

Appendix D

Statement of funding principles

This statement of funding principles sets out the policies of the Trustee of the USS ("the Trustee") for securing that the funding objectives is met.

It has been prepared by the Trustee to satisfy the requirements of section 223 of the Pensions Act 2004, after obtaining the advice of E S Topper, the actuary to the scheme. It has been taken into account in the actuarial valuation as at the effective date of 31 March 2008.

The Trustee has consulted with the Employers, over the content of this statement of funding principles.

The statutory funding objective

The statutory funding objective is that the scheme has sufficient and appropriate assets to pay its benefits as they fall due (the technical provisions).

Trustee's historic funding basis

In addition to the statutory funding objective the Trustee will monitor the Scheme's funding level with regard to its historic funding basis (which makes no allowance for expected future equity out-performance over gilts).

Calculation of the technical provisions

The general principles adopted by the Trustee are that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights. The basis will include appropriate margins to allow for the possibility of events turning out worse than expected and will only be adopted after considering how it compares with the assumptions used to assess the scheme's solvency position.

In particular, a prudent margin will be included in the discount rate and demographic assumptions will be based on prudent principles. However, the Trustee does not intend

for the method and assumptions to remove completely the risk that the technical provisions could be insufficient to provide benefits in the future.

In determining what is 'prudent' the Trustee will take into account their objective assessment of the Employers covenant.

Policy on discretionary increases and funding strategy

No allowance has been included in the assumptions for paying discretionary benefits or making increases to benefits that are not guaranteed under the Scheme rules.

Rectifying a failure to meet the statutory funding objective

If the assets of the Scheme are less than the technical provisions at the effective date of any actuarial valuation, a recovery plan will be put in place, which may require additional contributions from the Employers to meet the shortfall. The Trustee has agreed that any such funding shortfalls should be eliminated as quickly as the Employers can reasonably afford.

In determining the actual recovery period at any particular valuation, the Trustee will take into account the following factors:

- the size of the funding shortfall and the scheme's asset and liability structure;
- the Trustees' objective assessment of the financial covenant of the Employers;

The assumptions to be used in these calculations are set out in the Appendix.

Calculating the normal cost of the scheme

Contributions required to meet the cost of benefits accruing by members after the valuation date will be calculated using the method and assumptions set out in the Appendix.

Arrangements for other parties to make payments to the scheme

There is no provision in the Scheme Rules to allow someone other than the Employers or a Scheme member to make contributions to the scheme.

Policy on reduction of cash equivalent transfer values (CETVs)

At each valuation, the Trustee will ask the Actuary to report on the extent to which assets are sufficient to provide CETVs for all members. If the assets are insufficient to provide 100% of benefits on that basis, so that payment of full CETVs would adversely affect the security of the remaining members' benefits, and the employers are unable or unwilling to provide additional funds, the Trustee will consider reducing CETVs as permitted under legislation.

If, at any other time, the Trustee is of the opinion that payment of CETVs at a previously agreed level could adversely affect the security of the remaining members' benefits, the Trustee will commission a report from the Actuary and will use the above criteria to decide whether, and to what extent, CETVs should be reduced.

Payments to the employers


There is no provision in the Scheme Rules for employers to request a refund of the excess assets over the cost of buying out benefits of all beneficiaries from an insurance company, when the Scheme is not being wound up.

Frequency of valuations and circumstances for extra valuations

Subsequent valuations will in normal circumstances be carried out every three years, the next being 31 March 2011. In intervening years an actuarial report will be produced.

The Trustee will monitor the funding level on a quarterly basis between valuations. If the Trustee decides that it is appropriate, they may commission a full actuarial valuation, when after considering the actuary's advice, they are of the opinion that events have made it unsafe to continue to rely on the previous valuation results and the current contribution level is inappropriate.

This statement of funding principles, dated 4th February 2009 has been agreed by the Trustee of the USS after obtaining actuarial advice from the Scheme Actuary:

Signed	
Name	E S Topper FIA
Position	Actuary to the USS
Date	4th February 2009

Appendix to Statement of Funding Principles

Summary of method and key assumptions used for calculating technical provisions as at 31 March 2008

The method used was the Projected Unit method.

Principal actuarial assumptions for valuation as at 31 March 2008	
Investment return pre-retirement	6.4% p.a.
Investment return post-retirement	6.4% p.a.
RPI price inflation	3.3% p.a.
Salary increases	4.3% p.a.
Pension increases in payment	3.3% p.a.
Non-retired members' mortality	PA92 MC YoB tables – rated down 1 year for males
Retired members' mortality	PA92 MC YoB tables – rated down 1 year for males

The derivation of these key assumptions and an explanation of the other assumptions to be used in the calculation of the technical provisions is set out below.

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilts stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2% p.a. to reflect the prudent allowance the Trustee has agreed for additional investment returns.

Inflation (Retail Index prices)

The investment market's expectation for inflation as indicated by the difference between an estimate of the yields available on notional portfolios of conventional and index-linked UK Government bonds whose cashflows approximately match the Scheme's estimated benefit cashflows.

An "inflation risk premium" adjustment has also been included by deducting 0.3% from the implied inflation. This is to allow for the current high inflation implied by government bonds, compared to the Bank of England's target of 2.75% per annum, which may be due to the current lack of supply of index-linked gilts.

Salary increases

I have assumed that increases in salaries will be 1.0% per annum above the assumed inflation assumption of 3.3% per annum i.e. a total increase of 4.3% per annum.

I have also allowed for a salary scale to reflect age and promotional increase in addition to general salary escalation of 4.3% per annum. Sample rates are shown in the table below:

	% increase per annum	
Age	Males	Females
35	3.8	3.1
45	2.0	1.8
55	1.1	1.4

Pension increases

Increases to pensions are assumed to be in line with the inflation (RPI) assumption as described above. The pension increase assumption is modified appropriately to reflect any benefits which are not fully indexed in line with RPI (e.g. GMP in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality assumptions will be based on up-to-date information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are PA92 Year of Birth tables with medium cohort improvements, for both retired and non-retired members. The tables are rated down one year for male members.

Assumed Retirement Age

USS Limited have informed me that the average age of active members retiring in the three years to 31 March 2008, has risen to 62 years as a result of the introduction of the early retirement funding change. I have therefore assumed that active members will retire from age 62 with no reduction to their benefits.

Deferred pensions are assumed to retire at age 60 but allowing for the appropriate reductions to benefits which would apply for members retiring at that age. Allowance has been included for deferred members shown in the valuation data with a Contractual Pension Age prior to age 65 in accordance with the "Contractual Pension Age/Preservation" judgement.

Ill health retirement

A small proportion of the active members will be assumed to retire owing to ill health. As an example of the rates assumed at the valuation with effective date 31 March 2008, the following is an extract from the decrement table used:

	% leaving per annum	% leaving per annum
Age	Males	Females
35	0.01	0.01
45	0.06	0.08
55	0.21	0.37

Withdrawals

This assumption relates to those members who leave the scheme with an entitlement to a deferred pension or transfer value. It has been assumed that active members will leave the Scheme at the following sample rates:

	% leaving per annum	% leaving per annum
Age	Males	Females
25	14.42	19.28
35	9.19	11.40
45	3.79	3.83

Commutation

We have assumed that no members commute their pension for additional lump sum.

Proportion married and age difference

It has been assumed that a proportion of members will have an eligible spouse/civil partner/dependant at the time of retirement or earlier death as shown in the table overleaf, and that wives/partners are three years younger, on average, than their husbands/partners.

Age	% Spouse/Partner	
	Males	Females
25	34	56
35	81	84
45	92	93

Expenses

Expenses are met out the fund. This is allowed for by adding 0.3% of pensionable pay to the employer contribution rate. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

The actuary will estimate the levy the Trustee must pay to the Pension Protection Fund over the period of the schedule of contributions, based on a section 179 valuation carried out with the same effective date as the actuarial valuation.

Method and Assumptions used in calculating the Trustees' historic funding basis

In calculating the liabilities on the Trustees historic funding basis we have used the same assumptions used to calculate the technical provisions, with the exception that we have made no allowance for any AOA, i.e. using a discount rate of 4.4% per annum.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual will be calculated using the same assumptions as those used to calculate the technical provisions, with the exception of the following:

- an allowance for an AOA of 1.7% per annum, giving a discount rate/investment return assumption of 6.1% per annum
- a reduced allowance for promotional salary increases, sample increases are given in the table below and are in addition of the general pay growth of 4.3% per annum:

Age	% increase per annum	
	Males	Females
35	2.7	2.1
45	1.3	0.7
55	0.7	0.6