Monitoring of the 2023 Financial Management Plan
March 2025

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 March 2025 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?

This document is published by the Trustee for information only and is not intended to be used as the basis for any decisions.

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March 2025

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.

- Since the March 2023 valuation date, market conditions have become more favourable. This leads 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.

Revision of December 2024 figures

The December 2024 expected return for the pre-retirement portfolio has been updated, leading to a change in the Technical Provisions and Best Estimate metrics shown in this report at that date compared with those originally published. The pre-retirement discount rate has increased by 30bps, which leads to a decrease in the liabilities (and increase in the surplus) of £0.9bn and a reduction in the future service rate of 0.7% at that date on the Technical Provisions basis. The past and future service single equivalent discount rates at that date have increased by 0.1% and 0.2% respectively.

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QUARTER END FMP MONITORING REPORT - END MARCH 2025

Technical Provisions

£10.0bn Surplus

Valuation date (31/03/2023)	£7.4bn Surplus
Liability	£62.9bn
Pre-retirement discount rate	Gilts + 1.75%
Post-retirement discount rate	Gilts + 0.57%

Self-Sufficiency

£5.3bn Surplus

Valuation date	£5.1bn Deficit
Liability	£67.6bn
Discount rate	Gilts + 0.36%
Self-sufficiency VaR	£13.2bn

Assets

£72.9bn

Valuation date	£73.1bn
'Breakeven' discount rate	Gilts + 0.04% CPI + 2.10%

Future Service Contribution Requirement

17.4%

Valuation date	20.6%

Future Service Contribution Requirement

Current RAG	17.4% (Green)
Last quarter-end (Dec-24)	17.7% (Green)
Trigger if Red for two quarters	No

Investment Risk

The underlying Investment Risk metrics are all green (at last review)

RAG Green

IRMF - Actual Reliance

	31-Mar-23	31-Mar-25
Actual Reliance (£bn)	13.1	2.7
% of AffRC	47%	10%
RAG	Green	Green

IRMF - Target Reliance

	31-Mar-23	31-Mar-25
Target Reliance (£bn)	20.5	12.7
% of AffRC	73%	47%
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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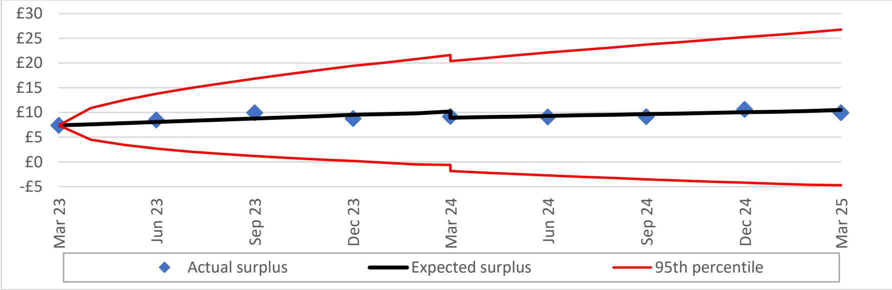
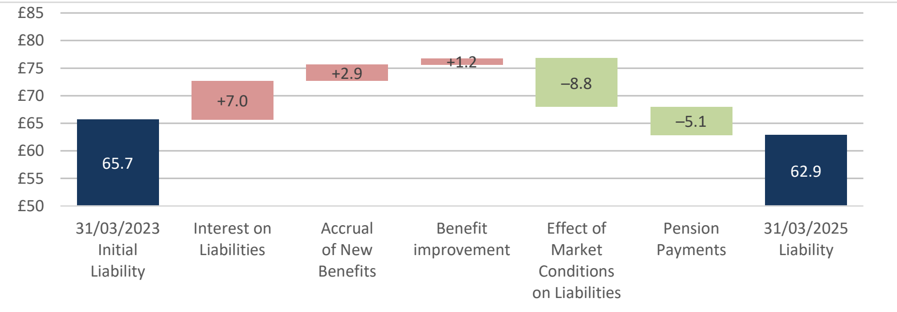
Technical Provisions

	31-Mar-23	31-Mar-25	Change
Assets £bn	73.1	72.9	-0.2
Liabilities £bn	65.7	62.9	-2.8
Surplus/(deficit) £bn	7.4	10.0	+2.6
Funded Status %	111%	116%	+5%

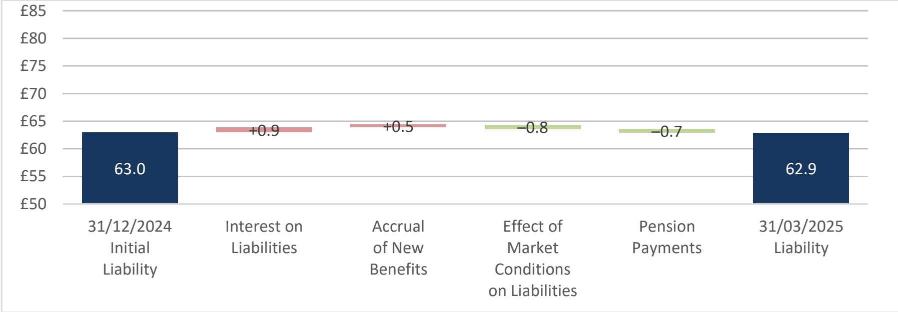
Technical Provisions surplus/(deficit) (£bn)



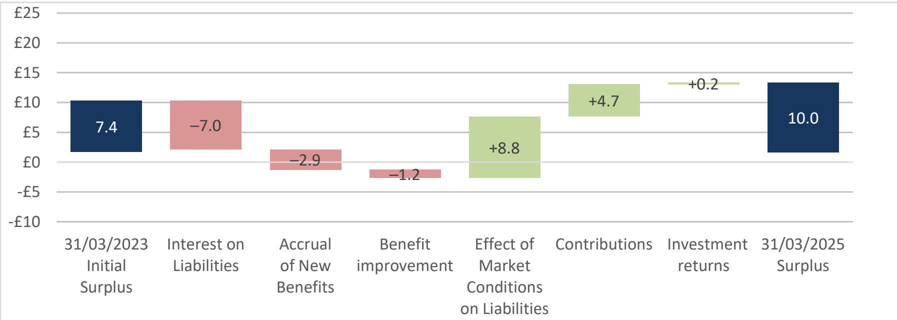
Liability change attribution (£bn) since the valuation date



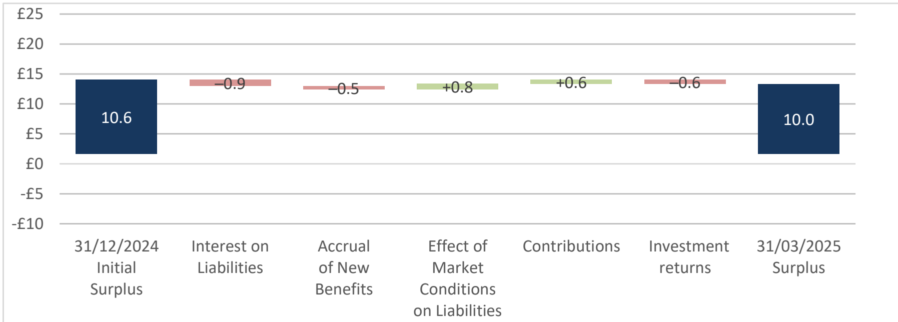
Liability change attribution (£bn) - Q1 2025



Surplus change attribution (£bn) since the valuation date



Surplus change attribution (£bn) - Q1 2025



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 MARCH 2025

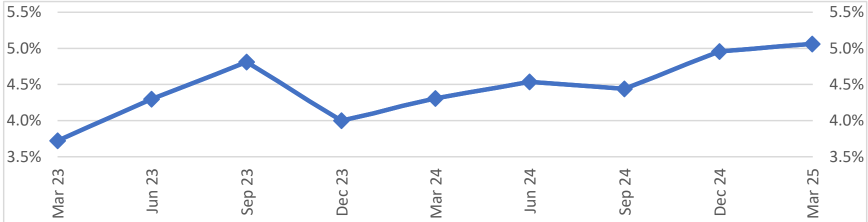
Market Gilts and CPI	31-Mar-23	31-Mar-25
Gilts, nominal (single equivalent)	3.72%	5.06%
Market implied CPI (single equivalent)	3.08%	2.84%

Technical Provisions - Assumptions	31-Mar-23	31-Mar-25
Assumed future TP CPI (single equivalent) *	3.0%	3.0%
Change in market implied CPI relative to TP CPI (a)		-0.24%
CME Pre ret expected rtn vs Index-linked gilts **	ILG + 3.92%	ILG + 2.94%
Change since 31-Mar-23 relative to ILG (b)		-0.98%
Pre-retirement discount rate: Adjusted by (b) - (a)	Gilts + 2.50%	Gilts + 1.75%
CME Post ret expected rtn vs Index-linked gilts **	ILG + 1.08%	ILG + 0.52%
Change since 31-Mar-23 rel to ILG (c)		-0.56%
Post-retirement discount rate: Adjusted by (c) - (a)	Gilts + 0.90%	Gilts + 0.57%

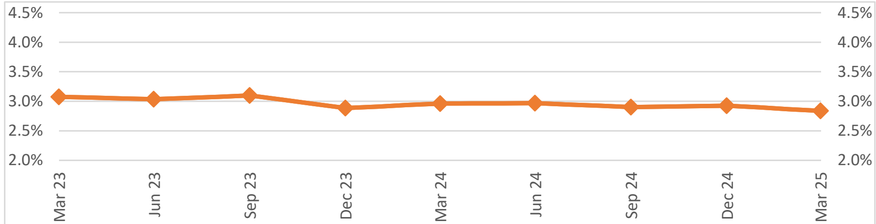
Single equivalent discount rates	31-Mar-23	31-Mar-25
Single equivalent discount rate (TP)	Gilts + 1.4%	Gilts + 1.0%
	CPI + 2.2%	CPI + 3.0%
Single equivalent discount rate (TP future service)	Gilts + 1.8%	Gilts + 1.3%
	CPI + 2.5%	CPI + 3.2%

* 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.

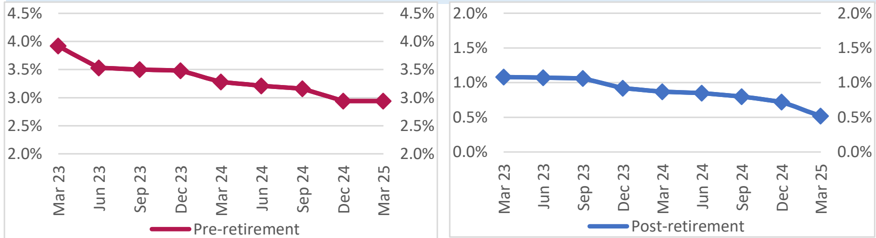
Gilts, nominal (single equivalent)



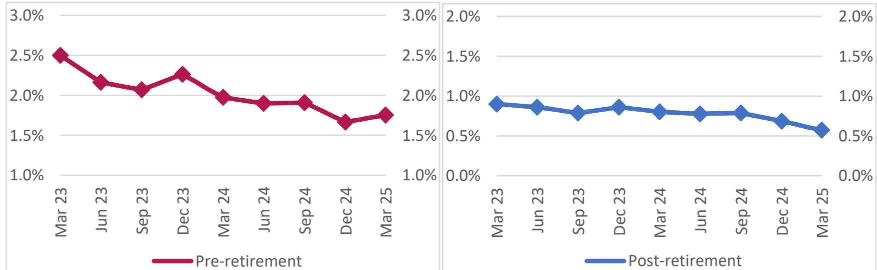
Market implied CPI (single equivalent)



CME expected return relative to index-linked gilts



TP Discount rates (Gilts+)



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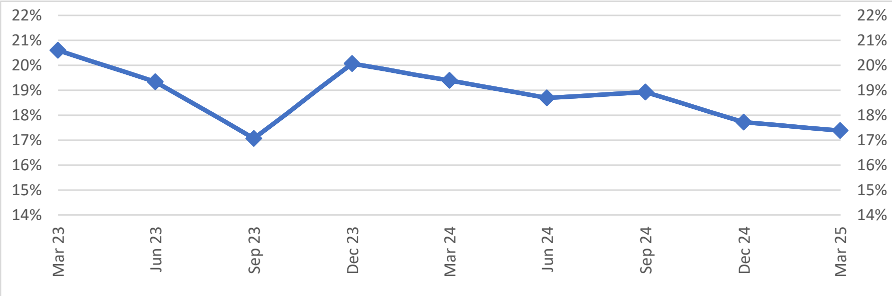
QUARTER END FMP MONITORING REPORT - END MARCH 2025

Future service contributions required

	31-Mar-23	31-Mar-25
DB Future Service contribution required	18.3%	15.0%
Expenses	0.5%	0.5%
Expected DC contributions [1]	1.8%	1.9%
Total	20.6%	17.4%

Note 1. Includes 0.1% subsidy.

Future service contributions required (including DC)



Sensitivity and Duration

	31-Mar-23	31-Mar-25
TP Sensitivity (£bn) [1]	-1.0	-0.9
TP Duration of scheme (years)	17.2	16.1

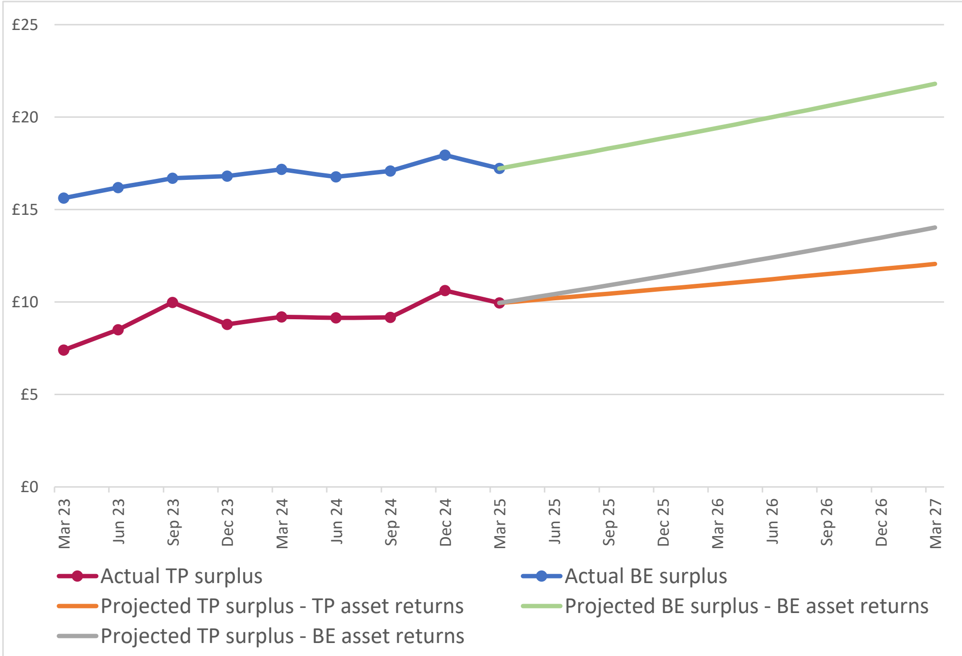
Note

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

Best Estimate basis

	31-Mar-23	31-Mar-25	Change
Pre-retirement discount rate	Gilts + 4.75%	Gilts + 4.00%	-0.75%
Post-retirement discount rate	Gilts + 1.20%	Gilts + 0.87%	-0.33%
Assets (£bn)	73.1	72.9	-0.2
Liabilities (BE) £bn	57.5	55.7	-1.8
Surplus/(deficit) (BE) £bn	15.6	17.2	+1.6
Future Service conts reqd (BE)	15.2%	13.1%	-2.1%
SE discount rate (liabilities)	Gilts + 2.3%	Gilts + 1.8%	-0.5%
SE discount rate (future service)	Gilts + 3.3%	Gilts + 2.7%	-0.6%

Projected funding position (£bn)



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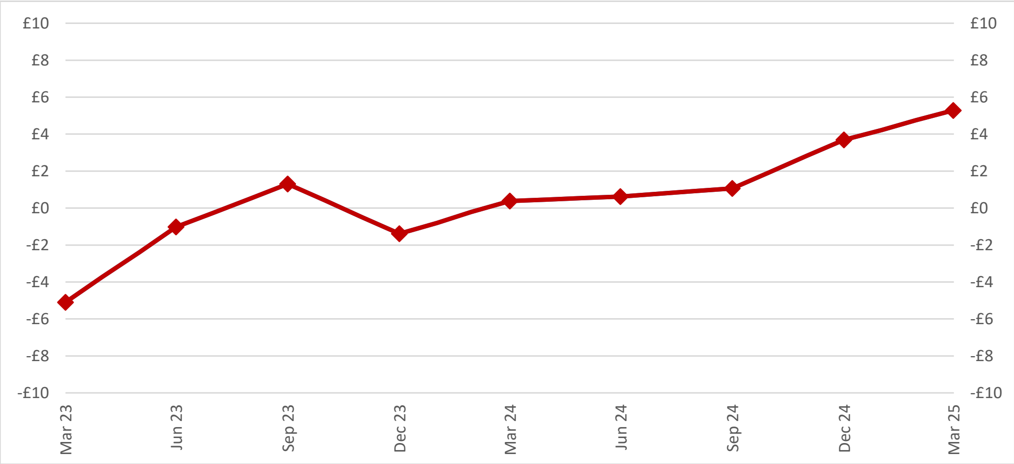
QUARTER END FMP MONITORING REPORT - END MARCH 2025

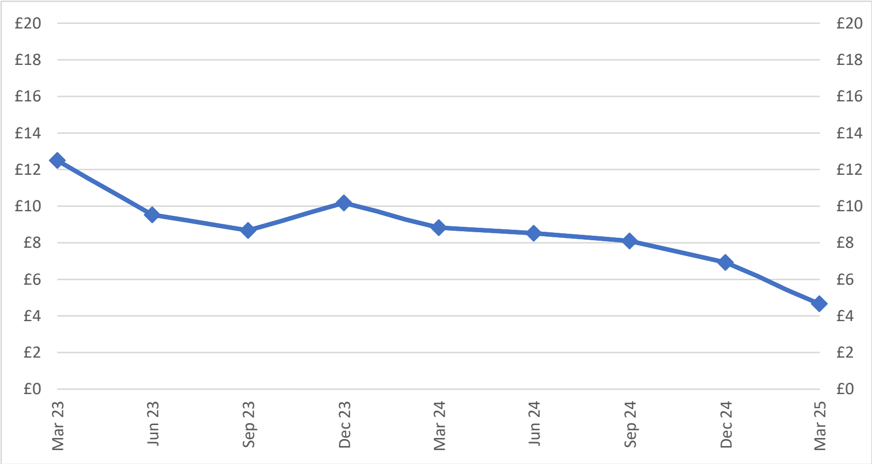
Self-Sufficiency

	31-Mar-23	31-Mar-25	Change
Discount rate	Gilts + 0.50%	Gilts + 0.36%	-0.14%
Assets £bn	73.1	72.9	-0.2
Liabilities £bn	78.2	67.6	-10.6
Surplus/(deficit), £bn	-5.1	5.3	+10.4
Funded Status %	93%	108%	+15%
Single equivalent discount rate	Mkt CPI + 1.2%	Mkt CPI + 2.6%	+1.4%

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-Mar-25	Change
Discount rate to calculate the AffRC	Gilts + 0.70%	Gilts + 0.46%	-0.24%
Affordable Risk Capacity, £bn	28.1	26.8	-1.3
Range: +/- 10%, £bn	25 - 31	24 - 29	

QUARTER END FMP MONITORING REPORT - END MARCH 2025

INVESTMENT RISK

Placeholder

This page will show the results of stochastic analysis as at the end of March, when available.

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QUARTER END FMP MONITORING REPORT - END MARCH 2025

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 Higher Education Statistics Agency (HESA) released data detailing student numbers in UK HE for the 2023/24 academic year. It showed a 1% y/y overall decline to 2.9m, driven by a 3.5% decline in international student numbers and the first overall decline in the data series since 2014/15 (Mar-25).
- Data from the OfS' Higher Education Students Early Statistics (HESES) survey of English HE providers' expectations for the current year (2024/25) for new student enrolments showed a 10% y/y expected drop for international students and a 0.4% y/y increase for home students compared with a year earlier, reflecting mainly recruitment in autumn 2024 (Mar-25).
- Home Office monthly visa application data for calendar Q1-25 showed study visa applications increased y/y throughout the quarter, the first sustained y/y improvement in applications since mid-2023. However, absolute numbers of students are low in these months and the key lead indicator for overall international recruitment into 2025/26 is likely to be applications in the July-Sept 2025 quarter (Jan-Mar 25).
- Scottish Education Secretary Jenny Gilruth announced £25m funding for Scottish HE institutions to assist them in navigating short-term financial challenges, in addition to the £1.1bn 2025/26 HE budget allocation announced in the previous quarter (Mar-25).
- National research funding agency UK Research and Innovation (UKRI) said that it would change its policies to increase the proportion of research costs universities are able to recover from its funding which had fallen below the 80% target to less than 70% on average (Mar-25).

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 MARCH 2025

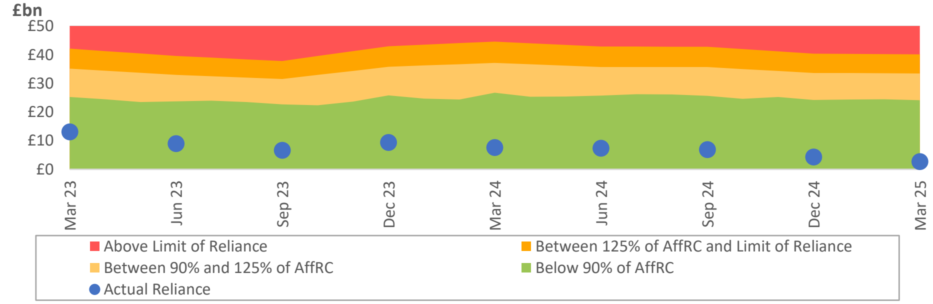
APPENDIX A - IRMF RAG rating definitions

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

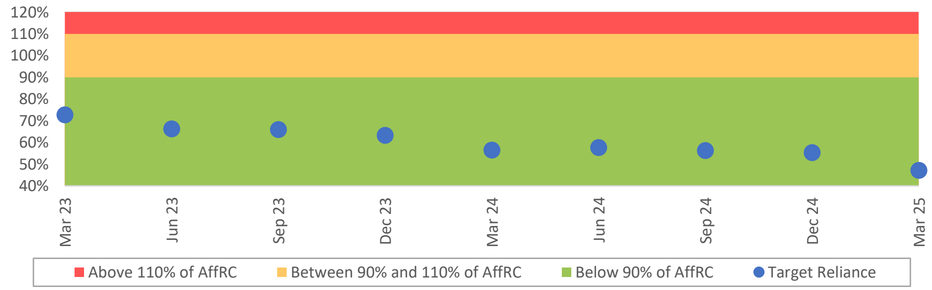


Target Reliance

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

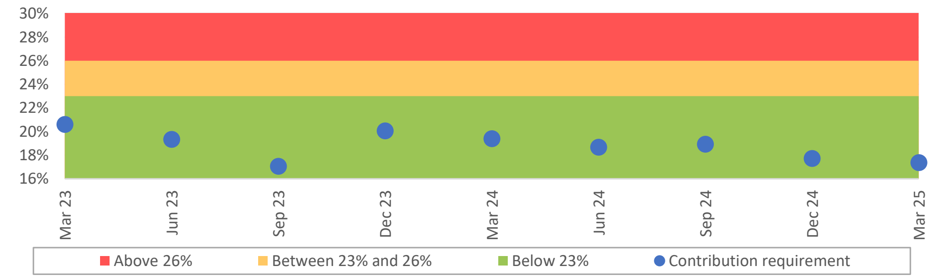


Contribution Metric

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 MARCH 2025

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 MARCH 2025

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 3. The present value of these salaries is then determined using the Affordable Risk Capacity discount rate shown on page 5.
Benefit improvement	The benefit improvements applicable to existing benefits agreed as part of the 2023 valuation: 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. 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: Green - No apparent deterioration since the previous review. Amber - Potential deterioration due to emerging new and/or financial information. 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 MARCH 2025

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. 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. 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. 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.