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Dear Professor Muscatelli

**Proposed Changes to USS –Myths, Misconceptions and Misunderstandings**

We refer to the recent (7 November 2014) online publication by the Employers' Pension Forum (EPF) with the title above.

We refer to paragraphs using the numbering in that document. We distinguish between the "headline" in bold, clearly intended to be taken as a *myth*, *misconception* or *misunderstanding* and the "gloss" below intended to sooth, explain and dismiss the headline.

One of us (Hutton) originally pointed out the false statement in the original USS Q&A published by the EPF on 11 August 2014 and then stealth edited on or about 9 September 2014.

Whilst many of the headings and glosses seem reasonable to us, the latest Q&A appears to us to also contain a mixture of the highly disingenuous, the unfortunately misleading and the downright erroneous, contrary to the stated aspiration 'to include additional facts' as we shall outline below.

**M8** Whilst the headline, *The changes will clearly lead to a two-tier system at UK universities* is indeed fallacious, since a two-tier system already exists, the gloss is a triumph of misdirection. It addresses the differences in funding rather than benefits. We note that the existing two-tier system was in part instituted by the changes made to USS during the last panic of 2011.

**M12** Headline: *For longer-standing members of the pension scheme, final salary benefits are facing the axe*. This seems to us to be neither a myth nor a misconception but simply the unvarnished truth. The employers' proposal is that our accrued final salary benefits will instead be based on salary at April 2016 and there will be no further final salary benefits. That clearly signifies the demise of "final salary benefits". The gloss admits that the statement is true, not a myth, misconception or misunderstanding.

**M13** *Headline: Newer members face the prospect of their retirement benefits being slashed, with the newest facing the worst pensions of all.* To avoid admitting the substantial loss some members would face, the gloss slyly moves from “newer” to “newest”. It is clear that those facing the greatest loss of benefits are those with 10 to 20 years’ service and some substantial time until retirement- typical mid-career employees. For them the reduction in benefits will be substantial.

**M14** *These changes are an unnecessary assault on our pensions.* The first sentence of the gloss is “Reform of the USS benefit structure is both necessary and urgent.” As we mentioned, the last major changes were in 2011 in contemplation of the previous triennial valuation. Given that experience in the interim has been entirely positive: investment returns well above those assumed; pay rises at or below RPI; and no significant changes to mortality, we are strongly of the opinion that to advocate such radical change at the next valuation represents a signal failure of the Trustees and Actuary to control the pension fund suitably.

The final sentence of the gloss is “In addition, it is *highly likely* [our emphasis] that the trustees would need to impose further contribution increases following future fund valuations.”

If this is not untrue then it implies that something is appallingly wrong with the Trustees’ understanding of actuarial valuation: a position which it hardly seems reasonable of the EPF to take.

The valuation is claimed (and required) to be a prudent and therefore pessimistic assessment of the value of assets and the cost of liabilities. To assert that it is highly likely to have proved optimistic – the only reason why “the trustees would need to impose further contribution increases following future fund valuations” – would be laughable if the consequences were not so serious.

**M17** *The assumptions made about life expectancy are flawed.*

The gloss states “It was brought to the attention of the Employers Pensions Forum (EPF) that a Q&A relating to longevity contained information that required clarification.” This statement is incorrect. The fallacy is that the information required “clarification”. The “information” required *correction* because it was wrong!

The next sentence: “The intention behind the Q&A was simply to describe general improvements in longevity in the UK, however due to a drafting error the Q&A read as if it was describing improvements in life expectancy specifically for USS members.” is a highly misleading statement. No UK group [except perhaps specially selected impaired lives] reaching age 65 in 1974 had life expectancy as low as 6-8 years. Conversely, no UK group [of non-impaired lives] reaching age 65 in 2014 had life expectancy as high as 30 years (even the optimistic actuarial assumptions of S1NA with mortality improvements of 1.5% p.a. gives life expectancies of c22-24 years).

We note from the recent CMI working paper 63: “Tables 4 and 6 show that updating the Core parameters for Initial Rates of Mortality Improvement, to reflect the addition of a further year’s observations on England & Wales population mortality experience, has resulted in **decreases** in projected cohort expectation of life values for males and females across all ages. The **falls** in expectation of life values tend to **increase**

**with increasing age**, in part due to the falls in mortality at older ages in 2012 shown in Table 1.”

We are deeply disappointed by what seems to us to be a document replete with incorrect information.

Yours etc.

Prof. J L Hutton

Prof. S D Jacka

cc : Professor Dame Glynis Breakwell, Member USS group of EPF, USS director [j.savage@bath.ac.uk](mailto:j.savage@bath.ac.uk)

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It's sent-I added Stuart Croft and the Treasurer (Warwick, Keith Bedell-Pearce).