University and College Union

Cc. Julian Doxfield.

Carlow Street
London NW1 7LH

Telephone 020 7756 2500
Fax 020 7756 2501

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Professor Louise Richardson
Head of Institution
The University of Oxford
Wellington Square
Oxford
OX1 2JD

Our ref: USS HE7/2

Dear Professor Richardson,

USS Trade Dispute

You will be aware that early last year UCU members took part in 14 days of industrial action, which resulted in UUK withdrawing proposals to change USS from a hybrid defined benefit pension scheme into a defined contribution pension scheme.

UCU members later voted to suspend the action and set up the Joint Expert Panel (JEP) in response to an offer from UUK.

The JEP reported in September 2018 and made a number of recommendations for the conclusion of the 2017 valuation. If implemented, these recommendations would also replace the Rule 76 contribution increases relating to the 2017 valuation which were triggered by USS while the JEP was still producing its report. The Rule 76 increases are being implemented in three instalments, from April 2019 until April 2020, when combined contributions would rise to 35.6%. The Rule 76 changes are based on the retention of the current levels of pension benefits, minus the 1% match, which has already been removed.

Both UCU and UUK welcomed the JEP report as the basis for negotiations. Initially, if applied to the 2017 valuation, the JEP's proposals would have entailed a combined contribution level of 29.2% with no changes to pension benefits. However subsequent modelling by USS, based on changed market circumstances, showed that implementing the JEP in full would actually result in combined contributions no higher than 26%, or 8% for members.

However USS has not accepted some of the key recommendations in the JEP report. Instead, it has proposed replacing the 2017 Rule 76 increases with a new 2018 valuation that still involves contribution rates far above 26%.

USS's insistence on higher contributions is partly based on external pressure from The Pensions Regulator (TPR). TPR has expressed views on the levels of risk and the strength of the employers' covenant, and USS has accepted these views rather than seeking to challenge them. This is despite the fact that both UCU and UUK's professional actuarial advisers consider a valuation based on the JEP to be compliant with regulations, and despite the fact that the JEP has heavily criticised TPR's role in the valuation process. However, USS has not worked to put the case for the JEP to TPR.

Instead, after months of drawn-out negotiations and unexplained delays, USS has given employers three options for finalising the 2018 valuation. The three options do not involve changes to pension benefits. However, all involve higher rates than would be the case if USS adopted the JEP's recommendations.

The three options are now subject to a further UUK consultation and I consider each in turn:

Option 1: contributions of 33.7% (23% for employers and 10.7% for employees), to apply from April 2020;

Option 2: contributions of 29.7% – but with a mechanism for contingent contributions of three 2% increases (an additional 6%), split 65:35 between employers and members, to be added to starting contributions of 20.4% and 9.3% respectively; and

Option 3: contributions of 30.7% (21.1% for employers and 9.6% for employees) to apply from October 2019, with another valuation in 2020. Should no agreement on the contribution rate from the 2020 valuation be implemented before October 2021, the contribution rate would rise to 34.7% in October 2021.

UCU has a clear policy position of 'No Detriment' established by the union's conferences. This policy means no increases in contributions and no cuts to pension benefits. Unlike a 2018 valuation informed by the JEP's recommendations, all three of USS's proposed options fail the test of 'No Detriment'.

Members waited for the JEP report to be issued and implemented, while USS went ahead and scheduled massive contribution increases based on its controversial 2017 valuation. The JEP report called that valuation's integrity into question. Other developments have made USS's position even more questionable. These include Sam Marsh and First Actuarial' s demonstrations that USS has not properly justified its 'de-risking' strategy; USS's misrepresentation of the Regulator's methods for evaluating risk; and the extraordinary recent accusation by statistician and USS Trustee board member, Professor Jane Hutton, that she has been denied access to important information and that the deficit may have been 'substantially over-estimated'.

Members have trusted employers to work to replace the 2017 increases with a fair outcome, but it has become clear that they will not do so. Employers have a lot of influence over the valuation process, but they have allowed USS to dismiss the JEP's most important recommendations, they have not pressed USS to engage properly with the Regulator, and, when other developments have called USS's position into question, they have taken USS's side.

UCU is running out of patience. At the UCU HE Sector Conference on 26 May 2019, delegates voted overwhelmingly to commence a dispute with USS employers and to move to a statutory ballot for industrial action in September.

I am now writing to seek your confirmation on behalf of your Institution that you will not impose any benefit cuts and/or contribution increases, including contingent contributions and default contribution rates for future valuations, on members from October 2019 onwards. This includes any and all increases over the rate of 26% (8% for members) which was established prior to the 2017 valuation. You must instruct your representatives on the Employers' Pension Forum (EPF) and the UUK nominees on the JNC not to introduce, comply with, or vote for any proposals that would involve such cuts and/or increases for members; and, failing that, you must cover any scheduled increases in full until USS's governance and valuation methods and assumptions have been overhauled.

If I do not have your affirmative response by 19 June 2019, UCU will consider a trade dispute to exist between your Institution and your employees/our members regarding this matter.

It is possible to avoid a damaging dispute and strike action in the autumn of 2019, and potentially thereafter in 2020. All you need to do is commit to uphold the level of contributions no higher than 26% (8% for members). You also agree to instruct your representatives on the Employers' Pension Forum (EPF) and the UUK nominees on the JNC not to introduce, comply with, or vote for any proposals that would involve such cuts and/or increases for members; and, failing that, you must cover any increases in full that are needed to maintain current benefits until USS's governance and valuation methods and assumptions have been overhauled.

I look forward to hearing from you no later than 19 June 2019 with your affirmative response as set out above.

Yours sincerely

Paul Bridge
UCU Head of Higher Education