# Monitoring of the 2023 Financial Management Plan
# December 2024

***Background***

In between actuarial valuations, the Trustee monitors the financial position of the Scheme.  This document provides details of the monitoring for the quarter ending 31 December 2024 based on the 2023 valuation.  It follows the Financial Management Plan and monitoring framework which the Trustee has established for the Scheme.

The purpose of the monitoring is to indicate whether or not the Scheme's financial position is progressing as expected.  It does not lead to any direct action from the Trustee other than potentially commissioning further analysis and advice.

Further, it should be noted that monitoring is not intended to answer the question: what are the contribution requirements if a valuation was undertaken at the monitoring date?

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# Monitoring of the 2023 Financial Management Plan
# December 2024

***Differences between monitoring and actuarial valuation***

The monitoring approach is not as thorough as that adopted at an actuarial valuation and hence does not give the same outcome as would be given by an actuarial valuation at the effective date. This is for a number of reasons, including:

- While monitoring updates the main financial assumptions, these and other assumptions do not go through the same level of assessment as would be the case for an actuarial valuation. For example, when setting the mortality assumption at a valuation we would undertake a full review of the Scheme's experience, as well as considering other relevant evidence. Further, the assumptions used for monitoring do not necessarily reflect the risk capacity and appetite of employers at that date. A valuation also involves a full review of the covenant provided by the employers whilst our monitoring seeks only to capture any change in the covenant that requires further investigation. In practice for an actuarial valuation the Trustee's Integrated Risk Management Framework would also potentially influence the choice of assumptions.
- An actuarial valuation would require consultation with UCEA in relation to the assumptions used and the contributions payable; it is not possible to pre-judge the outcome of any such process.
- Any deficit recovery contributions needed would be based on additional factors, including the views of the Pensions Regulator.
- The calculations do not allow for new membership data, and contain some approximations relative to an actuarial valuation.

The monitoring position is relatively volatile from quarter to quarter, and in light of this the Trustee considers the overall history and trends since the valuation date rather than just the position at the monitoring date.

- Market conditions at the end of December 2024 were slightly more favourable than at the end of September 2024. As such, the Technical Provisions surplus was higher and future service contribution requirement lower at the end of December compared to the end of September on the monitoring basis.
- Since the March 2023 valuation date, more favourable market conditions has led to a higher TP surplus when compared to the valuation date, allowing for benefit improvements granted on 1 April 2024, and a lower future service contribution requirement. The self-sufficiency funding position has also improved since the valuation date and now shows a surplus.

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# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

## Technical Provisions

**£9.7bn Surplus**

| | |
|---|---|
| Valuation date (31/03/2023) | £7.4bn Surplus |
| Liability | £63.9bn |
| Pre-retirement discount rate | Gilts + 1.37% |
| Post-retirement discount rate | Gilts + 0.69% |

## Self-Sufficiency

**£3.7bn Surplus**

| | |
|---|---|
| Valuation date | £5.1bn Deficit |
| Liability | £69.9bn |
| Discount rate | Gilts + 0.32% |
| Self-sufficiency VaR | £14.2bn |

## Assets

**£73.6bn**

| | |
|---|---|
| Valuation date | £73.1bn |
| 'Breakeven' discount rate | Gilts + 0.04%<br>CPI + 1.99% |

## Future Service Contribution Requirement

**18.4%**

| | |
|---|---|
| Valuation date | 20.6% |

## Future Service Contribution Requirement

| | |
|---|---|
| Current RAG | 18.4% (Green) |
| Last quarter-end (Sep-24) | 18.9% (Green) |
| Trigger if Red for two quarters | No |

## Investment Risk

The underlying Investment Risk metrics are all green

RAG Green

## IRMF - Actual Reliance

| | 31-Mar-23 | 31-Dec-24 |
|---|---|---|
| Actual Reliance (£bn) | 13.1 | 4.3 |
| % of AffRC | 47% | 16% |
| RAG | Green | Green |

## IRMF - Target Reliance

| | 31-Mar-23 | 31-Dec-24 |
|---|---|---|
| Target Reliance (£bn) | 20.5 | 14.0 |
| % of AffRC | 73% | 52% |
| RAG | Green | Green |

## Covenant

**Unchanged**

| | |
|---|---|
| Valuation date | Strong |
| Covenant: | Green |

Note: Affordable Risk Capacity is determined as the present value of 10% of salaries over 30 years. The 'Breakeven' discount rate is that at which the liability value equals the asset value.

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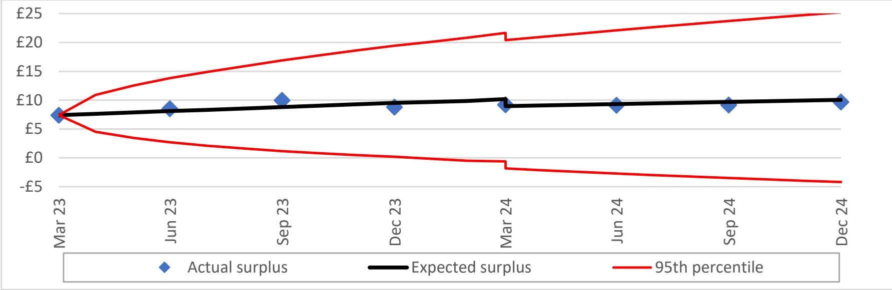
# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

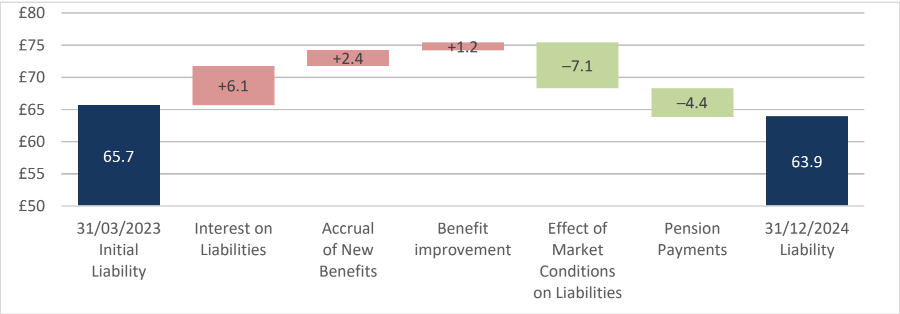
## Technical Provisions

| | 31-Mar-23 | 31-Dec-24 | Change |
|---|---|---|---|
| Assets £bn | 73.1 | 73.6 | +0.5 |
| Liabilities £bn | 65.7 | 63.9 | -1.8 |
| Surplus/(deficit) £bn | 7.4 | 9.7 | +2.3 |
| Funded Status % | 111% | 115% | +4% |

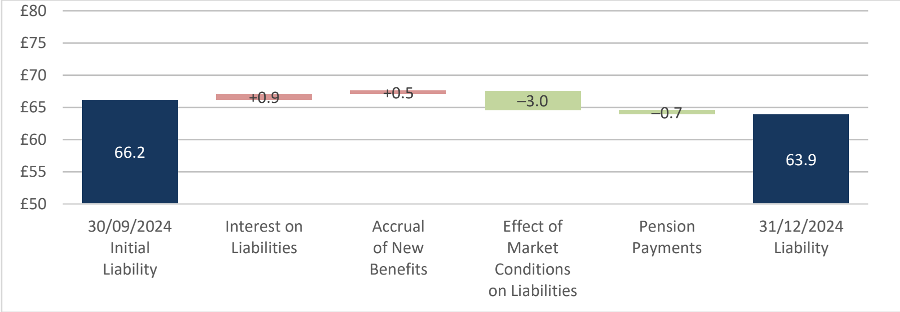
## Technical Provisions surplus/(deficit) (£bn)



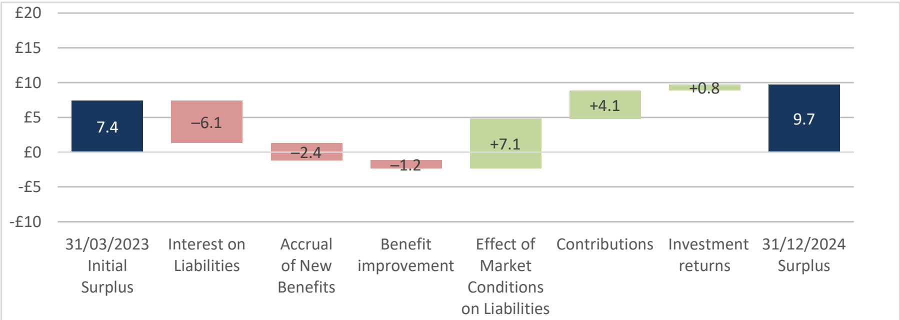

## Liability change attribution (£bn) since the valuation date



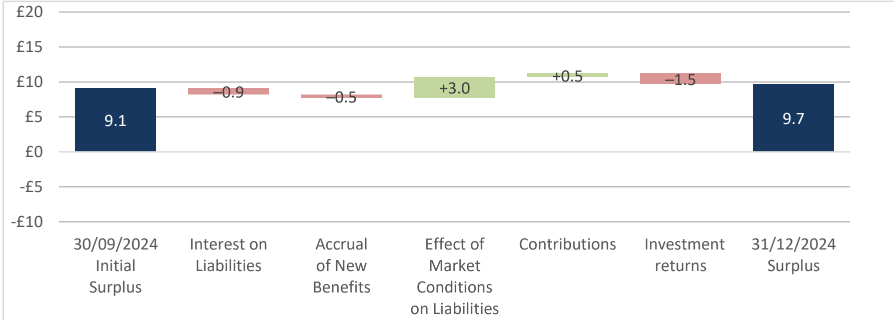

## Liability change attribution (£bn) - Q4 2024




## Surplus change attribution (£bn) since the valuation date




## Surplus change attribution (£bn) - Q4 2024




The Benefit Improvement items in the attributions have been calculated as at 31 March 2024. The step in the cone chart as at this date reflects this.

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# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

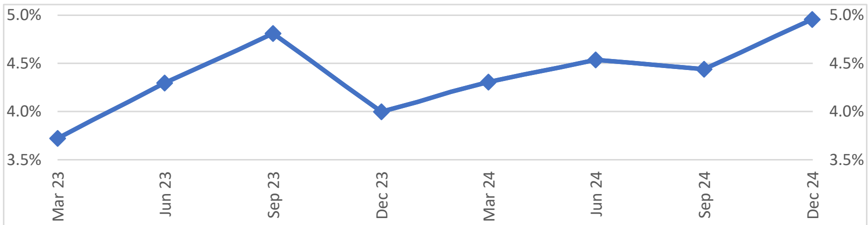
| Market Gilts and CPI | 31-Mar-23 | 31-Dec-24 |
|---|---|---|
| Gilts, nominal (single equivalent) | 3.72% | 4.96% |
| Market implied CPI (single equivalent) | 3.08% | 2.93% |

| Technical Provisions - Assumptions | 31-Mar-23 | 31-Dec-24 |
|---|---|---|
| Assumed future TP CPI (single equivalent) * | 3.0% | 3.0% |
| Change in market implied CPI relative to TP CPI (a) | | -0.15% |
| CME Pre ret expected rtn vs Index-linked gilts ** | ILG + 3.92% | ILG + 2.64% |
| Change since 31-Mar-23 relative to ILG (b) | | -1.28% |
| Pre-retirement discount rate: Adjusted by (b) - (a) | Gilts + 2.50% | Gilts + 1.37% |
| CME Post ret expected rtn vs Index-linked gilts ** | ILG + 1.08% | ILG + 0.72% |
| Change since 31-Mar-23 rel to ILG (c) | | -0.36% |
| Post-retirement discount rate: Adjusted by (c) - (a) | Gilts + 0.90% | Gilts + 0.69% |

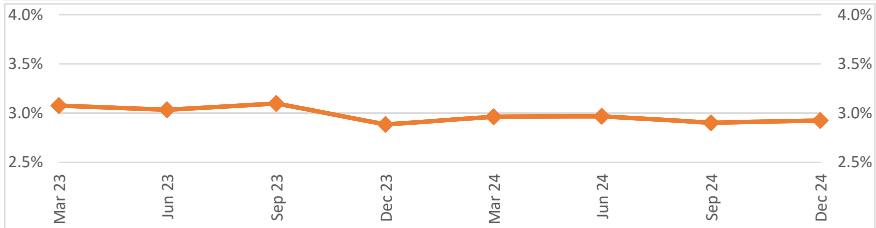
| Single equivalent discount rates | 31-Mar-23 | 31-Dec-24 |
|---|---|---|
| Single equivalent discount rate (TP) | Gilts + 1.4% | Gilts + 0.9% |
| | CPI + 2.2% | CPI + 2.9% |
| Single equivalent discount rate (TP future service) | Gilts + 1.8% | Gilts + 1.1% |
| | CPI + 2.5% | CPI + 3.0% |

* This is our forward view of expected inflation. We allow for known inflation and its effect on the Scheme's liabilities in the cashflows valued. Market CPI (also allowing for known inflation) is assumed for the self-sufficiency liability.
** 30 yr expected return VIS portfolio. Calculated on a deterministic basis allowing for an estimated rebalancing premium for monitoring purposes.

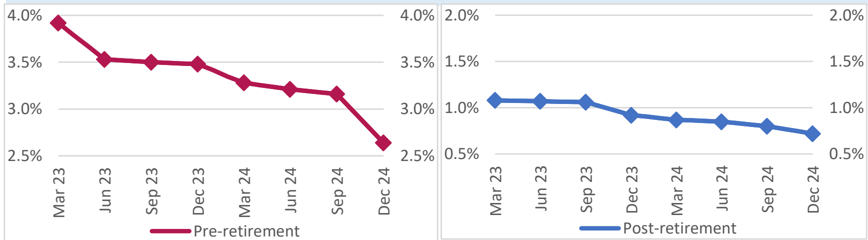
## Gilts, nominal (single equivalent)



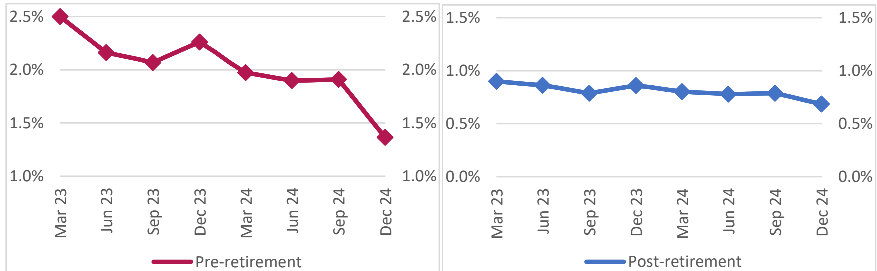

## Market implied CPI (single equivalent)




## CME expected return relative to index-linked gilts




## TP Discount rates (Gilts+)



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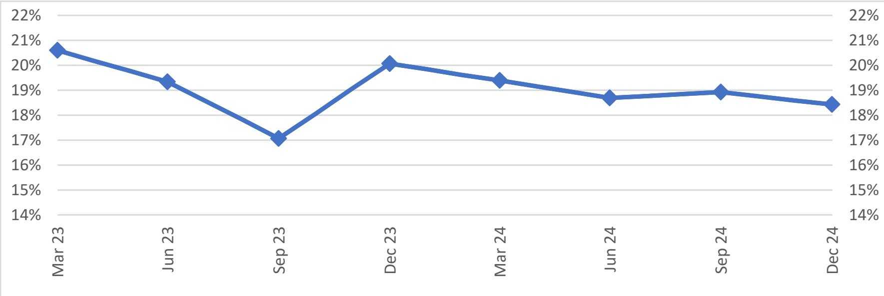
# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

## Future service contributions required

| | 31-Mar-23 | 31-Dec-24 |
|---|---|---|
| DB Future Service contribution required | 18.3% | 16.0% |
| Expenses | 0.5% | 0.5% |
| Expected DC contributions [1] | 1.8% | 1.9% |
| Total | 20.6% | 18.4% |

**Note** 1. Includes 0.1% subsidy.

## Future service contributions required (including DC)




## Sensitivity and Duration

| | 31-Mar-23 | 31-Dec-24 |
|---|---|---|
| TP Sensitivity (£bn) [1] | -1.0 | -1.0 |
| TP Duration of scheme (years) | 17.2 | 16.2 |

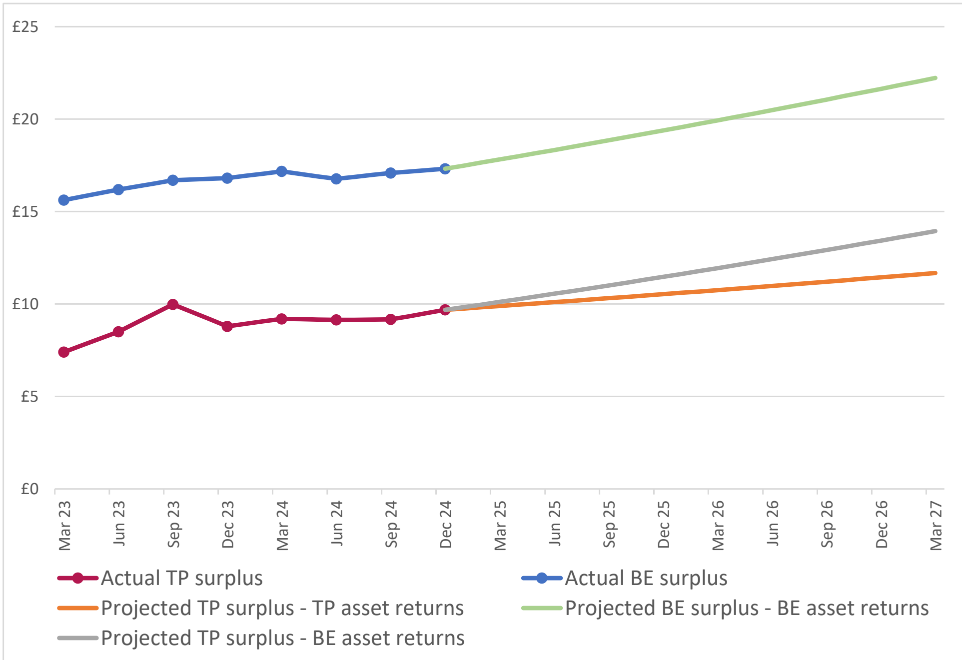
**Note**

1. Sensitivity is the impact of a +0.1% change in the TP discount rates

## Best Estimate basis

| | 31-Mar-23 | 31-Dec-24 | Change |
|---|---|---|---|
| Pre-retirement discount rate | Gilts + 4.75% | Gilts + 3.62% | -1.13% |
| Post-retirement discount rate | Gilts + 1.20% | Gilts + 0.99% | -0.21% |
| Assets (£bn) | 73.1 | 73.6 | +0.5 |
| Liabilities (BE) £bn | 57.5 | 56.3 | -1.2 |
| Surplus/(deficit) (BE) £bn | 15.6 | 17.3 | +1.7 |
| Future Service conts reqd (BE) | 15.2% | 13.7% | -1.5% |
| SE discount rate (liabilities) | Gilts + 2.3% | Gilts + 1.8% | -0.5% |
| SE discount rate (future service) | Gilts + 3.3% | Gilts + 2.5% | -0.8% |

## Projected funding position (£bn)



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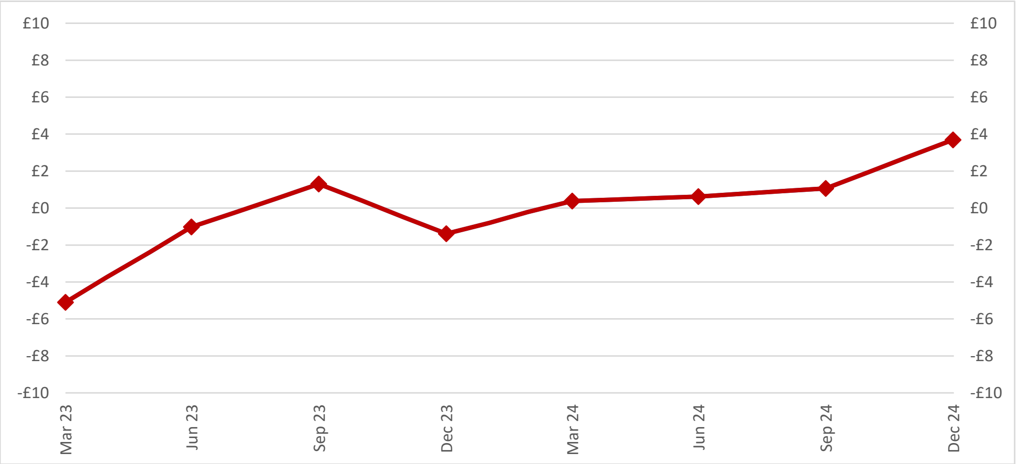
# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

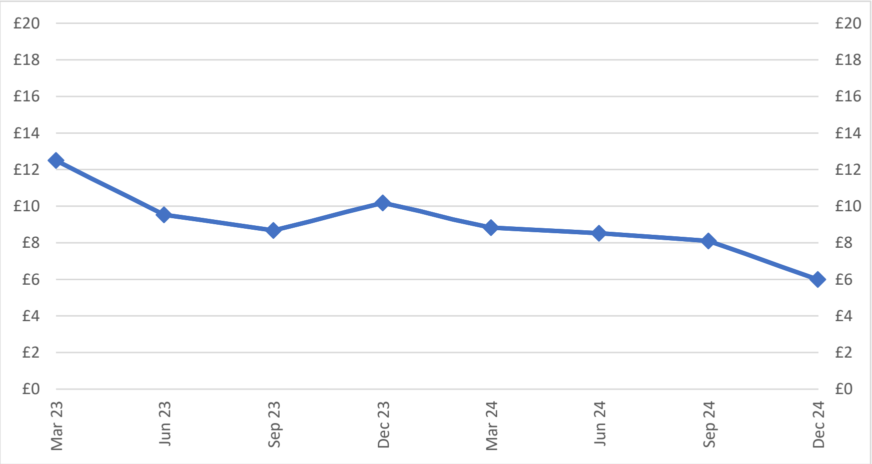
## Self-Sufficiency

| | 31-Mar-23 | 31-Dec-24 | Change |
|---|---|---|---|
| Discount rate | Gilts + 0.50% | Gilts + 0.32% | -0.18% |
| Assets £bn | 73.1 | 73.6 | +0.5 |
| Liabilities £bn | 78.2 | 69.9 | -8.3 |
| Surplus/(deficit), £bn | -5.1 | 3.7 | +8.8 |
| Funded Status % | 93% | 105% | +12% |
| Single equivalent discount rate | Mkt CPI + 1.2% | Mkt CPI + 2.3% | +1.1% |

## Self-Sufficiency surplus/(deficit) (£bn)




## Gap between Self-Sufficiency and Technical Provisions (£bn)




## Affordable Risk Capacity: Value of 10% of pay for 30yrs

| | 31-Mar-23 | 31-Dec-24 | Change |
|---|---|---|---|
| Discount rate to calculate the AffRC | Gilts + 0.70% | Gilts + 0.35% | -0.35% |
| Affordable Risk Capacity, £bn | 28.1 | 27.0 | -1.1 |
| Range: +/- 10%, £bn | 25 - 31 | 24 - 30 | |

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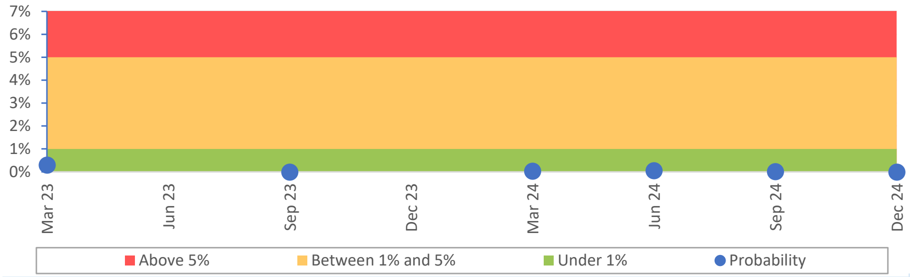
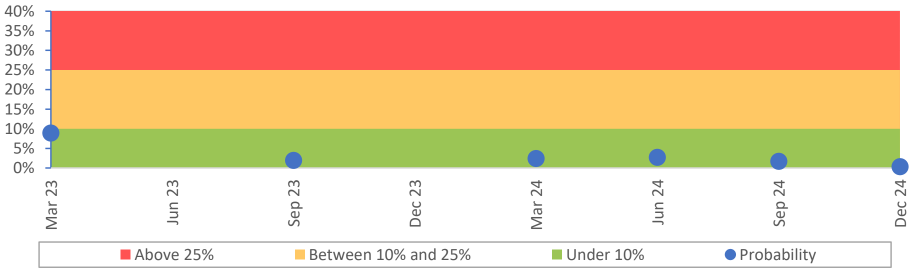
# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

## INVESTMENT RISK

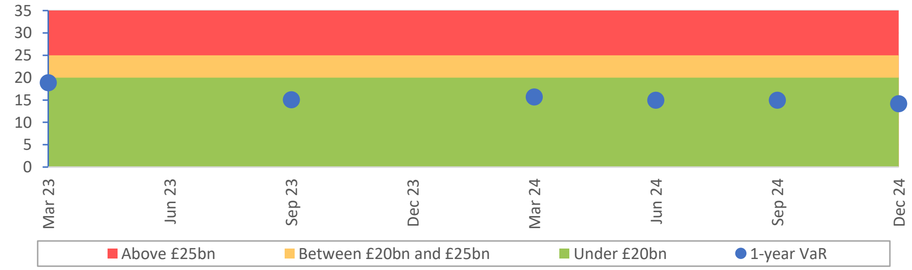
### 1. Probability of Actual Reliance exceeding Limit of Reliance in three years



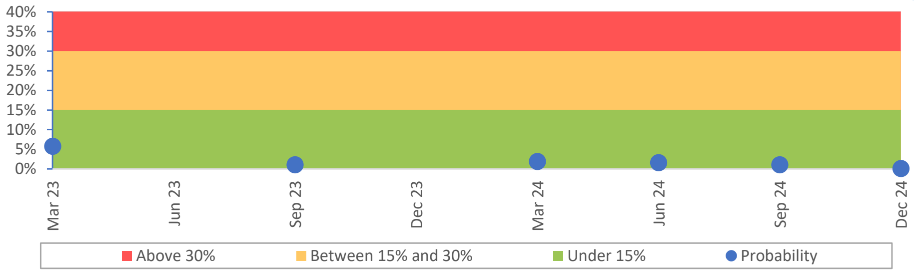

### 2. (a) Probability of Actual Reliance exceeding Affordable Risk Capacity in three years



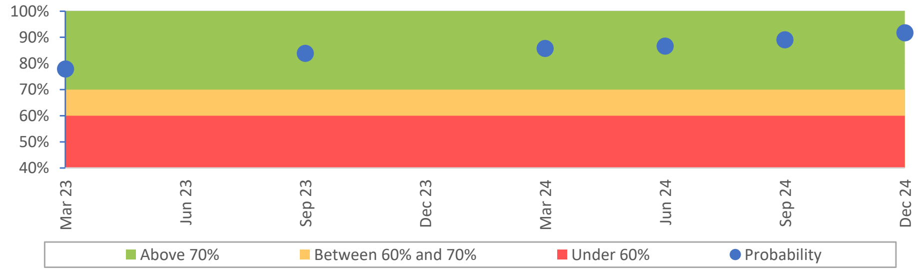

### 2. (b) Self-sufficiency funding deficit 1-year Value at Risk (£bn)




### 3. (a) Probability of the contribution requirement exceeding 26% in three years




### 3. (b) Probability of TP full funding in 2032, allowing for contributions of 26% from 2026




### Overall investment risk metric

The underlying Investment Risk metrics are all green

| RAG | Green |
|---|---|

*Figures are based on the 2023 Valuation Investment Strategy and were not calculated at Jun 23 or Dec 23.*

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# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

Quarterly covenant monitoring update

## SUMMARY The covenant remains Strong

Rationale:
- No indication of significant weakening of financial position of employers that contribute the majority of employer risk capacity
- Employer capacity to support risk remains in excess of Scheme reliance on employers

## KEY DEVELOPMENTS

- The UK government announced that universities will be able to increase UK undergraduate (UG) tuition fees For FY25/6 in line with inflation, after seven years with no increase. Maximum permitted fees can rise by 3.1% to £9,535. Increases beyond 2025/6 will be considered in the spending review set to be announced in Spring 2025. However, the increase in fees is likely to be more than offset by increased NI costs, according to various sector sources (Nov-24). The Welsh Government announced that fees will rise at the same time and by the same amount in Wales, together with a 1.6% increase in student maintenance support (Dec-24).
- OfS published an unprecedented update of its May report on financial sustainability of the English HE sector. The update applied recent data on lower than anticipated international recruitment and lower than forecast domestic UG numbers to assess the potential financial impact if no mitigating actions were taken by universities. It concluded that the lower recruitment would leave English institutions with £3.4bn less net income in aggregate than included in earlier university forecasts, with up to 72% of providers facing a deficit for FY26, an increase from the May report (Nov-24).
- OfS announced it will halt the application process for registering new HE institutions and granting degree awarding powers to allow it to create more capacity to focus on financial sustainability issues within the sector (Dec-24).
- Universities UK announced the launch of a Taskforce on Efficiency and Transformation to help coordinate and advise on HE sector efforts to reduce costs and improve efficiency (Dec-24).
- The Scottish Government announced its HE budget for 2025/26 with a 1.7% y/y cash-terms increase. This represents a 0.7% decrease in real terms, according to Universities Scotland (Dec-24).

| ENGAGEMENT ACTIVITY (Not survey-related, # cases) | QTD | YTD |
|---|---|---|
| Notifications of intention to execute: | | |
| • new secured debt | 0 | 1 |
| • new Quasi-security | 0 | 1 |
| Open engagement cases | 1 | 1 |
| Total engagement cases | 1 | 7 |

| DEBT MONITORING SURVEY | 2024 | 2023 |
|---|---|---|
| Response rate | | |
| • All employers | 90% | 75% |
| • Pre-92 universities | 100% | 98% |
| • All HEIs | 97% | 88% |
| Average # metrics A-D exceeded per response | 1.12 | 0.79 |
| # in-scope employers: | | |
| • above engagement thresholds | 14 | 10 |
| • requiring additional measures | 1 | 0 |

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# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

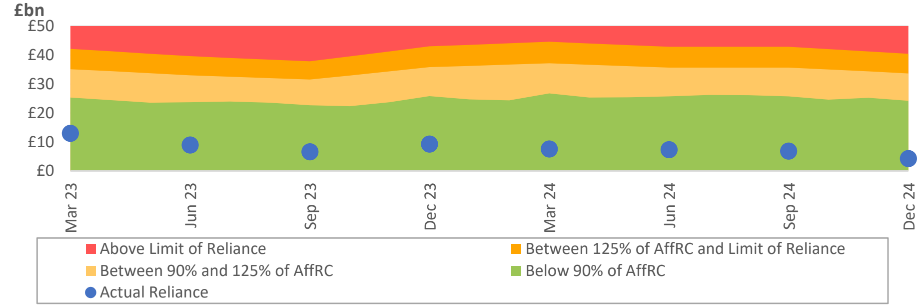
## APPENDIX A - IRMF RAG rating definitions

### Actual Reliance

Self-sufficiency liabilities + Transition Risk - Assets

| | |
|---|---|
| Green | Less than or equal to 90% of Affordable Risk Capacity |
| Lower Amber | Between 90% and 125% of Affordable Risk Capacity |
| Upper Amber | Between 125% of Affordable Risk Capacity and Limit of Reliance |
| Red | Above Limit of Reliance (150% of Affordable Risk Capacity) |

### Actual Reliance

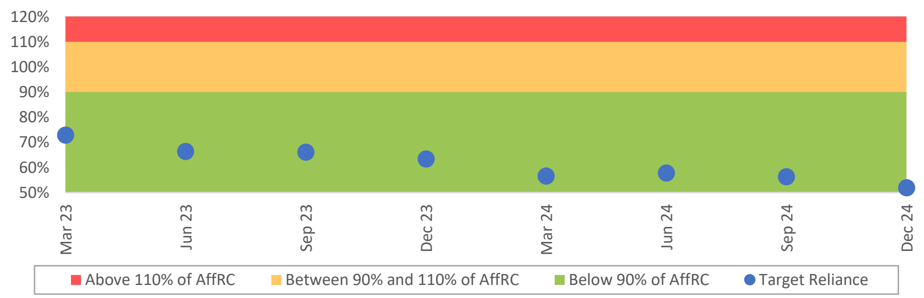



### Target Reliance

Self-sufficiency liabilities + Transition Risk - Technical Provisions

| | |
|---|---|
| Green | Less than or equal to 90% of Affordable Risk Capacity |
| Amber | Between 90% and 110% of Affordable Risk Capacity |
| Red | Above 110% of Affordable Risk Capacity |

### Target Reliance as % of Affordable Risk Capacity

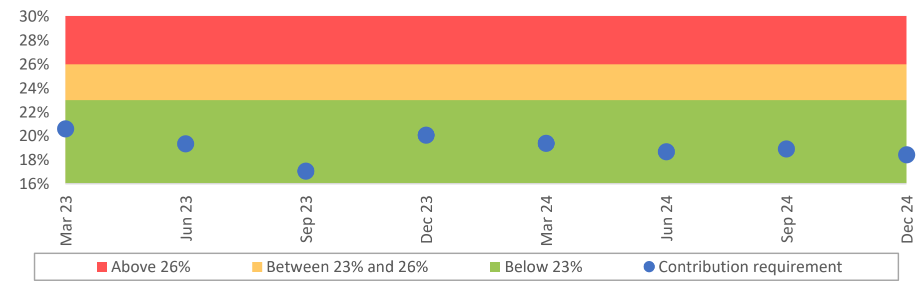



### Contribution Metric

| | |
|---|---|
| Green | If the total contribution requirement is less than or equal to 23% (i.e. the current contribution rate plus a margin) |
| Amber | If the total contribution requirement is between 23% and 26% |
| Red | If the total contribution requirement is greater than 26% |

The metric will be deemed to have triggered if 'Red' for two consecutive quarter-ends

### Contribution Metric



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# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

## APPENDIX B - Investment Risk RAG rating definitions

### 1. Probability of Actual Reliance exceeding Limit of Reliance in three years

| | |
|---|---|
| Green | < 1% |
| Amber | 1% - 5% |
| Red | > 5% |

### 2. (a) Probability of Actual Reliance exceeding Affordable Risk Capacity in three years

| | |
|---|---|
| Green | <10% |
| Amber | 10% - 25% |
| Red | > 25% |

### 2. (b) Self-sufficiency funding deficit 1-year Value at Risk

| | |
|---|---|
| Green | < £20bn |
| Amber | £20bn - £25bn |
| Red | > £25bn |

### 3. (a) Probability of the contribution requirement exceeding 26% in three years

| | |
|---|---|
| Green | < 15% |
| Amber | 15% - 30% |
| Red | > 30% |

### 3. (b) Probability of TP full funding in 2032, allowing for contributions of 26% from 2026

| | |
|---|---|
| Green | > 70% |
| Amber | 60% - 70% |
| Red | < 60% |

### Overall Investment Risk Metric

| | |
|---|---|
| Green | Where the underlying metrics are all green |
| Amber | Where at least one underlying metric is not green, but no underlying metrics have been red at two consecutive quarter ends |
| Red | Where at least one particular underlying metric has been red for two consecutive quarter ends |

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# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

## APPENDIX C - Glossary and Definitions

**(see also Appendix A – IRMF RAG rating definitions)**

| | |
|---|---|
| Affordable Risk Capacity | The present value of 10% of salaries over 30 years. In this calculation, the scheme's salary roll is assumed to increase by CPI+1% based on the TP CPI assumption shown on page 5. The present value of these salaries is then determined using the Affordable Risk Capacity discount rate shown on page 7. |
| Benefit improvement | The benefit improvements applicable to existing benefits agreed as part of the 2023 valuation:<br>a) A one-off benefit uplift to all members that had a period of active service between 1 April 2022 and 31 March 2024 dependent on their status at 31 March 2024. The uplift on 1 April 2024 was set at £215 p.a. plus £645 lump sum for non-pensioners, £241 p.a. for pensioners and £108 p.a. for dependants where the associated member had active service between 1 April 2022 and 31 March 2024.<br>b) An increase in the indexation cap on benefits accrued between 1 April 2022 and 31 March 2024 from 2.5% p.a. to the 'soft cap' approach that preceded it. |
| Breakeven discount rate | The discount rate at which the liability value equals the asset value at the applicable date. |
| CME | Capital Market Expectations. Expected returns on assets as determined by USS Investment Management, the Trustee's principal investment advisor. |
| Covenant RAG | Current view of the covenant relative to that at the last valuation assessed by the covenant team:<br>Green - No apparent deterioration since the previous review.<br>Amber - Potential deterioration due to emerging new and/or financial information.<br>Red - Significant deterioration due to emerging news and/or financial information. |
| Duration | The average time in years until payments from the scheme are expected to be made, weighted by the value of those payments. The TP duration statistic takes into account all benefits which have been accrued as at the calculation date. |
| Funded Status | The value of assets divided by the value of liabilities, expressed as percentage. |
| Market implied CPI | Calculated as the difference between index-linked and nominal gilt yields, less an RPI/CPI wedge. The RPI/CPI wedge is advised by the Scheme Actuary; since March 2024 this is 80bps up to 2030 and 20bps thereafter. |
| Self-sufficiency VaR (Value at Risk) | The increase in self-sufficiency deficit over a one-year period, in a 1-in-20 downside event (i.e. 95% of outcomes over a one-year time period would not lead to this increase). |

# QUARTER END FMP MONITORING REPORT - END DECEMBER 2024

## APPENDIX C - Glossary and Definitions (continued)

| | |
|---|---|
| Single Equivalent (SE) | The rate which leads to the same liability by using the same flat discount rate throughout rather than individual year-by-year rates or different pre- and post retirement discount rates.<br>For the single equivalent of market indices, the 'discount rate' is the relevant market index, and for gilts+ or CPI+ the single equivalent is the flat margin above the gilt or CPI curve.<br>The cashflows for calculating the liability are generally the past service Technical Provisions cashflows. For the single equivalent discount rate we also calculate using the 1-year future service cashflows which leads to a different result due to the different shape of the cashflows. |
| TP Sensitivity | Within the FMP monitoring report, this is the amount that the Technical Provisions liability would change following a +0.1% change in discount rates. |
| Valuation Investment Strategy (VIS) | The scheme's broad investment strategy, set out as a theoretical, but investible, asset allocation.<br>It should be noted that the VIS is not intended to be the actual implemented investment strategy, but it does serve as a guide to the construction of the implemented portfolio. The implemented portfolio can differ from the VIS (within limits), as USS Investment Management finds opportunities in the financial markets to use its discretion to add value and improve risk-adjusted returns. The implemented portfolio operates within the same risk and return envelope as the VIS. |