BDA
British Dental Association

BDA briefing: The USS, the proposed changes, and how it might affect dentist members

9 January 2018

How does the USS work?

The USS was last reformed in April 2016. Since then it has operated as a Hybrid Scheme; meaning that it has two components. These are:

- The Retirement Income Builder – this is a "defined benefit" pension arrangement which pays a guaranteed annual income in retirement. The cost of meeting that guarantee is met by HE Sector employers. The amount of annual pension payable is based on your earnings over the course of your membership; but crucially a limit (current £55,550) is applied to the annual earnings that are used for calculating this guaranteed pension.
- The Investment Builder – this is a "defined contribution" arrangement which pays contributions into a pension fund which is used to provide you with a pot of money to use in retirement. There are no guarantees of any regular retirement income associated with this pot – your money is invested and the fund value can go down as well as up. It is possible to spend all of these savings before you die, so you effectively exhaust your pension savings. For members earning above the salary threshold of £55,550, membership of this arrangement is compulsory – they pay 8% of any salary above the threshold, and their employer pays 12%. Members earning below the threshold have an option to pay into this if they want.

More details of how these arrangements work, with examples, can be seen in the attached document "Comparison of USS and NHSPS".

How is it all run and paid for?

The USS is run by a board of trustees, who have a professional, legal and impartial interest in making sure that pension promises made can be paid out of the pension fund.

The trustees are not responsible for determining the level of pension provision that is provided for the future in the USS. That role is subject to negotiation between the Universities and Colleges Union (UCU) who represent staff in the sector and Universities UK (UUK) who jointly form the Joint Negotiating Committee (JNC).

Every three years, the trustees commission an actuary to calculate the estimated cost of the promises that have been made and to assign an ongoing cost to the promises that are being made in the future. These costs are based both on data (such as sex, date of birth, salary, length of service) about every USS member (including pensioners and working age members). They are also based on assumptions for the future (such as life expectancies, pay rises and future inflation rates).

The last completed actuarial valuation (dated March 2014) showed that whilst the pension fund held funds of £42bn, the cost of meeting the promises already made was £47bn. The £5bn difference (or

deficit) must legally be met by HE employers, so that the legal obligation to pay for promised pensions can be met. The 2014 deficit was addressed with a plan to pay it off over a period of 16 years. At the same time the 2014 valuation indicated that the total cost of continuing to build up pension benefits in the USS (as modified in 2016) was 23% of salaries. This does not include the 2.1% of salaries being paid by employers to address the deficit.

How might the changes affect me?

UUK has announced an intention to reduce the salary threshold to £0, effectively stopping accrual in the Income Builder section.

They say that this move could be temporary, with increases to threshold possible if financial circumstances improve.

After the implementation of this proposal employer contributions would only be paid into the Investment Builder section (which would be the only pension saving vehicle for all members).

This means that no further guaranteed retirement income would accrue (at least until such a point when the salary threshold was raised) but more money would be diverted into the pension pots for individuals.

It also means that the average cost to the employer of paying for future pension savings would reduce from 15.9% to 13.25% of salaries.

It is very difficult to give a detailed assessment of the impact of such a change as the proposals would effectively replace a guaranteed income with a savings pot.

Whether or not members would be better off would depend on a number of factors including how their investments perform, and how long they live.

However by way of example, if we considered Mark, who has a non-increasing salary of £60,000, who joins the USS at age 40 and who retires at 68:

- The current arrangements would see Mark build up an annual retirement income of £25,500, a tax free lump sum of £76,500; as well as a pension pot of £42,500 (assuming net investment returns of 3.6% per annum)
- The revised arrangements would see no annual retirement income or automatic tax free lump sum built up, although the pension pot would stand at £604,000.

Phil McEvoy

BDA Head of Pensions

www.bda.org/academicpensions