

Summary Funding Statement

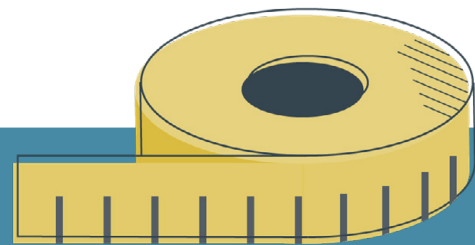


This Summary Funding Statement outlines the Universities Superannuation Scheme's ("USS"/"the scheme") funding position and how the scheme's assets compare with its liabilities.

It's a regulatory requirement and shows you the funding that supports your defined benefits in the scheme and how it compares with previous years.

Background

At least every three years, we carry out an actuarial valuation – an in-depth analysis of the scheme's funding position and the factors that influence it. We carried out an actuarial valuation as at 31 March 2023, which we completed in December 2023, and we have used this to inform the detail in this Summary Funding Statement.



How do we measure the funding position of USS?

We invest the contributions that you – our members – and your employers pay into the scheme. To measure the scheme's funding position, we look at how much money has been built up in the Retirement Income Builder from all the contributions, and at the investment returns that the scheme's assets have achieved. Then, we look at all the benefits that have been built up in Retirement Income Builder, which are known as the scheme's 'liabilities'.

Calculating the scheme's assets is fairly simple – it's just the actual value of all the investments at a set point in time, in this case, 31 March 2023.

It differs slightly for the liabilities, which we value in a number of ways. The main 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. The way we value the liabilities for the benefits already built up on this approach is called a 'technical provisions basis'.

The technical provisions basis allows us to 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.

Assumptions

When we calculate the liabilities, we have to consider a number of factors, which can't be measured with absolute certainty. We make informed assumptions on these, considering the state of the economy, how investments might perform in the future, and how much it might cost to invest in certain assets in the future.

While nobody likes to talk about death, we have to think about this too, as life expectancies play a part in how long we assume pensions will be in payment. When making assumptions, we also include the possibility of paying pensions to members' beneficiaries and paying ill health benefits to members who have to leave work early.

While the assumptions used in the valuation are based on advice from professional advisers and experts, ultimately these are assumptions about how the future might unfold and we can't take them for granted. By law, we must apply some prudence when we estimate the scheme's liabilities and the assets we need to fund them.

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

Last year, we provided the 2022 Summary Funding Statement which showed the funding position based on the actuarial report as at 31 March 2022. The value of the scheme's Retirement Income Builder (the defined benefit part of the scheme) assets was £88.9bn and the value of the liabilities was £91.0bn after covenant support measures and benefit changes, which were agreed and applied from April 2021 and April 2022 respectively.

As such, the value of the Retirement Income Builder's assets was 98% of the value of the liabilities, leading to a Retirement Income Builder deficit of £2.1bn.

How has the funding position changed since the 2020 valuation?

The 2023 valuation showed an improvement since the 2022 actuarial report, with the value of the assets exceeding the value of the liabilities on a technical provisions basis. This means that the scheme has a surplus rather than a deficit. We also determined that we could reduce the overall contributions needed to fund new benefits being built up.

The results of the actuarial valuation, as at 31 March 2023, showed that on a technical provisions basis the scheme's liabilities have decreased faster than the assets, resulting in the Retirement Income Builder funding position improving from a deficit of £2.1bn at 31 March 2022 to a surplus of £7.4bn as at 31 March 2023, and the funding level increasing to 111%.

| Year ended 31 March figures in £billions | Valuation 2020 | Actuarial report 2021 | Actuarial report 2022 | Valuation 2023 |
|--|-------------------|--------------------------|--------------------------|-------------------|
| Value of assets | 66.5 | 80.6 | 88.9 | 73.1 |
| Value placed on liabilities (on a technical provisions basis) | 80.6 | 86.2 | 91.0 | 65.7 |
| Surplus/(Deficit) | (14.1) | (5.6) | (2.1) | 7.4 |
| Funding ratio | 83% | 94% | 98% | 111% |

Financial conditions changed substantially over the 2022/23 year, leading to a £15.8bn fall in the value of the assets, outweighed by a greater £25.3bn fall in liabilities. The liability change mainly resulted from increases in the expected investment returns on the scheme's assets, partly due to the increases in interest rates over the year.

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 reductions to contribution rates (applicable from 1 January 2024) and improvements to new benefits (applicable from 1 April 2024). A one-off benefit uplift for certain members was also proposed.

You can find a copy of the 2023 valuation, and more detail on the valuation and the outcomes, including the assumptions we used, on our website at uss.co.uk/about-us/valuation-and-funding/2023-valuation. You can also find our schedule of contributions at uss.co.uk/about-us/valuation-and-funding/schedule-of-contributions

As well as calculating the liabilities on a technical provisions basis, we also have to do it on a "buy-out" basis. That means we need to estimate their value based on what it would cost if they were bought-out with an insurance company. This is a legal requirement but neither we nor our stakeholders have any intention of implementing a buy-out. The estimated buy-out funding level ratio was 74% as at 31 March 2023.

The scheme's funding plan

We aim to provide secure pensions for all our members. This is at the heart of everything we do, and it's built into the scheme's investment approach.

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

We believe it's crucial that the investment portfolio is managed in a way that the risk in the funding of the scheme can be supported by the scheme's sponsoring employers.

Our Statement of Funding Principles based on the 2023 valuation is available at uss.co.uk/fundprinciples-sfs. We are updating the investment strategy to take the 2023 valuation into account and will consult employers on a new Statement of Investment Principles (SIP) later this year. The current version of the (SIP) is available at uss.co.uk/principles-sfs.

Future contributions

The contributions that employers pay mainly go towards the cost of funding new pensions that members are building up. We calculate the contribution requirements using the same assumptions as we do for the liabilities.

The overall improvement in the scheme's funding position meant that we have been able to reduce the overall contribution requirements as part of the 2023 valuation. The JNC proposed that lower contribution

rates should apply from 1 January 2024, and these have now been implemented. The table below shows the previous contribution rates, and those which now apply. Note that these figures are subject to review following the next actuarial valuation.

You can find more detail in the valuation report on our website at uss.co.uk/about-us/valuation-and-funding/2023-valuation as well as the Schedule of Contributions at uss.co.uk/schedule-sfs.

| Percentage of pensionable salaries (%) | 1 April 2022 to 31 December 2023 | 1 January 2024 onwards |
|--|----------------------------------|------------------------|
| Total employer | 21.6 | 14.5 |
| Total member contributions | 9.8 | 6.1 |
| Total contributions | 31.4 | 20.6 |

The total employer contributions cover:

- the expected cost of building future Retirement Income Builder benefits (net of member contributions)
- non-investment related administrative expenses and Pension Protection Fund levies (at an assumed level of 0.5% of total salaries)
- contributions towards members' savings in the 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.

Member contributions go towards the cost of building future benefits.

Statutory statements

There has been no payment out of the scheme's assets over the period from 1 April 2022 to 31 March 2023 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 are calculated. This includes 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 is contained in our TCFD (Task Force on Climate-related Financial Disclosures) report, a copy of which is published on the Our Journey to Net Zero page of our website at [Our journey to Net Zero \(uss.co.uk\)](https://uss.co.uk). A hard copy of the TCFD report is 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, meaning 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 at ppf.co.uk or by writing to The Pension Protection Fund, PO Box 254, Wymondham NR18 8DN.

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. You can also visit our website at uss.co.uk or write to us at Universities Superannuation Scheme Limited, Royal Liver Building, Liverpool, L3 1PY

