Summary Funding Statement

The Summary Funding Statement is an update of Universities Superannuation Scheme's ("USS" "the scheme") funding position: How the scheme's assets compare with its liabilities.

It's a regulatory requirement and a way for you to get a picture of the funding that underpins your defined benefits in the scheme and to see how it compares with previous years. This Summary Funding Statement is based on the figures as at 31 March 2020, following completion of the 2020 actuarial valuation.

Background

At least every three years, we carry out an actuarial valuation. This is an in-depth analysis of the scheme's funding position and the factors that influence it. We completed the 2020 actuarial valuation in September of this year. It assessed factors like the:

- Age and life expectancy of USS members
- Types of investments we hold on your behalf
- Level of risk that employers are willing to support
- Investment returns we can expect
- Future cost of investing
- Employers' ability to support the scheme now and over time (the 'covenant').

The result shows the amount of money we need in order to provide your defined benefit Retirement Income Builder benefits including the contributions we need from members and employers and the returns on our investments.

Find out more about the impact of the 2020 actuarial valuation on your contributions in the 'future contributions' section of this document. For information on the 2020 actuarial valuation, visit: **uss.co.uk/about-us/valuation-and-funding/2020-valuation**.

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 that have been achieved – our assets.

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

Calculating our assets is fairly simple: It's just the actual value of all our investments at a set point in time – in this case, 31 March 2020.

For our liabilities, it's slightly different. We value our liabilities in a number of ways. The principal calculation assumes that the Retirement Income Builder will remain open to new members, and that members will continue to build benefits in the scheme in 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 expect to achieve over time by investing existing assets and future contributions.

Once we've put values on everything, we compare the assets with the liabilities, and this gives us a snapshot of the scheme's funding position. View a copy of the **2020 actuarial valuation report** and the **Schedule of Contributions and Recovery Plan**.

Assumptions

When we calculate the liabilities, we have to think about a number of things, which we can't quantify with absolute certainty. We make informed assumptions on these, including on the state of the economy and how investments might perform in the future, and 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 that the scheme will need to pay pensions for longer.

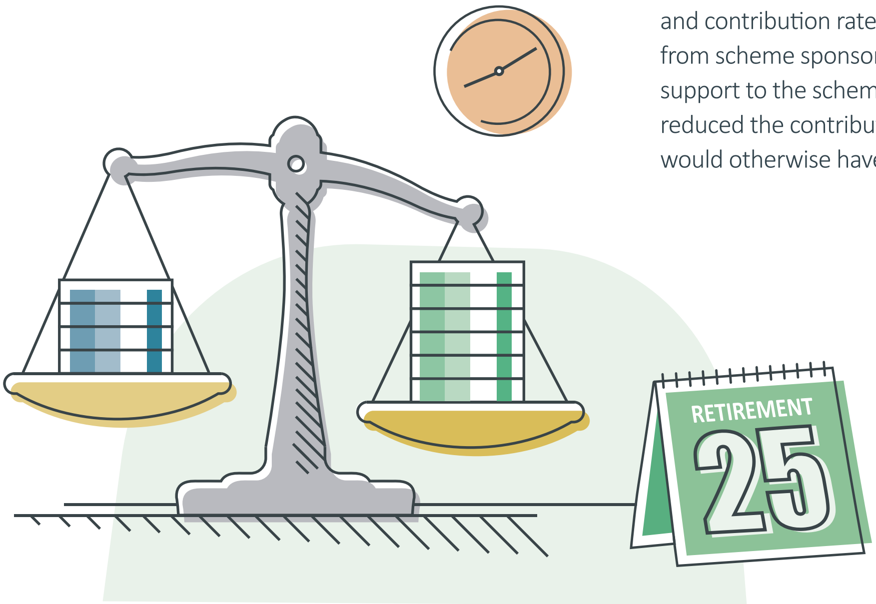
We also have to think about paying pensions to members' beneficiaries and the possibility of paying ill health benefits to members who have to leave work early.

Ultimately these are assumptions about how the future might unfold – so we can't simply take them for granted; the law says that we must apply a degree of prudence when we estimate our liabilities and the assets we need to fund them.

You can find more detail, including the assumptions we used in the **2020 actuarial valuation**.

What was the funding position of USS when we provided the last Summary Funding Statement?

In years when we do not carry out a full actuarial valuation, we produce a funding update called an actuarial report. The last Summary Funding Statement that we provided in 2019 showed the position based on this funding update as at 31 March 2019. This showed that the value of our assets was £67.4bn and the value of our liabilities was £72.8bn. This means that the value of our assets was 93% of the value of our liabilities and equated to a USS Retirement Income Builder deficit of £5.4bn.



What was the funding position at the 2020 valuation?

The 2020 actuarial valuation showed a worse position than the 2019 funding update, with increases to contributions being required to cover both the deficit and the increased cost of building up future benefits at their current rate.

As part of its response to the valuation, the Joint Negotiating Committee (JNC), an independently chaired group made up of individuals appointed by the University and College Union and Universities UK which respectively represent members and employers in the scheme, proposed changes to contribution rates and how new benefits are built up from 1 April 2022. The proposed changes to the benefit structure and contribution rates come with a package of measures from scheme sponsoring employers to provide additional support to the scheme's covenant. In combination this has reduced the contributions that members and employers would otherwise have needed to pay from 1 October 2021.

However, since the JNC's proposals are subject to a statutory employer consultation with affected employees and their representatives at the time this Summary Funding Statement was produced, there is the possibility that those changes will not go ahead in their current form or that alternative proposals will be put forward by the JNC. We have therefore presented the following positions:

- If the JNC's proposals are implemented, as at 31 March 2020, the scheme was 83% funded on a technical provisions basis. That means the value of the assets was 83% of the value of the liabilities, which equated to a USS Retirement Income Builder deficit of £14.1bn.
- If the JNC's proposals are not implemented, the scheme's current benefit structure would continue which would be more expensive to fund. As a result of this, and the reduced covenant support measures that would be in place, we would also need to make less optimistic assumptions and take less risk with our investments. This would mean that we were 78% funded on a technical provisions basis, with a USS Retirement Income Builder benefit deficit of £18.4bn

Year ended 31 March figures in £bns	**Funding Update 2019**	**Valuation 2020** (with benefit changes and covenant support)*	**Valuation 2020** (without benefit changes and with reduced covenant support)**
Value of assets	67.4	66.5	66.5
Value placed on liabilities (on a technical provisions basis)	72.8	80.6	84.9
Deficit	5.4	14.1	18.4
Funding ratio	93%	83%	78%

* Rolling 20-year moratorium on employers exiting the scheme without the consent of the trustee and the debt monitoring framework and pari passu arrangements as published by the trustee on 30 September 2021.

** A much shorter moratorium on employers exiting the scheme without the consent of the trustee (lasting until the point at which the next full actuarial valuation is signed, or a replacement moratorium is agreed – whichever comes first) and debt monitoring limited to data collection.

If the JNC's proposals are implemented, we can see that the financial conditions during 2019/20 – worse than the previous year – led to a decrease in assets of £0.9bn to £66.5bn and an increase in liabilities of £7.8bn to £80.6bn. If the JNC's proposals are not implemented, there is a further increase in liabilities of £4.3bn, totalling £84.9bn. You can find more detail, including the assumptions we used in the **2020 actuarial valuation**.

As well as calculating our liabilities on a technical provisions basis, we also have to do it on a "buy-out" basis during a valuation. That means we need to estimate their value based on what it would cost if they were bought-out by an insurance company. Although this calculation must be undertaken by law, it should be noted that neither we nor our stakeholders have any intention of implementing a buy-out. The estimated buy-out funding level was 51% as at 31 March 2020.

Our funding plan

We aim 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.

We are updating the investment strategy to take the 2020 valuation into account and will consult employers on a new Statement of Investment Principles (SIP) next year. View our current **SIP** and our **Statement of Funding Principles**.

Future contributions

The contributions that employers pay go mainly towards the cost of funding new pensions that members are building up. In the 2020 actuarial valuation, we determined that employers also need to make annual deficit recovery contributions equivalent to 6.3% of aggregate salaries from 1 April 2022 until 31 March 2038, if the JNC's proposals are implemented, in order to repair the Retirement Income Builder deficit.

This is in addition to the contributions they need to pay towards building future Retirement Income Builder benefits and defined contribution Investment Builder savings for members earning above the Salary Threshold, and towards the costs of running the scheme.

In aggregate, if the JNC's proposed benefit changes are implemented, member contributions will continue to be 9.8%. Total employer contributions including deficit recovery contributions will be 21.4%. These contribution rates have been in place since 1 October 2021.

The total employer contributions cover the following:

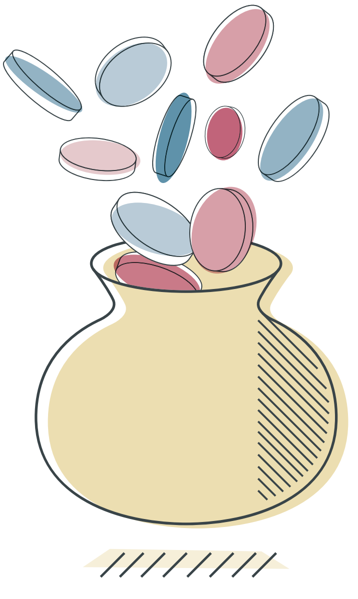
- The cost of building future USS Retirement Income Builder benefits (net of member contributions)
- Contributions from 1 April 2022 towards the recovery of the USS Retirement Income Builder deficit (assuming the benefit changes are implemented)
- Non-investment related administrative expenses and Pension 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.

The contributions in this scenario are therefore as follows, shown as a percentage of salary:

Contributions if JNC's proposed changes are implemented	Member	Employer	Total
From 1 October 2021	9.8%	21.4% Includes 6.3% deficit recovery contributions from 1 April 2022	31.2%

Note that these figures are subject to the outcome of the statutory employer consultation running from 1 November 2021 to 17 January 2022 and subject to review following the next actuarial valuation.

Based on this approach, our assumptions and the length of the recovery plan, we expect the Retirement Income Builder deficit to be repaired by 31 March 2038. You can find more details in the **2020 actuarial valuation report**.



If the JNC's proposals are not implemented the funding shortfall would increase. Higher contributions, including higher annual deficit recovery contributions, will be required as a result of reduced covenant support measures and the higher cost of providing future benefits.

The contributions in this scenario would be as follows:

Contributions if JNC's proposed changes are not implemented	Member	Employer	Total
From 1 October 2021 to 31 March 2022	9.8%	21.4%	31.2%
From 1 April 2022 to 30 September 2022	11.0%	23.7%	34.7%
From 1 October 2022 to 31 March 2023	12.9%	27.1% Includes 3% deficit recovery contributions	40.0%
From 1 April 2023 to 30 September 2023	13.9%	29.1% Includes 6% deficit recovery contributions	43.0%
From 1 October 2023 to 31 March 2024	15.0%	31.0% Includes 9% deficit recovery contributions	46.0%
From 1 April 2024 to 30 September 2024	16.0%	33.0% Includes 12% deficit recovery contributions	49.0%
From 1 October 2024 to 31 March 2025	17.1%	34.9% Includes 15% deficit recovery contributions	52.0%
From 1 April 2025 to 30 September 2025	18.1%	36.9% Includes 18% deficit recovery contributions	55.0%
From 1 October 2025	18.8%	38.2% Includes 20% deficit recovery contributions	57.0%

The total employer contributions cover the following:

- The cost of building future USS Retirement Income Builder benefits (net of member contributions)
- Contributions from 1 October 2022 towards the recovery of the USS Retirement Income Builder deficit (if the benefit changes are not implemented)
- 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.

These figures are subject to the outcome of the statutory employer consultation running from 1 November 2021 to 17 January 2022 and subject to review following the next actuarial valuation.

Based on this approach, our assumptions and the length of the recovery plan, we expect the Retirement Income Builder deficit to be repaired by 31 July 2032 (noting the different technical provisions and higher contribution rates which would apply).

Statutory statements

There has been no payment out of the scheme's assets over the period from April 2019 to March 2020 to the scheme's sponsoring employers pursuant to section 37 of the Pensions Act 1995, nor has this happened previously.

There has been no intervention from The Pensions Regulator to use its powers to modify the scheme as regards the future accrual of benefits or to impose a direction as to the manner in which the scheme's technical provisions, including the methods and assumptions to be used in calculating the schemes' technical provisions or the period and manner in which any failure to meet the statutory funding objective is to be remedied or to impose a schedule of contributions.

More information on our identification, assessment and management of climate change risk will be contained in our TCFD (Task Force on Climate-related Financial Disclosures) report, a copy of which will be published on our website no later than 31 October 2022. Once published a hard copy of the TCFD report will be available on request.

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 that the scheme 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, the total value of benefits and the application of any PPF compensation cap in force at the relevant time.

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.

Contact us

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 Limited, Royal Liver Building, Liverpool, L3 1PY.