sector. With 135 members and offices in London, Cardiff (Universities Wales) and Edinburgh (Universities Scotland), it promotes the strength and success of UK universities nationally and internationally.

Universities UK is the formal employer representatives of the Universities Superannuation Scheme.

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UCEA

The Universities and Colleges Employers Association (UCEA) represents the interests and views of 172 UK higher education organisations as employers in delivering excellent and world-leading higher education. UCEA's Plan 2015–20 has three priority themes, one of which is seeking and supporting movement towards sustainable solutions to higher education employers' future pensions provision within a complex and changing pensions landscape.

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August 2017

ISBN: 978-1-84036-384-5

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Employers Pensions Forum
for Higher Education