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PENSIONS POLICY INSTITUTE
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PPI Launch Event

The way forward for university pensions

Launch event write up:

The Pensions Policy Institute (PPI) held a policy seminar on the 16th of January 2023 to launch **The way forward for university pensions**, sponsored by King's College London. The research was conducted by Jackie Wells, Research Associate, PPI. The hybrid event was also hosted by King's College London. The report sought to answer three questions:

1. **How did we arrive at this position regarding university pensions?**
2. **What can be done to improve the situation?**
3. **How can we ensure the same situation does not arise again?**

The output examines the issue from a member perspective and explores what different pension structures would mean for the membership. Whilst it also explores the needs of university staff with an eye to Equality, Diversity and Inclusion (EDI) issues.

Over 50 people representing a broad range of interests across Government, the pensions industry, and higher education attended the seminar both in-person and virtually.

Chris Curry, Director (PPI) gave a Chair's welcome to the event and thanked King's College London for sponsoring the report and also hosting the event today. He noted how the report focuses on the issues with university pensions from a member perspective, the importance of Equality, Diversity and Inclusion, and the uniqueness of USS as a scheme. He welcomed everyone and introduced the panel members.

- **Stephen Large,** Vice-Chancellor - Operations (King's College London)
- **Jackie Wells,** Research Associate (PPI)
- **John Chilman,** Chief Executive (Railpen) and PPI Trustee

Stephen Large, gave a sponsors welcome to the event. After consulting with the university's staff, several key principles were highlighted for pension provision:

- A good pension should provide more than 2/3 of retirement income for lower earners and protect against inflation.
- Affordability and sustainability: the scheme must remain valued to members, which will be evidenced by high levels of take-up and low levels of opt-out.
- Transparency and simplicity: Consistency of pension benefits, predictability of income and retirement, and clarity on governance.

- Fair and equitable: The process should address imbalances between generations, explore different benefit structures and seek a better understanding of how different groups are affected by fundamental changes.

Jackie Wells, Research Associate, reiterated the three questions this report seeks to address:

1. How did we arrive at this position regarding university pensions?
2. What can be done to improve the situation?
3. How can we ensure the same situation does not arise again?

The report focuses on the needs of university staff and explores what different benefit structures would mean for the membership. However, this output isn't the first attempt at trying to answer the questions.

The last eleven years have seen turbulence in higher education through benefit contribution changes. This can be traced back to 2011, in which a valuation triggered the first move away from final salary-based retirement benefits to benefits defined by a career average for new members of the scheme. These changes resulted in industrial action over pensions for the first time in the university sector. Dissatisfaction was reignited by a valuation in 2017 which recommended to close the DB section of schemes and move forward with contributions being used to fund DC benefits.

The current situation can be best described as one of distrust between stakeholders. Market volatility, regulatory changes, low gilt yield, rising inflation and changes to the higher education sector have led to lower benefits but higher contributions. Turbulence has left members uncertain about their future retirement incomes and unable to calculate what pension they can expect to get.

Stability and confidence will be necessary to prevent a repeat of events. However, no solution satisfies all the values that members say are important to them. Preventing a repeat of events hinges on a period of stability and a holistic solution that addresses concerns about unequal benefit changes, governance of the scheme, costs of running USS and the quality and lack of apparent consistency of information. Restoring trust and preventing the situation from recurring will require providing benefits that balance affordability with adequacy, evidence that the governance of the scheme acts in the interests of the members, and clear and consistent objective information for employers.

John Chilman, Chief Executive of Railpen, PPI Board Member: Many employers have gone straight to DC schemes. The decline of DB schemes and the subsequent rise of DC schemes is due to market changes, longevity costs and accounting standards. Railpen and USS are similar in terms of structure and governance, meaning both scheme designs are perceived as complex. As final salary is going extinct and replaced by career average, advantages for certain groups are frequently being taken away. Collective Defined Contribution is a viable solution, and the avenue is open, but the question remains as to whether the government will put it in place. The PLSA's aim of achieving adequacy is increasingly difficult in the current environment with market changes. The questions that need to be asked are: What are the priorities? and where can we compromise?

Panel discussion/Q&A:

The following points were raised during the panel discussion chaired by Chris Curry and Q&A session, held under The Chatham House Rule. They do not necessarily reflect the views of the Pensions Policy Institute or all of the panellists.

Q&A:

What are the impediments for the options presented by the research? Collective Defined Contribution (CDC) for all, as an option for university pensions, transfers risk to the members from the provider. It may help to fix contribution rates as any drop in funding won't have a significant impact. However, introducing CDC to the university pension system will require major structural changes and may need better affordability criteria. Although conditional DB should make the scheme more affordable, members are accepting uncertainty with indexation.

What is the criteria for the DB tiered system option? The DB tiered system offers some benefits for younger members, particularly for lower paid staff. Although the option has negative connotations for higher earners in the scheme. In terms of governance, the DB tiered system would add more complexity to the scheme as well as increasing costs. However, the option would still be transparent and simple for members to comprehend. Before implementing the system, a full-scale examination would be necessary to see how the details will work.

Should we be looking at the wider picture? Perhaps the best way to encourage members to contribute a higher portion of their salary to their pension is by offering a wage increase. As the costs of running the scheme rises, it will become increasingly difficult for members to save for retirement. Is the current valuation at odds with reality? And is the Regulator acting as if DB is already dead? Affordability is an issue and searching for compromises will be essential if we are to achieve adequacy and fairness among different groups in the sector. The situation is complex due to some staff valuing take-home pay over pensions, while some on higher incomes argue for greater benefits while being able to afford higher contributions. Addressing the concerns of one group but neglecting another may engender further inequalities across the workforce.

Where are we going with this? As the issue with university pensions persist and challenges continue to mount for educational institutions and schemes, will any solutions be implemented in the near future? There has been a lot of movement within industry and government over the future of university pensions and potential transformations in scheme design. This looks like sponsored research projects, discussions with employer representatives, consultations and valuations. But the question remains as to whether they are leading to any action?

Should there be an operational review of certain schemes? USS is facing serious governance challenges leading to a misrepresentation of its position. Additionally, some feel information on the scheme and its structure is difficult to attain thus adding complexity for its members. Can a full-scale review of a scheme's operational practices help to solve these issues? Alternatively, USS is transparent as it publishes essential information in the public domain.

Everything that is done by USS is subject to an independent review. Further transformation can be supported by research generating potential scheme designs for university pensions.

Final remarks:

- USS are in a good financial position as a result of internal investment management.
- King's College London could use its legacy and longevity to push back against regulations.
- If we can find a middle ground on who bears the risk, then there is a way forward.

A Pensions Policy Institute report

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