**OUBUCU Podcast Episode one - Pensions with Sam Marsh, June 2021**

**Kit Power**: Hello, and welcome to the Open University UCU podcast. I’m your host for this episode, Kit Power, (he/him), branch vice president. We expect other members of the executive committee to take on hosting duties as the series progresses. The purpose of this podcast is to talk to Open University members and non-members alike, as well as the wider UCU and higher education community, discussing matters both national and local, but with an eye to things that are affecting the wider sector as well.

0 minutes 28 seconds

For our inaugural two-parter we’re absolutely delighted and honoured to be joined by Sam Marsh, who is one of UCU’s chief negotiators over the pensions dispute over the last few years, and he’s here to talk about, as you might expect, the pensions dispute that’s been going on over the last few years. This is a two-part interview so for the first part we’re interviewing Sam in a general sense, I’ll be asking him a few questions about how the dispute got to where it is, and what the current state of play is. And in part two, we’ll be doing some jargon-busting where I go through some terminology that’s used, in both the UCU and UUK reports, and help him to explain them to us. So here we are with part one of the interview with Sam Marsh and myself, Kit Power.

1 minute 12 seconds

And because the topic of the conversation is USS, we’re incredibly honoured, and happy, to be joined by Sam Marsh, he/him, who is one of our chief negotiators. So, welcome Sam, thanks very much for agreeing to talk to us today.

**Sam Marsh**: Hello thanks for having me.

1 minute 27 seconds **[The USS valuation and how it works]**

**Kit Power**: So, I’m just going to jump straight into the questions. At the heart of the pensions dispute that we’re facing at the moment is an issue with the USS valuation. So, could you start by explaining for our listeners, what the criteria are for this disputed valuation, and why do both UCU and now UUK agree that it’s erroneous?

**Sam Marsh**: Yeah, really good question, and firstly, you need to understand what the point of a valuation for a scheme like USS is, and that’s all about comparing the money that’s been paid into the scheme, the total assets that the scheme has accumulated, with what they think is going to be necessary to pay all the benefits that have been promised. And that’s not an easy thing to do, it’s a complicated calculation, it involves lots of predictions about the future. Some of these are I guess obvious to people if they think about pensions, like how long are people going to live how long are they going to get their retirement benefits for. Some of it’s perhaps less obvious but probably, a lot more important. The key one is to do with investment forecasts. How much will that pot of money grow between now and when it needs to be used to pay the benefits? And, depending on which assumptions you make over the investment forecasts, you can come to very different conclusions about whether there’s enough money there, a surplus if you like, or whether there’s not enough money there, and that would be a deficit. So, it’s all to do with the calculation over the predictions of the future, mainly to do with the investment forecasts and because there’s no right answer to this you find an easy ground for a dispute. If you also take into account the fact that this valuation is dated as at the 31st of March 2020, which was the height of market chaos in lockdown one in the pandemic, you can see that you’re going to really have a recipe for a disputed valuation.

3 minutes 27 seconds **[The problems with the March 31st 2020 validation date]**

**Kit Power**: OK, so it sounds like – let me just check my understanding here – it sounds like what you’re saying is that at the core of the dispute, certainly with the current round of the valuation, where the line was drawn in terms of determining what state the market was in, was at one of the worst moments in our economy in what, the last twenty years, something like that? Thirty years?

**Sam Marsh**: Yeah it was a very turbulent time in the markets, as you say, probably one of the worst points for decades, possibly even worse than the financial crash in 2008. And the interesting thing is, if you look at all the market indicators, they plummet over the course of March 2020 to the 31st of March, which is the valuation date, and almost instantly after that, they start to recover. And just as one indicator, to give you an idea of the scale of this, USS’s total assets, the total accumulated wealth was at something like 72 billion towards the end of 2019, and stayed around that level until the pandemic hit, plummeted to about 66 and a half billion as at the valuation date, and since then have recovered to 80 billion as at March 2021. So, you get this real dip in asset values around that time, and that’s contributing to this supposed deficit and the high contribution rates that are needed.

4 minutes 55 seconds **[Underlying issues in why USS is valuing the scheme wrongly]**

**Kit Power**: OK, so a core part of the issue that we’ve got in terms of the 2020 valuation is the timing and I think you’ve made very clearly the case why that’s simply not a good point in time to make long term valuation decisions, I think we’ve covered that off? This dispute however does predate 2020, so can you talk to us a bit more about what the issues were that led to the initial 2018 strike actions, what were the pre-existing issues that UCU already had with the way the scheme was being valued?

**Sam Marsh**: The problems in the valuation methods go much deeper than the pandemic, you’re absolutely right. And the main issue is around how to value a scheme like USS, which is different to a lot of other defined benefit schemes. Firstly, it’s got a multi-employer base to it, all the pre-92 universities are sort of jointly in this together. And it’s also an open scheme, so it’s open to new accrual, so which means that people are still paying in and accruing benefits in the scheme. And it’s cash-flow positive which means there’s more money coming in each month than leaving the scheme.

And these features mean that it’s very different to most defined benefit schemes that are out there, tragically they have closed to future accrual, people have been switched off these schemes into inferior schemes in many places, arguably unnecessarily. And of course, this was the big battle in 2018 – did USS need to follow that same path? And the key features of this scheme mean that it shouldn’t be treated in the same way as a closed scheme and yet, the people running the valuation for the scheme, the trustees of the scheme, are taking the approaches that are used for these closed schemes and trying to mimic them for this open scheme, and it’s just not appropriate and it comes to the wrong conclusions.

7 minutes 7 seconds **[The Joint Expert Panel of union and management vs USS]**

**Kit Power**: OK. So, following on from the 2018 strike action, UUK returned to the table to negotiate with UCU about the issue. What’s happened since then?

**Sam Marsh**: Yeah, so there’s been a lot of discussion since then, part of it based around the work of the joint expert panel, who have now produced two reports, which, roughly speaking vindicated the position the union was taking in this, the valuation methods weren’t wholly appropriate for the scheme and there were ways to view the scheme that would give a lot more flexibility.

We’ve been doing an awful lot of work with them on understanding the valuation, and there was something called the valuation methodology discussion forum, which was a working group set up at USS, it involved people from the union, I was one of the representatives from the union, people representing the employers, people from USS, those are the people who run the pension scheme. It even involved the pensions regulator at a couple of meetings, who is a big player in the whole story, and the scheme actuary, the person who gives the advice to the USS trustees.

So, it was quite a big deal. We looked at a lot of evidence. There were lots of requests for different ways of analysing the health of the scheme, we looked at it through multiple viewpoints, and it was really effective in bringing the union representatives and the employer representatives to a common understanding of how healthy they think the scheme was and what sort of methods should be used to value the fund. The big problem was, it didn’t shift the decision makers at all. The people at USS who have the final decision on how to value the fund, they weren’t moved by any of this. I find it hard to understand why, because from our point of view the evidence was clear cut, but they struggled to move away from a fundamental premise that they should be viewing this scheme as if it was liable to close at any minute, and that they needed to be able to wind it down at any point. Which was very frustrating.

**Kit Power**: OK, and just to be clear on that for people who may not be familiar. The joint expert panel – that was made up of experts in the field of pensions from both union and UUK sides, right? And, as the name implies, Joint Expert Panel, and, am I right that those findings were unanimous, as well? There wasn’t serious disagreement within the panel about this stuff?

**Sam Marsh**: Yeah that’s right the joint expert panel had an independent chair, Joanne Segers, who’s very well respected in the pensions industry, and then it had three nominees, put forward by each side, so three from the union and three from employers, and you’re absolutely right, their reports were unanimously endorsed by the panellists. So there was no disagreement about the content amongst the people on the panel. And they were well received by both the union leadership and its membership, and by Universities UK on behalf of employers and all the individual employers, I think. Almost unanimous support from across that whole base, which was quite something, considering where we started this dispute. But as I say, the big problem was, that this report was not really taken on board by the people running the pension scheme. They didn’t have to agree with its findings and decided that they would take on board some aspects of what was being said but, essentially, they would carry on as before.

10 minutes 41 seconds **[Current state of play in spring 2021]**

**Kit Power**: So the current situation then – you’ve brought us up to speed on the history, we’ve discussed the joint expert panel and the findings, we’ve got a situation where the experts are unanimously agreeing that the valuation methods that are being used by USS simply don’t take the correct approach to risk that they should be taking, and then they go ahead with the valuation in, you know, one of the worst, most turbulent periods of recent financial history in order to base their latest valuation. So, what is the current state of play then as of April 2021 with regards to USS and their valuation. Where are we at?

**Sam Marsh**: We’re in the middle of this 2020 valuation. USS have come to their conclusions and published their numbers, and they say, big deficit in the fund, in other words, not enough money put aside to pay for all the promises. They’ve said that to continue, the total amount of money that needs to go into the scheme would be at least 42% of each scheme member’s salary, possibly as high as 56% of salary, which is off the scale. For context, before the dispute in 2018, the figure was 26% of salary in total. So that’s potentially more than doubled since then. No one thinks that those kinds of rates can be paid. I don’t even think USS believes those kinds of rates can be paid by members or employers.

It would be a huge increase for both scheme members and the employers that have to put in the money. So, essentially this is forcing a change of benefits if these numbers stick. So, Universities UK, on behalf of the employers, have come up with a proposal to try and bring things back down into the range that we‘re currently paying, but to do that they have to really hammer the scheme design, they have to cut the benefits that are being promised in most ways they can think of doing it.

12 minutes 41 seconds **[What can UCU members do to help?]**

**Kit Power**: Given that we seem to now at least be in a situation, where, for the most part, UCU and UUK are on the same page, what are the next steps for us, in terms of this showdown with USS, and what can our listeners do to help?

**Sam Marsh**: Yeah, that’s a good question, so next steps, well it could go in a number of directions. The proposal that Universities UK have put on the table is being sent to individual universities for comment, essentially to the management of those universities, now we’re hoping that they are going to be unimpressed with this as a solution, because I’d expect that they will see it as a kind of non-solution, something that’s going to lead to a bit of a crisis in the sector, industrial unrest, and the like, and something that won’t even solve the problem long term. I think everyone at this stage is looking for a long-term solution.

So, I wouldn’t be surprised if that proposal gets something of a lukewarm reception from universities around the country. And I hope it does. What happens then is kind of anyone’s guess, but UCU have made clear our position, and that’s that we want some kind of long-term solution here, we’re not after another dispute and a fix, we want to do this properly. Almost certainly that’s going to involve looking at data at a later date, not at this 31st of March 2020 possibly 31st of March 2021, move it on a year and look at the data then. Now, that’s not within the decision-making abilities of UCU or Universities UK, that’s one for the people running the pension scheme but it’s going to be, I think . . . I can’t see it being possible for them to just insist that they’re only looking at that date and to not move on. So that’s the first thing. The second thing is this could well end up in dispute territory. The best option is that we go back to the drawing board and look again at the data. But I think it’s quite clear that there’s a huge threat to people’s benefits here, people’s pensions, and, people need to be prepared to say ‘enough is enough’, they’re not accepting cuts on the basis of this valuation at this timepoint. So, whether that leads us into dispute with employers, time will tell. It depends on how they respond. As you say, we’ve been working very well with them on all the fundamentals, it’s only at the point where USS insist that there’s no other option that we’re at loggerheads. Until that point, we’re working very well together. So, it’s possible that universities will withdraw this proposal and say ‘No’. We need to go back to the USS trustee and say we need a new valuation; this one isn’t working.

There are other aspects that are being explored, perhaps too complicated for this podcast to talk about in detail, although please do ask for more detail. But one thing that we want to discuss is, whether there’s an alternative way of looking at the defined benefit scheme that would loosen up some of these constraints that USS say exist. Now that could involve a slight loosening of the guarantee around the pension benefits, not a complete loosening but a slight loosening in a way that would allow USS to be a bit more relaxed about their projections for the future, whereby, yeah, we would end up with slightly less security over benefits, but cheaper benefits, and ones that have a bigger projected expected outcome for us.

16 minutes 24 seconds **[Have we any leverage over USS?]**

**Kit Power**: Have USS given any ground at all as a result of the Joint Expert Panel findings, and what leverage mechanisms, if any, do UCU and UUK have to try and get the recommendations of that panel implemented?

**Sam Marsh**: In terms of what leverage there is to get them to do something different, fundamentally the members and the employers of the scheme are the people who, you know, own the scheme, and should be able to have input on how it’s run. The scheme rules determine how the scheme is run, along with things called the Articles of Association for the trustee company.

All these things can be changed, so for example we currently have a trustee board, there are 12 directors of the pension scheme, of USS.

Three of those are appointed by the members through the union, four of them are appointed by employers through Universities UK, and five of them are independent directors that are appointed by the board itself. Now, those five directors are currently, for want of a better word, City types, they come from the financial world and, when one drops, off the board appoints another one. Of course, there are still four City types to influence the decision making there and you get another City type on to the board. That could be changed, that balance could be changed if UCU and Universities UK members and employers, decided there needed to be a different composition of the board, It’s very likely that the make-up of the trustee company could be amended so that we could have, for example, an even split of member representatives and university nominated representatives. Those kinds of things could make quite a big difference to how the scheme runs in the long term. It’s not a way to get something changed immediately, but these are the kind of things that we really need to start looking at urgently as to how we sort this mess out for the future. But I don’t think there is a quick fix to the current valuation. I don’t think there is any way to solve this problem with a quick fix. I think what’s going to have to happen is long drawn-out conversations that take into account a new valuation date, and we fix governance problems, and we potentially look at legal routes to challenge some of the decision making.

18 minutes 56 seconds **[Outro]**

**Kit Power**: So, that’s Part One of the show, thank you so much for listening, if you have enjoyed yourself please do hit the subscribe button, the like button, leave us a review if you’re listening on iTunes or any other podcast catcher and do tune in for part 2 which will be released incredibly shortly, where we get into jargon busting with Sam Marsh.

Also if this interview has made you want to do something to help, but you’re not sure what, your best bet is to go to the website of your local union and branch, and see what they have to say about this.

Thanks, and see you in part two.