

# An Overview of USS Scheme Changes

## Overview

From 1 April 2016 all members of USS will have at least two versions of their pension scheme and some earning above £55,000 will have three versions of their pension plan.

**Current Final Salary Members** fall into two categories:

- Those earning below £55,000 will have a defined benefit final salary pension entitlement based on the period up to 1<sup>st</sup> April and a defined benefit career revalued benefit pension entitlement accruing from 1<sup>st</sup> April 2016.
- Those earning above £55,000 will have both of the above benefits plus an individual defined contribution account on the balance above £55,000. The risk of this element of pension have been shifted from USS to the fund member who will select a fund or funds into which their contributions will be invested.

Neither will benefit from this change and members' contributions will increase from 7.5% to 8%. (It doesn't matter that employers contributions increase because the benefit is already defined- hence the term 'Defined Benefit')

## Current Members of the Career Revalued Benefit Scheme

(Members joining the scheme after 1 Oct 2011)

- These members will now have two CRB schemes – the pre-April and the post-April Scheme. Career Revalued Benefits (CRB) for all members on salary up to £55,000 accrued at a different accrual rate to that provided currently (the new accrual rate will be 1/75th of salary per year as pension, along with 3/75ths of salary as a lump sum). The Threshold of £55,000 will operate as described above.

The new CRB scheme may have been regarded as a modest improvement on the old scheme if it were not for the substantial hike in members' contributions which will increase from 6.5% to 8% of pensionable salary.

The details provided below are extracts from various USS documents –listed at the end- with some additional comments. Some of the key elements have been underlined or appear in bold type.

Important links to USS site:

<https://forthefuture.uss.co.uk/>

<http://www.uss.co.uk/news/Pages/ChangestoUSS.aspx>

There is also a benefit illustrator on the site so that you can get a picture of what your new and more complex pension looks like.

<https://www.ussbenefitillustrator.co.uk/>

## Phased implementation of DC section

**From 1 April 2016 a new scheme structure will be introduced for all members.**

USS will continue to offer good value to members saving for retirement; the revised scheme will provide a core defined benefit alongside an opportunity for members to accumulate additional flexible pension saving in the form of an individual defined contribution account.

The changes will be introduced in two phases; on 31 March 2016 existing final salary pension arrangements will come to an end and from 1 April 2016 all members (those in both the current final salary and career revalued benefits sections) will move into a revised defined benefits section, providing new career revalued benefits.

Both employer and member contribution rates will also increase from this date.

The trustee can now confirm the second phase of scheme changes will be implemented on 1 October 2016, from this date the defined contribution (DC) section of the scheme will be available to all members and a salary threshold will be introduced.

From 1 October 2016 members will earn the **core defined benefit** pension and lump sum only on pensionable salary up to and including £55,000. Contributions paid on pensionable salary earned above that threshold will go into a member's individual account within the new defined contribution section of the scheme.

For further information on the new DC section of the scheme please refer to the '**DC Education**' section of **USS for the future.**

Further information on the changes to the scheme for **final salary members** and **CRB members** is available and this site will be updated throughout the implementation period, including with a benefit modeller which will be available in October. Please check back often for updates.

If you have any questions or would like to get in touch, please contact our **Communications team**

**AM note:**

### **Defined Benefit (DB) section**

The defined benefit (DB) section of the scheme will be run by USS Investment Management team- this will now be a career revalued benefits scheme rather than a Final Salary scheme which will from April cover existing Final Salary DB and CRB members. This is in the majority, if not all cases, a reduction in DC members pension benefits.

### **Defined Contribution (DC)**

The defined contribution (DC) section of the scheme will be run through funds selected by USS trustees. From April 2016 a default fund will be in place and from October 2016 an individual investment account with a range of funds will be available to receive all contributions relating to pensionable salary above the £55,000 threshold. Individual members will be free to select a combination of funds which reflect their risk preferences but if they do not actively select funds they will automatically be enrolled in the default fund. (No details on these funds or the default fund are available at the moment).

## **Career Revalued Benefits (CRB)**

Career Revalued Benefits (CRB) for all members on salary up to £55,000 accrued at a different accrual rate to that provided currently (the new accrual rate will be 1/75th of salary per year as pension, along with 3/75ths of salary as a lump sum) – for details see below. 2. Defined contribution section for members based on salary above £55,000. A definition of defined contribution (DC) is available at the end of this document. 3. An option for all members to make additional contributions to the DC section of the scheme and to claim an additional ‘matched’ 1% from the employer contributions (provided the member contributes an additional 1%).

## **Salary threshold**

The salary threshold will be automatically revalued each April (from 2017 onwards) in line with increases in official pensions (currently CPI), subject to certain caps where such increases exceed 5%, until the outcome of a review of the salary threshold to be completed by the JNC by 31 March 2020.

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%

(See also ‘USS Revaluation Factsheet’).

## **Member contributions**

Member contributions to increase to 8% of salary From 1 April 2016, member contributions will increase to 8% of salary (increased from 6.5% for CRB section members and 7.5% for final salary section members). This includes salary above and below the salary threshold. From the date of implementation of the salary threshold and the introduction of the DC section (no later than 1 October 2016), member contributions made in respect of salary above the salary threshold will go into a member's individual account within the DC section of the scheme.

## **Employer contributions increase to 18%**

Employer contributions to increase to 18% of salary From 1 April 2016, employers will pay 18% of salary above and below the salary threshold for all members (increased from 16%). From the date of implementation of the salary threshold (and where a member's salary is above the salary threshold), an employer contribution of 12% of salary above the threshold will be allocated to the individual accounts of members in the DC section. The overall employer contribution will continue to be 18% of salary above and below the threshold; in addition to the amount allocated for CRB and DC benefit accrual, the employer contribution also includes allocations for deficit payments and administration costs. Employers have committed to pay 18% of salaries until **the formal review of scheme funding as at 31 March 2020**

Information on the employers' contribution can be found in USS **‘Information on DC implementation and salary thresholds’**.

It is likely that benefits or contributions will again change at this point particularly if the 'Gilt Plus' method of fund valuation of its assets is still in place. This valuation method is disputed by UCU and a group of leading academic experts.

### **AVCs**

Regular instalment added years AVC arrangements in place as at 31 March 2016 will continue unless the trustee company is informed otherwise.

The benefits earned from AVC arrangements will be based upon total service secured by the AVC and pensionable salary as at 31 March 2016

More details can be found in the USS document 'Changes to USS - an update' dated 17 August 2015

#### Added years AVCs

Added years AVCs enable members of the final salary section to purchase additional service either by paying a one-off lump sum or arranging to make additional contributions in regular instalments. From 1 April 2016 the final salary section of USS will be closed to future accrual and you will no longer be able to build up pension on a final salary basis after this date. Any pensionable service you have at this date (which includes any added years purchased through an AVC arrangement) will be linked to your pensionable salary as at 31 March 2016.

Importantly, pensionable salary as at 31 March 2016 is not frozen but will be increased annually by reference to official pensions which is currently linked to the consumer prices index (CPI) please refer to the revaluation factsheet for further details.

### **Key Documents**

Scheme Changes –Phased implementation of DC section

Scheme Changes Update 17 August 2015

DC Implementation and Salary Threshold Factsheet

USS Revaluation Factsheet

### **Background Documents Available**

USS FAQs

USS Glossary

Statement of Funding Principles

Actuarial Valuation March 2014

2014 Actuarial Valuation Recovery Plan

Letter to Chairman of USS Trustees disputing Actuarial Valuation 21 Nov 2014

**Please note this is for information purposes only**