USS EMPLOYER CONSULTATION

CONSULTATION BY EMPLOYERS WITH AFFECTED EMPLOYEES ON PROPOSALS FOR CHANGES TO UNIVERSITIES SUPERANNUATION SCHEME

IMPORTANT INFORMATION

March 2015

Introduction to the consultation

Changes to the future pension benefits provided by USS have been proposed by the Joint Negotiating Committee (JNC), a formal body within USS which is responsible for deciding on scheme changes.

The JNC consists of equal numbers of nominees representing Universities UK (as the representative body of the sponsoring employers) and the University and College Union (as the representative body of scheme members), along with an independent chairman. These proposals follow some months of discussion between these two parties about possible responses to the funding challenges faced by the scheme.

The employer and member representative bodies have considered modifications to employer and employee contribution rates and to future pension benefits; the proposed changes described in this document include amendments to these features.

Employers have a legal responsibility to inform affected employees and their representatives of the proposed changes, and to consult with those representatives.

This document provides information about the proposed changes and also explains how you can provide a response. Further information, including a paper setting out the need for reform, prepared by Universities UK, is available on the consultation website at www.ussconsultation.co.uk

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A guide to this document

This document has been made available to those employees who would be affected by the proposed changes. You are an affected employee if you are either an active member of USS or if you are currently eligible for membership.

Who is affected by the proposed changes?

If you are a pensioner or deferred member, your pension benefits will not be affected by these proposed changes (unless you have taken flexible retirement or are currently working in a role which means you are otherwise eligible to re-join USS). If you are unsure whether or not you are an affected employee, you should check with your usual USS pensions contact. The consultation materials will be made available by employers to any recognised trade union and other representatives of affected employees who are also part of the consultation process, as required by law.

In this document, you will find detailed information about the proposed changes and some examples which illustrate how you may be affected. You will also find further information about the consultation process and how to submit any response you would like to make, as well as what will happen following the end of the consultation.

The existing scheme

If you are an active member you will have received an information notice confirming which section of the scheme you are a member of, and providing details of your USS member number and other information which you will need in order to log in to the secure sections of the employer consultation website*.

If you are not currently an active member of the scheme, but are eligible to join (it is most likely that at some point you decided not to join or opted-out), you are a 'prospective' member and you will have received a generic information notice confirming how to log in to the secure sections of the employer consultation website.

There are currently two sections of the scheme – a final salary section and a career revalued benefits (CRB) section. Some of the proposed changes affect members of each section differently – these differences are clearly marked in this document.

The employer consultation website

www.ussconsultation.co.uk contains a number of supporting materials for affected employees. This includes a series of short videos explaining the proposed changes and importantly an interactive modeller, which might be helpful in estimating how the proposed changes may affect your future pension benefits. You will also find a glossary of frequently used terms and Q&As. The consultation materials will be available on the employer consultation website from mid-March 2015.

Legal requirements

There are legal responsibilities for employers to provide information and to consult on the proposed changes, and indeed all of the scheme's employers have been encouraged to participate in the consultation process – including those not strictly required to do so by law, for example because they are small in size. The trustee is supporting and co-ordinating the process across institutions, as it must be able to reasonably satisfy itself (by law) that the consultation has been undertaken correctly.

What to do if you have questions

If after reading this document you have any questions about the consultation or any of the information in this document, please refer to the Q&A section on the employer consultation website in the first instance, or if the answer is not available on the consultation website, get in touch with your usual USS pensions contact.

* Provided your membership of the scheme was processed by both your employer and USS by 13 February 2015. If you have joined the scheme after that date and have been issued with a USS member number you will still be able to use your member number to log in to the site but you will not have received confirmation of your member number with the printed consultation materials issued before the start of the consultation. If you are unsure what your member number is please get in touch with your usual USS pensions contact at your employer.

The proposed changes at a glance...

Benefits you have built up prior to the proposed implementation date

The benefits you have built up in the scheme prior to the proposed implementation date (proposed to be 1 April 2016 at the earliest, which we shall refer to as the implementation date throughout this document) are protected by the scheme rules and in legislation.

Final Salary section members

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If you are a member of the current final salary section the benefits you have built up – your accrued benefits – will be calculated using your pensionable salary and pensionable service immediately prior to the implementation date. Going forward, those accrued benefits will be revalued in line with increases in official pensions* (currently the Consumer Prices Index – CPI) each April, up to the point of retirement or leaving the scheme – see section six.

Career Revalued Benefits (CRB) section members

CRB

If you are a member of the current CRB section, the benefits you have built up immediately prior to the implementation date will be revalued in line with increases in official pensions* (currently CPI) each April, up to the point of retirement or leaving the scheme – see section seven.

Proposed future CRB benefits for all members

75THS

All members will accrue a pension of 1/75th and a cash lump sum of 3/75ths of salary for each year of service in respect of salary up to and including a salary threshold of £55,000 a year – see section eight.

Salary threshold

The salary threshold will be automatically revalued each year in line with increases in official pensions* (currently CPI), until the outcome of a review of the salary threshold to be completed by the Joint Negotiating Committee by 31 March 2020 – see section eight.

* In USS, these increases are subject to certain caps in relation to rights earned from October 2011. Further detail can be found in sections six and seven. Benefits built up to 30 September 2011 will be increased fully in line with increases in official pensions.

The proposed changes at a glance... (continued)

Proposed new section of the scheme – Defined Contribution

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All members will have access to a new defined contribution section which will be made up of individual defined contribution accounts – see section nine.

Member contributions to increase to 8% of salary

8%

Member contributions will increase to 8% of salary (from 6.5% for CRB section members and 7.5% for final salary section members). This includes salary above and below the salary threshold. Member contributions made in respect of salary above the threshold will go into a member's individual account within the proposed defined contribution section – see section ten.

Employer contributions

18%

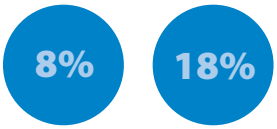
Employers will, until 31 March 2020, pay 18% of salary above and below the salary threshold for all members (increased from 16%), with the employer contribution of 12% of salary above the salary threshold going into the individual accounts of members of the defined contribution section – see section three.

Optional additional contribution into the Defined Contribution section for all members

1% 1%

All members will be able to choose to contribute more to build up extra benefits. Any additional contributions will go into the member's individual defined contribution account. Any additional contributions made will apply to all salary (i.e. salary above and below the salary threshold). The first 1% of additional contributions will be matched by the member's employer – see section nine.

Employer and member contributions



The rate of contributions payable by individual members to the proposed new scheme is 8% of salary, whilst employers will pay 18%.

The employer contribution is ultimately determined by the trustee as the rate sufficient to meet all of the benefits provided under the scheme. This will include the new defined benefit and defined contribution sections.

The overall 18% contribution payable by employers represents the overall cost (less the member contributions) of providing the proposed benefits.

The employer cost is therefore a combined cost, which will cover:

1. **The future service benefits which are proposed to be provided from the implementation date**
   That is, the proposed CRB pension benefits based on the 1/75th formula, plus 3/75ths lump sum, up to a salary threshold, and including death-in-service and incapacity benefits – see section eight.

2. **The employer contributions to the funding deficit**
   That is the contributions required under the recovery plan to fund the deficit – see section five.

3. **The employer contribution to the defined contribution section**
   In respect of salaries in excess of the salary threshold – see section nine.

4. **The employer contribution to the defined contribution matching facility**
   In cases where members choose to make an additional contribution of 1% – see section nine.

This is covered in more detail in the Q&A section of the employer consultation website.

Decision making and the consultation process

Employers with 50 employees or more are required to provide information about the proposed changes to all affected employees, together with trade unions and other recognised employee representatives, and to consult.

The consultation is your opportunity to have your say on the proposals, and your response is important.

The consultation must, by law, run for a minimum of 60 days and it is proposed that all USS participating employers will begin the consultation from 16 March 2015.

Once the consultation period ends, scheduled to be 22 May 2015, the employers will consider the responses provided by their employees and their representatives. The trustee must also consider all the responses received from affected employees and their representatives. The trustee will communicate the consultation responses to the Joint Negotiating Committee (JNC), highlighting any areas for potential modification. The JNC must then decide upon the final form of any changes to future benefit arrangements. Affected employees will receive further information in the autumn about the decision to implement any proposed changes.

Key dates for affected employees

Pre-consultation phase

Date	Activity	What do affected employees need to do?
13 March 2015	Consultation website becomes available **www.ussconsultation.co.uk** containing detailed information about the proposed changes for affected employees and their representatives	Visit the consultation website, review the full consultation materials and supporting information

Planned consultation phase

Date	Activity	What do affected employees need to do?
From 16 March 2015	Planned date for employers to begin consultation with affected employees and their representatives	Review the consultation materials and, if appropriate, provide your response
22 May 2015	Planned date for employers to end consultation with affected employees and their representatives	Submit your response by this date

Please note you do not need to take any action during the consultation period unless you would like to provide a response. All responses will be considered by the trustee in its review and subsequent feedback to the Joint Negotiating Committee (JNC) before deciding on the final changes to be made.

Planned post-consultation phase

Date	Activity	What do affected employees need to do?
31 May 2015	Deadline for employers to review responses and provide any further commentary or feedback to the trustee	No action required from affected employees and their representatives
June/July 2015	The trustee considers all responses and passes any potential modifications to the JNC, which finalises decisions on the proposed changes	No action required from affected employees and their representatives
Autumn 2015	Further information on the final agreed benefit structure will be made available to affected employees	You should note any agreed changes
1 April 2016	Earliest proposed date for implementation	You will receive further communication before this date in relation to implementation and any decisions you must make before any new arrangements become effective

Planning for implementation of the proposed changes

You will see in this consultation document that the implementation date for the proposed changes is 1 April 2016 at the earliest.

In the event that the proposed changes proceed, the trustee has confirmed that it would seek to make arrangements, in collaboration with the scheme's sponsoring employers, to implement the changes from that date. However, some contingency options have been identified in case it is not practicable to implement the proposed changes at that time.

Affected employees and their representatives should therefore be aware that the implementation date of any changes cannot be confirmed definitively at this stage, and – for example – the trustee might consider it appropriate to implement the proposed changes in a phased manner.

What to do next?

Full information regarding the proposed changes is available at **www.ussconsultation.co.uk**, where you can:

- View video presentations explaining the changes
- Read the Q&As and refer to the glossary of useful terms
- Read further information from the employer representative body, Universities UK
- Use the interactive modeller to estimate the effect of the proposed changes on your future benefit arrangements
- Leave your response during the consultation period.

The consultation website will be available throughout the consultation period and will be regularly updated with responses to any frequently asked Q&As that arise as the employer consultation with affected employees progresses.

Responding to the consultation

It is strongly recommended that you view the materials provided by your employer via the consultation website at **www.ussconsultation.co.uk** before you leave your response.

You can leave your response by selecting the 'respond' option and following the instructions on the consultation website. You will need to log in to a secure area of the consultation website in order to leave a response, so that it can be confirmed that you are an affected employee and are therefore eligible to respond to the consultation.

Active members will be able to log in to the consultation website using their USS member number*, three digits of their National Insurance number and the first three characters of their surname.

Prospective members will need to register on the website and provide details so that their eligibility to become a member of USS (and therefore to respond to the consultation) can be verified by their employer.

All responses will be anonymous by default both to your employer and the trustee, although you will be able to choose to submit your name with your response if you wish.

You can save your draft response as many times as you need to as you work through the questions, but you can only submit your response once.

Once submitted, your response (anonymous or otherwise, as you wish) will be available for both your employer and the trustee to review.

The consultation website is the primary forum for responses to be submitted to both your employer and the trustee. However, there are other ways to provide a response if you choose not to use the website:

- Contact your recognised trade union or other employee representative body for these purposes and express your views, as these representatives will also be consulted by your employer; or
- If you do not have online access you can express your views to your employer in writing through your usual USS pensions contact (clearly marking your response 'USS Employer Consultation'). This will then be submitted by your employer via the consultation website on your behalf. You should let your usual USS pensions contact know if you wish your response to remain anonymous when it is submitted.

* Provided your membership of the scheme was processed by both your employer and USS by 13 February 2015. If you have joined the scheme after that date and have been issued with a USS member number you will still be able to use your member number to log in to the site but you will not have received confirmation of your member number with the printed consultation materials issued before the start of the consultation. If you are unsure what your member number is please get in touch with your usual USS pensions contact at your employer.

Background information: Scheme funding position

USS, in common with many defined benefit pension schemes, has seen reduced funding levels in recent times. Scheme funding is a matter for the trustee and it is the trustee's responsibility, working with its advisers, to carry out an appropriate assessment of the scheme's funding level and implement any required adjustments to ensure there are sufficient funds available to pay the pensions promised.

At the March 2011 valuation, the trustee reported a deficit of £2.9 billion; the deficit is the shortfall between the amount of the assets in the fund and the amount that is needed to pay the pensions already promised based on the current funding arrangements.

Since 2011, the deficit has increased significantly and, based on the current benefit structure (ie without taking any account of the proposed changes), the trustee anticipated that it would report a deficit of approximately £12 billion for the March 2014 valuation.

This substantial increase in the deficit is as a result of a number of factors, as table one on page 12 shows.

As you can see from table one, the most significant factor is the change to the assumption which the trustee is making for future investment returns – and the effect of a lower assumption reflecting the changed economic environment – which has added around £7.6 billion to the amount needed to pay pensions. Following advice and analysis, the trustee has determined that it should plan on lower returns in the future from its investments than it has done in the past, because of the substantial economic changes and the more difficult global environment in which returns on assets are to be secured.

The investment performance on the fund's assets has been good in recent years*, and the trustee anticipates good performance will continue to be achieved by its investment managers relative to markets, but it expects that those overall returns will be lower given the challenging future economic environment. These assumptions are ultimately judgements which all trustees must make about future anticipated investment returns. These assumptions are reflected in the valuations of scheme liabilities, and in the increased deficits of many defined benefit pension schemes.

Another factor contributing to this increase is the projected improvements to members' life expectancy. The trustee has reported that the changes to the projected life expectancy assumptions between 2011 and 2014, have added almost £1 billion to the amount needed to pay the pensions promised.

Additionally, the trustee has carried out some work to update its understanding of the potential financial strength of the sector, and the employers' ability to support the scheme in the long term. It has, over the course of many months, and in consultation with Universities UK and with employers, concluded that the scheme's reliance on the sector is considerable and should not grow over time.

The trustee has therefore proposed, based on the current benefit structure, to gradually reduce the amount of investment risk in the scheme – over a 20-year period – in order to maintain the overall levels of risk, and therefore reliance, on the sponsoring employers.

This involves gradually changing the asset strategy for the fund so as to reduce the orientation towards return-seeking assets, such as listed equities with a shift towards a higher proportion of assets which better match the scheme's inflation-linked liabilities, such as fixed return investments with inflation protection, found for example in infrastructure. Gradually increasing the proportion of assets which have liability-matching characteristics will lower volatility, but such assets produce lower returns and therefore increase overall pension costs.

* In the year to 31 March 2014, the investment team outperformed benchmarks by 1.4% adding an additional £500 million to the value of the scheme's assets over and above the anticipated returns. Further information about the investment performance of the fund is available in the trustee company's Report and Accounts which can be found here: http://www.uss.co.uk/HowUssIsRun/publications/AnnualReportsaccounts/Pages/default.aspx

Background information: Scheme funding position (continued)

TABLE ONE: The change in the value of the deficit between 31 March 2011 and 31 March 2014

	Amount (£billions)
Deficit 31 March 2011	**£2.9**
Plus interest accumulated on the deficit	£0.6
Less deficit contributions and investment performance	(£3.4)
Less adjustments to reflect actual demographic and other scheme experience	(£1.6)
Plus changes to longevity and inflation assumptions	£1.8
Plus changes to reflect reduced investment outlook	£7.6
Plus change to investment strategy to maintain current reliance on employer support	£4.4
Deficit as at 31 March 2014	**£12.3**

Individual employers responded to a consultation from Universities UK on the trustee's proposed assumptions in the autumn of 2014, and those responses were reported to the trustee. As a result the trustee has modified some of its assumptions, for example on future improvements to life expectancy.

The impact of the trustee's changes to the proposed assumptions, and of the proposed changes to future benefits on the scheme's funding position, are displayed in table two below.

The proposal to remove the link to final salary in respect of the benefits that members have built up in the final salary section of the scheme would have a significant impact on the scheme's liabilities. This is because it would change the amount that is needed for future increases on benefits that have been built up. This change would reduce the scheme's deficit by approximately £5 billion.

Importantly the proposed removal of the final salary link would also reduce the amount of risk which builds up in the scheme over time – the risk in this instance is future salaries turning out to be much different to those assumed by the trustee. This reduction in risk means that the trustee would not need to reduce investment risk by as much as it had originally indicated and this also reduces the deficit. The trustee therefore anticipates that if the proposed changes were implemented as described, the deficit would be reduced from just over £12 billion to around £5 billion.

These modifications are subject to, and based upon, the proposed benefit changes as set out in this document. The effect of these modifications are shown in table two below. Please note the final figures are subject to the outcome of this consultation on proposed changes to benefits and the final decision of the JNC on any changes to be implemented.

TABLE TWO: The impact on the scheme's funding position of the trustee's changes to the assumptions and of the proposed changes to future benefits.

	Amount (£billions)
Deficit as at 31 March 2014 (estimated on current benefit structure)	**£12.3**
Less adjustments to the assumptions following the consultation with Universities UK	(£1.8)
Less adjustments to the investment strategy to maintain current reliance on employer support	(£0.4)
Less the impact of the proposal to remove the link to final salary	(£4.8)
Revised deficit as at 31 March 2014 (estimate based on proposed new benefit structure)	**£5.3**

This consultation document is accompanied by a further explanation of the environment in which these changes are proposed to be made, prepared by Universities UK (the employer representative body for the scheme). This document, and further accompanying information, can be found on the employer consultation website at **www.ussconsultation.co.uk**

Changes that would apply to final salary section members

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If you are a member of the current final salary section, the pension benefits you have already built up – your accrued benefits – will be calculated using your pensionable salary and pensionable service immediately prior to the implementation date. Going forward, those accrued benefits will be revalued in line with increases in official pensions (currently the Consumer Prices Index – CPI) each April (subject to a cap – see below), up to the point of retirement or leaving the scheme.

If you are a member of the final salary section, currently the benefits you have built up (your accrued benefits) are calculated based on your pensionable salary and years of pensionable service when you cease to contribute to the scheme (for example at retirement or if you leave the scheme). The proposed changes would mean that the benefits you have built up prior to the proposed implementation date would be linked to your pensionable salary immediately prior to the implementation date rather than your pensionable salary at a future date if you cease to participate in the scheme, or when you retire. Please note, your pensionable salary is not necessarily the same as your current annual salary rate; please see the glossary on the consultation website for an explanation of these terms.

These accrued benefits will receive annual increases broadly in line with inflation in April each year (see opposite) from the implementation date until retirement, or until leaving the scheme if that is earlier.

The inflation measure to be used will be based on the increases applied to official pensions, such as those payable from the public sector pension schemes (and which are currently linked to increases in CPI). This measure is already used for increases to USS pensions in payment and for increases applied to pension benefits built up in the existing CRB section. This means increases applied to the pension benefits you have already built up will be in line with increases in official pensions on an uncapped basis for pension benefits earned prior to 1 October 2011, and in line with increases to official pensions on a capped basis for pension benefits which have been earned after that date. For pension benefits earned from 1 October 2011, the capped basis means that the maximum increase in any year will be 10%. This is applied as follows: the rate of increase in official pensions will be applied in full, so long as it is up to 5% a year. If such increase in official pensions is more than 5% in a year, the increase would also include one half of that year's increase above 5%, up to an overall maximum of 10%.

The table below sets out how the cap works:

Annual increase in official pensions (which currently use CPI)	Increase payable by USS (for benefits accrued from 1 October 2011)
5% or less	Increase matched
More than 5% but less than 15%	5% plus one half of the increase above 5%
More than 15%	Increase capped at 10%

If there is deflation and the rate of CPI is less than 0% there will be no increase (or decrease) applied; under the provisions relating to official pensions there can be no decrease to benefits in the event that the CPI index produces a negative value.

Here is an example showing how the proposed removal of the final salary link would work:

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Example 1

How pension builds up in the current final salary section

Erin will be age 55 on 1 April 2016 when she will have completed 10 years of pensionable service in the final salary section of USS. Her pensionable salary at 31 March 2016 is expected to be £60,000 and she plans to stay in the scheme until retirement at age 65.

Erin expects her pensionable salary to increase up to £85,000 by the time she retires at age 65. If there **were no changes to the scheme** this would mean her pension, just based on the years she has earned up to 31 March 2016, would be calculated as follows:

Pensionable salary at retirement x past service	÷	Accrual rate	=	Annual pension
£85,000 x 10	÷	80	=	£10,625 a year

It should be noted at this stage that this example only considers past service up to the day prior to the implementation date, which is why the example only includes 10 years in this calculation (and not 20 years). Erin's pension arising from future service will be considered in sections eight and nine. This is to enable a 'like-with-like' comparison; of course this means this example only illustrates one aspect of the overall outcome for Erin, but a summary of the full outcome for Erin is available in section eleven.

How accrued final salary pension benefits would be treated in the future under the proposed new benefit structure

Under the proposed changes, Erin's accrued pension would be linked to increases in official pensions from the implementation date, and not final salary. If we assume that CPI inflation – the current relevant index – is 2.5% a year for the next 10 years, Erin's pension at retirement, based on the years she has earned up to 31 March 2016, would be as follows:

Pensionable salary as at day before proposed implementation date x past service	÷	Accrual rate	x	Inflation increases	=	Annual pension
£60,000 x 10	÷	80	x	1.025^{10}	=	£9,600 a year

In both scenarios, Erin would also be entitled to a cash lump sum of three times the amount of the annual pension.

An interactive modeller is available on the employer consultation website to allow affected employees to estimate the impact of the proposed changes on their own future benefit arrangements.

You will also find an explanation of the assumptions underpinning both the examples in this document and the interactive modeller on the employer consultation website.

Please note that for the purposes of this example, future increases to normal pension age in line with increases with the State Pension Age have been ignored. Such increases to normal pension age would apply under the current, and future, scheme rules.

Implications of the proposed changes to the final salary section

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Benefits transferred from another pension scheme into USS (transfers in)

The proposed ending of the final salary link would also apply to transfers in to USS of periods of pensionable service from a previous employment, including those which have been transferred under the terms of the Public Sector Transfer Club. The Public Sector Transfer Club is a special arrangement in which the scheme participates providing reciprocal transfer arrangements for members of other 'club' schemes such as the NHS pension scheme. Under the proposed changes, any transfers in to USS would be based on pensionable salary immediately prior to the implementation date and then increased in line with official pensions thereafter, as described on page 13.

The proposed ending of the final salary link would also mean that the scheme would withdraw from the Public Sector Transfer Club for the future. Under the proposed timetable, it is intended that a transitional period would apply for members who have joined the scheme after 1 April 2014, but before 1 April 2016, which would allow them to transfer in benefits from a scheme which is a member of the Public Sector Transfer Club under the current terms, in order to provide benefits under USS based on pensionable salary immediately prior to the implementation date. Further information on this is contained in the Q&A section of the employer consultation website.

The proposed ending of the final salary link would also apply to transfers from private sector schemes into USS. This means that any transfers in accepted by USS before the implementation date will be based on pensionable salary immediately prior to the implementation date and then increased annually in line with official pensions as described on page 13.

There will be no new transfers in to the final salary section after the implementation date (other than the proposed transitional period for transfers from the Public Sector Transfer Club – as described above.)

Additional Voluntary Contributions (AVCs)

USS currently offers two separate AVC facilities to final salary members; one that allows members to buy extra defined benefits by means of years and days of pensionable service (which are known as Added Years AVCs), and a Money Purchase AVC facility.

Added Years AVCs

The current provision allows final salary members to buy extra years and days of pensionable service in USS. Any Added Years AVCs purchased before the implementation date will be based on pensionable salary immediately prior to the implementation date, and then revalued in line with increases in official pensions (as described in more detail on page 13).

For members who, immediately prior to the implementation date, are paying regular instalment Added Years AVCs, it is intended that a one-off option will be given, which will allow them to continue paying added years AVCs, based on their total salary (ie above and below the salary threshold), to allow them to complete the purchase of additional benefits, with the service accrued from those Added Years AVCs being based on pensionable salary as at 31 March 2016 and then revalued in line with increases in official pensions (as described in more detail on page 13). Further information on this proposal is contained in the Q&A section of the employer consultation website.

Money Purchase AVCs (MPAVCs)

This facility currently allows final salary members to pay additional contributions into a separate fund (known as the MPAVC fund and currently managed by the Prudential), which can be used to purchase additional benefits at retirement. Members can use their individual fund as a tax-free cash lump sum, subject to certain limits, to purchase additional defined benefits within the scheme, or to purchase an extra pension with an insurance company (known as an annuity). From the implementation date, it is intended that there will be a continuing facility for members to pay AVCs on a defined contribution basis (ie a money purchase basis) if they choose to do so. Further information on this is contained in the Q&A section of the consultation website.

If the changes are implemented as described, the option at retirement for members to use their individual MPAVC fund to purchase additional defined benefits in the scheme is proposed to be restricted to the member's MPAVC fund immediately before the implementation date and then adjusted for any investment returns on that fund up to the member's retirement date. It is proposed that any funds derived from contributions paid in to the MPAVC facility from the proposed implementation date may not be used to provide defined benefits. Further information on this is contained in the Q&A section of the employer consultation website.

Implications of the proposed changes to the final salary section (continued)

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Special categories of final salary member

Multiple appointment members

Multiple appointment members are members of the final salary section who hold two or more separate pensionable appointments with the same, or different, employer(s). There are special provisions within the USS rules for multiple appointment members. Under the proposed changes, the final salary benefits of these members will be treated the same as other final salary benefits within the scheme at the implementation date. This means that benefits built up to that date would be linked to pensionable salary immediately prior to the implementation date, aggregated across all appointments and then increased annually as described on page 13.

Members with special status under the scheme – Mental health officers and special class members

If you have mental health officer or special class member status under the scheme (this will have been made clear to you in previous USS correspondence) the special provisions under the scheme rules will continue to apply in relation to your accrued benefits up to the implementation date. However, as with final salary section members, no further final salary benefits – nor a link to pensionable salary at a future date – will apply from the implementation date. In relation to mental health officers, there will be no additional accrual of pensionable service from the implementation date.

Members with mental health officer or special class member status will continue to retain the right to draw benefits without reduction from age 55, in accordance with the terms of the specific transfer agreements made at the time of admission to USS.

Please note that, given these special arrangements, the interactive modeller which has been provided as part of the employer consultation website will not be able to estimate your future benefit entitlement.

Review of members who have exercised 'enhanced opt-out', 'temporary cessation of accrual' and 'defer and restart' options – Final Salary section members only

Final salary section members who have already exercised the above options will be able to continue to benefit from them, subject to a review to ensure consistency with the proposed future benefit structure. Further information on these options is available in the Q&A section of the employer consultation website.

Consultation discussion points

- Do you have any comments on the proposed change to end the link to final salary?
- Do you have any comments in relation to the proposed treatment of transfers in for final salary section members?
- Do you have any comments in relation to the proposed treatment of Money Purchase and/or Added Years Additional Voluntary Contributions (AVCs) for final salary section members?

Changes that would apply to existing career revalued benefits (CRB) section members

CRB

If you are a member of the current CRB section, the benefits you have built up immediately prior to the implementation date will be revalued in line with increases in official pensions (currently CPI) each April (subject to a cap, as described below), up to the point of retirement or leaving the scheme.

The pension benefits which have been built up by existing members of the career revalued benefits (CRB) section (following the introduction of the current CRB section in October 2011) will continue to be revalued in line with official pensions on a capped basis. The rate of increase in official pensions will be applied in full so long as it is up to 5% a year. If such increases in official pensions are more than 5% in a year, the increase would also include one half of that year's increase above 5% up to a maximum of 10%.

The table below sets out how the cap works:

Annual increase in official pensions (which currently use CPI)	Increase payable by USS (CRB section)
5% or less	Increase matched
More than 5% but less than 15%	5% plus one half of the increase above 5%
More than 15%	Increase capped at 10%

If there is deflation and the rate of CPI is less than 0% there will be no increase (or decrease) applied; there can be no decrease to benefits in the event that the CPI index produces a negative value.

Other features of the proposed changes to the CRB section

CRB

Benefits transferred from another pension scheme into USS (transfers in)

Any transfers in to USS from other schemes, which you have elected to make and which have been accepted by the scheme prior to the implementation date, will be completed and would continue to be part of your accrued pension benefits and will therefore be increased in the same way that your USS CRB benefits are increased. There will be no new transfers in to the CRB section after the implementation date.

Additional Voluntary Contributions (AVCs)

USS currently offers two separate AVC facilities for CRB section members, one which allows members to buy additional defined benefits in USS (known as Revalued Benefits AVCs), and a Money Purchase AVC facility.

Revalued Benefits AVCs

This current provision allows CRB members to buy additional pension and a cash lump sum in USS. Any Revalued Benefits AVCs purchased before the date of change will be included in the calculation of the benefits you have built up – the accrued benefits – as at the day prior to the implementation date, and then increased in line with the increases in official pensions, subject to a cap, as described on page 17. For members who, immediately prior to the date of implementation of the changes, are paying regular instalment Revalued Benefits AVCs, it is intended that a one-off option will be given, which will allow them to continue paying Revalued Benefits AVCs in order that a member can complete the purchase of the additional benefits. Further information on this is contained in the Q&A section of the employer consultation website. It is proposed that no new Revalued Benefit AVCs will be available after the implementation date.

Money Purchase AVCs (MPAVCs)

This facility currently allows CRB section members to pay additional contributions into a separate fund (known as the MPAVC fund which is managed by the Prudential), which can be used to purchase additional benefits at retirement. For example, the member's individual fund can be taken as a tax-free cash lump sum, subject to certain limits, and can be used to purchase additional defined benefits within the scheme, or to purchase an extra pension with an insurance company (known as an annuity). From the implementation date, it is intended that there will be a continuing facility for members to pay AVCs on a defined contribution basis (ie a money purchase basis) if they choose to do so. Further information on this is contained in the Q&A section of the employer consultation website.

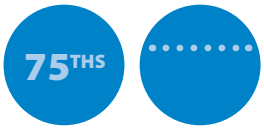
If the changes are implemented as described, the option at retirement for members to use their individual MPAVC fund to purchase additional defined benefits in the scheme is proposed to be restricted to the member's MPAVC fund immediately before the implementation date adjusted for investment returns on that fund up to the member's retirement date. It is proposed that any funds derived from contributions paid into the MPAVC from the implementation date may not be used to provide defined benefits. Further information on this is contained in the Q&A section of the employer consultation website.

Consultation discussion points

? Do you have any comments in relation to the proposed treatment of transfers in for current and prospective CRB section members?

? Do you have any comments in relation to the proposed treatment of Money Purchase and/or Revalued Benefits Additional Voluntary Contributions (AVCs) for current and prospective CRB section members?

Proposed changes to future defined benefits



From the implementation date, it is proposed that defined benefits will be provided on a revised career revalued benefits (CRB) basis up to the salary threshold for all USS members. This includes existing final salary and CRB members and new members joining the scheme after the implementation date.

Key features

Proposed future CRB benefits for all members

All members will accrue a pension of 1/75th and a cash lump sum of 3/75ths of salary for each year of service in respect of salary up to and including a salary threshold of £55,000 a year.

The proposal is that all members – whether currently in the final salary or CRB section – would move to a revised defined benefits section of the scheme. As described above, this would provide an improved accrual rate meaning members would in future earn a pension of 1/75th and a lump sum of 3/75ths each year based on actual salary up to a salary threshold of £55,000 a year.

Each year's pension and cash lump sum would be increased each April, up to retirement or the date of leaving the scheme. The rate of increase would be linked to increases in official pensions subject to a cap. If such increases in official pensions are more than 5% in a year, the increase would also include one half of that year's increase above 5%, up to a maximum of 10%.

The table below sets out how the cap works:

Annual increase in official pensions (which currently use CPI)	Increase payable by USS CRB section
5% or less	Increase matched
More than 5% but less than 15%	5% plus one half of the increase above 5%
More than 15%	Increase capped at 10%

The proposed future CRB section benefits will work in the same way as the current CRB section. The rate of accrual under the revised CRB section will be increased from 1/80th of salary to 1/75th of salary for each year of pensionable service, and three times that amount as a cash lump sum. It should be noted, however, that the proposed revised defined benefits will not be provided on total salary but on actual salary up to a salary threshold of £55,000 a year.

Salary threshold

The salary threshold will be automatically revalued each year in line with increases in official pensions (currently CPI), until the outcome of a review of the salary threshold to be completed by the Joint Negotiating Committee (JNC) by 31 March 2020.

If your actual salary is currently above the salary threshold, or you find yourself above it in the future, you will be entitled to scheme benefits in respect of your salary above the threshold from the proposed defined contribution section – more explanation of this can be found in section nine.

Applying the proposed salary threshold

The salary threshold for the new CRB section will start at £55,000 a year from the implementation date, and this salary threshold will be increased each year in line with increases official pensions (currently linked to CPI) in the manner described earlier on this page. Such increases will be subject to a cap in line with the arrangements for post-October 2011 pensionable service and as currently applied to pension benefits built up in the existing CRB section. This approach to the application of the salary threshold will continue until the outcome of a review to be completed by the JNC by 31 March 2020. Further details on the application of the salary threshold can be found in section ten.

Proposed changes to future defined benefits (continued)

Other features of the future defined benefit CRB section

Transferring pension benefits from other schemes into USS (transfers in)

The trustee may currently accept transfers in for a member from another scheme (ie from any scheme which has been registered as a pension scheme with HM Revenue and Customs, and which can include overseas schemes). It is proposed that any benefits transferred in, following the implementation date, would be transferred into a member's individual account within the proposed defined contribution section. Transfers in would not be used to provide defined benefits in USS and therefore would not provide benefits in the revised CRB section.

Part-time employment

The proposed salary threshold is to be based on actual salary. This means that members in part-time employment will earn pension benefits based on actual salary received up to the salary threshold. In other words, the salary threshold will not be reduced in proportion to working hours. For example, take the case of a member who works part-time and has a part-time service fraction of 50%, with a full-time equivalent salary of £70,000 a year. Provided that the member has no additional salary that is pensionable within the scheme rules, it will be the actual salary of £35,000 which will be used to assess salary against the salary threshold – of £55,000 – and all benefits would therefore be built up in the revised CRB section. There are still some details to be specified for how these arrangements will work in the case where a member has more than one employment, but the general principle is that members should not be able to build up two separate entitlements to benefits under the proposed CRB section which would, in aggregate, exceed the salary threshold. Further details are available in the Q&A section on the consultation website.

Benefits for survivors in the event of a member's death in service

These will operate in the same way as for the current CRB structure of benefits – reflecting the improved 1/75th pension accrual rate where appropriate – and will be based on the member's total salary, regardless of whether it falls under or over the salary threshold. This means the amount of pension your survivor would receive would usually be equivalent to half the pension you would have received had you remained in the scheme until Normal Pension Age (up to a maximum of 40 years) and as if the salary threshold had not been introduced. Any contributions into the defined contribution section, derived from the 'standard' employer and employee contribution, would be used towards the cost of providing these death in service benefits if they become payable – see section nine for more details.

Benefits payable in the event of a member's retirement due to ill-health

Similar to the benefits on death in service, as described immediately above, these will operate in the same way as for the current CRB section – reflecting the improved pension accrual rate of 1/75th where appropriate, and will be based on total salary, regardless of whether a member's salary is under or over the salary threshold. Any contributions into the defined contribution section, derived from the 'standard' employer and employee contributions, would be used towards the cost of providing pension benefits upon early retirement due to ill-health – see section nine for details.

Normal Pension Age

The Normal Pension Age (NPA) would remain as it currently stands, which means for benefits accrued from the implementation date, the NPA will continue to be linked to the State Pension Age, apart from for exempt members; see the Q&A section of the employer consultation website for further details.

Many other aspects of the benefit structure will remain the same as apply under the current CRB structure. A full explanation of these arrangements is available in the Q&A section of the employer consultation website.

75THS

Examples of the build up of defined benefits in the revised career revalued benefits section

Example 1

Erin's annual salary at 1 April 2016 is assumed to be £60,000. She expects her salary to increase each 1 April by 3.5% a year.

It is assumed that future CPI inflation is 2.5% a year (that being the index currently used for increases in official pensions). The following table shows how Erin's CRB pension benefits would build up under the proposed new structure from the implementation date.

Under the proposals, Erin would also build up benefits in the defined contribution section; this is not shown in the table below but is explained in more detail in section nine.

Year	Salary	Salary threshold	CRB pension earned in the year	Previous year's pension inflation increase*	Cumulative total pension payable**
1 (1 April 2016 to 31 March 2017)	**£60,000**	**£55,000**	**£733 a year** (£55,000 / 75)	-	**£733** a year
2	**£62,100**	**£56,375**	**£752 a year** (£56,375 / 75)	**£751 a year** (£733 x 1.025)	**£1,503** a year
3	**£64,274**	**£57,784**	**£770 a year** (£57,784 / 75)	**£1,541 a year** (£1,503 x 1.025)	**£2,311** a year

* We have not included Erin's pension which she has built up from pensionable service completed up to the day prior to the implementation date, which would be payable in addition. A summary of Erin's overall pension entitlement is available in section eleven.

** This excludes any additional benefits arising from the funds Erin is building up in the defined contribution section. These are shown in section nine.

Erin's pension would continue to build up in this way until she retires at age 65 (in ten years' time). At this point, the CRB pension of £2,311 a year shown above after three years would have built up to £9,160 a year after 10 years.

Under the proposals, the new CRB section will also provide a cash lump sum calculated at three times the amount of the annual pension and would permit conversion of that cash lump sum to pension, as is the case under the current rules.

Please note that for the purpose of this example, future increases to normal pension age in line with increases with the State Pension Age have been ignored. Such increases to normal pension age would in fact apply under the current, and future, scheme rules.

75THS

Example 2

Ben is aged 40 and is a new joiner to the scheme on the implementation date. His annual salary from 1 April 2016 is assumed to be £35,000. He expects his salary to increase each April by 4% a year. It is assumed that CPI inflation (the index currently used in determination of increases to official pensions) is 2.5% a year.

The following table shows how Ben's CRB section pension benefits will build up under the new structure from the implementation date.

Year	Salary	Salary threshold	CRB pension earned in the year	Previous year's pension inflation increase*	Cumulative total pension payable
1 (1 April 2016 to 31 March 2017)	**£35,000**	**£55,000**	**£467 a year** (£35,000 / 75)	-	**£467** a year
2	**£36,400**	**£56,375**	**£485 a year** (£36,400 / 75)	**£479 a year** (£467 x 1.025)	**£964** a year
3	**£37,856**	**£57,784**	**£505 a year** (£37,856 / 75)	**£988 a year** (£964 x 1.025)	**£1,493** a year

* If Ben had any pension accrued from past service this would be calculated in addition. A summary of Ben's pension entitlement is available in section eleven.

The way in which Ben earns defined pension benefits is the same as under the current CRB section, except that the accrual rate has increased to 1/75th instead of 1/80th. Under the existing 1/80th pension structure, the equivalent pension accumulated after three years would be £1,400 a year (rather than £1,493 a year under the new structure of 1/75th).

This pattern of build-up would continue until Ben decides to retire. Under these assumptions, at age 65, his CRB pension of £1,493 a year, shown above after three years, would have built up to £25,260 a year (after 25 years).

Under the proposals, the revised CRB section will also provide a cash lump sum calculated at three times the amount of the annual pension and would permit conversion of that cash lump sum to pension, as is the case under the current rules.

Please note that for the purpose of this example, future increases to normal pension age in line with increases with the State Pension Age have been ignored. Such increases to normal pension age would in fact apply under the current, and future, scheme rules.

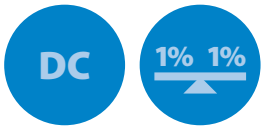
Consultation discussion points

? Do you have any comments on the proposed new career revalued benefits section of the scheme?

? Do you have any comments on the proposed level of the salary threshold or the proposed approach to the revaluation of the salary threshold?

? Do you have any comments on the proposed application of the salary threshold for part-time employees?

Proposed new defined contribution section



From the implementation date, it is proposed that all members will have access to a new defined contribution section, which will be made up of individual defined contribution accounts.

All members will be able to choose to contribute more to build up extra benefits in this section. Any additional contributions will go into the member's defined contribution account. Any additional contributions made will apply to all salary (ie salary above and below the threshold). The first 1% of additional contributions will be matched by the member's employer.

Under the proposals, for members earning above the salary threshold, a new defined contribution section of the scheme would be created, in which members would have their own individual accounts into which employers would pay a compulsory 12% on salary above the salary threshold and members would pay a compulsory 8% on salary above the salary threshold.

In addition to these standard contributions, under the proposed changes all members would have the option to make additional contributions into their defined contribution account. The first 1% of salary paid as an additional contribution would be matched by the member's employer. The value of this employer contribution to the match could be reduced if employer contributions need to change in future if, for example, the scheme's funding position worsened due to economic events; see section five for further details.

Members will have the option to pay additional contributions – beyond those specified above – into their individual defined contribution account. Employers will also be able to pay additional contributions into an individual member's defined contribution account if, in their discretion, they decide to do so.

How would the proposed defined contribution section work?

Defined contribution pension arrangements are different from defined benefit pension arrangements in that the amount of benefits members receive from defined contribution arrangements depends on how much a member – and their employer – pays into the account, and on the investment returns gained on those contributions. The defined contribution section of USS will contain the individual accounts of scheme members, and the money paid in – and the returns on those invested contributions – will build up in a member's individual defined contribution account.

Funds paid into the proposed defined contribution section cannot be used towards the provision of the defined benefits elements of the scheme, nor be used to fund the scheme deficit. Your defined contribution account will be completely separate from the fund for defined benefits, as is required by law, and as to be prescribed in the scheme rules.

Additional payments into the defined contribution section

Additional contributions can be made into the defined contribution account. Members can choose to contribute an additional amount based on their total salary above and below the salary threshold and employers would match the first 1% of salary paid as an additional contribution by members. However, the employers' matching contribution could, following consideration by the JNC, be reduced or cease if the scheme funding position changed – see section twelve.

All members can choose to pay more than the additional 1% contribution into their defined contribution account. Any employee contribution in excess of 1% of total salary would not be matched by their employer.

The 1% matching employer contributions would be in addition to the standard contributions your employer would make if you earn more than the salary threshold (when the employer will pay 12% of the part of your salary which is above that threshold into the defined contribution account). The 8% member contribution on your salary above the salary threshold would also go into your individual defined contribution account. Employers may also choose to pay more into a member's defined contribution account (at their discretion).

Tax relief is currently available on pension contributions, although there are annual and lifetime allowances – set by Her Majesty's Revenue and Customs – beyond which tax charges can apply. More information can be found on these limits in the Q&A section of the consultation website.

How will the defined contribution section be governed and managed?

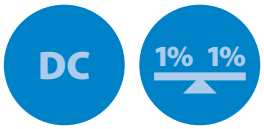
The defined contribution section will be governed by the trustee board, which will have responsibilities under trust law (and indeed under other regulatory requirements) to make sure that the arrangements are of suitable quality, covering areas such as section administration, effective governance, member communications, and investment options for members. The depth of expertise available to the trustee and the significant scale of the potential defined contribution section which is proposed to be created will enable arrangements to be delivered which will offer value for money, and which will include a range of investment options to meet the risk and return requirements of members (the latter including a default fund and other fund options).

The trustee intends to provide further information about these arrangements in due course, but it should be noted that issues of governance and management of the defined contribution section are not strictly a requirement for this consultation, although they are clearly of significance should the proposal be decided on following this consultation. The trustee plans to engage extensively on these issues and further information will be communicated to members over the coming months.

With regard to the proposed charges for the defined contribution section, firstly it is proposed that the administration and running costs will be payable by the employer, as is the case in the provision of current USS benefits. With regard to investment costs, members will be able to choose from a range of investment options. If members are invested in a default option it is proposed that the employers will meet the investment management charges associated with those investments, subject to an overall review if the cost exceeds 0.1% of the pensionable payroll of all employers that participate in USS. The investment management charges in respect of any other self-select funds which may be available will be met from a member's own defined contribution account.

You will be able to choose how to use the funds accumulated within your defined contribution account. The exact detail of these options is currently being considered by the trustee and by the scheme's stakeholders. However, the main objective will be to offer members broad flexibility over how they can use the funds within their individual accounts (but within any financial and/or practical constraints). Specific questions on these arrangements have been addressed in the Q&A section of the consultation website, as far as can be provided at this stage.

Benefits for survivors in the event of the death of a member in service



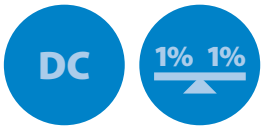
These would operate in the same way as the current CRB structure and will be based on all of a member's salary, regardless of whether it falls under or over the salary threshold. This means the amount of pension a survivor(s) would receive would usually be equivalent to half the pension he/she would have received had he/she remained in the scheme until normal pension age (up to a maximum of 40 years) and as if the salary threshold had not been introduced.

In such cases, any defined contribution funds derived from the 'standard' employer and employee contributions – of 12% and 8% of salary above the threshold respectively – or from employer contributions matching the 1% of salary as described above, will be absorbed back into the scheme and used towards the cost of paying for these CRB death in service benefits, should they arise. This will be prescribed in the scheme rules. This is to make clear that the survivors of members who earn above the salary threshold should not receive death in service benefits from both the defined contribution section and defined benefits section on salaries above the threshold level in these specific, defined circumstances. However, defined contribution funds which come from additional contributions above the 'standard' employer and employee contributions (including additional member contributions, Money Purchase AVCs and transfers in), will be payable as additional benefits to your survivor(s).

Benefits payable in the event of retirement due to ill-health

These will be similar to the death in service benefits described above, operating in the same way as for the current CRB section being based on the whole of a member's salary, regardless of whether that salary is under or over the salary threshold as described above. Similarly, any defined contribution funds which are from the 'standard' employer and employee contributions – of 12% and 8% of salary above the threshold respectively – or from employer contributions matching the 1% of salary as described above, will be absorbed back into the scheme and used towards the cost of paying the early retirement due to ill-health benefits. This will be prescribed in the scheme rules. This is to ensure that members who earn above the salary threshold should not receive benefits from both the defined contribution section and defined benefits section on salaries above the threshold level in these specific, defined circumstances. However, defined contribution funds which come from additional contributions above the 'standard' employer and employee contributions (including additional member contributions, Money Purchase AVCs and transfers in), will be payable as additional benefits.

Here are some examples to show how the proposed defined contribution section would work:



Example 1

Erin has an annual salary of £60,000 from 1 April 2016, which is greater than the salary threshold for the CRB section (£55,000 at the implementation date).

She does not want to make any additional matched contributions. The example in section eight shows how her CRB pension benefits build up to the salary threshold and the table below shows how her defined contribution account would build up. As well as the assumptions detailed earlier, we have assumed Erin earns 5% a year investment returns on her defined contribution account (ie 2.5% above the assumed inflation increases). However, employees should be aware that amounts earned from investments will fluctuate and could in reality be very different.

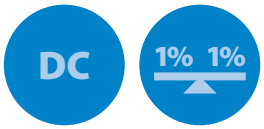
Year	Salary	Salary threshold	Employer contribution	Erin's contribution (before any tax relief – see section ten)	Previous year's DC fund accumulated with interest	Cumulative total DC account*
1 (1 April 2016 to 31 March 2017)	**£60,000**	**£55,000**	**£600** (12% of (£60,000 – £55,000))	**£400** (8% of (£60,000 – £55,000))	-	**£1,000**
2	**£62,100**	**£56,375**	**£687** (12% of (£62,100 – £56,375))	**£458** (8% of (£62,100 – £56,375))	**£1,050** (£1,000 x 1.05)	**£2,195**
3	**£64,274**	**£57,784**	**£779** (12% of (£64,274 – £57,784))	**£519** (8% of (£64,274 – £57,784))	**£2,305** (£2,195 x 1.05)	**£3,603**

* For simplicity, this example assumes a nil return is accrued on contributions paid in during the course of the year (ie the investment return for the purposes of this example only is added at the end of the year).

Assuming no changes, this pattern of build-up would continue until Erin decides to retire. Under these assumptions, at age 65 her defined contribution account would be worth approximately £22,000.

Erin can then decide whether she wants to draw her fund in the form of a cash lump sum to the maximum extent permissible under the scheme rules and within broader pensions tax rules (this is still to be defined). In addition, Erin has the option to use her fund (or the remaining part of her fund other than the part taken as a cash lump sum) to buy an additional pension. There are several different types of pension she could buy. The amount that she has to pay to buy £1 a year of pension is often referred to as an 'annuity' cost and the cost depends on many factors. For example, at age 65 it might cost £30 to buy a pension of £1 a year. In that case, the annual pension Erin could buy would be equal to her defined contribution account divided by 30. That would be £22,000 / 30 = £733 a year. The precise cost of an annuity depends upon individual circumstances and fluctuates with market conditions.

The benefits Erin takes from this section of the scheme would be in addition to both the CRB pension benefits she would build up from the implementation date and the pension benefits accrued from her pensionable service before the implementation date.



Example 2

Ben has an annual salary of £35,000 from 1 April 2016, which means he does not have any salary above the salary threshold (£55,000 at the implementation date).

He decides to make additional contributions of 2% of salary into his individual defined contribution account. Ben's employer then pays a matching contribution on the first 1% (of salary) of the additional contribution Ben makes. The example in section eight shows how Ben's CRB section pension benefits build, and the table below shows how Ben's individual defined contribution account would build up over time. As well as the assumptions detailed earlier, we have assumed Ben earns 5.5% a year investment returns on his defined contribution account (ie 3% above the assumed inflation increases), however, employees should be aware that amounts earned from investments will fluctuate and could in reality be very different.

Year	Salary	Salary threshold	Employer contribution	Ben's contribution (before any tax relief – see section ten)	Previous year's DC fund accumulated with interest	Cumulative total DC account*
1 (1 April 2016 to 31 March 2017)	**£35,000**	**£55,000**	**£350** (1% of £35,000)	**£700** (2% of £35,000)	-	**£1,050**
2	**£36,400**	**£56,375**	**£364** (1% of £36,400)	**£728** (2% of £36,400)	**£1,108** (£1,050 x 1.055)	**£2,200**
3	**£37,856**	**£57,784**	**£379** (1% of £37,856)	**£757** (2% of £37,856)	**£2,321** (£2,200 x 1.055)	**£3,457**

* For simplicity, this example assumes a nil return is accrued on contributions paid in during the course of the year (ie the investment return for the purposes of this example only is added at the end of the year).

This pattern of build-up would continue until Ben decides to retire. Under these assumptions, at age 65, his individual defined contribution account would be worth approximately £82,000.

Ben can then decide whether he wants to draw his fund in the form of a cash lump sum to the maximum extent permissible under the scheme rules and within broader pensions tax rules (this is still to be defined). In addition, Ben has the option to use his fund (or the remaining part of his fund other than the part taken as a cash lump sum) to buy an additional pension. There are several different types of pension he could buy, and he would need to investigate the costs of these. The amount that he has to pay to buy £1 a year of pension is often referred to as an annuity cost and the precise cost depends on many factors. For example, at age 65 it might cost £30 to buy a pension of £1 a year. In that case, the pension he could buy would be equal to his defined contribution account divided by 30. In this case that would be £82,000 / 30 = £2,733 a year of pension.

The benefits Ben takes from this section of the scheme would be in addition to the CRB section pension benefits he would build up from the implementation date and the benefits from his pensionable service before the implementation date.

DC 1% 1%

Consultation discussion points

- Do you have any comments about the proposed creation of a defined contribution section for employer and member contributions on salary above the salary threshold (£55,000 as at the implementation date)?
- Ahead of any further engagement by the trustee about the defined contribution section, do you have any comments on the range of funds to be provided (including the default fund), the charges payable by members, or any other aspects of the defined contribution proposition?
- Do you have any comments on the options the trustee should make available for members as to how they might use their defined contribution account at retirement or upon leaving the scheme?

Member contributions in detail

8%

The rate of member contributions for all existing members is to increase to 8% of salary with effect from the implementation date.

For current final salary section members this means an increase of 0.5% (from 7.5% of salary), and for CRB section members it is an increase of 1.5% (from 6.5% of salary). If a member's rate of salary is below the salary threshold of £55,000 then all of their 8% contribution goes towards paying for benefits in the new CRB section. If a member earns above the salary threshold, then 8% of their salary above the threshold goes into their individual defined contribution account.

In general, this salary threshold would be applied on a monthly basis and a member's rate of salary for that month will be assessed against a monthly equivalent of the salary threshold (that is a level of £4,583 a month, from the date of implementation based on a salary threshold of £55,000).

In cases where, due to the nature of the employment, it is not possible to determine a monthly rate of salary – which will be in the minority, and generally speaking can exist for members in variable time employment – a check will be made at the end of a scheme year against a member's actual salary before deciding whether there should be an allocation to the defined contribution section.

Members would also have the choice to make additional contributions into their individual defined contribution account. For members above the salary threshold this will be an additional contribution to the standard 8% of salary above the threshold which they would automatically pay into their individual defined contribution account. The first 1% of salary of that additional contribution would be matched by the employer. A member would be able to pay further contributions (above the 1%) into their defined contribution account, but these would not be matched by the employer. A member would not be able to use the funds from this account to purchase any additional benefits from the defined benefits section.

8%

The following examples give you an idea of the proposed changes to employee contributions:

Example 1

Erin has an annual salary of £60,000. As a member of the final salary section she makes pension contributions of 7.5% of salary.

Under the proposals she will pay pension contributions of 8% of salary (assuming she chooses not to make any additional contribution to the defined contribution section). The impact on Erin's take-home pay, allowing for income tax relief (assuming she pays 40% marginal rate of income tax) is shown below. We have excluded the impact of National Insurance (NI) contributions as these will be changing from April 2016. Further information about these statutory changes is available in the Q&A section of the employer consultation website.

Member contributions for the current final salary section of the scheme:

Monthly pension contribution

£60,000 actual salary ÷ **12** months x **7.5%** contribution rate = **£375** pension contribution

Tax relief from not paying income tax on pension contribution

£375 pension contribution x **40%** income tax = **£150** tax relief

Impact on take-home pay each month

£375 pension contribution – **£150** tax relief = **£225** from Erin's take-home pay

Proposed member contributions for the new section of the scheme:

Monthly pension contribution

£60,000 actual salary ÷ **12** months x **8%** contribution rate = **£400** (£33 of this goes into Erin's defined contribution account)

Tax relief from not paying income tax on pension contribution

£400 pension contribution x **40%** income tax = **£160** tax relief

Impact on take-home pay each month

£400 pension contribution – **£160** tax relief = **£240** from Erin's take-home pay

This shows that the changes in required pension contributions will mean **Erin receives £15 a month less** take-home pay (or £180 a year).

8%

Example 2

Ben has an annual salary of £35,000. As a member of the current CRB section he pays pension contributions of 6.5% of salary.

Under the new proposals he will pay pension contributions of 8% of salary. The impact on Ben's take-home pay, allowing for income tax relief (assuming he pays 20% marginal rate of income tax) is shown below. We have excluded the impact of National Insurance (NI) contributions as these will be changing from April 2016. Further information about these statutory changes is available in the Q&A section of the employer consultation website.

Member contributions for the current CRB section of the scheme:

Monthly pension contribution

£35,000 actual salary ÷ **12** months x **6.5%** contribution rate = **£190** pension contribution

Tax relief from not paying income tax on pension contribution

£190 pension contribution x **20%** marginal income tax rate = **£38** tax relief

Impact on take-home pay each month

£190 pension contribution – **£38** tax relief = **£152** from Ben's take-home pay

Proposed member contributions for the new section of the scheme:

Monthly pension contribution

£35,000 actual salary ÷ **12** months x **8%** contribution rate = **£233** pension contribution

Tax relief from not paying income tax on pension contribution

£233 pension contribution x **20%** marginal income tax rate = **£47** tax relief

Impact on take-home pay each month

£233 pension contribution – **£47** tax relief = **£186** from Ben's take-home pay

This shows that the changes in required pension contributions will mean **Ben receives £34 a month less** take-home pay (or £408 a year).

8%

Example 2 (continued)

Optional additional member contributions to the proposed defined contribution section of the scheme.

If Ben chooses to pay an additional 2% of salary into his defined contribution account, this would cost the following:

Monthly pension contribution

£35,000 actual salary ÷ **12** months x **2%** additional contribution = **£58** additional pension contribution

Tax relief from not paying income tax on pension contribution

£58 additional pension contribution x **20%** marginal income tax rate = **£12** tax relief

Impact on take-home pay each month

£58 additional pension contribution – **£12** tax relief = **£46** from Ben's take-home pay

Total contribution into his defined contribution account, including employer matching contribution of 1% of salary = £87.50 a month.

In other words, for paying £46 a month extra out of his take-home pay (£552 a year), Ben would receive £87.50 a month into his defined contribution account (£1,050 a year).

Erin and Ben – A summary of their benefits under proposed changes:

Example 1

A recap of Erin's position:

Erin will be age 55 on 1 April 2016 when she will have 10 years of past service in the final salary section of the scheme. Her pensionable salary at 31 March 2016 is assumed to be £60,000 a year and she plans to stay in the scheme until retirement at age 65, so has 10 years of potential future service in the proposed new benefit structure. It is assumed that her salary increases at 3.5% a year, and official pension increases (linked to CPI subject to a cap as described earlier in this document and in the Q&A) are assumed to be 2.5% a year. Erin achieves investment returns on her defined contribution account of 5% a year.

Approximate example benefits at NPA (age 65)	Annual pension	Cash
Benefits built up to 31 March 2016 (section six)	£9,600	£28,800
CRB pension benefits from 1 April 2016 (section eight)	£9,160	£27,480
Benefits from defined contribution section if Erin chooses to take 25% of her £22,000 DC account as a cash lump sum and converts the rest into a non-USS pension* (section nine)	£550	£5,500
TOTAL	£19,310	£61,780

* These amounts are based on an annuity of 30 (ie £30 to buy £1 of pension a year at retirement). In reality the annuity conversion terms will depend on a number of factors and could vary materially from this.

Additional cost to Erin (due to increase in member contribution from 7.5% to 8%)	£15 a month

An interactive modeller is available on the employer consultation website to allow affected employees to estimate the impact of the proposed changes on their own future benefit arrangements.

Example 2

A recap of Ben's position:

Ben is aged 40 and is a new joiner to the scheme on the implementation date. He plans to remain in the scheme until he is 65, which means he has 25 years of potential future service in the proposed new benefit structure. Ben's salary at the implementation date is assumed to be £35,000 a year. We assume his salary increases at 4% a year, and official pension increases (linked to CPI subject to a cap as described earlier in this document and in the Q&A) are assumed to be 2.5% a year. Ben chooses to contribute an additional 2% of salary into his defined contribution account. Ben achieves investment returns of 5.5% a year on his defined contribution account.

Approximate example benefits at NPA (age 65)	Annual pension	Cash
CRB pension benefits from 1 April 2016 (section eight)	£25,260	£75,780
Benefits from defined contribution section if Ben chooses to take 25% of his £70,000 DC account as a cash lump sum and converts the rest into a non-USS pension* (section nine)	£2,050	£20,500
TOTAL	£27,310	£96,280

* These amounts are based on an annuity of 30 (ie £30 to buy £1 of pension a year at retirement). In reality the annuity conversion terms will depend on a number of factors and could vary materially from this.

Note that as Ben is a new joiner so he has no pension built up before 1 April 2016. For existing CRB members there is no change in the way that any pension built up before 1 April 2016 is increased to retirement.

Additional cost to Ben (due to increase in member contribution from 6.5% to 8% and the additional 2% additional contributions Ben makes to the defined contribution section)	£80 a month

An interactive modeller is available on the employer consultation website to allow affected employees to estimate the impact of the proposed changes on their own future benefit arrangements.

Cost sharing

The cost sharing mechanism in the USS rules would be changed under these proposals.

Under the current rules, if the total cost of the scheme increases above 23.5% of salaries and the Joint Negotiating Committee (JNC), as the appropriate forum for such matters, does not reach a decision on an alternative response, the cost-sharing arrangements will be triggered. The cost-sharing arrangements, as currently specified in the scheme rules, require any increase in the required contributions to the scheme to be shared between employers and members in a 65:35 ratio (respectively).

Under the proposal, these arrangements will be revised as follows:

- If, following the trustee's formal assessment of the scheme's funding position (known as an 'actuarial valuation', which must take place at least every three years), there was a need to make a change to the employer contribution rate, then the JNC would decide upon the appropriate response (potentially including changes to contributions and/or benefits);
- If the JNC could not reach a decision within an agreed time limit, then the additional 1% (of salary) employer contribution to the defined contribution section (which under the proposal would be provided as a matched contribution if members choose to pay the optional 1% (of salary) contribution into the defined contribution account) would be reduced so far as necessary to meet any increase in the employer contribution requirement to the defined benefits section of the scheme. This change would not require formal consultation;
- In such cases, members would still be able to pay additional contributions into their own defined contribution account, but there would be no requirement for employers to match that contribution. It is important to note that any contributions paid in to an individual's defined contribution account prior to the date of any such change would remain invested on the member's behalf – this change could not be applied retrospectively and could not result in employer contributions being 'clawed back' once paid;
- If this were not sufficient to meet the extra costs of the scheme, then the JNC would consider further actions including potentially reducing the employer contribution to the defined contribution section on salaries above the salary threshold, with the difference between 12% and the revised contributions being paid into the defined benefit section instead. Any change to this defined contribution rate (or any further changes the JNC may propose) would be subject to consultation by Universities UK with all the participating scheme employers, as well as with affected employees and their representatives at the time;
- If no decision was reached by the JNC and there were still a requirement to increase employer contributions, then the increased costs would be shared by increases in the contributions in the ratio 65:35 between employers and members.

Under the proposed changes, the overall employer contribution rate to the scheme would increase from 16% to 18% of total salary. Up to 31 March 2020 the normal contribution rate of employers – of 18% – is to be a uniform minimum contribution rate and would continue to apply even if the future cost of the scheme decreased in the intervening period.

Next steps

Providing your response

If you would like to give a response on the proposed changes:

Visit **www.ussconsultation.co.uk**

You 'respond' to leave your response. You will need to log in to a secure area of the website in order to access the response form; this is so it can be confirmed that you are an affected employee and eligible to respond to the consultation.

Active members will be able to log in using their USS member number, three digits of their National Insurance number and the first three characters of their surname.

Prospective members will need to provide their full name, three digits of their National Insurance number, their institution(s) and their email address so that their eligibility to become a USS member can be verified by their employer.

Table of comparison between current provisions for final salary section members and the proposed new benefit structure

FS

FINAL SALARY SECTION MEMBERS		
SCHEME PROVISION	**CURRENT ARRANGEMENTS**	**PROPOSED FUTURE ARRANGEMENTS**
FORM OF DEFINED BENEFIT SCHEME DESIGN	Final salary	Career revalued benefits
PENSION ACCRUAL RATE	1/80th of salary for each year	1/75th of salary for each year
LUMP SUM ACCRUAL RATE	3 x pension	3 x pension
REVALUATION OF BENEFITS DURING ACTIVE MEMBERSHIP	Linked to final salary	In line with increases in official pensions (currently CPI with a cap) (see sections six and eight)
MEMBER CONTRIBUTIONS	7.5%	8%
THRESHOLD FOR DEFINED BENEFIT ACCRUAL	None	Salary of £55,000, revalued in line with increases in official pensions (currently CPI with a cap), with review by March 2020
FACILITY TO PAY ADDITIONAL CONTRIBUTIONS TO PURCHASE ADDITIONAL DEFINED BENEFITS	Option to purchase added years of pensionable service*	None*
FACILITY TO PAY ADDITIONAL CONTRIBUTIONS ON A DEFINED CONTRIBUTION BASIS	Defined contribution AVC facility (currently provided by Prudential)	Detail to be decided, but a defined contribution AVC facility will be available in appropriate form
PENSION PROVISION IN RESPECT OF SALARY ABOVE THE SALARY THRESHOLD	N/A	Defined contribution provision as explained in section nine

* Members will be given an opportunity to continue existing regular instalments to complete the purchase of the period of additional years and days of pensionable service.

Table of comparison between current provisions for CRB section members and the proposed new benefit structure

CRB

CAREER REVALUED BENEFITS (CRB) SECTION MEMBERS		
SCHEME PROVISION	**CURRENT ARRANGEMENTS**	**PROPOSED FUTURE ARRANGEMENTS**
FORM OF DEFINED BENEFIT SCHEME DESIGN	Career revalued benefits	Career revalued benefits
PENSION ACCRUAL RATE	1/80th of salary for each year	1/75th of salary for each year
LUMP SUM ACCRUAL RATE	3 x pension	3 x pension
REVALUATION OF BENEFITS DURING ACTIVE MEMBERSHIP	In line with increases in official pensions (currently CPI), subject to a cap (see section seven)	In line with increases in official pensions (currently CPI), subject to a cap (see sections seven and eight)
MEMBER CONTRIBUTIONS	6.5%	8%
THRESHOLD FOR DEFINED BENEFIT ACCRUAL	None	Salary of £55,000, revalued in line with increases in official pensions (currently CPI with a cap), with review by March 2020
FACILITY TO PAY ADDITIONAL CONTRIBUTIONS TO PURCHASE ADDITIONAL DEFINED BENEFITS	Option to purchase additional defined benefits under revalued benefits AVC provision*	None*
FACILITY TO PAY ADDITIONAL CONTRIBUTIONS ON A DEFINED CONTRIBUTION BASIS	Defined contribution AVC facility (currently provided by Prudential)	Detail to be decided, a defined contribution AVC facility will be available in appropriate form
PENSION PROVISION IN RESPECT OF SALARY ABOVE THE SALARY THRESHOLD	N/A	Defined contribution provision as explained in section nine

* Members will be given an opportunity to continue existing regular instalments to complete the purchase of additional defined benefits in the CRB section.

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