MERCER
MAKE TOMORROW, TODAY

ACTUARIAL REPORT AS AT 31 MARCH 2019

Universities Superannuation Scheme

This paper is commissioned by and addressed to the Trustee of the Universities Superannuation Scheme ("the Scheme"). It summarises the results of a financial update (known as an "actuarial report") of the Scheme's funding position as at 31 March 2019. It has been prepared to satisfy the requirements of section 224 of the Pensions Act 2004. An actuarial report must be prepared each year, unless an actuarial valuation takes place in that year.

The most recent actuarial valuation was carried out as at 31 March 2018. The funding position on the technical provisions basis together with the results of my corresponding updated as at 31 March 2019 are summarised in the table below:-

	£ billions	
	31 March 2018	31 March 2019
Total assets	63.7	67.4
Total liabilities	67.3	72.8
Past service surplus / (shortfall)	(3.6)	(5.4)
Funding level	95%	93%

If the assumptions used for the 2018 actuarial valuation had been borne out in practice, then, based on the agreed methods, assumptions and contributions agreed at the last valuation and set out in the statement of funding principles dated 16 September 2019, the deficit would have been expected to have increased to £3.9 billion at 31 March 2019, equivalent to a funding level of 94% relative to the technical provisions. My updated calculations, which allow approximately for the benefits paid out of the Scheme over the period and the audited asset values at 31 March 2019 the deficit was £5.4 billion, equivalent to a funding level of 93%.

The reasons for the deterioration in the Scheme's funding position compared to that expected is due to the lower future expected returns reducing the discount rate and increasing the value placed on liabilities. This has been offset to some extent by investment returns over the period from 31 March 2018 to 31 March 2019 being higher than expected over the year.

The asset value of £67.4 billion is the market value of the Scheme's DB assets at 31 March 2019 based on the audited asset value in the Scheme's accounts. This is an increase of £3.7 billion since the valuation date.

The figures calculated for this actuarial report are not as accurate as those that would arise from a full actuarial valuation as some approximations have been made and updated individual member data has not been used. It is based on the membership data supplied for the 31 March 2018 actuarial valuation assuming that subsequent membership movements have been in line with the technical provisions assumptions made at that time.

The Trustee should consider the results of this actuarial report bearing in mind its view of the employers' covenant and the Scheme's current investment strategy.

Signature	
Scheme Actuary	Ali Tayyebi
Qualification	Fellow of the Institute and Faculty of Actuaries
Date of signing	12 November 2019

The advice set out in this report and accompanying documents is covered by and compliant with the following Technical Actuarial Standards (TAS) issued by the Financial Reporting Council: *TAS 100 – Principles for Actuarial Technical Work and TAS 300 - Pensions*. It should be read in conjunction with the formal report for the 31 March 2018 actuarial valuation and my accompanying background information paper.

This report is designed to provide an overview of the financial position of the Scheme for information purposes only. This report does not contain recommendations in relation to:

- any changes to the method and assumptions,
- the contribution/benefit structure,
- the investment strategy or investment advice (including the design of trigger based investment strategy changes).

We cannot guarantee that the report is suitable for use for the above or for any purpose other than that stated. If this report leads to new decisions or potential changes in any of these areas, then you will need to ensure you have taken further appropriate advice.

We will not carry out any additional work in connection with the report without your prior instructions. If you use this report as part of the implementation of pre agreed investment triggers set by your nominated investment adviser, you acknowledge its limitations and understand that a full valuation may have led to a different outcome.

The contents of the report are confidential and should not be disclosed, in whole or in part, to any third party without Mercer's prior written consent, other than as required by any law or order of a court or regulatory body. Mercer does not accept liability to any third party in respect of this report.

Appendix – Discount rate as at 31 March 2019

The discount rate used for the technical provisions calculation as at 31 March 2019 takes into account the Trustee's updated view on the outlook for future investment returns consistent with market conditions as at 31 March 2019. It is otherwise consistent with the principles adopted for setting the discount rate at the 31 March 2018 Actuarial Valuation. The discount rates as at 31 March 2018 and 31 March 2019 are summarised in the table below:-

FINANCIAL ASSUMPTIONS	31 March 2018	31 March 2019
Market derived price inflation	In line with the difference between the Fixed Interest & Index-Linked yield curves	
Inflation Risk Premium (IRP)	0.3% p.a.	0.3% p.a.
Price inflation (RPI)	Market derived price inflation less IRP	
RPI / CPI gap	1.0% p.a.	1.0% p.a.
Price inflation (CPI)	RPI less RPI / CPI gap	
Pension increases in payment	CPI assumption (for both pre and post 2011 benefits)	
Discount rate:	Years 1-10: CPI +0.14% reducing linearly to CPI -0.73% Years 11-21: CPI +2.52% reducing linearly to CPI +1.55% by year 21 Years 21+: CPI +1.55%	Years 1-10: CPI -0.2% reducing linearly to CPI -1.21% Years 11-20: CPI +2.37% reducing linearly to CPI +1.54% by year 20 Years 20+: CPI +1.54%
Equivalent Gilts+ interest rate	+1.33%	+1.36%