USS and TPS Pensions Disputes

– a left analysis

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USS and the general attack on pensions as deferred pay

Whilst USS is a private pension scheme, the attacks on it are part of the wider attacks on public sector pensions. We are told that we need to pay more and work longer in order to receive less. USS members are also being targeted by media misrepresentation to the effect that our pensions are a handout to the undeserving, not, as is in fact the case, our deferred pay for which we have worked very hard, and for which we have paid in the past.

At the special conference for pre-92 branches on 31st January, we are now invited by the UCU's USS negotiators in their report (UCU HE 129) to suspend industrial action to facilitate further negotiations. Suspension of the action at this stage is the last thing that we should do.

In this document, I supply some of the reasons why some members of the Higher Education Committee (HEC) from pre-92 universities believe that the proposal for suspension should be rejected. It argues that we should instead be planning for an escalation of industrial action alongside our colleagues who are engaged in the defence of the Teachers' Pension Scheme (TPS) in the post-92 universities, in FE colleges, and in Schools.

The document details the consequences of conceding a switch to a CARE scheme for USS in any final settlement of the dispute, the consequences of alternative inflation rates on our pensions under the imposed terms, the consequences of the change to the normal pensionable age, and the consequences of increases in contributions to the scheme. It concludes with general proposals for consideration at the conference on the 31st January.

The document also contains detailed calculations for different scenarios that are presented in tabular form (see spreadsheets), a link to a pension modeller, and an explanation of the operation of the latter.

At the conference, if there is to be a discussion of the motions for continuing and escalating action that will require a vote *NOT* to adopt the Report of the USS negotiators. If the Report is adopted, including the recommendation to suspend action, then the motions for continuing action in defence of USS will be ruled to have fallen.

1. The effects of inflation (see separate spreadsheet below)

Unlike the public sector schemes, we have already had some disastrous changes imposed on us. All these changes have been implemented through rule changes to the USS scheme, imposed from October 2011. These include: the inflation proofing reduction from RPI to CPI, the reduced inflation proofing for CPI over 5%, the capping of inflation proofing at 10% (which will affect all members), and the increase in pension contributions (which will further hit employed members).

The reduction to CPI may significantly reduce pension value within a few years. Stagflation, such as we saw in the 1970's, would halve the real value of the pension. Although inflation has generally not been above 5% since 1990, when it was 9.5%, between 1970 and 1982 inflation was always above 5%, frequently above 10% and for several years above 15%, with a highest value over 24%. Since inflation proofing, or the effect of insufficient inflation proofing, is multiplicative, it would only take a few years of high inflation rates dramatically to reduce the real value of our pensions.

The amount of inflation proofing is determined by the rules of USS. This is tied to 'official pensions', and there is additionally the cap described in the previous paragraph, so a rule

change would be required to remove this cap, and a further rule change to reinstate the inflation proofing at RPI. Alternatively, if just the cap is removed, we would get whatever improvement in inflation proofing is accepted by the public section pension schemes.

2. Increase in normal pensionable age (NPA)

The increase in pensionable age, with an associated reduction in employer contributions affects members who had not reached the age of 55 by 1 October 2011, and potentially affects all pensioners due to the reduction in fund income. This means that the value of the pension is reduced by about 4% for each year you take your pension 'early'.

So, if you have just had your 55th birthday, and want to retire in five years time at the age of 60 rather than 65, the last five years and two months of your pension will be reduced by about 20%. The official pensionable age is set to increase to 68 at some time between 2024 and 2046. Therefore, if you are just starting employment, you could be looking at a reduction of nearly a third (32%) of your total pension if you want to retire at 60.

3. Increase in pension contributions

USS members in the Final Salary section had an increase in contributions imposed upon them from 6.35% to 7.5% of final salary, which is equivalent to an increase of just over 18% of contributions. Since pensions are part of our salary package, it is a salary reduction of 1.15% (actually less than this due to the impact of taxation and national insurance), which is significant. The increase for members in the second tier, CARE, scheme is smaller - from 6.35 to 6.5%. It is important to note that we have to bear the full increase in contributions, and that the employer contribution has remained fixed at 16%. For final salary members, the ratio of what we pay compared to what the employers pay has increased from 28.4:71.6 to 31.9:68.2.

Any future increases will be split 35:65 between us and the employers, meaning we will have an even higher share of future increases. This is worrying, as it could indicate a gradual shift of payment from our employers to us, with a corresponding reduction in the value of our pay.

4. A two-tier scheme

All the other changes affect new members, and members who leave the scheme for more than 30 months. For these members, there is a second-class pension with a lesser increase in contribution of only 0.15% of final salary, or a 2% increase in contributions, and significantly reduced benefits. This is clearly discriminatory. The previous 'final salary' scheme (till end of September 2011) was based on the highest salary over the last three years[2], and you receive 1/80th of this amount for each year you have worked. This figure 1/80th is called the accrual rate. The new reduced benefits tier is a 'career average re-valued earnings' (CARE) scheme under which benefits are based on a weighted average of your salary over your whole career, with the weighting used to revalue the in-year pay, giving a link to either inflation or pay. The current accrual rate is 1/80th for both parts of USS.

CARE schemes give significantly lower benefits than final salary schemes for the same accrual rate where annual increments are built into the career structure, as is predominantly

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[2] ***Pensionable salary is either:***
- ***the highest revalued annual salary during the last three years; or***
- ***highest revalued salary averaged across any three consecutive years over the last 13 years.***

http://www.uss.co.uk/Guides%20and%20Booklets/Guide%20for%20Members%20FS.pdf

the case in Higher Education. The way in which inflation (both prices and wages) is built into the calculation also affects the outcome.

5. Pensions and Compulsory Redundancy

One of the more insidious changes imposed on the USS scheme makes it much cheaper for the employer to make older employees compulsorily redundant.

In the final salary section, if you are currently paying contributions to the scheme, have more than 5 years' calendar-length membership, and are made redundant, or if your employer asks for you to retire, USS provides the pension in full. This is based on the service you have built up in the scheme, and your pensionable salary at retirement.

The earliest age at which you can retire (excluding incapacity retirement) is currently 50 and from 6 April 2010 will be age 55. If you are made redundant and have been in continuous membership of USS from 5 April 2006 to 6 April 2010 and beyond, you will still be entitled to receive your pension as long as you are aged 50 or more.

Most pension schemes, when paying a pension early, will reduce the amount of that pension because you are receiving the benefit earlier than expected. But in the situations outlined above this doesn't happen in USS, the employer pays extra funds into the scheme to cover the cost of providing a full early retirement pension. *This so-called actuarial deduction, borne by the employer, is currently a serious deterrent to making older staff compulsorily redundant.*

If you retire after age 60, with the consent of your employer, you are still entitled to your full pension, and there is currently no extra cost to your employer.

However, in the CARE section after 1 October 2013, if you are made redundant and are aged 55 or more and have 5 years' qualifying service you are entitled to draw your pension early. Your benefits will be reduced for early retirement, however, the reduction being in the region of 4% for each year and part-year earlier than the scheme's Normal Pension Age. In other words, the employee bears the cost of the actuarial deduction, not the employer; it is, therefore, cheaper for the employer to sack people aged 55 and over.

6. The Employers' Pension Forum (EPF)

Changes to the USS scheme are decided at the USS Joint Negotiating Committee, comprising five UCU representatives and five representatives of the Employers Pension Forum (EPF). The Chair is supposed to be independent. The employers' representatives are largely vice chancellors and principles, or retired vice chancellors and principals, and are therefore also members of the USS scheme. The employers were able to impose the changes described above because the Chair did not act independently, instead siding with the employers.

7. Career Average Revalued Earnings (CARE)

During the negotiations in 2010, the UCU side made a number of proposals: the main ones were a CARE scheme with a slightly better accrual rate of 1/67th, and increases based on CPI without a cap. These proposals were accepted by the May 2011 Higher Education Sector Conference (HESC) as policy, but by a very narrow majority, whereas the May 2011 meeting of UCU Congress voted for final salary and RPI in ***both*** TPS and USS. Whatever your views of these proposals (whether you thought they were a reasonable negotiating

compromise or if, like those of us who support the UCU Left, you were opposed to them), the situation has changed since then. The likelihood of such changes was recognised by an HESC motion facilitating a recall sector conference, if necessary.

In particular, the changes imposed by the employers on USS are considerably worse than the proposed CARE scheme with 1/57th accrual rate and CPI plus 1.6% for the Teachers' Pension Scheme (TPS). These terms, which are considerably better than those that have been imposed by the employers in the USS scheme, have recently been rejected or described as unacceptable by the main education unions, and for by some unions representing those in other public sector pension schemes.

Why should part of the union, its pre-92 members, accept a scheme for the USS that is considerably worse than that proposed for TPS members in post-92 and FE institutions, one that has already been rejected as inadequate?

What happens in the public sector affects USS. The pre-92 employers are coming under pressure to do something about the changes they have imposed, as they are increasingly concerned that USS is going to be uncompetitive in comparison with public sector pension schemes.

The employers' main argument for the changes they imposed was based on a valuation of USS that showed a deficit. However, this sort of valuation is not comparable to a calculation of whether your bank balance is in deficit or in credit, where there is just one answer. Instead, it is based on a host of heroic assumptions. The values of these assumptions are generally chosen to give the values wanted for political reasons.

The employers chose the most negative set of assumptions they could so as to give as low as possible a valuation to USS. There are other reasonable assumptions which would show there is no, or only a minimal, deficit. Even more importantly, the idea behind the valuation is flawed. It is nonsensensical to require that USS should be able to cover payment of pensions *to all current members at the same time*. Saying that there is a deficit says that USS is not able to do this. However, it is not required to do this, and indeed the rules do not even allow it. USS is perfectly viable, and members who have been making contributions in order to receive a pension in five, 10, 15, or 20 years time will continue to do so.

New members will also continue to join unless USS becomes unfavourable compared to other options. In fact, far more cash is coming into the fund than is being paid out to pensioners, and for this reason USS is called an 'immature' fund. The changes imposed by the employers endanger this situation because they greatly undermine any reason why a new recruit into Higher Education would wish to join the pension fund.

8. CARE – why the employers and the Government want it

Any worked examples over such a long time-period will, of necessity, include certain assumptions about future inflation levels, career prospects, average pay increases, and longevity in retirement. One of the great disadvantages of CARE schemes for employees is that the uprating of benefits accrued may be far more insecure in practice than for a final salary scheme, while potentially reducing the end costs for the employer.

Final Salary (FS) and CARE schemes will also tend to work differently for different groups of workers. This illustrates how important is the link between pay levels (and pay increases), and accrual of pension rights. If there is reasonable progression through a salary scale, potential for promotion and decent annual pay awards, so that late career salaries are significantly higher in real terms than early career ones, then FS is generally a better

prospect. If salary scales are low and flat, there are few prospects for promotion and salary increase, and annual pay awards are low and/or below inflation, then a CARE scheme (as long as it is with a good accrual rate) may deliver a better pension, other factors being equal.

The big picture is that the imposed settlement leaves us paying more, working longer, and getting less.

9. USS CARE & Final Salary comparisons

Government proposals for the CARE scheme revalue existing contributions with a measure of CPI in order to end the link with the current scheme which links pensions to final salaries. Thus, this change breaks the link between pensions and earnings, and is essentially similar in form to Mrs. Thatcher's Government's ending of the earnings link for state pensions.

Some UCU members have sought to highlight the improvement in the pensions available to members under the proposed CPI+1.6% uprating relative to the existing final salary scheme. However, there is a central flaw in these estimations. They revalue the CARE pensions with three measures of CPI (CPI, CPI+0.2%, CPI+0.4% and CPI+1.6%) but did not revalue the final salaries pensions with a measure of earnings. This is like comparing apples and pears. It is not possible simply to compare a number valued forty years ago with a number valued today.

Below is a summary table which highlights the difference between CARE and Final Salary when you revalue both pension schemes with changes for inflation and earnings. In the table below, the case where an individual gains 40 years of pensionable salary, and therefore gains the maximum pension, is modelled. The attached tables provide the full data for each of the forty years. Specifically, these are:

1. Sheet 1. Earnings rise by CPI. This is the assumption in the original tables and is included simply for reference to demonstrate how the following three spreadsheets differ from the originals circulated.
2. Sheet 2. Earnings increase by CPI+1.2%. This figure is chosen as the estimate by the Government's own Office for Budget Responsibility as the lower bound difference between CPI and RPI. Thus a pay increase of CPI+1.2% per annum would at best represent a real-terms pay freeze for forty years: it is, therefore, a highly conservative estimate .
3. Sheet 3. Earnings rise by CPI+1.4%. This is again chosen deliberately. This time as the OBR's upper bound for the difference between CPI and RPI. Again this would amount to a pay freeze on most measures.
4. Sheet 4. Finally I chose CPI+1.9%. This was chosen in order to highlight the impact of a real increase in earnings (of 0.5% per annum) for each year. Again hardly a substantial rise in living standards by any standards.

Table1
Comparing USS Pension CARE with Final Salary Scheme

	CARE Pension Contributions revaluations (1/80th)				**Final Salary (1/80th)**
Earnings increase	CPI=0%	CPI+1.6%	CPI+0.4%	CPI+0.2%	
CPI	21637.30	**28807.91**	23184.77	22393.03	26278.00
CPI+1.2%	28348.87	36887.81	30204.50	29256.11	41843.91
CPI+1.4%	29693.00	38493.38	31607.68	30629.29	45193.14
CPI+1.9%	33389.96	42891.98	35463.38	34404.35	54750.17

There is only one occurrence where a CARE revaluation exceeds the pension obtained from a final salary scheme, and this is where pay rises are limited to CPI for a period of forty years. If this were to occur, real pay in HE would fall by over 50%, and in fact would be less than the original starting salary, in real terms. If this was to be what transpires over the next 40-year period, we would all be better off by leaving our academic jobs to stack shelves in Tesco!

In all other cases where earnings rise in line with a measure of RPI, or see a real increase over time, then CARE is demonstrably worse than a Final Salary scheme. Indeed, the bigger the improvement in real earnings that the union achieves, the worse is the relative outcome of a CARE scheme.

For the USS CARE scheme to match that of even a rise in earnings as limited as RPI + 0.5%, the revaluation would need to exceed 3.0%. But here the non-linear nature of a CARE scheme means that those with less than the 40 years of pensionable salary require a higher revaluation in order to match the equivalent Final Salary pension. The effect of CARE is then to increase inequality within the pension scheme.

Finally, there is a fundamental point to consider. If, as union members, we believe that we are unable to achieve an above-inflation pay rise ever again then CARE would be a better outcome than a Final Salary scheme. However, not only has that never been the case in the past, if it ***was*** to occur then the union would have great difficulty justifying its existence!

It is useful to examine the ***main arguments made in support of CARE*** over final salary to show that they are not actually well founded. They are as follows:

1. CARE is fairer than USS, as low paid members do not subsidise higher paid members.
2. Final salary unfairly inflates the pensions of members who get increases towards the end of their careers, and these members of the scheme (typically senior managers) are unfairly given such pay increases in order to attain this result.
3. CARE is better for researchers on short-term contracts who are only in USS for a few years.
4. CARE is better for hourly paid members.
5. The current trend of below-inflation pay increases is going to continue. Therefore, the majority of members who remain at the top of scales for the latter part of their career will do better under CARE than under final salary.

Brief versions of the ***counter-arguments*** can be stated as follows:

1. **Fairness:** for the same accrual rate, members, *including lower paid members*, receive a higher pension under final salary than under CARE (see spreadsheet models). Therefore, final salary rather than CARE is better for lower paid members as well as higher paid members.
2. **Inflated salaries:** The main argument is that, as under point 1, final salary will give all members a better pension than CARE. Under final salary you get the same pension for the same final salary regardless of how your career has progressed. Under CARE you do better for the same final salary if promotion comes earlier. Therefore, as well as benefiting vice chancellors and principals, final salary will ***also*** benefit members who manage successfully to fight discrimination for promotion, and hence get promotion later than they otherwise would have done (this will be particularly the case in respect of women members, and others who take career breaks). For TPS, it might be possible to put an upper limit (a cap) on pensions. The same demand should be made on the Employers' Pension Federation in order to change USS rules to allow a pension cap that would prevent senior managers from attaining an inflated pension due to extraordinary late career pay rises.

3. **Short-term contracts:** You can either receive a deferred pension or, if you have worked less than two years before transferring, a refund of your contributions minus various deductions. Alternatively, if you have worked more than two years, you can transfer your benefits to another scheme. If you receive a deferred pension, the pension accumulated to date will be inflation proofed by the same amount whether based on final salary or CARE, as the inflation proofing is determined by official pensions. However, the amount of pension that is inflation proofed will be greater if based on final salary than on CARE. In the case of transfer, the amount transferred will also be greater in the case of final salary than CARE. However, the significant factor may be how the new scheme treats transferred pensions.
4. **Hourly paid:** Members who are currently hourly paid could benefit from CARE rather than final salary - for instance, if their salary goes down rather than up at the end of their career. However, as a union we need to be both committed to moving all hourly paid staff onto proper fractional contracts, and improving the conditions of hourly paid colleagues while waiting for this to happen. We should not accept the type of conditions, such as a drop in pay, for hourly paid that would lead to CARE being better. Since the ultimate aim is to get hourly paid onto fractional contracts, we should not be accepting something which will lead to those hourly paid staff that do get fractional contracts having a worse pension.
5. **Below inflation pay increases:** If we accept below inflation pay increases for an extended period, both salaries and pensions will decrease significantly, and significant numbers of members will be facing real poverty, regardless of whether their pensions are based on final salary or CARE. However, almost more important than this is the fact that accepting less than inflation pay increases for an extended period would mean that UCU had given up as a union, and would not be in a position to obtain anything much for its members. While we need to be realistic, assumptions of this type are themselves far from realistic. They are simply defeatist. We should not be making defeatist assumptions that assume we have lost before we have even begun fighting. Finally, competition amongst employers in the job market tends to force pay up for employees with scarce skills; this is a key driver of wage inflation. It is the union's job to ensure that these benefits accrue to *all* members.
6. **Thus, and in conclusion, all likely (and unlikely) CARE schemes are detrimental in comparison to the previous USS final salary scheme for *ALL* the modelled scenarios (see spreadsheets). The detriment represents between 30% and 50% of our deferred wage.**

For the next 20 to 30 years the move to CARE will reduce the pensions of members who retire early. For example, a member who retires in five years time at 60 rather than at 65 will have their pension reduced by 20% of the contribution of the last five years. However, the salary of these years will generally be much higher than the salaries for earlier years, even when the inflation proofing factor is considered. If this member had been on final salary the number of pensionable years would be reduced by 20% x 5 x 1/80th, but the final salary would remain the same, so the total reduction would be less.

Moreover, while opposing the move to CARE, we should also be campaigning for reversal of the increases in the minimum age at which you can claim your pension without reduction.

10. Management of the USS Scheme

It takes 9 or 10 years on a pension before the accumulated pension payments exceed the value of deferred wages that are added to the total pension pot (see spreadsheets). If the inflation cap kicks in, it could take forever. This begs the question of the management of the USS scheme investments. UCU should argue that highly paid pension fund managers are a

liability[3]. Ethical and sustainable investment is a better option than the ethos and performance of the current management which fails to do much better than keep up with inflation.

11. Wages and Inflation

Some argue that it would be better to accept a CARE scheme which hedges against wages falling relative to inflation, than a final salary scheme which is not inflation proofed. As pointed out above, if the UCU is unable to protect its members' salaries it will also be unlikely to be in a position to protect members' pensions. A major reason, pointed out below, for the employers' advocacy of CARE is that it makes it easier at some future date to abolish the pension scheme altogether, through a gradual deterioration of the accrual rate.

12. Privatisation

The shift to CARE is a useful precursor for privatization. The Government White Paper on Higher Education is itself a manifesto for privatization. The financial services sector and the private employers have been lobbying for CARE against FS for years because it helps control their future employee pension costs by minimizing the potential uncertainty, and eliminates the increased liability of the final salary element over the long term.

13. The Teacher's Pension Scheme (TPS)

13.1 The Shift to a CARE scheme from Final Salary

Apart from confirming the RPI to CPI change, the rise in employee contributions and the intent to equalize the NPA and the State Pension Age (SPA) for lecturers and teachers in early and middle career, the proposals' main aim is to set out the parameters for a shift from the current Final Salary scheme to one based on career average (CARE).

The Agreement states that the costs of the scheme, as summarized, are within the Government's cost ceiling, and meet the Treasury's risk criteria. In other words, it is we who will continue to pay for these cuts.

Key elements of this scheme will be an accrual rate of 1/57th (i.e. 1/57th of your salary is calculated annually for your pension). This is an improvement on the current 1/60th for those on Normal Retirement Age of 65 for the Final Salary scheme – but not much of an improvement. The civil service CARE scheme has an accrual rate of 1/43rd!

The revaluation rate of active members' benefits is to be at CPI + 1.6%, (an improvement on basic CPI) but … what happens if there is a period of recessionary price falls? In November, the Government was proposing average earnings based on Lord Hutton's recommendation but has now substituted this new measure – which they calculate will still deliver savings for them.

Considered solely on narrow financial grounds it *is* possible to negotiate a CARE scheme that does not result in members losing money - it all depends on the accrual rate. In considering the features of the current offer, as a result of the proposed change from Final Salary to Career Average (CARE), the London Retired Members Branch has calculated that

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[3] Dennis Leech, *Financial Times*, November 8, 2011 2:01 am, 'Actuaries should reconsider how they value pension funds'

a lecturer retiring after the average service of 15 years would be £22,000 worse off, while one retiring after the maximum pensionable service of 40 years would be £3,000 worse off.[4]

In order to achieve an average pension of £11,759 based on the current average salary of £38,737 (based on TPS figures) after 15 years of service, the accrual factor would have to be 1/50th with the re-evaluation factor remaining at either RPI, or CPI + 1.6%.

13.2 Retirement at 67 or 68 – and penalized for retiring 'early'!

The Government document also talks of putting in place 'actuarially fair' early or late retirement factors on a cost-neutral basis. What this means, in essence, is that if a member has had enough of the job before their NRA/SRA of 67 or 68 (and most of us will have done by then, if we have not died in service) we will lose 3% of our pension for every year of 'early' retirement. This is, therefore, a very minor concession from the previous 5% actuarial reduction.

13.3 Plenty of employer protection – but we pay for it

There is also to be an employers' cost cap, and a 'guarantee' of no further scheme reforms for 25 years. The cost cap means that if there are unforeseen significant increases in the cost of the scheme (such as people living much longer) then the extra costs will not be borne by the employers, but by the scheme members – we will pay more. This makes nonsense of the notion of a 25-year guarantee.

The document reiterates the 10-year protection notified earlier this year for those scheme members in the last ten years of their pensions, and adds some minimal linear-tapered protection for those in the next 3.5 years up to NPA – for every month beyond the last 10 years of the NPA, the member will lose 2 months of protection. However around 60% of current scheme members will get no protection at all.

13.4 Scheme costs

The National Union of Teachers (NUT) has now launched a modeler of the consequences of the pension changes after the Heads of Agreement offer.[5] The UCU has now commissioned such a tool but at the time of publication it was not yet on the website. The UCU has commissioned an actuarial report which is available to members via link.[6]

An initial unofficial analysis of the overall costs for members of the TPS suggests that while a shift to a CARE scheme using the new accrual rate, and the revaluation figure of CPI plus 1.6%, may mean a cost-neutral transfer (or a marginal improvement) for some scheme members, others (and almost certainly most others over time) will lose out significantly.

In addition, when the rise in employee contributions, the reduction in indexing applied to pensions in payment, and the fact that newer scheme members will be expected to work until 67 or 68 are factored in, all members will continue to be far worse off over the lifetime of their pensions compared to the current situation.

For example, analysis suggests that an HE Grade 8 lecturer will suffer a total cumulative loss of nearly £200,000 (including £56,240 in extra contributions) over a scheme of 40 years, including a loss of £92,500 from three extra years of work.

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[4] *See* http://www.UCU-retired-london.org.uk/

[5] *See* http://www.teachers.org.uk/node/12872

[6] *See* http://www.ucu.org.uk/media/pdf/l/c/ucu_fareporttps_10jan12.pdf

14. The way forward

It seems likely that the attacks on pensions will continue. As well as winning this round as decisively as possible, we must put ourselves in a strong position to defend and, if possible, to improve our pensions, and to resist future attacks. We do not yet know exactly what form these attacks will take. However, our employers and the Government clearly prefer CARE to final salary, and CPI to RPI. In particular, the Government has preferred to offer CPI +1.6% for public sector pensions rather than accept a move back to RPI. This indicates that the move to CARE and CPI may be a step in the process of further undermining pensions.

The final settlement on USS will be negotiated between UCU and the employers. The only mechanisms we have to achieve movement from the employers is by putting pressure on them through industrial action or, less likely, through the employers feeling obliged to match Government offers on TPS and on other public sector pensions. As we have seen, the Government is starting to make offers on the public sector pension schemes in response to industrial action involving an increasing number of unions, including some in the private sector.

The UCU led the fight on pensions, initiating industrial action on the 22nd and 24th March and giving the impetus for the first public sector pensions strike on June 30th 2011, and then the massive public sector strike on 30th November 2011. Those of us in USS are likely to benefit indirectly from any improved offer made on public sector pensions but only if we make it clear that, otherwise, the employers face further industrial action.

We also have considerably greater industrial muscle if we work together with the other unions than we have on our own (though we should not underestimate our own strength). The last recession which comes anywhere near matching the current one was in the 1930s. Even then there were booming industries such as the aircraft industry. In Britain today, Higher Education is burgeoning, despite the best efforts of employers and Government, bringing more income into the UK than pharmaceuticals or the aircraft industry[7].

Our action short of a strike is having an effect. It has increased the confidence of our members, and has brought the employers to the negotiating table. We are now in a position in which there is increasing pressure on the employers due to the action short of a strike, the proposals from the Government on public sector pensions, and our threats to escalate our action over pensions. It is, therefore, a good time to keep pushing the employers to get what we want. It is not a time to suspend our action. We are now in a situation in which we can win but, to do so, we will need to establish a credible threat of escalating industrial action.

Where possible, we should co-ordinate further action with other unions, particularly around TPS. The possibility of joint action with private sector unions should also not be ruled out. Currently, Unilever employees are fighting to defend their pensions, belying the Government myth that public sector employees have better pensions than all of their private sector colleagues.

There will also be considerable benefit from coordinating action with any taken by UCU over the TPS dispute, and by the other public sector unions, including joint days of strike action.

The special Higher Education Sector Conference (HESC) on Tuesday 31 January will be crucial for taking the campaign forward and winning. We need to ensure that the conference is well-attended, with all pre-92 branches represented. We need to ensure that there is

[7] http://www.universitiesuk.ac.uk/Publications/Documents/EconomicImpact4Full.pdf

maximum unity. We need to ensure that delegates come out of that Conference confident in the knowledge that we can win this dispute. We need to be sure that we have a strategy for victory, and not for compromise.

15. In summary:

- The situation has changed since the last HESC, and we are now in a position to obtain significant improvements on the imposed USS settlement. We should seek to get rid of the second tier, and return to the final salary settlement or equivalent, depending on the outcome of TPS negotiations. We should align our demands with those of our TPS colleagues who have rightly rejected the Government's proposals (see above).
- In order to increase the pressure on the employers with regards to the final settlement, we must continue our industrial action, and supplement ASOS with carefully targeted and coordinated strike action.
- We should mandate our negotiators to seek a return to the ratio of 28.4% employee: 71.6% employer contribution to our pensions. The 1.15% increase should either be removed, or split on a 28.4:71.6 basis between us and our employers.
- Under no circumstances should we consider suspending our action in defence of USS until we have secure undertakings from the employers that they are willing to concede on age of retirement, contributions, inflation proofing, and final salary (or an accrual rate that would ensure no detriment to members pensions).

16. Action at the Special HE Sector Conference

Pass the following motions in your branch for submission to the HESC (USS) on January 31st.

Motion 1

Conference reaffirms its determination to defend members from any pensions detriment in negotiating reforms to the USS scheme, and to minimise or overcome the detrimental consequences of two-tier provision.

Conference resolves to:

- pursue rescinding of the imposed changes, and a resumption of negotiations on the basis of a scheme that entails no detriment to members' pensions AND with a structure and accrual rate no worse than in the TPS;
- mandate USS negotiators not to compromise on our rejection of an inflation cap to revaluation, and to insist that the conditions of agreement are not worse than those agreed for TPS;
- instruct the HEC and the HE Department to prepare a progressive escalation of ASOS between now and the summer months, and centrally to organise a series of regional, national and UK-wide strikes (in coordination with action by other teaching unions and sectors of the UCU, where possible).

(147 words)

Motion 2

HESC (USS) notes the:

- common assault on pensions across public and private sectors, and across different schemes;
- cuts in the USS facilitate outsourcing and privatization of HE provision;
- interdependence of USS and the TPS campaigns;
- greater strength and publicity consequent on joint action;
- benefit of supplementing ASOS with strike action which focuses public attention on the dispute, provides students and non-UCU staff with opportunities for solidarity with UCU, and unifies all members in shared action.

Conference consequently resolves that the:

- USS negotiators and the HE Department will seek strike action in pre-92 branches in common with public sector unions (including sister education unions defending TPS);
- NEC and Strategy and Finance Committee will coordinate any cross-sectoral and cross-scheme joint action so as to enhance the escalating campaign of ASOS in pre-92 institutions.

(131 words)

At the conference, a decision by delegates to adopt the Report of the negotiators (including as it does the recommendation to suspend the industrial action) will rule out debate on these motions for continuing and escalating the action, as they will be considered to have fallen as a consequence of the adoption of the Report and its recommendation. So, vote against the adoption of the Report.

Malcolm Povey
January 2012

Appendices

Appendix One: USS pension inflation modeller version 8 comparison with TPS offer

[The spread sheet to which this refers is lodged on the UCU Left website at http://uculeft.org/2012/01/uss-how-much-care/] Please go to the page and navigate to the spreadsheet.

The modeller compares TPS and USS schemes at variable accrual rates, inflation factors and commutation rates. It is intended as an aid in evaluating any offer made during negotiations over the TPS and USS pension schemes and uses the University of Leeds pay scale and grade boundaries, as they stood at August 2011.

A1.1 The models

Start with career model 1 which is chosen as a 'standard' academic career. Explanatory notes have been added to the column headings, where appropriate.

The other models have been developed on the basis of the methodology in career model 1. The model uses generally conservative assumptions, and starts the comparison by setting CPI to zero and adding an adjustment, corresponding to wage inflation relative to CPI, since over long periods of time pay in HE will track wages, not CPI.

The modeller estimates pension benefits and costs, but does not account for tax and national insurance payments. It assumes that the total amount paid into the fund, on behalf of a pensioner, is the deferred wages of that pensioner.

A1.2 *'Deferred wage*'

This is calculated as the inflation adjusted sum of employer and employee contributions to the fund over the period of a member's fund membership.

A1.3 *'Detriment'*

This is calculated as the difference (at retirement) between the previous USS Final Salary Scheme and the currently imposed USS CARE scheme, adjusted for the wage uplift. It is the sum of the difference between the lump sums and the difference between average expected pensioner lifetime under the two rules, multiplied by the annual pension.

A1.4 Commutation rate

A proportion of pension at retirement can be given up for cash or "commuted". In some circumstances, the amount of pension that can be commuted may need to be restricted further to avoid penal tax charges imposed by HMRC. Cash is calculated as the amount of pension given up multiplied by a factor called the commutation rate. The factor is calculated as the 'value' of the pension given up. The 'value' of the pension is determined mainly by how long it is expected to be paid (i.e. how old you are at retirement, and how long you are expected to live), and how much the pension increases each year. Therefore, the younger you are at retirement, the more valuable the pension given up because it is expected to be paid for a longer time. Hence, the factor is higher at younger ages.

A1.5 CARE (career average revalued earnings)

Whereas a final salary scheme has benefits computed on 'final' salary (this is an average of the best three years of the pensioners last 10 years in the USS scheme), CARE includes annual salary for every career year in its calculation. Salary in each year is 're-valued' for the effects of inflation, and weighted by the 'accrual rate' before being summed over an entire career.

For the sake of comparison with TPS, accrual rates comparable with TPS have no associated lump sum.

A1.6 Using the modeller

The inputs to the model are summarised in the light orange box on the 'definitions' sheet.
To compare options under consideration, change the data in the light orange boxes.

The model is capable of incorporating detailed inflation data if this is desired. The values in the orange boxes change every year in the career in the same way. If more detail is required the data must be typed into the CPI column in the model of concern. Current values for the USS final salary scheme and the current (from September 2011) USS rules are incorporated for comparison purposes. Outputs are summarised on the summary sheet.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
			Pension Final Salary until October 2011	Lump Sum Final Salary until October 2011	Pension Final Salary from October 2011	Lump sum Final Salary from October 2011	Pension New Entrants from October 2011	Lump sum new entrants from October 2011	Pension New Entrants from October 2011	Pension New Entrants from October 2011	Contribution	Detriment in comparison to the USS rules up to October 2011	Detriment in comparison to the USS rules up to October 2011	Lifetime aggregated pension divided by aggregated contribution (USS Final Salary)	Lifetime aggregated pension in Trial 2 divided by aggregated contribution
			CPI = 0% adjusted	Commutation rate of 3	RPI = CPI + 1.6%	Commutation rate of 3	RPI =1.6%, accrual @ 80ths revalued at 1.6%	Commutation rate of 3	RPI=1.6%, accrual @ 57ths revalued at 1.6%	RPI=1.6%, accrual @ 67ths revalued at 1.6%, commutation rate of 3)	Employee 0.065 + employer 0.16	as a proportion of deferred wage	at RPI = CPI + 1.6% for accrual @ 67ths revalued at 1.6%, commutation rate 3)	RPI =1.6%, accrual @ 80ths revalued at 1.6%	at RPI = CPI + 1.6% for accrual @ 67ths revalued at 1.6%, commutation rate 3)
1	Career model 1		£ 27,012	£ 81,036	£ 50,969	£ 152,907	£ 42,212	£ 126,637	£ 59,245	£ 50,403	£ 584,263	2%	£ 13,025	51%	44%
2	Model 1 with two year mid career break		£ 25,694	£ 77,083	£ 48,483	£ 145,448	£ 40,333	£ 120,998	£ 56,607	£ 48,158	£ 561,690	27%	£ 151,932	50%	38%
3	Academic career model 3 (Professor)		£ 34,197	£ 102,590	£ 64,525	£ 193,576	£ 46,294	£ 138,882	£ 64,974	£ 55,277	£ 651,313	33%	£ 212,724	43%	58%
4	Academic related (Grade 8 top)		£ 22,635	£ 67,905	£ 42,710	£ 128,129	£ 38,301	£ 114,904	£ 53,756	£ 45,733	£ 523,263	-13%	-£ 69,536	45%	48%
5	AR fractional contract model 3, 0.5	0.5	£ 11,317	£ 33,952	£ 21,355	£ 64,065	£ 19,151	£ 57,452	£ 26,878	£ 22,867	£ 261,632	-13%	-£ 34,768	45%	48%
6	Academic related (Grade 7 top)		£ 18,418	£ 55,255	£ 34,753	£ 104,260	£ 33,278	£ 99,835	£ 46,706	£ 39,735	£ 448,603	-26%	-£ 114,586	45%	45%
7	Postdoc (3 yr service)		£ 1,034	£ 3,103	£ 1,068	£ 3,203	£ 1,895	£ 5,686	£ 2,660	£ 2,263	£ 18,378	-283%	-£ 52,053	63%	53%
8			Commutation Rate (UCU proposal)	Consumer prices index	Wage inflation relative to CPI (Assume RPI tracking).	Accrual rate (Govt TPS offer)	Accrual rate (Current USS rules)	Accrual rate (UCU USS proposal, summer 2011)	Employee contribution CARE	Employer contribution CARE	Life expectancy on retirement at 65	Retirementage	Life expectancy on retirement @ 67		
9			3	0.0%	1.6%	57	80	67	6.50%	16.00%	18	67	16		

Figure 1 Model for retirement at 65 after 41 years service. CPI is set at 0% for comparison purposes. The RPI inflator can then serve as a wage inflator if desired.

The first column, set with CPI = 0, permits comparison of various wage inflation scenarios, relative to CPI. Figures between 1% and 1.6% have been discussed here. RPI = CPI +1.6% is modelled in column 3. An effective UCU can ensure that our wages at least keep up with inflation (RPI). This in turn has a very significant impact on the pension (compare column 1

with column 3). In column 7 the impact of the current USS CARE rules imposed from September 2011 is modelled on the basis that it applies throughout the career, with revaluation at CPI (set at zero) and wage inflation relative to CPI of 1.6%. The corresponding payments into the fund are shown in column 11. So Column 7 should be compared with column 5 to see the comparable impact of CARE as opposed to the previous final salary scheme. The impact of higher accrual rates than the current 1/80^{ths} can be seen in columns 9 and 10. Note that accrual at 1/57^{ths} results in a better pension for the academic related grades but that there is still a serious detriment if, as is the case with TPS, there would be no lump sum.

Conservative assumptions have been made regarding career progression, which favour CARE. Career model 1 assumes a 41 year career starting at spine point 25 and advancing by one point every year until spine point 49 where it remains to the end of the career. Career model 2 is based on model 1 but a two year career break is taken in years 18 and 19; two years are taken out, however, advancement remains the same. Model 3 starts at spine point 25 and advances to point 43 in year 19, where it remain for the rest of the 41 year career, a 50% fraction of model 3 is included and model 4 advances from spine point 25 to point 36 in year 11 where it remains for the remainder of the 41 years.

Appendix Two: Inflation spreadsheet

This estimates the impact of the inflation experienced in the 1970s on an example pension.

Annual Pension in 1969		£17,060
Year	CPI %	Value of Pension
1970	*6.4*	*£16,941*
1971	*9.4*	*£16,568*
1972	*7.1*	*£16,394*
1973	*9.2*	*£16,050*
1974	*16*	*£15,087*
1975	*24.2*	*£12,944*
1976	*16.5*	*£12,103*
1977	*15.8*	*£11,401*
1978	*8.3*	*£11,213*
1979	*13.4*	*£10,742*
1980	*18*	*£9,883*
1981	*11.9*	*£9,542*
1982	*8.6*	*£9,370*

Composite price index, annual percentage change
http://www.bankofengland.co.uk/education/inflation/timeline/index.htm

Appendix Three: CARE scheme comparisons

See separate spreadsheet, lodged on the UCU Left website at: [http://uculeft.org/2012/01/uss-how-much-care/] Please go to the page, and navigate to the spreadsheet.