

# 2023 Interim Monitoring Report

## June 2023

### ***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 30 June 2023.

While the 2023 valuation is ongoing, this interim monitoring has been carried out using the basis on which the Trustee proposed in the Technical Provisions consultation document, issued to UUK in July 2023. The consultation document puts forward a proposed methodology and assumptions in respect of the Technical Provisions of the 31 March 2023 valuation. The Trustee will put in place a new Financial Management Plan and associated monitoring once the 2023 valuation is completed.

The purpose of the interim monitoring is to indicate whether or not the Scheme's financial position is progressing as expected and to give an indication of post-valuation experience. 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?

In the main body of the report, future service contribution requirements are calculated on two approaches; firstly on the current benefit structure following the changes which came into effect from 1 April 2022 and secondly on the structure that was in place prior to April 2022.

Quarterly updates of the financial development of the Scheme under this interim monitoring approach will continue to be provided until the 2023 valuation has been finalised and the Financial Management Plan has been established.

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### *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 UUK 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.

- Overall market conditions at the end of June 2023 are slightly more favourable than those on the valuation date at the end of March 2023; the interim monitoring of the Scheme shows a higher TP surplus and a lower future service contribution requirement.

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## 2023 INTERIM MONITORING REPORT - END JUNE 2023

### Technical Provisions

**£8.5bn Surplus**

Valuation date (31/03/2023)	£7.4bn Surplus
Liability	£62.3bn
Pre-retirement discount rate	Gilts + 2.16%
Post-retirement discount rate	Gilts + 0.86%

### Self-Sufficiency

**£1.0bn Deficit**

Valuation date	£5.1bn Deficit
Liability	£71.8bn
Discount rate	Gilts + 0.50%
Self-sufficiency VaR	£16.3bn

### Assets

**£70.8bn**

Valuation date	£73.1bn
'Breakeven' discount rate	Gilts + 0.52% CPI + 1.84%

### Future Service Contribution Requirement Pre-22 Benefit Structure

**19.3%**

Valuation date	20.6%
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### Future Service Contribution Requirement Post-22 Benefit Structure

**15.6%**

Valuation date	16.2%
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### Affordable Risk Capacity

**£25 - £28bn**

Valuation date	£27 - £30bn
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### IRMF - Actual Reliance

	31-Mar-23	30-Jun-23
Actual Reliance (£bn)	13.1	9.0
% of AffRC	47%	34%
RAG	Green	Green

### IRMF - Target Reliance

	31-Mar-23	30-Jun-23
Target Reliance (£bn)	20.5	17.5
% of AffRC	73%	66%
RAG	Green	Green

### Covenant

**Unchanged**

Valuation date	Strong
Covenant:	Green

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

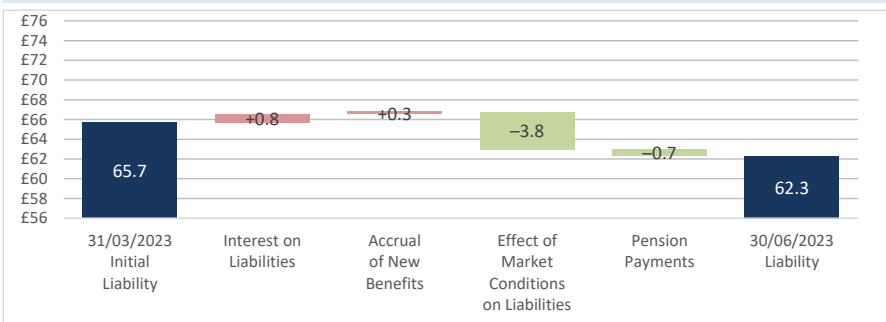
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## 2023 INTERIM MONITORING REPORT - END JUNE 2023

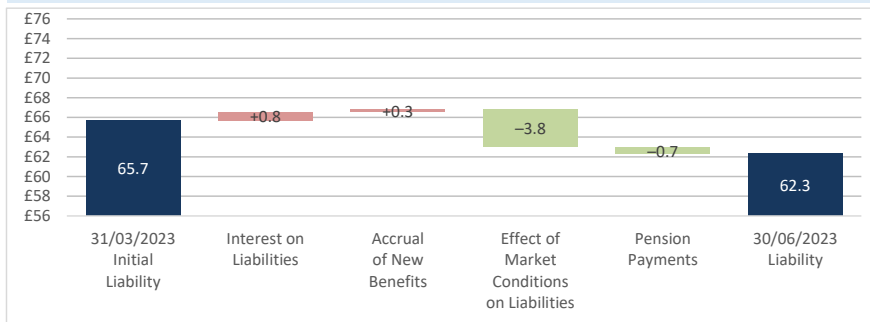
### Technical Provisions

	31-Mar-23	30-Jun-23	Change
Assets £bn	73.1	70.8	-2.3
Liabilities £bn	65.7	62.3	-3.4
Surplus/(deficit) £bn	7.4	8.5	+1.1
Funded Status %	111%	114%	+3%

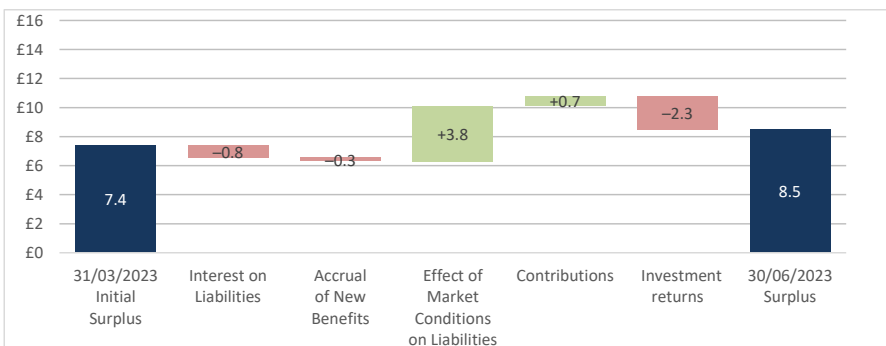
### Liability change attribution (£bn) since the valuation date



### Liability change attribution (£bn) for the latest quarter - Q2 2023



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



### Surplus change attribution (£bn) for the latest quarter - Q2 2023



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## 2023 INTERIM MONITORING REPORT - END JUNE 2023

### Technical Provisions - Assumptions

	31-Mar-23	30-Jun-23
CME Pre ret expected rtn vs Index-linked gilts *	ILG + 3.91%	ILG + 3.53%
CME Post ret expected rtn vs Index-linked gilts *	ILG + 1.15%	ILG + 1.07%
Pre-retirement discount rate	Gilts + 2.5%	Gilts + 2.16%
Post-retirement discount rate	Gilts + 0.9%	Gilts + 0.86%
Gilts (single equivalent) nominal	3.7%	4.3%
Assumed future CPI (single equivalent) **	3.0%	3.0%
Single equivalent discount rate (TP)	Gilts + 1.4%	Gilts + 1.3%
	CPI + 2.2%	CPI + 2.6%
Single equivalent discount rate (future service)	Gilts + 1.8%	Gilts + 1.6%
	CPI + 2.5%	CPI + 2.8%

\* 30 yr expected return VIS portfolio. Calculated on a deterministic basis allowing for an estimated rebalancing premium for monitoring purposes.

\*\* The inflation assumption is our forward view of expected inflation. We have allowed for known inflation and its effect on the Scheme's liabilities in the cashflows valued.

### Self-sufficiency - Assumptions

	31-Mar-23	30-Jun-23
Discount rate	Gilts + 0.5%	Gilts + 0.50%
Gilts (single equivalent) nominal	3.7%	4.3%
Market CPI (single equivalent) **	3.1%	3.0%
Single equivalent discount rate	CPI + 1.2%	CPI + 1.8%

\*\* Forward view of expected inflation. We have allowed for known inflation and its effect on the Scheme's liabilities in the cashflows valued.

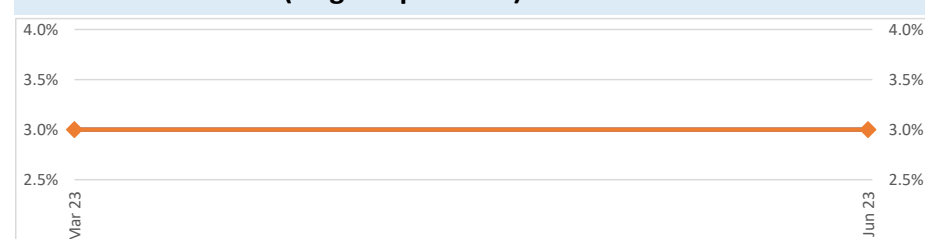
### Affordable Risk Capacity

	31-Mar-23	30-Jun-23
Discount rate used to calculate the AffRC	Gilts + 0.70%	Gilts + 0.49%

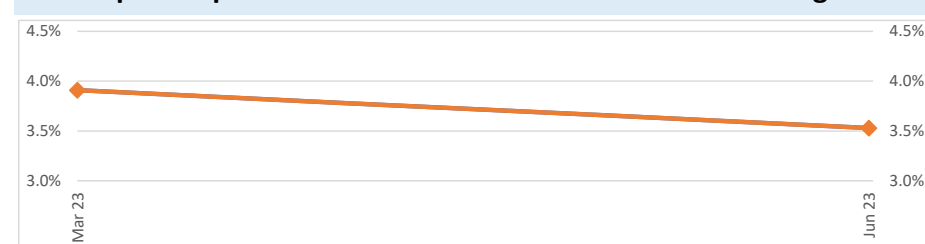
### Gilts (single equivalent) nominal



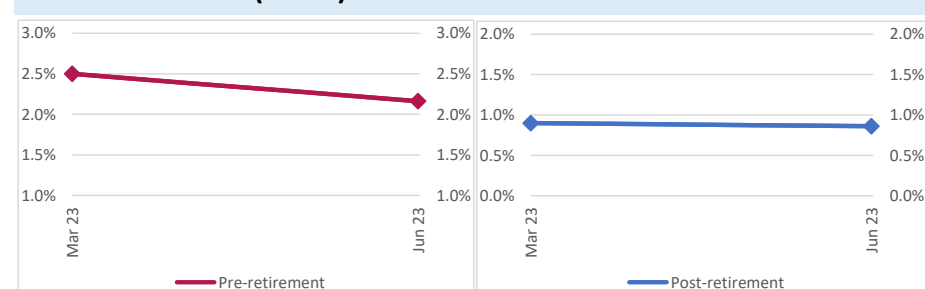
### Assumed future CPI (single equivalent)



### CME expected pre-retirement return relative to index-linked gilts



### TP Discount rates (Gilts+)



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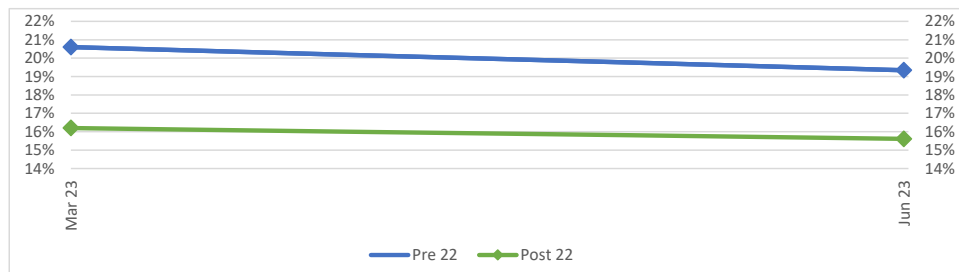
### Future service contributions required

	Pre-22 benefits		Post-22 benefits	
	31-Mar-23	30-Jun-23	31-Mar-23	30-Jun-23
DB Future Service Cost	18.3%	17.0%	10.0%	9.4%
Expenses	0.5%	0.5%	0.5%	0.5%
Expected DC contributions <sup>1</sup>	1.8%	1.8%	5.7%	5.7%
<b>Total</b>	<b>20.6%</b>	<b>19.3%</b>	<b>16.2%</b>	<b>15.6%</b>

#### Note

1. Includes 0.1% subsidy.

### Future service contributions required (including DC)



### Sensitivity and Duration

	31-Mar-23	30-Jun-23
TP Sensitivity (£bn) <sup>1</sup>	-1.0	-1.0
TP Duration of scheme (years)	17.2	16.9

#### Note

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

### Self-Sufficiency

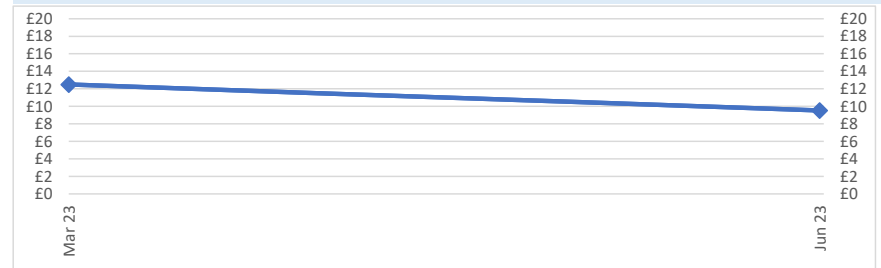
	31-Mar-23	30-Jun-23	Change
Assets £bn	73.1	70.8	-2.3
Liabilities £bn	78.2	71.8	-6.4
Surplus/(deficit) £bn	-5.1	-1.0	+4.1
Funded Status %	93%	99%	+6%

	31-Mar-23	30-Jun-23	Change
10% of pay for 30yrs £bn	28.1	26.4	-1.7

### Self-Sufficiency Surplus (£bn)



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



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Quarterly covenant monitoring update

### SUMMARY: The covenant remains Strong

#### HIGHLIGHTS/ LOWLIGHTS

- The 2023 valuation covenant assessment was finalised in the quarter, resulting in a “Strong” covenant rating
- USS 2023 Debt Monitoring survey launched on 2 May

#### *Sector insights and events:*

- UK Government announces restrictions on visa eligibility for dependants of overseas students (May-23)
- OfS warns universities to avoid becoming over-reliant on tuition fees from international students, in particular on fees from Chinese students (May-23)
- Northern Ireland Department for the Economy set out proposals for a 10% cut in HE funding in their draft 2023-24 budget (Jun-23)
- HEPI/AdvanceHE Student Academic Experience survey reports only 58% of students would make the same HE choices given a second opportunity, down from 64% pre-Covid (Jun-23)

#### ACTIVITY LOG (Number of cases)

	QTD	YTD
• Non-survey DM notifications	1	2
• Of which:		
• Intention to secure debt	0	0
• Quasi-security planned	1	1
• Open engagement cases	1	1
• Requests for clarification	19	22
• Complaints received	0	0
• Other feedback	5	5
<b>Debt monitoring survey:</b>	<b>2023</b>	<b>2022</b>
• Completed DM survey responses	234	283
• # in-scope HEIs exceeding follow-up thresholds	6	7
• In-scope cases requiring further measures	0	0

OPEN CASES	Issue raised	DATE FIRST REPORTED	CURRENT STATUS	PLANNED NEXT STEPS	RAG
No open cases					

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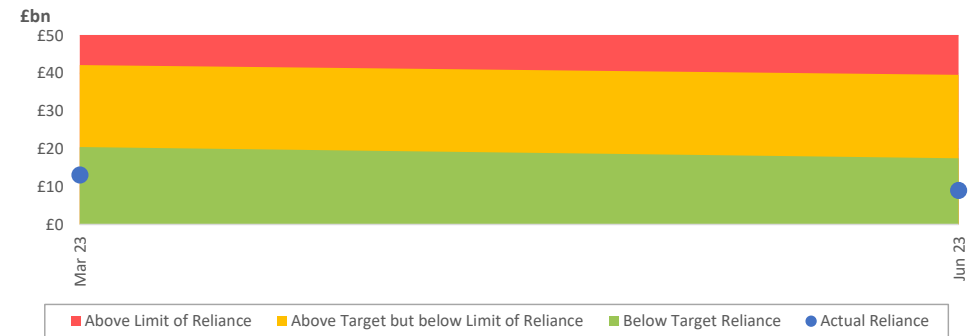
### APPENDIX - IRMF RAG rating definitions

#### Actual Reliance

Self-sufficiency liabilities + Transition Risk - Assets

- Green Actual Reliance  $\leq$  Target Reliance
- Amber Actual Reliance  $>$  Target Reliance but  $<$  Limit of Reliance
- Red Actual Reliance  $\geq$  Limit of Reliance

#### Actual Reliance



#### Target Reliance

Self-sufficiency liabilities + Transition Risk - Technical Provisions

- Green Target Reliance  $\leq$  95% of Affordable Risk Capacity
- Amber Target Reliance  $>$  95% of Affordable Risk Capacity but  $<$  105% of Affordable Risk Capacity
- Red Target Reliance  $\geq$  105% of Affordable Risk Capacity

#### Target Reliance as % of Affordable Risk Capacity

