**OUBUCU Podcast Episode two - Pensions with Sam Marsh**

**Kit Power:** Hello and welcome back to the Open University UCU branch podcast. I’m your host, Kit Power (he/him) Branch Vice President at the Open University and this is the second part of our two-part interview featuring UCU pensions negotiator, Sam Marsh. In this second part, Sam and I will be doing some jargon busting. I’m going to throw some phrases at him that we’ve heard used in the official UCU and UUK reports and I’m going to ask him to define them for us, in order to hopefully provide some much needed clarity on what some of these terms actually mean in practice, when they’re used in these discussions.

Now, this interview was pre-recorded and I have edited it, this time out, to take out what were initially lengthy questions from me, the reason I mention that is simply because you will hear a difference in the quality of the recording between my naming the terms and Sam giving the answers, that’s why that is. I’ve trimmed it down to just give a single word and then Sam’s response, but obviously you’ll hear that in the edit, I just wanted to be up front about what that means and doesn’t mean, and just so that we’re absolutely clear on this, Sam was given the final approval before this podcast went out, so please don’t worry although we have edited it, it’s gone out with his approval.

Anyway with that caveat in mind and with no further ado, let’s got back to Sam and I, in discussion and a bit of jargon busting on the pensions.

I think what I’ll do now is I’ll just do some quick-fire jargon busting questions, if that’s alright. So these are some terms that our members flagged up to us, you know, who have done the reading and gone through the reports, so they asked us to do this. This is almost like a glossary, type thing if that’s OK. I’m just going to fire some phrases off at you that they pulled out and ask you if can just, put you on the spot, this is a bit of a pop quiz! The first phrase I want to throw at you is “prudence”.

1 minute 49 seconds

**Sam Marsh:** Yep prudence essentially does mean what it sounds like it means, it means being careful over your assumptions for the valuations, so rather than going at a, sort of, a best guess, you know, a kind of central this is what we think will happen, you load things in a sort of negative direction to allow a bit of room for adverse events. The problem is that you can go as far as you want with prudence, and essentially it allows you to come up with whichever numbers you want. You keep pushing it to be more and more careful and in doing so you make all the sort of numbers/deficits or contribution rates go up. And one of the big disputed parts of the current methodology is that USS seems to have shifted their level of prudence in their investment forecasts significantly, they’ve become a lot more cautious in their investment forecasts. If they’d have left the kind of prudence level they had in the past on their investment forecasts, I don’t think we’d even be looking at a deficit right now, but they’ve shifted the dial so far, so as to be ultra-cautious. To just give you some idea of how cautious they’re being, they’re now saying that they can’t allow any assumption beyond zero percent real growth for their investments, in other words, the best that they say they’re going to allow themselves to forecast is for the investments to just match inflation and nothing more. Now this, compared to history, this is basically unheard of for investments of the kind that USS hold to grow that slowly or to essentially not grow at all, so yep this is where you get to if you ramp up prudence to the n’th degree.

3 minutes 38 seconds

**Kit Power:** Discount rate

**Sam Marsh:** Discount rate yes, think investment forecasts rate, so how much return you think you will get on your investments. This is what is fed into the valuation as something is called the discount rate. If the discount rate is 5% that means you’re expecting 5% return on your investments, but at the moment the discount rate is way down, 5% would be great in this valuation, I think we’re looking at more like 2.1% which is the same as the inflation assumption.

4 minutes 14 seconds

**Kit Power:** So on that point about the discount rate then, how has the scheme performed historically against the new ultra-prudent discount rate that they’re currently setting?

**Sam Marsh:** I should do this with a graph really, but if you compare the historical performance, there’s data going back to 1995, that’s easily accessible and if you plot how the funds have performed since 1995, you see this line that wobbles around a bit, various stock market bubbles that have popped in various places but essentially it kind of climbs up and up, as you’re used to seeing sort of graphs of how the rich get richer etc. So you have that going up and I’m afraid I don’t have the numbers to hand at precisely what rate it’s averaged over the last decade or so. I think we’re looking at something like 8% per year and then you look at the forecasts that are being used by USS and as I said essentially zero percent real growth and in graphical form, you just see this disjunction between history and future forecasts, and it doesn’t take a market analyst to look at that and raise some eyebrows. Although even those who are market analysts raise their eyebrows!

5 minutes 35 seconds

**Kit Power:** Employer covenant.

**Sam Marsh**: So the covenant for a pension scheme is the support of the employers for that scheme and why it’s important for a valuation is if you’ve got a really strong support for your scheme, employers that have been around for a long time and are not going anywhere, or sectors that have been around a long time and are not going anywhere, or sectors with lots of money for example, lots of assets or spare cash then you can afford to be a bit less prudent in your valuation assumptions, because if you have not been quite careful enough there will be someone to step in and set things straight again. So that’s what covenant means, it is a key point in this valuation because USS are claiming they want more from the employers in terms of assurances that they will stick with the scheme and not put the scheme at risk. So in terms of… they want what’s called a moratorium on exits, they want employers to commit to not leaving the scheme for the next 20 years, 30 years, possibly indefinitely. So it’s a key part of this valuation.

6 minutes 45 seconds

**Kit Power:** Thank you, that’s really helpful. So I just want to ask a devil’s advocate question. OK it seems like, from what you’ve described, USS have been ultra-cautious but surely that’s their job, we’ve just had the Covid crisis, how well have their ultra-cautious predictions about the growth of the pension fund held up over the last 5 or 10 years?

**Sam Marsh**: Well, I think caution is good, definitely it’s good, we don’t want to see this scheme fall over or people not get the benefits that they’re promised, but when caution goes too far and ends up essentially being a, resembling a rip-off, you know, in terms of if you’re setting the price for how much it costs to provide these pension benefits and you’re too cautious, you end up ripping people off and severely over charging them for what they’re going to get. So that’s what the problem is with the caution we’re looking at here, take it too far and it causes problems. And compared to what’s happened in recent times, yeah, it’s crazy, I mean every valuation they come out with these cautious forecasts which are becoming more and more cautious, and then we look at what happens in the subsequent years and we find that yep, they’ve been far too cautious and the effect is that it’s taking money out of the sector, taking money out of people’s take home pay, for what essentially? Just so that someone can pat themselves on the back and say they’ve been very cautious.

8 minutes 22 seconds

**Kit Power:** OK, wellthank you very much indeed for your time Sam, I know you’re very busy indeed and you know, we’re very grateful for you taking time out of your busy schedule to come and talk through these issues with us. Hopefully our members and others will get a lot of benefit from this, so yes, thank you so much for your time Sam, pleasure to talk to you.

**Sam Marsh**: You’re welcome.

**Kit Power:** So that’s it, that’s our show, once again thanks so much to Sam Marsh for taking time out of his incredibly busy schedule to speak to us, we really appreciate it and we hope you got a lot out of it. If you did please click the like and subscribe buttons associated with your podcast catcher or even if you’re listening to us on iTunes leave us a review, that would be fantastic and helps us spread the word and spread awareness of the podcast. Also if this interview has made you want to do something about the issues described but you’re not quite sure what please do get in touch with your local union branch and see what they have to say about the issue. I’m sure they’ll be able to give you a way you can help. Thanks for your time, look forward to talking to you again.

Ends 9 minutes 18 seconds