

# Gazette Supplement



## Topic for discussion on proposed changes to the USS pension scheme and the background to the current dispute

### Congregation

24 April

The following is the text of the Discussion in Congregation at 2pm on 24 April on the topic of proposed changes to the USS pension scheme and the background to the current dispute. For further information see *Gazette* No 5201, 19 April 2018, pp394–5.

**The Vice-Chancellor:** The business before Congregation today is, first, the declaration of approval of the resolutions conferring honorary degrees and, second, a topic for discussion on the USS pension scheme. Would you please take a seat.

The resolutions concerning the conferment of honorary degrees were placed on the agenda for this meeting in the *Gazette* of 22 March. Since no notice of opposition or request for adjournment has been received, I declare these carried.

There will now be a discussion on proposed changes to the USS pension scheme. Since the original notice of this discussion was published in the *Gazette* on 22 March, there have been a number of significant developments. Colleagues will be aware that members of the University and College Union have voted in favour of the most recent ACAS-facilitated proposal, namely the creation of a Joint Expert Panel to agree key principles to underpin the future joint approach to the valuation of the USS fund. This gives us an opportunity to come together to address what remains a difficult challenge.

The first such opportunity is today's discussion. Any and all views are welcome, as are creative ideas on how we might realise the commitment Council has made to seek pension provision for USS members employed by the University that is of the same standard as currently

available. Following this discussion and the publication of the proceedings in the *Gazette*, we plan to have another open forum, the details of which will be publicised in due course, and the Working Group will continue its work in examining the key issues connected with the valuation.

In accordance with the regulations governing topics for discussion, no vote will be taken at this meeting, but Council will give consideration to the remarks made at the Council's meeting on May 14th. The transcript of the meeting will appear as a *Gazette* supplement as soon as possible. The intention is to publish it in the *Gazette* of 3 May. It will also appear on the University's website.

Today's discussion will comprise a series of speeches. Speakers, when called, please could you come forward and speak into the microphone, first giving your name and college or department. The anti-loquitor device will indicate your final minute with an amber light and then turn red at the end of that minute. You are asked to confine your remarks to themes relevant to the discussion. I would now like to call on Professor Hobbs.

### Topic for discussion on proposed changes to the USS pension scheme and the background to the current dispute

**Professor Hobbs:** I am Richard Hobbs. I am head of the Nuffield Department of Primary Care Health Sciences, Fellow of Harris Manchester College, elected member of Council and Chair of the Working Group, renewed in early 2017 to provide the short-timescale feedback to Universities UK on the suggested changes to the USS.

Vice-Chancellor, Proctors, members of Congregation and colleagues, this meeting

was requested by Council to ensure that, as early as possible this term, Congregation could discuss the 'proposed changes to the USS pension scheme and the background to the current dispute'.

As we meet today, Congregation will be aware that there is currently no proposed changes to USS benefits, and strike action has been suspended. But this remains a very important meeting. Recent events have illustrated the value of shared information, of a common understanding of problems, and of the governing bodies of this University demonstrating their ability to deal with complex and sometimes fast-moving issues. On behalf of Council, I welcome the opportunity today to hear the thoughts of members of Congregation on all these matters. Three weeks ago, the Vice-Chancellor wrote to the University on behalf of Council with an update on its position, and I'd like to briefly summarise where Council stands, because I hope it will inform our discussion today.

Firstly, Council restated its determination to make 'every reasonable effort to resolve the current dispute within the national framework of USS'. It has been Council's view throughout that a collective approach is the only viable way to solve this dispute. As we know, the USS is a scheme shared by some 360 institutions and organisations, and benefit levels are set by the National Joint Negotiating Committee. Even if it wished to, no university could easily leave the scheme. If Oxford left, the charge would be over £2.7 billion, based on a formal letter from USS, under the Section 75 rule. But there are not simply the costs of leaving the scheme to consider. Over many years USS has demonstrated that there are real benefits of membership to one of the largest pension schemes in the UK.

Secondly, Council said it will 'seek to provide pension provision for USS members employed by the University that is of the same standard as currently available, subject to the duties of Council as a trustee body, to serve the interests of the University as a whole'. However, a key point here is that the sums involved cannot be calculated with certainty and could be very large, and the financial demands of meeting them might require significant trade-offs across the University once agreed estimates are available.

Finally, Council resolves to treat the objective of achieving that same standard of pension provision as a 'high priority' for the University, to fully engage all members of Council in it, and to report to Congregation in a timely and transparent manner. Many members of Council are here today, and we look forward to this discussion as the first step in a regular and open exchange of information between Council and Congregation. As Chair of the Pensions Working Group, we welcome Council's decision to expand membership of the group seeking to be even more representative of the collegiate University and the staff eligible for USS pensions.

The range of responses to the pensions issue here in Oxford, and at other universities, has demonstrated that there is a kaleidoscope of perspectives on this topic. The more we can now reflect those perspectives in the Working Group, the more effective it is likely to be. The deal which has now been reached at ACAS and agreed by a majority of UCU members recognises that the lack of trust in the valuation of the USS scheme was a stumbling block which could not be ignored. The Joint Expert Panel, which the employers and the Union have established, now has time to build a consensus, although USS have recently indicated that they may need to increase contributions in the meantime.

Council welcomes this approach as a way to break the logjam, but an agreed valuation does not necessarily answer all the difficult questions we and other universities face. If higher contributions are required from the University and from staff, how can they be afforded? If there are to be any significant changes to the USS scheme, how can we answer the questions of intergenerational fairness? How can we continue to make academic careers attractive with many and varied priorities for reliable pensions, competitive salaries and employment benefits, more secure career progression, better working environments, affordable housing, etc?

So, I'll jump to my last point that, on behalf of Council and the Pensions Working Group, I hope today's discussion will not be seen as marking the closing of a troubling chapter in the University's history, but instead will mark the start of a concerted and sustained effort by the whole University to confront these urgent questions together.

**The Vice-Chancellor:** Thank you, Professor Hobbs. I'd now like to invite Professor Johnson.

**Professor Johnson:** Geraldine Johnson, Christ Church, and elected member of Council.

Vice-Chancellor and colleagues, I must admit, when I joined Council in October as an elected member, the thought that I would be standing here discussing the intricacies of pension regulation never crossed my mind. But with hindsight, it seems obvious that pensions were going to be a challenging issue at Oxford and across the sector. With hindsight, we can also think of many ways that Council's take on this debate could have been better communicated to the University at large. As a member of Council elected by and from Congregation, I have a particular perspective on recent events and future developments that I would like to share with you today.

All Council members have a duty to act in the best interests of the University. None of us, whether *ex officio*, external or elected, can advocate on behalf of a particular constituency, but as an elected member I have a special interest in the relationship that exists between Congregation and Council. The well-being of the University as a whole, and of our very special system of self-governance, inevitably demands a high degree of trust between the two. However, maintaining trust between Council and Congregation requires better communication and much closer engagement on both sides. As many of you know, Council has issued a number of statements in recent weeks about the pensions debate, but messages popping up in our overcrowded inboxes and even events such as the one we are participating in today are often only one-way modes of communication. We simply must find a better way.

One attempt to do so is the development of a new, online discussion forum that will allow Council and Congregation to discuss issues such as pensions in a more informal and timely manner than is presently possible. The fact that this idea grew out of conversations between elected members of Council and fellow members of Congregation with a keen interest in

the pensions debate demonstrates how productive open exchanges of ideas can be. My fellow elected member of Council, Professor Matthew Freeman, is taking the lead in establishing the forum, which will aim to be user-friendly and to encourage two-way conversation. We hope that it will go live in the coming days and, crucially, that it will be easy to find on the University's website. Famous last words, I know, but this really must be a priority, not only for the forum, but also for other information shared by Council.

In the long run, of course, one new interactive website can only be part of the solution, and please don't forget that members of Council can also be approached by email, Twitter or even, as our students say, 'in real life', over lunch or a cup of coffee. In fact, if we have learnt one lesson from recent events, it is that Council must ensure that the concerns of all our colleagues, including those who are not members of Congregation, are heard and properly considered.

We have the opportunity, over the coming months, to work together to improve the situation. After weeks of feverish activity, the recent suspension of industrial action suggests that the pace of events is likely to slow, but engagement between Council and Congregation, and between both bodies and the wider University, must not. We probably won't know the details of the final pensions proposal for quite some time, but without undermining sector-wide negotiations, we can at least begin to think about how we might react to various scenarios.

While members of Council must always be mindful that they are trustees, the most recent statement issued by Council clearly indicates that it will seek to be flexible and creative in responding to the final proposal. How much financial and regulatory flexibility the University has in formulating a response will be a pressing question, as will related questions about intergenerational fairness, recruitment and retention, and how to ensure that academic careers remain viable. This will be true in colleges as well, where similar discussions are likely to be taking place.

It is hard to imagine a more difficult challenge than pensions. Individual interests and those of the institution often seem to be in tension, and in a pooled scheme like USS, any proposals we devise will have an impact well beyond the ring road. Much is at stake and the issues are complex. To address them successfully, Council and Congregation must work together openly, collaboratively and with

the belief that we are all acting in the best interests of the University, its staff and its students. I thus hope that today's discussion and initiatives, such as the online forum, signal the beginning of a new era of productive interaction and engagement between Council and Congregation. Thank you.

**The Vice-Chancellor:** Thank you. I'd now like to invite Mr Kerr.

**Mr Kerr:** Giles Kerr, Director of Finance of the University.

Vice-Chancellor, Proctors, members of Congregation and colleagues, my purpose is to provide members of Congregation with the information that has been provided to Council concerning the possible costs of continuing to provide pensions at the same standard as currently available.

UCU and UUK have agreed to establish a Joint Expert Panel to review the USS valuation. When the panel has completed its review we may be able to better assess the cost of continuing with the current level of pension provision, and I certainly do not wish to pre-empt that review. However, the panel will be operating within certain constraints, not least of which is reaching a valuation that is acceptable to the trustees of USS and the pension regulator. It is also possible that the panel will not be successful and USS will, through what is known as the rule 76.4 process, impose a contribution level that maintains the current level of benefits in any case.

Currently, the University pays USS 18% of salary for each employee who is a member of the scheme, and the total pensionable salary bill is approximately £400 million. Therefore, every 1% increase in cost is £4 million per annum extra cost to the University. The valuation that was acceptable to the USS trustees and to the pension regulator required an increase in pension contributions of around 11%, which would be shared between employees and employers. Now, if I make a bold assumption that the employee contribution increases by 2%, therefore the cost to the employer increases by 9%, which is equivalent to £36 million.

Now, as far as possible, the University would seek to recover the research-related proportion of this increase in cost from research funders, although this would not necessarily be possible in all cases. We would hope to recover around 40% of the increased costs, resulting in a net cost to the University of around £21 million. Now some might argue that £21 million is not particularly significant when set alongside

the total University budget of £1.4 billion. However, this cost would be recurrent and likely to continue for many decades and can be compared with the 2016 surplus of the University of £3.4 million. One way of illustrating the magnitude of the funding challenge is to consider the level of capital endowment that would be required to sustainably fund the increased cost of £21 million. And if the University wished to create sufficient endowment to fund this level of increased pension cost, the capital requirement would be over £520 million.

Now, the costs referred to here are based on the estimates provided by USS, and there is consideration being given to alternatives to USS. The University is actively exploring other options to see if there may be a better one. This is not straightforward because USS has exclusivity rules that place tight constraints on employers, and it is likely that any alternative arrangement would require the agreement of the USS trustees. Proceeding without the USS's permission is not a realistic option because, under the USS rules, as earlier mentioned, there would be a required payment, by way of an exit payment, of £2.7 billion to USS. So Council may therefore need to think creatively and explore options, including some form of top-up arrangement, or to look at how overall remuneration packages might provide other ways of mitigating the shortfall. Thank you.

**The Vice-Chancellor:** Thank you. Professor Green.

**Professor Green:** Abigail Green, Brasenose College.

Vice-Chancellor and colleagues, the deficit in the pension scheme has been presented as a situation beyond the University's control and one for which it is not responsible. Strictly speaking, this may be true, but many of the difficulties currently faced by USS arise from a regulatory framework which requires pension funds to make low-risk, low-interest investments. The rate of return for these investments is so poor that the deficit snowballs, hence the crisis.

Oxford and its colleges are more implicated in this situation than the debate so far would suggest. I want to draw Congregation's attention to the fact that both the University and its colleges have been benefitting, in fact spectacularly, from these same regulatory constraints. Pension funds suffer, but institutions like ours now find it easy to raise money; these facts are not unconnected. We all know that the University recently took out a £750 million fixed-rate bond over 100 years at the low rate of 2.6%. Some of

us may belong to colleges which have taken out smaller loans at similarly attractive rates. Those of us involved in making these decisions will have been told that the ability to take out loans like this is a unique opportunity, reflecting the low-interest rate environments in which we find ourselves and the regulatory constraints on pension funds, which mean they have no option but to make 'bad investments'. So we are in fact profiting from the constraints that are devastating USS.

These two developments represent two sides of the same coin, but the University wants to have its cake and eat it, or so it seems: to borrow money at incredibly advantageous terms and then to hold up its hands and say, 'Oh sorry, we can't do anything about this regrettable situation, which is a product of factors beyond our control'. To me, this seems disingenuous. Under the circumstances, I find the position that higher employer contributions are unaffordable hard to defend. Why not spend less on building projects and more on University staff? Rather than hold up its hands, Oxford needs to rethink its priorities.

More generally, both Council and Congregation would do well to reflect that Oxford's ability to raise money in this way is a product of Oxford's relative wealth. Poorer universities don't have that option. If this wealth brings greater risk and greater responsibility within the collective framework of USS, then perhaps that's a price that deserves to be paid. After all, we do not operate in a vacuum, nor are our successes as an academic institution unrelated to the health of the UK university sector as a whole. To conclude, I think it isn't unreasonable to ask Oxford to accept higher risks of default by USS, since it is in fact complicit in the overall system which has left USS struggling for returns.

**The Vice-Chancellor:** Thank you. Professor Schekochihin.

**Professor Schekochihin:** Alex Schekochihin, Merton College.

Vice-Chancellor, Proctors, Congregation, I'd like to talk about priorities, as well, that guide us in addressing this problem at hand. 'The principal objects of the University are the advancement of learning by teaching and research and its dissemination by every means,' says Statute I. This advancement of learning is done by the people whom the University employs or would like to recruit: academics, support staff, administrators. If we fail to protect their economic security, we undermine our own core aims, as we risk loss of morale amongst those who

are already here, and imperil our ability to attract the best and brightest. Even putting these considerations aside, the welfare of our staff must be a key ethical imperative for us as a responsible employer.

After ten years of gradual erosion of pay, the proposal to erode pensions as well was predictably a catalyst for expression of much discontent, and arguably caused the catastrophic deficit of trust between Congregation and the University's leadership. The problem is not just poor communication. The problem is that the University could ever consider it a legitimate or viable possibility to break the implicit contract with its employees and allow a dramatic cut to their pensions, whatever the external circumstances. This suggests that the priorities and policies that have been pursued on our behalf are dangerously out of sync with the will of Congregation and with the values that this University ought to espouse. The guiding principle of these policies - which, to put it crudely, appears, at least until recently, to have been physical and numerical expansion at the expense of staff's condition of employment - might have made a kind of neoliberal sense in some commercial setting, where 'human resources' can be assumed to be plentiful, cheap and easily replaceable. Perhaps, these days, that is the way in which one is supposed to run a fast-food chain or, shall we say, G4S.

At Oxford, we ought to know better. We ought to know that at an institution of higher learning, the human resource is fundamentally the only resource, without which nothing else matters. And it is a resource that is precious, scarce and highly mobile. In our bid to attract and retain academics and support staff of the highest calibre we are facing stiff competition in the 'global market for talent' - the quote is from the Vice-Chancellor. The Vice-Chancellor herself has in fact already stated, to some national acclaim, her commitment to meeting the challenges of this market in application to recruitment and retention of vice-chancellors. What is required now is to extend this vision to recruitment and retention of the rest of the University's staff. When I speak of 'retention', incidentally, I do not mean individual retention packages that are hastily scrambled together when someone receives a lucrative offer from Harvard or Princeton. I mean creating such conditions of employment, in such an environment of intellectual excellence, that it would not occur to most of us to lust after such offers from places that, after all, are meant to be pale imitations of this venerable institution.

If we fail at this task and allow ourselves to slide into mediocrity, all the other priorities that we have been pursuing with such great enthusiasm become moot. What is the point of better buildings if we fill them with poorer and demoralised staff? What is the point of expanding our ranks, if we are not in fact the world's best? What is the point of increasing our research output if its quality is unremarkable? Thus, in dealing with this pension crisis, and indeed in dealing with everything else, let us set our priorities straight. People must come first. An immediate corollary of this principle (in application to the problem at hand) is that there cannot be any further dilution of pensions. Yes, this may be expensive and, yes, we can afford it if we do indeed consider people our first priority.

It is therefore a very encouraging development that Council - inspired, finally, by its elected members - announced on 4 April its commitment to maintaining the current standard of pension provision for all USS members at Oxford. It will make every effort to achieve this within the national framework of the USS, but its commitment to its own staff must be unconditional. Congregation should welcome this commitment and treat it as a binding one. With this new priority as their guiding principle, we can look forward to our able administrators, and the reformed and reinvigorated Pensions Working Group, coming up with imaginative solutions that will stand up to scrutiny in both Council and Congregation. When this happens and the Council's commitment is honoured, we will have travelled a long way toward re-establishing a sense of common purpose between all of us. Could it be that we have a system of governance that actually works? Thank you.

**The Vice-Chancellor:** Thank you, and thank you to all the speakers. That now concludes the list of those who had indicated that they would like to speak, but as we are here and have time, if there was anybody else who would like to speak, could you please so indicate? Yes, please, come forward, and if you wouldn't mind telling us your college or department, and name.

**Professor Lintott:** Hello, I am Professor Chris Lintott from the Department of Physics and New College.

I was one of the people who was scheduled to speak at the Congregation meeting at the end of last term, and I'm surprised to see slightly fewer people here today and surprised that more of my colleagues are not on the list to speak when I know, and other speakers have referred to, the depth of feeling on this issue in the University.

And I want to echo something that other speakers have said, and that's the idea of our pension provision in Oxford as a key part of our ability to attract the best people, the best academics and researchers, the best support staff and the best administrators to the service of this University. I haven't made a job offer to anyone in the last ten years without saying roughly the same thing: the pay is not great - I run a team that includes many people who could treble their salaries by going and working in web development or data science elsewhere; the work is exciting and interesting and fascinating and uniquely varied; and the pension is pretty good. And it's those three things together that allow us to attract some of the best and brightest people to this University and to the cause that we are all embarked on of furthering learning.

I genuinely do not know what I will say next time I am in those conversations. When people are looking at the pension provision - not just elsewhere, not just abroad and not just the salaries they can arrange elsewhere, but the pension provisions at other universities in this country, who are not in USS and whose schemes are more generous than ours, at least for now - I have no idea what I will say that will enable me to recruit a team that's worthy of what we are trying to do here at Oxford. What I'd like to say to the members of Council who are here is that those of us on the front lines who are engaged in these conversations need your help in providing an answer that will satisfy staff who are here already and those that we would wish to join us. Thank you very much.

**The Vice-Chancellor:** Thank you. Would anybody else like to speak? It would appear not, in which case let me draw the proceedings to a close.

I would first and foremost like to thank all of you who have spoken this afternoon and those of you who have taken time to attend the meeting. I very much hope that this meeting - and many subsequent opportunities to exchange ideas, to exchange views, to generate ideas as to how we may address the difficulties and challenges posed to the University and to the sector as a whole by pensions - and very much hope that we, together, as a result of these interactions, we will be able to play our full part in developing a sustainable solution to the USS pension issue. Meanwhile, regular updates on local and national developments will be provided as they are available. So, with that, I will draw this Congregation meeting to a close. Thank you.