Summary Funding Statement

The Summary Funding Statement is a regular update of our funding position, how our assets compare with our liabilities.

As well as being something that the Pensions Regulator requires us, the trustee, to produce for our members, we publish it so you can get a picture of the funding that underpins your pension. This Summary Funding Statement is based on the figures as at 31 March 2017.

Background

At least every three years, we carry out an actuarial valuation – this is an in-depth analysis of our funding position and the factors that influence it. The Summary Funding Statement distils that information so you can see at a glance how your USS Retirement Income Builder, the defined benefit section of the scheme, is paid for.

We completed the 2017 actuarial valuation in February of this year. It follows two years of analysis and discussion with the Joint Negotiating Committee, assessing factors like:

- the age and life expectancy of USS members
- the types of investments we hold on your behalf
- the level of risk that employers are willing to support
- the investment returns we can expect
- the future cost of investing
- the employers' ability to support the scheme now and over time (the covenant)

The result of this work shows the level of contributions we need in order to provide your USS Retirement Income Builder benefits – essentially, how much money we need to bring in, including the contributions we need from members and employers. Find out more about the impact on your contributions in the future contribution changes section on page 3. For information on the valuation, visit our website (uss.co.uk/valuation).

Cost sharing provisions

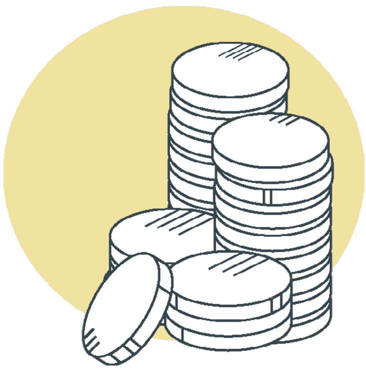
We share the findings of our actuarial valuation with the Joint Negotiating Committee (JNC) – a group made up of USS member representatives from the University and College Union and employer representatives from Universities UK – which decides how any increase in contributions are split between members and employers and/or how benefits may have to change.

The JNC couldn't agree on a way to meet the funding needs we identified in the 2017 actuarial valuation so the default cost sharing provisions were triggered under USS rules 76.4-8. This means the increase in contributions we need in order to provide the current pension benefits to members will be split 35:65 between members and employers.

The cost sharing provisions were written into the USS rules in 2011 at the request of the JNC, as contingency should it ever fail to agree how to respond to the valuation. They allow us to make sure we have enough funding to cover the benefits being built up by USS members until the JNC can agree a way forward.

How do we measure the funding position of USS?

We look at how much money has been built up from the contributions our members and employers pay and the investment returns we have achieved – **our assets**.



Then, we look at all the benefits we've promised to everyone building up USS Retirement Income Builder pensions – **our liabilities**.

Calculating our assets is fairly simple; it's just the actual value of all our investments at the time we set the valuation – in this case, 31 March 2017.

For our liabilities, it's slightly different. We value our liabilities in a number of ways. The principle calculation assumes that the USS Retirement Income Builder will remain open to new and existing members, and that members will continue to accrue benefits, long into the future. This is called a 'technical provisions basis' and it means we can make an allowance in our funding assumptions for the investment returns we could reasonably achieve over time by investing existing assets and future contributions.

Once we've put values on everything, we compare our assets with our liabilities and this gives us a snapshot of our funding position.

We then compare what we'll need to pay members in the future, according to the agreed assumptions, with what we've got coming in. That's what we use to work out the level of funding we need from members and employers. You can find more detail, including the assumptions we used for the 2017 actuarial valuation, at uss.co.uk/actuarial-valuation.

Assumptions

When we calculate our liabilities, we have to think about a number of other things, which we can't always quantify with absolute certainty. We make calculated assumptions on these, including:

- the state of the economy and how investments might perform in the future
- how much it might cost to invest in certain assets in the future.

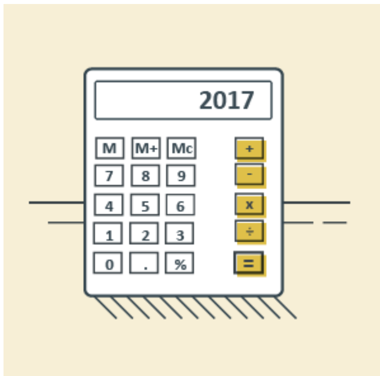
And while nobody likes to think about death, we have to make assumptions about this too because higher life expectancies mean we pay pensions for longer.

We also have to think about paying pensions to members' beneficiaries and the possibility of paying ill-health benefits to members who have to leave work early.

While the analysis we have carried out has been independently assessed, ultimately these are assumptions about how the future might unfold – so we cannot simply take them for granted. The law also says that we must apply a degree of prudence when we estimate our liabilities and the assets we need to fund them.

What was the position at the last valuation?

The last actuarial valuation calculated that, as at 31 March 2014, we were 89% funded on a technical provisions basis. That means the value of our assets was 89% of the value of our liabilities. This equated to a USS Retirement Income Builder deficit of £5.3bn.



What was the position at the last funding update?

In the years that we don't do an actuarial valuation, we produce an actuarial report called a funding update. The last one, at 31 March 2016, calculated that we were 83% funded, with a USS Retirement Income Builder deficit of £10bn.

How has the funding position changed since the last actuarial valuation?

The results of the latest valuation, as at 31 March 2017, showed that we've returned to being 89% funded and that our USS Retirement Income Builder deficit is £7.5bn. That means our funding position is the same as it was for the 2014 valuation and while the value of the deficit has grown since then, it has reduced since the 2016 funding update.

Year ended 31 March	Valuation 2014 in £billions	Funding update 2016 in £billions	Valuation 2017 in £billions
Value of assets	41.6	49.8	60.0
Value placed on liabilities (on a technical provisions basis)	46.9	59.8	67.5
Deficit	5.3	10.0	7.5
Funding ratio	89%	83%	89%

The 2016 funding update is based on projecting forward the assumptions used for the 2014 actuarial valuation (updated for market conditions). It doesn't involve the same detailed review of the underlying assumptions that takes place as part of the full actuarial valuation. For more information, including the detail of the underlying assumptions for actuarial valuations, visit uss.co.uk/actuarial-valuation.

From 31 March 2014 to 31 March 2017, the real yield on government bonds declined significantly and this resulted in an increase in the value placed on the liabilities.

However, our investment returns have been higher than expected, with the value increasing by 44% (£18·4bn) over the three year period, including an increase of 20% (£10·2bn) in the year to 31 March 2017. This included strong outperformance above the investment benchmark, which contributed an additional £0·4bn (net of costs) to the fund.

We also have to calculate our liabilities on a buy-out basis. That means we need to estimate their value based on what it would cost if they were bought-out by an insurance company. Neither we nor our stakeholders have any intention of implementing a buy-out. On a buy-out basis, the funding ratio decreased from 54% as at 31 March 2014 to 48% as at 31 March 2017.

Our funding plan

Our sole aim is to provide secure pensions for all our members. This is at the heart of everything we do and it underscores our approach to investment.

We have an active investment strategy and innovative approach to portfolio management, with an in-house investment management team.

We believe it's crucial that the investment portfolio is managed in such a way that the amount of investment risk taken is proportionate to the amount of financial support available from our sponsoring employers.

With the right economic conditions, we believe that opportunities should be taken over the years ahead to reduce the amount of risk – specifically investment risk taken in the funding of defined benefits – so it is consistent with the level of financial support employers have told us they are willing to provide in the long term, should experience prove to be worse than our expectation.

At the 2014 and 2017 actuarial valuations, we incorporated this long-term, gradual de-risking into our funding approach, with the intention of reducing the amount of investment risk over a 20-year period.

You can find out more about our investment approach in the Statement of Investment Principles in the How USS invests section of our website (uss.co.uk/ussinvests).

Future contribution changes

The contributions that employers pay mainly go towards the pensions that members are building up. We calculate the cost of these using the same assumptions as we do for the liabilities. In the 2017 actuarial valuation, we determined that employers need to make annual deficit contributions equivalent to 5% of salaries from 1 April 2020 in order to reduce the USS Retirement Income Builder deficit. This is in addition to the contributions they need to pay towards building future USS Retirement Income Builder benefits and USS Investment Builder savings for members, and the costs of running the scheme.

Based on this approach and our assumptions, we expect the USS Retirement Income Builder deficit to be removed by 30 June 2034. In calculating these contributions, we made allowance for higher investment returns during this recovery period. This allowance is 10% of the excess return between our best estimate assumption and the assumption used for the technical provisions. You can find more detail in the valuation report on our website (uss.co.uk/actuarial-valuation).

As part of the recovery plan for the 2017 valuation, we need to increase contributions, and since the Joint Negotiating Committee (JNC) hasn't agreed an approach to contribution levels or benefit changes, the cost sharing provisions, previously agreed by the JNC, dictate a 35:65 split in the increased contributions between members and employers.

The changes to member and employer contributions (including the deficit recovery element paid by employers from 1 April 2020) will be phased in over the next year:

	Percentage of pensionable salaries (%)			
	Up to 31 March 2019	1 April 2019 to 30 September 2019	1 October 2019 to 31 March 2020	1 April 2020 onwards
Total employer contributions	18	19.5	22.5	24.2
Total employee contributions	8	8.8	10.4	11.4
Total contributions	26	28.3	32.9	35.6

The total employer contributions cover:

- the cost of the building future USS Retirement Income Builder benefits (net of member contributions)
- contributions from 1 April 2020 towards the correction of the USS Retirement Income Builder deficit
- non-investment related administrative expenses and Pension Protection Fund levies (at an assumed level of 0.4% of total salaries)
- contributions towards members' savings in the USS Investment Builder and provision for certain investment management costs, subject to review by the JNC if those investment management costs exceed 0.1% of total salaries.

Statutory statements

There has been no payment out of the scheme's assets over the period from April 2016 to March 2017 to the scheme's sponsoring employers, nor has this happened previously.

There has been no intervention from The Pensions Regulator to use its powers to modify the scheme or to impose a direction or schedule of contributions.

Further information

Pension Protection Fund:

The Government established the Pension Protection Fund (PPF) in 2005 to provide benefits in the event that a scheme's sponsoring employer (or employers) become(s) insolvent without there being sufficient funds available in the scheme.

USS is recognised by the PPF as a multi-employer scheme with a joint liability. This joint liability is based on the 'last man standing' concept, which means it would only become eligible to enter the PPF in the event that the vast majority (if not all) of the scheme's employers were to become insolvent.

If such circumstances were ever to occur, the PPF would take over the payment of pension benefits to members but the benefits received might be less than the full benefits earned within USS. The precise amount that the PPF would pay to each member would depend on the member's age, the period over which the benefits were earned and the total value of benefits.

You can find more information about the PPF on its website (ppf.co.uk) or by writing to The Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

USS contact information:

If you would like to find out more about USS, please get in touch with the person who deals with USS matters at your workplace. Alternatively, you can visit our website, uss.co.uk. You can also write to us at Universities Superannuation Scheme Ltd, Royal Liver Building, Liverpool, L3 1PY.