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Pension Provision in HE: Briefing and Q&A

Briefing

Pension matters have generated a great deal of interest across the UK recently. A range of generic factors, including improving life expectancy and volatile investment markets, have driven up the costs of pensions across the private and public sectors and in HE. The high level of current and future costs could impact on the long-term viability of providing much valued pensions in HE. As a result of these factors the HE sector needs to explore options by which the provision of high quality pension arrangements can be sustained.

Pension provision for the HE Sector is by no means immune to the external demographic and economic challenges currently faced by all pension provisions across the UK. Pensions are an important and valued part of the remuneration package in HE and the sector currently supports a number of high quality final salary pension schemes. However, change will be needed and provisions need to be made by employers and employee members to ensure the sustainability of pensions in HE.

In light of this Universities UK UCEA and GuildHE commissioned a joint report examining the pension challenge for HE in 2007. The resulting Hewitt Report, published in October 2007 and based on the views of HEIs in the UK, highlighted that the following areas needed to be considered before long-term commitments could be made:

- the sector's preference to continue benchmarking its provision in line with the public sector rather than the private sector;
- that pensions and reward should reflect a changing workforce, rather than favouring a specific career profile;
- that there should be a greater degree of risk sharing between employee members and employer;
- that the sector should work together for cost efficiencies in the administrative management of pensions;
- the widespread support for allocating the cost of early retirements to individual institutions;
- that the amount employee members pay should better reflect the true cost of their pension benefits.

The Employers Pensions Forum is now in the process of consulting the sector on possible ways forward. This Forum, Chaired by Professor Bill Wakeham, is examining the viable options in making necessary changes to preserve high quality pension schemes in higher education. It will also be seeking dialogue with trade union colleagues and other stakeholders and aims to be in a position to feedback to the wider sector on all considered options in the autumn of 2008.

The sector is well-aware that a pension is a vital and much valued part of the overall remuneration package in HE.

Questions and Answers

Q What is the composition of the Higher Education Employers Pensions Forum?

A The Forum is a consortium of UUK, GuildHE and UCEA. Membership consists of representatives from these organisations, and includes Vice-Chancellors, Finance Officers, HR Directors, Registrars and Secretaries, all with considerable experience in this area. The Employers Pensions Forum is chaired by Professor Bill Wakeham.

Q How are HEIs being consulted on examining viable options for a future pensions strategy?

A The Employers Pensions Forum has asked HEIs to consider the 'Pension Provision in the HE sector' report, prepared by Peter Thompson, Pension Consultant, and discuss the options for formulating a pensions strategy for HE in the future. The report sets out in broad terms the issues that have to be considered. The Pensions Forum is seeking HEIs' views on the potential future approach to pensions through a questionnaire.

Q How is the Employers Pensions Forum being funded?

A Primarily through a successful funding request made to HEFCE's Leadership, Governance and Management Fund (LGM).

Q Over what timeline will the main stages of the project be delivered?

A This is a detailed and complex process but the main stages of the project are:

Spring to summer 2008: Consultation with HEI employers on possible approaches.

Summer to autumn 2008: Analysis of results and evaluation of the favoured option. The costs, benefits and drawbacks will be analysed, along with the main challenges to future implementation. Discussions with trade unions, key stakeholders, including existing HE pension scheme providers.

Late autumn 2008: Publication of final report. The report will detail the preferred option(s) for future pension strategy, the likely cost savings, and the main stages and costs associated with the (highly complex) transition to new pensions arrangements. Dissemination of final report.

Late spring 2009: Further discussions and open consultation with stakeholders, trade unions, pension providers, and HE funding bodies about reform of HE sector pension provision.

Q Have there already been any changes to pensions in the HE sector?

A The Local Government Pension Scheme (LGPS) and the Teachers Pension Scheme (TPS) have both been the subject of changes in recent years. This included the rise in pension age to 65 for new entrants to the scheme.

The changes to the LGPS were introduced with effect from 1 April 2008 and apply to the future service of existing members as well as to new entrants. Future pensions will, as in the TPS, be based on an accrual rate of 1/60, with the option to take a tax-free cash sum, rather than on an accrual rate of 1/80 with an automatic lump sum of 3/80.

In both the LGPS and the TPS there is agreements that employers and employees will share the cost of future increases. These changes have involved negotiation with various stakeholders including participating employers, members and their recognised trade unions, including those representing the HE sector, and the relevant Government departments.

Q Is there a danger that pensions provision in higher education will collapse?

A No, provided that changes/provisions to ensure the long term financial viability of the various schemes take place. Without change the future sustainability of pensions in HE will be extremely challenging in its present format.

Q Will pensions provisions impact on pay in the higher education sector?

A There is a growing understanding that increases to pay automatically increase the cost of the pension. Even before you factor in any potential adjustment for life expectancy, there is the direct linkage between increases in pay leading to increased pension costs, as contributions are based on a percentage of salary. As pension costs increase in the future, employers will need to find the money to pay for this, and inevitably this will add to the institutions' overall Staff Costs.

Employers understand that Pay and Pensions are seen by all to be an essential part of the sector's remuneration package. Employers recognise that the quality of pension provision in HE has a significant impact on both the recruitment and retention of high quality staff at all levels, so it's only sensible to look at all the pension options and ensure sustainable and effective arrangements for the future.

Q If a former employee is now retired will their pension be subject to change?

A No. Any changes that may result from the review of pension provision in HE will not affect members who are already retired. Any changes will not affect any of the existing benefits available to current employees.

Q Are the trade unions involved in the examination of the pensions options?

A At this early stage the Employers Pensions Forum is still in the process of information gathering so that options can be considered. It accommodates extensive dialogue with unions as part of this process and any scenarios will need to be discussed, and decisions agreed, by all. Employers, trade unions and other stakeholders will be consulted on key issues as they progress. A letter to all trade unions, updating them on proceedings and seeking opportunities to further the dialogue, has been distributed.

Q What are the pension arrangements available in HE?

A HEIs participate in the following primary pension arrangements: Universities Superannuation Scheme (USS) the Teachers Pension Scheme (TPS) – and the Scottish Teachers Superannuation Scheme (STSS), Local Government Pension Scheme (LGPS), the Superannuation Arrangements for the University of London (SAUL) and the National Health Service Pension Scheme (NHSPS). In addition to this many pre-92 HEIs operate their own in-house arrangements (Self Administered Trusts) for support staff.

Q Where can I find out more about pensions in HE?

A The Hewitt report, *Strategic enquiry into the pension arrangements for the higher education sector*, was prepared for Universities UK/ UCEA/ GuildHE in 2007. The Peter Thompson report, *Pensions Provision in the Higher Education Sector*, was prepared in 2008. These can be found on UCEA's website: go to 'Pay and Conditions' and then 'Pensions':

http://www.ucea.ac.uk/index.cfm/pcms/site.Pay_and_Conditions.pensions.pensions/

The BUFDG (British Universities Finance Directors Group) Pensions Reports for 2006 and 2007, written by Professor Michael Bourn, can be accessed via BUFDG's website:

<http://www.bufdg.ac.uk/special/pensions/reports/?a=cm>

The Times Higher Education feature on pensions from 15 May 2008, *Gold standard reassessed*, is available through the THE website at:

<http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=401873&c=1>