# Pension strike: university staff are getting a ‘Die Quickly’ pension plan. It won’t work.

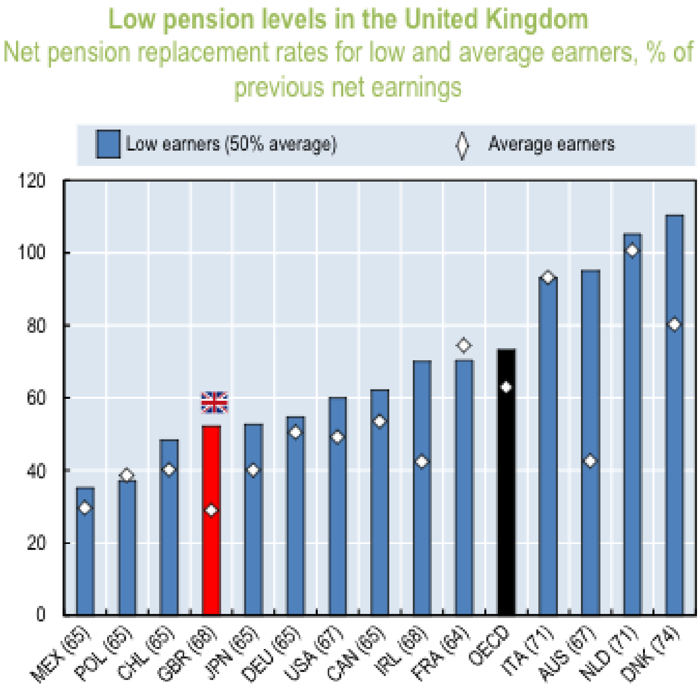
*What is at stake in the ongoing university strikes? To answer this question, **Ewan McGaughey** explains how the pension system works, who governs it, and their conflicts of interest. He argues that there is a need to rebuild the university and pension governance system so that it is more democratic and just. Otherwise the same issues will keep returning.*

We need justice in education. In the face of massive strikes and student protest, Universities UK proposes to change pensions from ‘DB’ to ‘DC’ plans. But what does this all really mean? My niche field of pension law and corporate governance has suddenly become cool with the university strike, so I’d like to (1) explain the issues in this strike in the simplest terms, (2) explain who governs our pensions and universities, and their conflicts of interest, and (3) what we can do about it. We must rebuild our university and pension governance system, so this never happens again.

### What is the strike about?

In a ‘Defined Benefit’ (DB) scheme, your employer guarantees you income from retirement till death, based on your contributions. It doesn’t matter how long you’ll live. This is mostly what the university pension, USS, is now. In a ‘Defined Contribution’ (DC) scheme, you get money on your retirement. But if you live longer than you expect, that could run out. If you live fewer years than you expect, your family could inherit what is left over. Universities UK has a new plan to make all pensions ‘DC’. We should call these what they are: ‘Die Quickly’ (DQ) pensions. You’re better off not living into old age, when money runs out. DC means DQ.

The university employers, UUK (the university Vice Chancellors), argue people are living longer, and so DB pensions are unsustainable. What they don’t say is the UK has among the worst pension systems in the world because DB schemes have been shutdown. Successful pension systems have public DB schemes, where the state pension guarantees you an income for life.




**Source: OECD, Pensions at a Glance 2017.**

Supported by valuations of USS managers, the employers argue spiralling payments are needed to maintain pension benefits as they are. What they don't say is they reach this result through 'mark to market accounting', which faces huge criticism. USS puts everyone's contributions together and invests in the stock market, corporate bonds, government bonds, derivatives, and funds of funds. Those asset values go up and down with the market. 'Mark to market accounting' means accounts show that market volatility. An alternative is 'smoothing' of values, to average out market volatility. This could be better, but pension funds should have decade long investment strategies, not think in short 3 year terms.

What USS has done is picked a point (31 March 2017) when asset prices happened to be low as proof there is a massive pension deficit. UUK now says "defined benefit pensions are unsustainable!" What they don't say is that employers took pension 'holidays' (not paying into your pension) when asset prices were high between 1997 and 2009. One reason asset prices have tanked in the short-term is the economy is being destroyed with, and since, the Brexit poll.

## Who governs our pensions?

It gets worse. The board of USS is packed with 'co-opted' directors (5 of them) who hold the balance of power between employer representatives (4) and staff or union representatives (3). Currently, the co-opted USS directors are four previous asset managers, and one mining manager: from JP Morgan, Warburg Pincus, Old Mutual, Schroders, and Rio Tinto. Asset managers in the US and UK have for 30 years pushed for all DB pensions to close, to become DC/DQ schemes. For instance, Arnold Schwarzenegger tried to 'terminate' the California teachers retirement scheme in 2005, but he lost after mass opposition. Asset managers and certain politicians want this because they can make more fees. If you retire, and you have a lump of cash, but you don't know how long you will live, the asset managers can help you (for a fee). They can sell you an annuity, to give you income as long as you live (for a fee).

Asset manager fees are uncontrolled. If you have an average pension for 40 years, a 1.5% yearly asset management fee sucks 35% of your pension savings into the pockets of the City. Even a 0.5% fee destroys 13% of your pension. If we get DC/DQ pensions, we will be sold these annuity 'services' just like the mafia sells protection. If you don't buy an annuity, you'd better Die Quickly. But if you do buy an annuity, you will be poor, and beholden to City asset managers. Unlike a well-managed USS, those asset managers selling you annuities really might go bankrupt, leaving nothing: like Equitable Life or Barlow Clowes did.

This is why it matters that asset managers are packed onto the USS board. However friendly and outgoing they are as individuals, they are a lobby group for destroying DB pensions. But it gets worse still. If you read into the USS annual reports (I encourage, but don't recommend it!) you find that USS is now paying its fund managers as a whole 482% in 2017 (p.15) of their bill in 2008 (p.103). Total USS operating costs are 186% today of the price 10 years ago.

So why haven't the university Vice-Chancellors done anything about it? If university employers are on the hook, why haven't they reformed USS? The answer is they do not have any incentive to care. As Adam Smith said in *The Wealth of Nations*, they control 'other people's money… Negligence and profusion, therefore, must always prevail'. Always, unless there is accountability in university governance.

University Vice-Chancellors are often friendly, politician-type figures, but the systems to hold them accountable are seriously defective. For example, Dame Glynis Breakwell was the Vice Chancellor of Bath until forced to announce resignation in November 2017. She was paid £468,000 a year. And guess what? UUK put her on the USS board. Even if Vice Chancellors don't directly set their own pay, people they can appoint, influence, or work with, do. Staff and students get votes for the governing body in many universities. But these systems lack transparency, and need to improve a lot.

## What we can do: students and staff

So we need three big changes. First, in every university, staff, the University and College Union, and students should demand every governing body has a majority elected by staff and students. Many universities do this, but the systems need to be transparent and universal. To give just two examples, at Cambridge University the 25 person Council has 16 staff seats, 3 student seats, and 6 seats for university managers. But although the Council is bound by fellows' votes, staff seats are weighted by seniority, and many part-time, fixed-term, and administrative staff are excluded from voting. At King's College, London the Charter and Statutes requires a 21 member Council, with 12 lay members, 8 staff, 1 student. But there is no provision for actual elections of staff representatives, and they should not be in a minority. When managers are unaccountable there is negligence and profusion. UCU stopped the abolition of staff representation in 2011. It is likely that UCU members will organise and push forward.

Second, we need to make pension governance accountable. USS is a big, multi-employer pension plan. It should eliminate inflated costs, and take asset management and corporate voting completely in-house. Nobody on its board should have possible conflicts of interest from their professional background: that includes asset managers like JP Morgan, and mining corporations like Rio Tinto. The most successful pension fund is the Church of England scheme, which has done what the asset management industry said was impossible: it made money with ethical investment, and is divesting from fossil fuels. UCU should get a majority of staff representatives on the pension board, and conduct direct elections for USS members. This will strengthen USS and UCU by engaging staff in union and pension policy. When people have a stake and a voice, they will not let go. They are the experts. They will not let anything like this happen again.

Third, education must be accessible based on merit, and that means free, funded by progressive tax, not regressive debt. In this strike, students are not fooled by attempts to divide them from staff. They know the same management that is cutting pensions supported rising tuition fees. Sir Andrew Cubie chaired the 'Joint Negotiating Committee' behind USS, and used his casting vote to order that DB pensions are scrapped. In 2000 Sir Andrew wrote a report favouring tuition fees in Scotland (but paid through a graduate tax), and has recently been advocating austerity. Younger academics, like me, were the original targets for this experiment in higher fees, not higher education. We are the same as students. We oppose kleptocratic, conflicted, incompetent administration. We want democracy and justice in education.

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**Further reading:**

* L Hannah, *Inventing Retirement: The development of occupational pensions in Britain* (CUP 1986).

* E McGaughey, 'Votes at work in Britain: Shareholder monopolisation and the single channel' (2018) Industrial Law Journal (on votes at work, including at universities, summarised on the LSE British Politics Blog).

* E McGaughey, 'Member Nominated Trustees and Corporate Governance' (2013) Speech to the AMNT (explaining elected pension trustee history and potential voice in corporate governance).

* E McGaughey, *Participation in Corporate Governance* (PhD 2014) ch 6 (on the history of occupational pensions in the UK, Germany, and US).

* E McGaughey, 'Does Corporate Governance Exclude the Ultimate Investor?' (2016) 16(1) Journal of Corporate Law Studies 221 (on asset manager conflicts, summarised on the Oxford Business Law Blog).

**About the Author**

**Ewan McGaughey** (@ewanmcg) is a Lecturer in Private Law at King's College, London and a Research Associate at the Centre for Business Research, University of Cambridge. He did his PhD at the London School of Economics, on the seemingly boring topic of pension law, asset management, and corporate governance.