



Summary

- Rising pension costs and structural imbalances between the Universities Superannuation Scheme and the Teachers' Pension Scheme are pushing universities to rethink long-standing defined benefit provision, with post-92 institutions facing particular pressure.
- Freedom of information data reveals a growing reliance on defined contribution schemes, subsidiary employers and alternative employment models – often introduced quietly and incrementally.
- Trade unions and sector experts warn that short-term cost-cutting risks undermining staff trust, recruitment, and long-term sustainability across higher education.

Universities and the quiet unpicking of DB pensions

Callum Conway examines how financial pressures, policy uncertainty, and rising pension costs are prompting universities to quietly reshape their defined benefit (DB) pension schemes

For decades, defined benefit (DB) pensions were a cornerstone of employment in higher education.

While university funding models, tuition fee structures and student demographics have shifted repeatedly, access to nationally negotiated pension schemes remained a constant – underpinning recruitment, retention and a sense of long-term security in a sector otherwise marked by volatility.

For academic staff in particular, that security has historically rested

on two large, collective arrangements: The Universities Superannuation Scheme (USS), covering most pre-1992 institutions, and the Teachers' Pension Scheme (TPS), a long-established public service pension rooted in the school and further education sectors and extended to higher education following the expansion of the university system in the early 1990s.

For institutions that gained university status after the Further and Higher Education Act 1992, participation in the

TPS for academic staff was not a choice, but a statutory requirement.

That system, however, has been under growing strain.

Rising costs and regulatory scrutiny have pushed pensions from the background to the foreground of institutional decision-making, and the widening divergence between USS and TPS has transformed a long-standing structural feature of the sector into an acute problem.

How we got here

The fault lines first became visible in the USS in April 2017, when the scheme reported a deficit of around £5.1 billion.

Later that year, The Pensions Regulator assessed the employers' covenant as not "strong" but "tending to strong".

Universities UK, which represents higher education employers, subsequently argued that sufficient mandate existed among employers to reduce the level of risk built into the valuation.

The impact was immediate: The deficit increased to £7.5 billion and, in January 2018, proposals to shift future accruals towards defined contribution (DC) were agreed at the joint negotiating committee.

However, the University and College Union (UCU) argued the changes would significantly reduce members' retirement incomes, triggering a prolonged period of industrial action.

It was not until October 2023 that UCU members voted to end the dispute, after employers confirmed that pension benefits would be restored from April 2024.

For many institutions, however, the pensions crisis was far from over.

A system under strain

For at least 80 universities, USS is not the principal pension scheme.

Institutions that gained university status following the 1992 Act are legally required to offer TPS to academic



staff, regardless of institutional goals or financial position.

While some modern universities employ staff with existing USS membership, new academic staff must be enrolled in TPS.

Employers have no formal role in setting TPS valuation assumptions, which are determined through government policy, yet they are required to fund the resulting contribution increases.

By contrast, USS operates under a trust-based governance structure in which employers and members have formal representation and a defined role in valuation discussions, risk appetite and contribution setting.

Until October 2019, employer contribution rates of the two schemes broadly tracked one another, but that alignment ended when TPS employer contributions rose to 23.68 per cent, while USS stood at 21.1 per cent, in April 2020.

In April 2024, the gap widened dramatically: TPS contributions increased again to 28.68 per cent, while USS employer contributions fell to 14.5 per cent.

UCEA head of pensions policy, Andy Fryer, says many institutions cite their compulsory participation in the TPS as a significant financial pressure, which is compounding the massive decline in the value of the 'home' tuition fee level and drop in overseas student numbers – all of which are driving redundancy exercises across the sector.

A shifting landscape

Against this backdrop, freedom of information (FOI) responses obtained by *Pensions Age* suggest that, while the approaches vary by institution, a consistent pattern is emerging. While much of the public debate has focused

on USS and TPS, many universities also participate in the Local Government Pension Scheme (LGPS) for non-academic and professional services staff – and it is here that some of the clearest signs of change are now appearing.

At the University of Cumbria, the LGPS has been closed to new joiners since September 2020.

Between September 2022 and October 2025, non-academic LGPS membership fell from 407 to 301, while membership of the university's DC scheme rose from 155 to 349.

At the University of Portsmouth, data shows declining membership of both TPS and LGPS since 2022, alongside growth in DC arrangements offered through subsidiary employers. At least 317 staff are now enrolled in DC schemes.

FOI material from Southampton Solent University points to a similar pattern. While staff employed directly by the university retain access to TPS and LGPS, employees of its wholly owned subsidiary are enrolled in a DC scheme.

As a result, since 2022, TPS and LGPS membership at the university has fallen sharply, while DC participation has grown significantly.

At the University of Sunderland, board papers released under FOI show a formal pension strategy review concluded that exiting DB schemes was neither feasible nor desirable, but that long-term cost and risk exposure left the institution with limited options.

Governors approved the creation of a new subsidiary to employ new professional services staff from September 2024, offering a DC scheme in place of LGPS.

More than 250 staff are now members of the DC scheme, compared with fewer than 50 a year earlier.

Elsewhere, FOI responses from the University for the Creative Arts and the University of Huddersfield reveal no formal moves to replace DB provision, but both institutions reported falling DB membership since 2022.

Fryer warns that the scale of financial pressure facing the sector has left many institutions with little room to manoeuvre.

“The main factors prompting some higher education institutions (HEIs) to review current pension provisions are simple – they now have no choice but to review all their expenditures.”

“There is a real risk of institutional failure across both pre- and post-92 HEIs,” he adds.

Renewed disputes

Taken together, the FOI evidence suggests that pension changes in higher education are increasingly delivered not through direct withdrawal from DB schemes, but through structural workarounds, such as subsidiaries, alternative employment contracts, and, most notably, the redirection of new entrants into DC provision.

In some cases, these changes have triggered a new wave of local disputes.

At Southampton Solent University in September last year, the vice-chancellor, Professor James Knowles, announced that employees currently enrolled in the LGPS would be transferred to a wholly owned subsidiary, Solent University Services Limited.

However, the UCU argued that the move would also force academic staff out of TPS and onto a DC arrangement offering “significantly worse” retirement benefits.

The union also claimed the university warned that staff who refused to transfer would lose their jobs without notice or redundancy pay.

Southampton Solent has rejected that characterisation, saying it is undertaking a comprehensive consultation and that no final decision has been made.

Wolverhampton University emeritus professor of industrial relations, Roger Seifert, says attempts to weaken pension provision often result in reputational damage and long-term recruitment difficulties.

“In most cases, any short-term gains have been overtaken by losses on goodwill and the inability to go it alone,” he warns.

Seifert argues that public-sector retrenchment drives pension reform in higher education, which stems from ‘austerity-era’ arguments that pensions were overly generous and that existing models were outdated given changes in longevity and risk.

He suggests that higher education has followed a similar path to other public services, but without the same degree of protection.

“Teachers and civil servants have already been recalibrated, with more paid in for longer for a lower return, and higher education has had its own USS round and associated industrial action.

“Against that backdrop, weakening pension provision alongside falling real-terms pay and rising workloads inevitably fuels anger among staff and strengthens the union cause,” Seifert notes.

Risks beneath the surface

For institutions considering more radical restructuring, the risks are considerable.

Eversheds Sutherland partner, Georgina Rankin, warns that transferring staff out of LGPS may crystallise significant exit liabilities and increase costs.

“If a university were to transfer all of its support staff to a new subsidiary company, this could trigger the university becoming an ‘exiting employer’ in the LGPS and crystallise an exit payment,” she says.

“It is possible that reducing the number of employees that could join the LGPS could increase its running costs. The relevant LGPS fund may raise contribution rates as the profile of the remaining employees becomes older, in anticipation of the university’s ultimate exit from the LGPS fund, to reduce any strain on the LGPS fund and any potential deficit,” Rankin adds.

From a trustee perspective, Zedra client director, Louisa Harrold, suggests that where DB provision is closed or replaced, trustees will focus on ensuring ancillary benefits – such as ill-health retirement, early retirement terms and life assurance – are maintained, while also ensuring communications are clear, inclusive and compliant.

She adds that there is no ethical issue in changing future provision for current staff – regulations and scheme rules permitting, and if wider protection benefits as described previously are appropriate.

“There is a real risk of institutional failure across both pre- and post-92 higher education institutions”

However, Eversheds Sutherland partner, Rob Gray, cautions that restructuring requires careful handling of the transfer of undertakings (TUPE) and consultation obligations, warning of potential claims, industrial action and longer-term equal pay risks.

“If staff are transferred into a subsidiary of the university via TUPE, the arrangements will need to meet the statutory requirements for a TUPE transfer,” he explains.

“Assuming those conditions are met, the employer must comply with statutory notification and consultation requirements in relation to the transfer and the pension changes, and failure to do so could result in successful claims from affected staff.

“Aside from the process of transitioning existing staff into a subsidiary, risks can also arise from the employment of staff by the subsidiary.

“This might include discrimination and equal pay risks where staff employed in the subsidiary are doing a comparable job to staff employed by the university but are engaged on less favourable terms

and conditions or otherwise treated less favourably,” he continues.

Meanwhile, government policy on the current system remains uncertain.

In its recent *Post-16 Education and Skills* white paper, the government indicated it was prepared to consider whether the rules requiring post-92 universities to participate in the TPS remain appropriate, while stopping short of committing to reform.

Meanwhile, the UCEA and UCU have urged the government to fund the increases in employer contributions for HEIs, as seen in Scotland, and for further education and schools in England and Wales, although Fryer acknowledges that “additional funding is unlikely”.

With no clear timetable for change, many institutions appear to be acting in anticipation rather than waiting for regulatory clarity.

What next?

Universities have not yet abandoned DB pensions completely, but the evidence suggests many are testing the boundaries of what is possible, causing increasing tension between employers and staff.

With TPS costs still rising, union resistance hardening and university finances under unprecedented strain, pressure to go further will only intensify.

For staff, the risk is that a system built on collective provision is dismantled without a clear national debate about what replaces it.

For employers, the danger is that short-term financial relief comes at the expense of trust, stability and the long-term attractiveness of academic careers.

What is clear is that pensions – once the quiet constant of higher education employment – are now a major source of tension across the sector.



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