

SUITABILITY AND SUSTAINABILITY: PENSIONS IN THE HIGHER EDUCATION SECTOR

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 Employer's 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.

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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.

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.

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Recommendations

Practical recommendations, grouped in to 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 reassesses 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