

HEADS UP

In this issue:

- **Employee engagement**
- **Senior staff: get ready for April**
- **USS deficit: where are we now?**
- **How to manage the risk of Brexit**

Find out more at :

www.barnett-waddingham.co.uk/highereducation

Our Higher Education (HE) experience stretches over 20 years and includes advice across a top-tier client list, spanning the UK.

Our expertise extends across the Universities Superannuation Scheme (USS), Local Government Pension Scheme (LGPS), Teachers Pension scheme (TPS) and other nationwide schemes. We also advise extensively on university Self-Administered Trusts (SATs) and defined contribution (DC) schemes.

Paul Hamilton, Partner and Head of Higher Education sector, Barnett Waddingham.



Employee engagement

A 2014 poll by Investors in People (IiP) found that **54%** of employees feel that their employer does not care about their health and wellbeing, as long as they get the job done. **48%** of those who state that their employer does not care about their wellbeing also say it has led to them feeling less motivated with a third saying they have considered looking for a new job as a result.

Research* has shown that organisations with high levels of employee engagement are more efficient and effective, and that highly engaged employees:

- are more customer focused, find they are creative at work, and take less time off sick;
- feel proud of the organisation they work for and are inspired to do their best and motivated to deliver the organisation's objectives
- have an increased sense of wellbeing.

When employees are engaged and thriving, they are more likely to be agile and resilient, with fewer health problems. This means they should have fewer days off and be less likely to suffer from anxiety or depression. These factors add up to big savings for the bottom line in terms of staff costs, productivity and performance (Gallup 2013).

Perhaps in part driven by the many complex changes happening to pensions and other benefits at the moment, HE institutions are increasingly looking at how to engage with their employees to ensure they take positive action in relation to their pension arrangements and wider benefits/reward package.

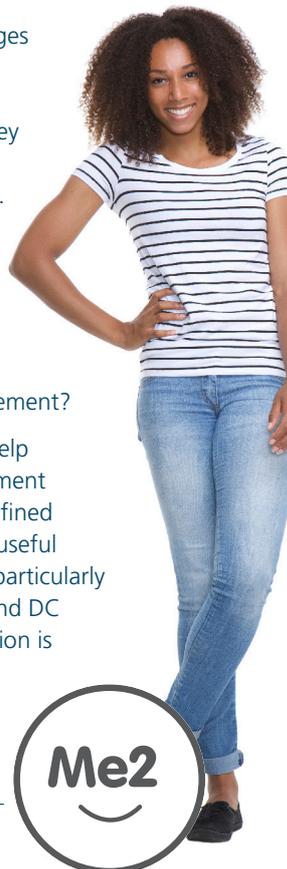
One area where this is going to be particularly relevant going forward is for higher paid staff building up significant defined contribution (DC) benefits within the Universities Superannuation Scheme (USS). How can you best ensure your staff understand their options at retirement?

Me2, our online member engagement tool, can help educate staff, and enable them to compare retirement options, covering both the defined benefit and defined contribution parts of the USS. Me2 is also a very useful tool for members of your own pension schemes, particularly where members have both defined benefit (DB) and DC benefits, or a move from DB to DC pension provision is taking place.

Find out more by visiting:

www.barnett-waddingham.co.uk/me2

* *Wellbeing and Engagement (2014) – Engage for Success – demonstrating the links between high levels of employee engagement and levels of employee well-being*



With effect from 6 April 2016, the ability of senior staff to make tax-efficient provision for their retirement is being cut back – drastically in the case of those earning more than £150,000.

At the same time, there are various 'protection' regimes being introduced to mitigate the effects of some of these changes. All senior staff need to assess their own circumstances to plan for the impact of the new tax rules.

At one extreme, individuals may decide to opt-out of pension provision completely – in which case they may be looking for additional payments from the university in lieu of its expenditure on their pensions. At the other extreme, individuals may decide to continue accruing pension benefits despite the tax penalties, on the basis that the reduced benefits they will receive still represent good value for their own contributions. There is a whole spectrum of intermediate options.

If they have not already done so and as a matter of some urgency, universities need to decide what level of assistance they wish to give to senior staff to facilitate their decision making.

This could include; **written material, seminars for senior staff** and **one-to-one meetings** with an advisor appointed by the university

At senior management level, individuals can have very different requirements and one-to-one consultations are often desirable for the top few members of staff.

USS deficit: where are we now?

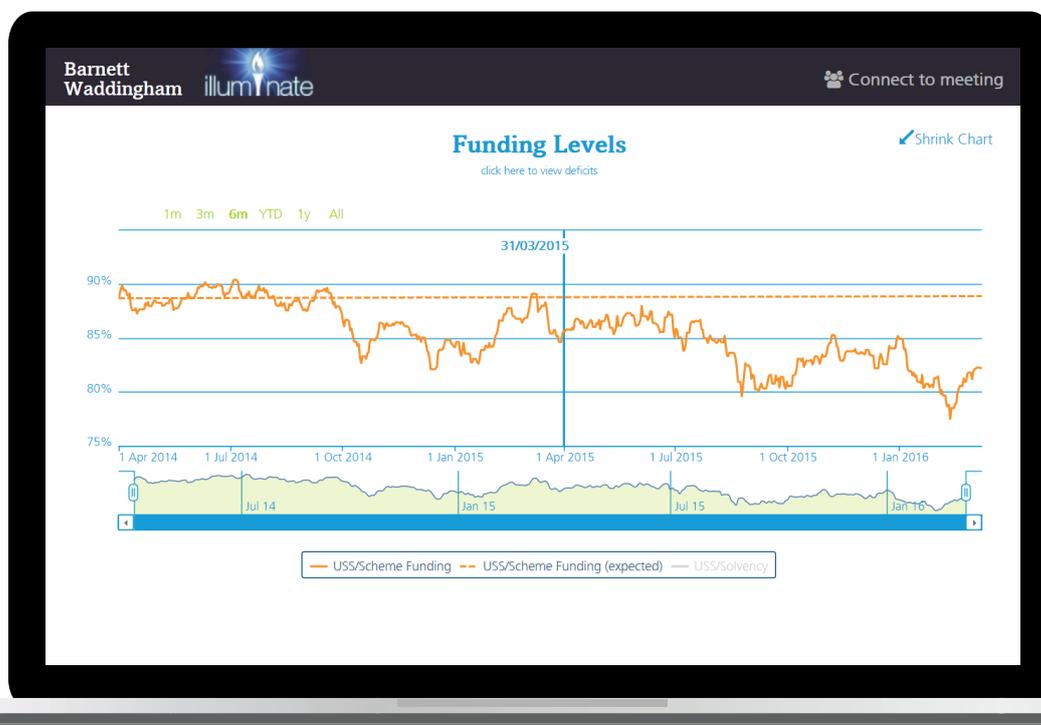
It seems like the 2014 actuarial valuation of the Universities Superannuation Scheme (USS) has only just finished. The increasing deficit led to lengthy negotiations/consultations with HE Institutions and Trade Unions, and resulted in changes to the benefits for employees.

However, thoughts are already beginning to turn to the 2017 valuation – particularly since market conditions have (so far) deteriorated further since 2014. If current conditions continue, what might that mean for the next valuation outcome?

We do not have detailed membership and asset data for the USS, but there is enough publically available information to plot the likely progress of the deficit in broad terms; this can be seen on the graphic below. The solid orange line shows that the funding level may have fallen to around 82%, well below the expected figure of around 90% based on the 2014 valuation assumptions (shown by the dotted orange line).

These figures suggest that the deficit may have increased to around £11bn, but perhaps even more importantly, the cost of benefits under the new structure may have increased from 23% to around 30% of salaries. The combined impact of these mean that if the same approach is adopted at the previous valuation (with no changes for members), the employer cost might increase to around 27%.

The actual position at the 2017 valuation will depend upon gilt yields then, and investment performance from now on.





If the UK votes to leave the EU on 23 June it could have a significant impact on the HE sector in terms of research, teaching and student numbers. What, if anything, should institutions be doing ahead of the referendum?

The possible impact of Brexit will vary between institutions and there is work to be done to identify and understand where the real risks lie. Consider the impact of Brexit on your reputation in a global context, the impact on current and future student profile, the attraction of key research and teaching resources, supply chain, partnerships and international operations. With deepening understanding of the possible effects of a Brexit scenario, you can then apply stress testing and other quantitative techniques to determine how this could impact your organisation.

This can be applied to key variables and assumptions in an existing financial model used for forecasting. The results compared to the capacity and risk appetite of the business help to inform further action.

Scenario Analysis – involves the use of discrete, internally consistent views of how the world will look in the future to assess the effect on an objective of one or more events. It is the process of visualising what future conditions or events are probable, what their consequences or effects would be like, and how to respond to or benefit from them.

Stress Testing - assesses the impact of events having extreme impact. Stress testing differs from scenario analysis in that it focuses on the direct impact of a change in only one event or activity under extreme circumstances.

Any analysis gives you a simplified glimpse into the future but does not change its course, which prompts action if the outcome is not appealing.

This could include planning to contain costs, building in more resilience in operations, adjusting cash holdings, forming a crisis management team and a response plan specific to a Brexit scenario.

Risk monitoring goes beyond watching the news on Brexit. It should include identifying and monitoring risk indicators and being clear at what point contingency or response plans should be activated.

This is risk management in action - helping businesses to manage uncertainty and become more nimble.

How can we help

Our expertise extends across the Universities Superannuation Scheme (USS), Local Government Pension Scheme (LGPS), Teachers Pension scheme (TPS) and other nationwide schemes.

We also advise extensively on university Self-Administered Trusts (SATs) and defined contribution (DC) schemes. Please get in touch to find out how we help both trustees of SATs as well as areas covered in this newsletter and more generally.



About **Paul Hamilton**

Paul Hamilton, Partner and Head of Higher Education sector at Barnett Waddingham, has particular expertise in the education sector; advising multi-employer schemes; and helping clients successfully negotiate the pensions terms in public sector outsourcing contracts. His commercial focus and communication skills ensure his clients understand the relevant dynamics of their pensions responsibilities – whether advising a small employer who has had little previous pensions advice, or an experienced trustee board on an unusual issue.