

## USS members shape retirement saving for the future

Assisted by A2Risk, USS has published the results of the largest ever survey of pension scheme members' attitude to risk, and has revealed how its research has helped to develop the new *USS Investment Builder* due to launch this autumn.

The *USS Investment Builder* will be available to all 150,000 active members of the scheme, and any one joining the scheme in future; membership of this new section will be automatic in respect of salary above £55,000 but will be available to all members if they wish to make additional contributions. Each of the scheme's 370 participating employers has pledged to match the first 1% of any additional contributions made.

To support the design and development of this new section of the scheme the trustee has carried out a comprehensive programme of research, which included a survey of scheme members' attitudes to risk. The research revealed that members broadly identified themselves as belonging to one of three groups when it came to their retirement savings, **do it for me** and **help me do it**, and **I want to do it myself**.

Members in the **do it for me** category wanted tailored products suited to their retirement needs whereas members in the **help me do it** category wanted clearly labelled options and information to help them choose between specific alternatives, finally members identifying with the **I want to do it myself** category wanted to be able to construct their own investment portfolio with a risk and return profile suitable to them and needed the tools and flexibility to be able to make those decisions.

### **Bill Galvin, Group Chief Executive Officer, said:**

"USS is completely focussed on providing the best possible outcomes to employees of the higher education sector, and our product development has been informed by very comprehensive research and engagement with our members.

"The default strategy for members responds to what we were told about how members see their defined contribution (DC) saving in the context of their overall retirement provision, so it will focus on growth for the majority of our members' working lives. Approaching retirement volatility is reduced, but some growth elements are retained right through to members' targeted retirement date. Members can of course change their contribution levels, risk profile and investment horizon by making simple choices, or engage more deeply in bespoke asset allocation decisions if they wish to do so.

"We are grateful to all the members, our research partners and others, who contributed to this research, the feedback has helped us to build an offer tailored to members' needs, at better value than the wider market."

Within the **help me do it** and **I want to do it myself** groups members' needs varied between those who wanted higher/lower risk options and those who wished to make investment decisions based on ethical or religious beliefs.

Around half of the USS membership indicated they were interested in ethical investment, an ethical lifestyle fund will therefore also be provided alongside self-select options.

Ten self-select funds will be made available providing members with a range of options for constructing their own investment portfolios, using the major building blocks in different asset classes but without undue cost or complexity.

**Professor David Blake, Director of A2Risk and Pension Institute at Cass Business School, said:**

“The USS survey of members is the largest ever conducted in the UK for exploring pension scheme members' attitudes to investment risk. The findings support our previous research which suggests that members' decisions about their retirement savings are often based more on perception of the investment world and themselves rather than on reality. The survey data have provided USS with a rich source of information from which they can draw upon to understand their members' attitudes to investment risk and develop their USS Investment Builder proposition specifically for the benefit of the academic sector as part of the new hybrid scheme.”

**ENDS**

#### **Notes to Editors**

The full research report is available [here](#) and the supporting summary of the focus group research with members is [here](#).

USS's new hybrid structure is being introduced this year. On 1 April the USS Retirement Income Builder came into effect providing a defined benefit pension on a career revalued basis for all members. From 1 October a salary threshold will be introduced with contributions on salary above £55,000 being paid into USS Investment Builder, a new DC section. All members have the option of making additional voluntary contributions into the USS Investment Builder. The first 1% of any additional contributions made by a member will attract a matching 1% contribution into the USS Investment Builder from the member's employer.

**There will be 12 investment options in the USS Investment Builder:**

#### **Lifestyle Funds**

- Default lifestyle – a moderately risky mixture of investments which are changed according to where an individual member is in their working life, with greater diversification and de-risking introduced 10 and five years from retirement ;

- Ethical lifestyle – a mixture of investments which do not include some clearly identified types of investment, e.g., oil and gas, the mixture of investments will change according to where an individual member is in their working life;

#### **Alternative Blended Funds**

- Growth fund – a mixture of investments which includes a majority of higher risk/higher potential return options;
- Moderate growth fund - a mixture of investments which includes a balance between higher risk/higher potential return options and lower risk/lower return options;
- Cautious growth fund – a mixture of investments which includes a majority of lower risk/lower potential return options;
- Sharia fund – a mixture of investments which are compliant with Islamic financial law;
- Ethical equity fund - a mixture of investments which includes a majority of higher risk/higher potential return options and do not include some clearly identified types of investment;

#### **Standalone funds**

- UK equity – a mixture of investments made up from UK publicly traded stocks and shares;
- Global equity – a mixture of investments made up from global publicly traded stocks and shares;
- Emerging markets equity – a mixture of investments made up from global publicly traded stocks and shares from developing countries;
- Bond fund – a mixture of investments which include government bonds and other forms of secure debt;
- Cash fund – all money is held as cash – low risk and low return.

In designing the default lifestyle strategy, the trustee used both stochastic modelling of members' capacity for risk, combined with quantitative and qualitative feedback from the survey and focus groups to design a series of diversified growth funds which members will automatically move between as they approach retirement.

The trustee is currently seeking a provider for the funds within the USS Investment Builder and will release more detail about charges and expected returns when that provider has been appointed.

#### **Key findings from the research**

- USS manages £49bn of investments and provides retirement saving solutions for around 330,000 academic and senior staff in the higher education and related sectors in the UK;
- USS is an open, trust-based, private, funded pension scheme, almost half (150,000) of its membership are actively contributing to the scheme;
- Research by the Pensions Policy Institute found that members with higher pay, higher educational qualifications, higher levels of core defined benefit, and lower levels of debt were much more able to withstand financial shocks and manage the risks involved with defined contribution saving;
- USS carried out an extensive peer review, and partnered with A2Risk to deliver the attitudes to risk survey, which received almost 10,000 responses. In addition to the survey, USS partnered with Ignition House to complete qualitative and quantitative research through focus groups involving 115 members from seven different academic institutions;

- USS members are much more likely to stay within the higher education and related sectors (thus maintaining membership of the USS) than other private sector workers who may move between companies and even sectors, potentially building up retirement savings in a number of different types of pension scheme over the course of their working lives;
- Unlike most UK private pension schemes, which have typically moved to a wholly defined contribution (DC) arrangement, USS has retained a defined benefit (DB) element (the USS Retirement Income Builder), thus USS members are able to have greater certainty about their retirement income;
- The certainty provided by the USS Retirement Income Builder means USS members are likely to be able to afford to use their USS Investment Builder more flexibly than those relying solely on a typical DC scheme;
- All of these factors point to USS members having a secure base from which they can ensure they are well prepared for retirement;
- Almost half (49%) of members responding to the survey indicated they were 'likely or very likely' to make additional contributions in order to access the match from employers. If this proves typical of USS's active membership some 75,000 may increase the amount they save towards retirement. This is compared to just 10,000 who make additional voluntary contributions currently;
- Aspects of the new USS Investment Builder which were particularly attractive to members were options for clearly risk-labelled blended funds and an ethical investment fund – with nearly half attracted to the concept of a fund which screened out investments in areas such as arms, fossil fuels, tobacco and companies which exploited child labour abroad or did not respect workers' rights;
- Of the members responding to the survey, 2% indicated an interest in a Sharia-compliant fund, equating to around 3,000 active USS members.

### **About Universities Superannuation Scheme (USS)**

Universities Superannuation Scheme was established in 1975 as the principal pension scheme for universities and other higher education institutions in the UK. It has over 330,000 scheme members across nearly 400 institutions and is one of the largest pension schemes in the UK, with total fund assets of approximately £49 billion.

The scheme's trustee is Universities Superannuation Scheme Limited, a corporate trustee which provides scheme management and trusteeship from its offices based in Liverpool and London. The trustee company delegates implementation of its investment strategy to a wholly-owned investment management subsidiary company - USS Investment Management Limited - which provides in-house investment management and advisory services.

For more information on Universities Superannuation Scheme please go to [www.uss.co.uk](http://www.uss.co.uk)

For more information about the changes to scheme benefits please go to [forthefuture.uss.co.uk](http://forthefuture.uss.co.uk)

### **About A2Risk**

Headed by Drs Alistair Byrne and David Blake, A2Risk provides risk profiling and personality tools for financial services and technology firms. The company's market leading attitude to risk profiler is used in major UK retirement planning platforms as part of the Moody's Analytics Barrie & Hibbert brand. Based on the original Byrne & Blake questionnaire, A2Risk products help investors choose appropriate investment strategies based on personal risk tolerances. Our core product - the ATRQ System - is designed for use in robo-advice solutions with options for accumulation, decumulation, and high-income investors. Find out more at [a2risk.com](http://a2risk.com)

### **About Ignition House**

Ignition House is specialist financial services research agency which has a reputation for excellence built around its senior team who have a unique combination of skills, knowledge and experience drawn from financial research, economics, public policy and management consulting. The Ignition House founders, Janette Weir and Ed Ripley are experts in conducting pension research with members and have been actively involved in helping clients to develop and re-shape DC propositions for the last eight years. Most recently they have been heavily involved in understanding member needs arising from the pension liberalisation reforms announced in the 2014 Budget.