Answers to USS Consultation Questions

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1. Normal Pension Age of 65

What is needed is a long-term strategy to account for increasing longevity. What has been proposed is a somewhat unfair short-term fix (i.e. immediately raising the NPA to 65), followed by a sensible medium-term tactic (i.e. increasing the NPA in line with the state pension age). It would have been better to propose a long-term strategy, plus a fairer transition period.

I agree that in order to keep the pension scheme sustainable, the NPA will need to continue to increase as long as longevity does so. *This is the key reform that is clearly needed and is the only way to make the pension fund sustainable.* However, I suggest that the USS should take a long-term bottom-up approach. First decide on how large a pension is required in retirement, then calculate how many years you will need to work to provide for that pension. The article that seems to have taken the most sensible approach to this problem is that by Susan Cooper on "*Sustainability and the USS Pension"* (see http://www.physics.ox.ac.uk/users/scooper/USS/USS-Sustainability.pdf).

For instance, in order to obtain a sustainable and attractive scheme one might decide (a) that the ratio between working life and retired life needs to be kept constant (e.g. one year of retirement for every two years of working life), and (b) that a pension of *approximately* half final-salary should be provided at retirement. What USS needs to do is to design a scheme to achieve these aims; this would potentially be a more sensible way forward than fixing the NPA to the state pension age (and leaving important decisions concerning the viability of the scheme to the whim of government). While it would probably mean that a variable accrual rate depending on age would have to be introduced (and I accept that this would be harder to explain, especially to members), it would be more logical, increase sustainability (good for USS) and maintain a guaranteed pension at retirement (good for members). A properly designed scheme would also increase the confidence of members, whereas the current proposed mish-mash of ideas gives the impression of re-arranging the deck-chairs on the Titanic (even when there is probably no ice-berg).

As an applied mathematician I was keen to investigate such a scheme. However, the consultation document provides us with insufficient quantitative information both on the savings to the pension fund from increasing the NPA, and on the magnitude of the longevity increase. Moreover, USS refused to provide extra information when asked by the University of Cambridge and, as Susan Cooper has noted, what information has occasionally been provided seems to be faulty. Such an innovative scheme, which would provide long term sustainability, should be investigated by the Trustees before endorsing radical measures such as capping inflation increases and splitting the scheme into two sections (including an uncompetitive CARE scheme).

In the interim, and as a medium-term tactic, I agree with the NPA tracking the state pension age. However, the introduction of this change needs to be done in a stepped way (as the government does with the statutory pension age) to avoid undue hardship on people close to the current NPA. The proposal of a single step is too abrupt.

2. Actuarially reduced early retirement benefits

The current policy of allowing people to retire early without actuarial reduction and having *other members* subsidise the cost, is neither logical nor fair. This needs to be eliminated. However, as I have argued in question one, this should be done in a stepped manner.

Ending full retirement at the request of employer

I note that the proposal to end full retirement at the request of employer from 1 April 2011 (with no exemptions) is not explained in the consultation document. It should have been.

I see no reason to end this provision because it is sensible to allow early retirement with full benefits if the employer both agrees and *makes an extra payment to cover the cost*. This would allow employers to have programmes to encourage people to leave early at times when the employer feels a need to reduce staff numbers and wants to avoid compulsory redundancies. I suggest that the USS should think again.

Ending the option to retire on full benefits on redundancy

Unlike the above change, the proposal to end (again without exemption) from 1 April 2013 the option for a member, who is age 55 and who is made redundant, to retire on full benefits is in the consultation document. Such a member would already be in an unfortunate position given that, irrespective of equality legislation, it is far from easy to obtain another job at such an age. If such a member did opt to retire, their pension would already be a reduced because they would have been unable to continue contributing through to the NPA. The proposal is that this pension will be reduced by 4% per year of age before 60 (and soon before 65). Moreover, unlike the other proposals, this change applies to pension rights accrued before the date of change.

As I understand it this change does not affect the finances of the USS scheme because under the rules the employer pays the difference between the actuarial-reduced benefits and the full benefits. The change is to transfer these costs from the employer to the employee. Since the claimed purpose of the package of reforms is to reduce the deficit in USS and put the scheme on a sustainable basis, not to aid the employers by endorsing a proposal to offload employer costs, I urge the Trustees to reject this proposal. Should this be implemented at all, I suggest a change to a tapered (rather than sharp) threshold starting at 55. In addition the Trustees should refuse to condone the change being backdated to apply to pension contributions prior to the date of change.

3. Flexible retirement arrangements

This is welcomed, but it must be recognised that granting it may be impossible or may incur significant extra costs, e.g. in providing working space for part-time employees.

4. Contributions and cost sharing arrangements

Cost Sharing

In principle cost sharing is good because it aligns the incentives of employer and employee. I agree that cost-sharing should be the basis for paying for any increased costs incurred *after* the date on which changes are implemented. However, cost sharing should not be applied in order to make up *past* deficits that arose from unwise investment decisions, or the use of the fund by the employers to support early retirements (prior to the December 2006 change). Unfortunately the USS has not made available information indicating what increases are need to make up for any deficit in the fund (if indeed there is one), and little information is available as to what increases are needed for the scheme to be sustainable for future benefits. The proposed employee contribution rate of 6.5% for a far inferior CARE scheme, when compared with a 7.5% contribution rate for the final-salary scheme, suggests that the proposed 1.15% increase is, in reality, driven by a perceived deficit (rather than being needed to fund future benefits). In support of this view I note that in Annex F of the employers' "*A specification of proposals to change USS June 2010*" it is estimated that the long-term effect of the complete CARE package is a "7.3% saving compared to current final salary scheme". If there is a deficit, then this increase should be borne by employers, particularly given that they sustained an 18.55% contribution rate for nearly 14 years in the 1980s and 1990s, and given that they are already benefiting from many members voluntarily signing up to the salary sacrifice scheme.

Next, if increases are to be shared in the ratio 35:65, the same ratio should also apply to *all* decreases. The USS pamphlet says "future cost increases and decreases (from above the base level) would be shared … in the ratio 35:65", with the base level defined as 16% employer plus 7.5% employee. The meaning of the phrase in parenthesis is expanded in the answer to one of the questions on the USS Q&A page (section "Increased employee contributions and new cost-sharing arrangements", Q. 6) , which states "employee contributions cannot reduce below 7.5% (for the final salary section)". This is unfair, and such a proposal is likely to anger members who notice it. If in future it turns out that there are cost savings, these should either be shared with members or, better, any such surpluses should be "banked" (especially if any inflation caps are implemented, in which case the banked funds should be used to ameliorate the effect on members of future periods of high inflation).

Further, I do not understand why such a one-way filter has been proposed unless the employers really expect – contrary to their claims – that the proposed cuts will allow then to make sufficient savings to significantly reduce contributions. I am forced to conclude that the employers really are aiming at getting their contribution rates down to 10%.

Increase to 7.5%

It is in the nature of a final salary scheme that high-earners benefit more from such a scheme since their final wage is effectively "backdated" across those years earlier in their careers when they earned less. Longevity, which is emphasised is a major driver of reform, also correlates with salary. The consequence, as Lord Hutton has observed for final-salary schemes, is that promotion effects, particularly those late in a career, can "mean that high flyers can receive almost twice as much in pension payments per pound of employee contributions than do low flyers".

I believe that at some point USS should address this issue of fairness; those on higher earnings benefit both from an implicit subsidy in pension from those who have less well-remunerated careers and from the increased years which retirement will bring them at the expense of the USS fund. One of the ways this issue could be tackled would be to ask those who are better remunerated to pay a little more into the fund during a period of reform.

Hence, if an increase is deemed necessary, rather than an across the board 1.15% increase I would prefer the alternative UCU proposals of: up to 25K: no rise, 25K - 75K: 1% rise, 75K - 125K: 2% rise and 125K+ : 3% rise.

Future increases

It is unclear what is to happen for new members in CARE who will initially contribute 6.5% – will any future increase first fall only on them until they reach the 7.5% base level? Further, as indicated above, it is hard to understand the relatively small difference in employer plus employee contributions for final-salary and CARE, given the large difference in benefits. How were these values arrived at? I am tempted to conclude that at some point the employers may suggest that their contributions to the final-salary scheme and CARE scheme differ (as a cost-saving device). This would not be acceptable.

5. Caps on pensions increases and on revaluation of deferred benefits

The USS has justified the change from RPI to CPI on the basis that it has historically increased pensions benefits "as if those benefits were official pensions" (rule 15.1). However, now USS proposes to go beyond the government's change to CPI, with proposals to break the link to "official pensions", and change the USS rules to specify CPI (so that further government refinements would no longer be followed), and to cap increases.

Lord Hutton has recognised that the Government, as a large employer, can manage certain types of risk far better that individual employees. Since USS is a very large pension scheme, the same argument applies. Despite Hutton's wise observation it is proposed to transfer inflation risk from employers to members.

While I accept that, in any year when the 5% inflation cap is invoked, it is true that the Trustees will have discretion to go beyond this, the intention is clearly that members will bear substantial risks. In the past 20 years or so inflation has tended to be low or moderate, however I can remember the high inflation of the 1970s and 1980s. Indeed there was one year when annual inflation reached 23%, and in that one year alone, a pension cap of 5% would lead to an 15% drop in the value of a pension. Worse, any single year of high inflation tends to be part of a trend, and capping would be very damaging to pensions in a period of high inflation. In their article "*What do the USS pension changes mean?*" (see http://www.physics.ox.ac.uk/users/scooper/USS/USS-OM5MT10.pdf, and I ask that this article be treated as part of my return), Cooper & Cowley estimate that if the cap were applied to a 21-year period starting in 1969, then at the end of the period a pension would have reduced by three-quarters. This suggests that such a cap would eat away at pensions more strongly than if members had been able to invest the funds individually! Surely USS realises that members in their mid-80s with a pension reduced to a quarter by inflation will be unable to ameliorate the effect of the caps; are the Trustees really suggesting that they should return to work?

Further, the Trustees should not dismiss the threat of a period of high-inflation. Governments which are in debt have rarely resisted the siren call of higher inflation to erode that debt, even at the expense of the most vulnerable, and governments worldwide are currently drowning in debt.

The proposed tighter cap of 2.5% per annum on the revaluation of deferred benefits is little short of scandalous and immoral. If applied over the past four decades it would have been invoked repeatedly, so decimating the prospective pension of deferred members. What is the justification for using increasingly harsh caps within CARE, for pensions in payment, and for deferred pensions? It would seem that USS has decided to give the worst treatment to those least able to defend themselves.

The major advantage of a defined-benefit scheme is that the benefits are known. Should inflation risk be transferred to members, then that advantage would be lost. Indeed, the risk is undoubtedly better borne by the pension fund which is able to pool this risk and to mitigate against it with its professional managers who should be able to beat inflation in the long term through investment choices such as inflation-protected instruments provided by financial markets for precisely this purpose. It would be madness to move to a more conservative investment strategy, one perhaps so conservative that it cannot keep up with inflation.

It is imperative that USS adopt an investment strategy such that investment returns keep up with inflation, even in high periods of inflation. Even then there is a potential problem, for suppose that this were the case, and that the Trustees were in a position to lift the cap (when inflation was over the cap). Given the lack of trust that USS has created in this consultation, I have little faith that the cap would be lifted. In short the change to introduce capping is unacceptable, and inflation caps should be rejected. If push comes to shove then it would be preferable that members (and employers) pay more into the fund now than face hardship in retirement.

Finally, for this point, the USS should also stop playing with words. A 'defined benefit' that is not protected from inflation is not a defined benefit. If caps are implemented then USS should come clean and stop saying its proposals retain a defined benefit scheme.

6. New CARE-like benefits section for new entrants

As Lord Hutton has observed, promotion effects within a final-salary scheme can "mean that high flyers can receive almost twice as much in pension payments per pound of employee contributions than do low flyers". A good CARE scheme might therefore be more attractive, and fairer, to the majority of members than the current final-salary scheme. Further, a CARE scheme has the advantage of increasing the sustainability of USS. However, given the possibility of pleasing the majority of members, while at the same time still introducing a scheme appealing to the employers, the JNC has dropped the ball and proposed a scheme that is so unappealing it is likely to generate recruitment difficulties.

The proposed CARE scheme

The trouble with the proposed CARE scheme is threefold.

First, it has the same 1/80th accrual rate for the pensions-in-payment pot, and 3/80th accrual rate for the lump-sum pot, as the final-salary scheme. This is bound to produce a significantly reduced pension. Conventionally CARE schemes have larger accrual rates, e.g. in the case of the civil service scheme it is 1/45th or thereabouts (I have seen both 1/43th and

1/46th quoted), while the comparable figure for the proposed USS CARE scheme (after accounting for the lump sum) is 1/68th or thereabouts. So on identical earnings, a Civil Service pension would be more than half as much again as that paid under the employers' proposals for USS (and the Civil Service contribution rate is only 3.5%).

Second, it is proposed that the yearly revaluation is based on CPI. Whether or not the use of CPI is appropriate for uprating pensions in payment, it is patently inappropriate for uprating the pension of someone still in employment. The revaluation should be based on average earnings (preferably average HE earnings), or at the very least RPI (which is a better reflection of the cost-of-living increases during service, e.g. when mortgages play a major role).

Third, it is proposed that that the yearly revaluation has an inflation cap. The arguments recited in my answer to question five, explaining why the use of a cap is not acceptable, apply equally here. I repeat my point that a 'defined benefit' that is not protected from inflation is not a defined benefit. Moreover, the use of a cap would effectively remove from members the possibility of increasing their pensions in a *reliable* and *predictable* way by making AVCs.

In addition to these threefold problems, USS failed in it's duty to explain the nature of the changes. A CARE scheme is far harder for members to understand than a final-salary scheme. Hence there was, and still is, an imperative for the USS to explain it clearly; otherwise there is a danger of members assuming they will get more than they actually will, and failing to plan properly. The illustration covering only three years in the consultation document was totally inadequate. It was left to Cooper & Cowley in their article *What do the USS pension changes mean?* (see http://www.physics.ox.ac.uk/users/scooper/USS/USS-OM5MT10.pdf) to provide meaningful illustrations. For a somewhat typical academic they showed that he or she might suffer a 20% cut in pension even if inflation were not a problem. If there was a period of high inflation then the cut could be over 80% after 20 years of retirement. Potential cuts of this magnitude should not be hidden in the ironic acronym 'CARE', and not demonstrating them is close to improper subterfuge. Such an approach undermines members' trust in USS. If a cut is to be introduced, it should be made *explicit* (with worked examples for full career paths) and justification should be given – only then can members make a reasoned judgement of it.

Break of Service

I note with concern that a break of six months would mean employees (or at least those not favoured by employers such that they're granted protection for a 5-year break) moving from the final-salary scheme to the CARE scheme. It seems likely that many people currently in the final-salary scheme will be moved to the inferior CARE scheme because of chance details of their career path and timing. I believe that this will discriminate against women who (because of child-rearing and being over-represented amongst fixed-term employees) would be more likely to take such career breaks.

Further, this change is likely to discourage the international market in academic jobs (which is an essential benefit to our universities). This is particularly so because, as I understand it, a member rejoining USS in the CARE scheme will have the final-salary part of his or her pension treated as a deferred pension based on the salary at the time of the break. Compare this with the situation at present where those "stars" we try and attract back from abroad, can rejoin the final-salary scheme with years before their break counting towards their final-salary pension. If it is felt necessary to put new members into a CARE scheme, then current members should retain their right to return to the final-salary scheme no matter how long the break; that is the only possible clear-cut rule that doesn't discriminate against women and discourage international mobility. It is fairer because members who have already paid into USS did so under the assumption that they would be able to re-join final-salary after a break of any length.

Better Alternatives?

Having employees simultaneously in a final-salary scheme, a CARE scheme, and a mixture of the two is unfair and divisive. Further, the proposed CARE scheme is so uncompetitive that it will inevitably make it more difficult to attract good people to the sector. Employers will almost certainly discover that they must ultimately raise salaries to compensate for the lowering of the pensions part of the overall remuneration package and that this is tax-inefficient. If a change to the final-salary scheme can be justified on the grounds of sustainability (and it is far from clear that such a change is justified) then I propose two alternatives.

My first alternative is a fair CARE scheme for all. Move current members to the same CARE scheme as that for future members. That part of their pension that has already been accrued would be based on their final salary at retirement, while any future pension accrued would be in the CARE scheme. The new care scheme should be fiscally neutral, e.g. based on an accrual rate of about 1/50th, with annual revaluations using an uncapped index based on average HE salaries.

My second alternative would be to keep final salary for "core" salaries, i.e. salaries within the agreed national academic pay scale, and to put any amounts above that into another scheme, perhaps direct contribution. This would avoid the "high flyer" problem. A core reliable pension would be kept, while the cross-subsidy of high flyers would be removed and the pension fund would be relieved of carrying the investment risk for higher pensions.

Both the above alternatives would reduce risk and increase sustainability. Further, the risk could be further reduced by taking an imaginative bottom-up approach to increased longevity. In my answer to question one I argued that it should first be agreed on how large a pension is required in retirement, after which USS should calculate how many years members need to work to provide for that pension. If the final pension is still to be the same size, but members are to end up working more years, then a case could be made for reducing the 1/80th accrual rate for final-salary pensions (or the appropriate accrual rate for a fair CARE pension). This reduction would require a reasonable argument to justify it quantitatively as well as qualitatively, but might have a chance of being seen to be fair, and far more logical and less *ad hoc* than the proposed fixes.

7. Other

The Process

I believe that it is unfortunate that the employers and employee representatives on the Joint Review Group were unable to arrive at an agreement satisfactory to both, and that it was deemed necessary for the Chair to use his casting vote rather than continue efforts to seek a conclusion. I find it particularly unsatisfactory that the Chair decided to vote for one or other of a *complete* set proposals, rather than splitting the decision into a number of subproposals (e.g. *Normal pension age of 65*, *Actuarially reduced early retirement benefits*, *Flexible retirement arrangements*, *Contributions and cost sharing*, *Caps on pensions increases and on revaluation of deferred benefits*, and *New CARE-like benefits section for new entrants*), and voting on each in turn. This was a serious failure of process. The Chair should be replaced.

The Consultation

The conduct of the consultation has left something to be desired. There has been a dearth of information with significant changes being proposed with no worked examples to illustrate their effect compared to the current scheme at the start of the consultation (the three-year example for CARE was for a minimal time and did not compare to final-salary). Only on about 27 November were some worked examples for the change from RPI to CPI provided on the web site; this was too late, and moreover no notice was provided to members of their posting. Examples comparing CARE to final-salary are still lacking at the time of writing. The DWP guidance (see http://www.dwp.gov.uk/docs/occ-personal-pens-schemes-regs06.pdf) states:

> "31. Whilst the Regulations do not specify the exact detail of the information which must be provided DWP's view is that the following should always be considered, and included where appropriate:
> ...
> • An illustrative worked example to give an indication of how the proposed change will affect the employee's future pension arrangements.
> ...
> **Further guidance about the information to be provided by the employer in support of the statutory consultation**
> ...
> It is important that details of the change are clearly presented and accompanied by an illustrative example which helps those affected to understand the implications of the proposal."

I fail to understand how this consultation can be regarded as complying with the DWP Guidance. Further, the response form asks:

> "Please would you therefore carefully consider the objectives behind the proposed changes, as set out in the information notice from your employer, and summarise on the form below where you believe that those objectives would be more effectively achieved by a different method."

The problem is that members have not been given sufficient information on the savings expected from each of the proposed changes, hence we are unable to respond fully to the request to show quantitatively how the objectives could be more effectively achieved by a different method. I have however done my best to answer this question (see below).

In the light of the above, USS should provide proper information, including worked examples for CARE, full details of the savings expected from each of the proposed changes, and the long term cost of the proposed (and alternative) CARE scheme, and re-start the consultation.

Sustainability

I agree that USS needs to be sustainable. The major issue here is increased longevity. While a medium-term tactic is to make *ad hoc* changes to the NPA, what is really needed is a long-term strategy, e.g. the introduction of a variable accrual rate depending on age might be a better way forward.

There may also be a need to tackle the "high flyers" issue. I presume that most of those negotiating on behalf of the UUK are such people; I presume that they declared their interests; I note that none of the proposals address this issue in the case of current members (like those who negotiated). If the "high flyers" issue needs to be addressed I have proposed two alternatives: either introduce a *fair* CARE scheme for all, or keep the final-salary for the 'core' component of salaries (i.e. up to the top of the national academic scale), and then put any additional pay into a defined contribution scheme. Either scheme would provide a safe core pension for everyone.

Once the “longevity” and, if necessary, “high-flyer” issues have been fixed, I believe that USS will be sustainable. I note that it has also been suggested that there is a risk to the pension fund from exceptionally high rates of salary increase. However, I believe that this risk is exaggerated when looked at in the longer term. The 2006-8 period was exceptional, with both a move to new pay scales and a pay settlement that, very unusually, was tied to RPI when it happened to be at a peak; recent low pay settlements have already largely corrected for that period.

Moreover, the government’s planned acceleration of increases to the state retirement age, and any move of indexing from RPI to CPI, will improve the finances of the fund. The government has also proposed a public sector wage freeze, which can only improve the financial position. Further, these government proposals *postdate* the EPF proposals. Hence there would appear to be a need for the USS finances to be recalculated to take these changes into account and the proposals ameliorated in that light.

In addition the major stock-markets have returned to around 90% of their pre-crash levels, with the result that the Pensions Regulator has recently noted that UK defined benefits schemes as a whole have almost eliminated their deficits. Pension funds need to take a long-term view before embarking on radical change, and I note that in March 2008, USS was 103% funded. While it is true that a year later it had taken a dive (along with the rest of the world) and was only 75% funded, by March 2010 it had already recovered to 90% funded and by the time of the next revaluation in March 2011 there may only be small dip or possibly a surplus.

Further, I note that it is the view of UCU and their actuary that the changes (such as splitting the scheme into two) are more extreme than necessary to close the deficit in USS. In particular UCU’s actuary notes that “while it might appear from the actuarial advice given to the employers that the ability of the Scheme to earn higher returns is being called into question, it appears that this is unlikely to be an issue in practice, so long as the present approach to investing the Scheme’s assets is maintained”. He further notes that USS can take a longer-term investment strategy than a corporate pension scheme that has to reckon with the possibility that the corporation could go bankrupt at any time.

This suggests two possibilities to me. First that the radical changes being suggested are borne of the sense of panic engendered by the temporary stock-market crash, in which case a more sober analysis should now prevail. Alternatively it suggests that the employers are crying wolf, and that they are using the scheme changes to save themselves money as a result of the changes to university financing by the government.

The above strongly suggests to me that a decision on all but the NPA should be postponed until the triennial valuation of March 2011 is available. In support of this view I note that the employers estimate that the NPA change will produce a saving to USS equivalent to a contribution rate of 1.3% of salary, while the USS actuary has estimated that increased longevity requires only an increase of 1% in the contribution rate from April 2011.

Cost Cutting

The consultation documents state that the motivation behind the changes is to "safeguard the future of the scheme, keeping it it viable for employers". I am not convinced that this the only motivation. On the consultation Q&A pages, the question is asked:

> *Is the real agenda of the employers, as has been alleged, to reduce their contributions to 10%?*

The answer given is:

> *No. The employers are committed to continuing to pay their existing contribution of 16% (a rise from 14% in October 2009) for the foreseeable future. This will be necessary to meet the additional costs arising from the plan to modify the scheme's investment strategy, with a shift of the asset mix toward risk reducing assets with lower returns than equities. This is in the employers' view an essential part of the changes needed to ensure the long term sustainability of the scheme and reducing the recent volatility in the value of the fund.*

Rather tellingly this is not consistent with Annex D of JNC 24-10, "*A specification of proposals to change USS June 2010"*, which was tabled by the employers at the USS JNC in July 2010. This document was withdrawn from general circulation by the EPF when UCU drew attention to para 14 on page 5 which states that:

> *14. In the long term it is possible that the employers' proposed changes will produce savings that will enable the employers' contribution rate to be reduced to a more realistic level during the extended period when university finances are likely be severely constrained. It is impossible to indicate what the likely long term employer contribution rate might be although we believe that ideally it should be closer to 10% - as envisaged at the time USS was first established - although this will take many years to achieve because of the relatively slow transition to the new CARE scheme.*

Note the "closer to 10%". Further, in Annex F the employers estimate the long-term effect of their complete CARE package as "7.3% saving compared to current final salary scheme." One is tempted to conclude that the real agenda of the employers is *cost cutting*, not *sustainability*. On the basis of the above contradictions I ask the Trustees to take employer assertions about sustainability with at least a pinch of salt, and to trust their own actuary rather than the employers'!

Further, let me (rather mischievously) put another point of view. The employers can afford 16%, indeed they can afford more. From April 1983 through to December 1996 the employer contribution rate was 18.55%; if such a rate can be paid for nearly 14 years, it is clearly sustainable, and it is even more sustainable now given the benefits of the salary-sacrifice scheme. During the boom years of the late 1990s the employers reduced their contributions to 14%, apparently believing the boom-and-bust cycle had been abolished. In retrospect this appears to be an unwarranted underpayment. If the employer rate had remained steady at 18.55%, USS would now be in a far better position.

The Move From RPI to CPI

I note that rule 15.1 states that “pension benefits ... shall be increased ... as if those benefits were official pensions”. I also note that the UCU requested that this rule be changed to RPI on the basis that there has been a long standing expectation that increases would mirror RPI (as evidenced by the fact that rules 1.1 and 15.4, Schedule 3 rules 2.2.2 and 4.2 and Schedule 8 rule1 explicitly refer to the RPI six times).

It has been argued that the CPI is a more appropriate index with which to uprate pensions in payment because of its exclusion of mortgage payments (but CPI also excludes council tax, vehicle excise duty and television licenses, and includes the spending in the UK by foreign residents). However, the President of the Royal Statistical Society recently wrote to the UK Statistics Authority noting that he did “not feel that CPI should have sole star billing”, that “both indices [i.e. the RPI and CPI] have drawbacks”, and that the CPI “is not necessarily the best index for all purposes”. There is also recent evidence that pensioner inflation is greater than CPI.

The employers wish to break the link with “official pensions” by moving to capped CPI. I agree that a break should be made, but my proposal is that the *status quo* should be maintained, as least in the short term. I therefore request that the Trustees should delay implementing the change from RPI to CPI by changing rule 15.1 to refer to RPI (and keeping the six other references to RPI). In order to make an informed decision the Trustees should then commission research to determine (a) the most appropriate index to use for the uprating of pensions in payment and (b) the most appropriate index to use for the annual uprating of deferred pensions and of any CARE pension scheme.

USS Exclusivity Rule

In my opinion the proposed CARE scheme pension is uncompetitive. However, if USS really believes that the new scheme is “attractive for members”, as claimed in the consultation documents, then they should remove the exclusivity rule (since, if it is attractive, staff will still join). If the Trustees are unwilling to take the risk in removing the exclusivity rule then they must conclude that the proposed scheme is unattractive, and vote it down.

Personally I believe that few fixed-term contract staff in their right mind would join the new scheme, especially if they could invest the employers 16% in an alternative scheme. Moreover if the latter was possible, I believe that Cambridge would have a duty of care to fixed-term staff to advise them not to join. Since USS funds the generous pensions of high-flyers (like those who voted for the proposals) by subsidy from the low-flyers (e.g. fixed-term staff), USS might well then become unsustainable!

So put your pensions where your mouth is, if you believe the new scheme is attractive, I challenge you to remove the exclusivity rule!

Member Representation on the USS Trustees

As a member of the Council of the University of Cambridge, I do not believe that the EPF have represented the best interests of the University. Similarly I do not believe the UCU has represented the best interests of all members of the USS; they seem too keen on a strike for me. I do not know how to fix the EPF problem, but I do have a fix for the representation of members. In addition to one or two UCU nominated Trustees, I believe that some of the USS Trustees should be directly elected by members. I would like to see this rule changed as soon as possible.

Summary

My main points are:

- There should be an increase of the Normal Pension Age to compensate for increased longevity. This is the key change needed to make the pension fund sustainable, but it should be staged.
- The fund was in surplus as recently as March 2008 and can reasonably be expected to return to surplus as the economy recovers, so drastic change (e.g. splitting the scheme into two section) is not needed.
- The proposed imposition of caps on the inflation indexing of pensions makes pensions unreliable, and subverts the meaning of a defined benefit scheme; caps should be rejected outright (if necessary at the cost of higher contributions, since this is preferable to penury as pensioners).
- In the short term the link with “official pensions” should be broken not by a change to capped CPI, but by retaining the link to RPI. In the long term research should be commissioned to determine the most appropriate index for uprating (a) pensions and (b) deferred pensions and of any CARE scheme.
- The proposed CARE scheme for new members, which has the same accrual rate as the current final-salary scheme, is a direct cut because average salary is less than final salary for essentially all employees. Serious degrading comes from revaluing with capped CPI rather than by an uncapped index (e,g, tracking average salary increases). That the CARE scheme is a real cut was not made clear in the consultation documents.
- If there is a need to tackle the "high flyers" problem then either a revised, and fairer, CARE scheme (that is at least fiscally neutral) should be introduced for all, or the current scheme should be revised to keep final-salary for the 'core' component of salaries (e.g. up to the top of the national academic scale) with any additional pay should being put into a defined contribution scheme. Either alternative would provide a safe core pension for everyone and would aid sustainability.
- The proposal that current employees who either take a career break or are employed for a time by an institution not in USS, should join the CARE scheme disadvantages women and discourages international exchange. Their previous investment in what they thought was a final-salary scheme is considerably degraded by the withdrawal of the ability to rejoin and link those years to their new final salary. If a CARE scheme is introduced, current members should always have the option of rejoining the final-salary scheme.
- The parallel employment of people in a final-salary scheme, a CARE scheme , and a mixture of the two creates inequalities between people doing equal work and is divisive and probably unnecessary.
- The consultation does not meet the DWP guidelines because it did not initially provide any worked examples, and it still has not provided any to explain the cuts inherent in the change from the final-salary scheme to the CARE scheme.
- Ending the possibility of retiring on a full pension on redundancy at 55 or above has no effect at all on USS finances and should be rejected by the Trustees.
- The exclusivity rules of USS should be amended.
- There should be directly elected USS Trustees representing members.

- I commend the proposals for flexible retirement.

With the exception of the change to the NPA, the Trustees should refrain from implementing the current proposals without further consideration. The matter should be referred back to the Joint Negotiating Committee along with the various ideas and concerns that have come up in the consultation.

Declaration of Interests

I am 54, and thus close enough to retirement that at most only ¼ of my benefits will be affected by the capping of increases to pensions in payment. As a member of the Council of the University of Cambridge, my primary concern is the future of UK universities, and the fact that the proposals will make an academic career far less attractive. UK universities will have difficulty attracting stars from abroad, and an academic career will be even less attractive to new entrants compared to one in industry, where the higher salaries allow more of a margin for one to make one's own investments for retirement.