

### 1. Why did the Trustee press ahead with the 2020 valuation?

The options reasonably available to the USS Trustee at the time of the March 2020 valuation were the subject of deep reflection and discussion with stakeholders and The Pensions Regulator (TPR).

The options available at that time should be seen in the context of the outcome of the previous (2018) valuation, which [in the words of TPR](#) was “at the limit of what we consider to be compliant with the funding requirements of Part 3 of the Pensions Act 2004”.

The subsequent deterioration in economic conditions made the situation very difficult. We set out these considerations, and our reasons for pressing ahead with the 2020 valuation [at the time](#).

It is important to note that the valuation was not filed until September 2021, some 18 months after the valuation date. In making judgements for the 2020 valuation, the Trustee reflected on all the information available, including post-valuation experience (which encompassed the subsequent rebound in asset prices post-March 2020 but with accompanying record low bond yields raising liability values even further).

Subsequently, the Trustee carried out an [Accelerated Year-end Review \(AYR\)](#) as at 31 March 2022. This indicated that the funding position had improved since 31 March 2020 – but the scheme most likely still had a deficit and future service contribution requirements for the new benefit structure were broadly the same.

Without the benefit changes introduced on 1 April 2022 – but allowing for the improved covenant support package put in place for the 2020 valuation – the indicative position at 31 March 2022 was a future service rate in excess of 36% of pay and a deficit of more than £3bn (which would require deficit recovery contributions in addition to the future service rate).

The ability of the scheme and the Higher Education sector to respond in a multifaceted way to these challenges demonstrated the resilience of USS, when fully backed by the covenant strength of its sponsoring employers. The combination of covenant support, higher contributions and benefit changes meant that the scheme could weather some of the most difficult economic conditions on record for private Defined Benefit (DB) pension schemes.

There have plainly been some significant, unexpected changes to the global economic landscape since then that have helped to drive further improvements in the funding position, as indicated by our [monitoring reports](#).

The reversal of a decade’s worth of decline in real interest rates in the space of just a few months has been the main driver of an improved funding and risk position (on the monitoring basis), as well as indicatively reducing the required future service contribution rate. Given these changes, the Trustee was able to indicate recently (in the [commentary](#) that accompanied its December monitoring report) that:

- Stakeholders might want to plan for the 2023 valuation on the basis that the overall contribution rate required for the current level of benefits is unlikely to be in excess of 20% of payroll.
- Similarly, they might also want to plan on the basis that the rate that would be required for the pre-1 April 2022 benefit structure going forward is unlikely to be in excess of the current cost of future service (25.2%).

### 2. How stable is the current position?

Market conditions have altered markedly since the 2020 valuation. Ten years of falling interest rates and rising equity prices reversed in the space of a few months in 2022 – volatile conditions which could change again just as rapidly.

However, conditions at the start of March 2023 were broadly similar to those at the end of December. As such, the [views expressed](#) by the Trustee in respect of the last monitoring report and the basis on which stakeholders might want to plan for the 2023 valuation still hold.

Our goal in this valuation cycle will be to work with our stakeholders to ensure that USS is fit for the future and can deliver the benefits promised to beneficiaries regardless of future economic conditions.

The scheme's improved funding position can, to this end, be a platform on which to build greater resilience and stability into the future. And we note that, in their recent [joint statement](#), UCU and UUK agreed to develop and implement "a robust and transparent mechanism for managing risk which can provide more sustainable benefits and contributions for future valuations".

### 3. What is the probability of having to make changes in 2026? What would bring such a negative turn?

Any actuarial valuation will involve comprehensive analysis of long-term assumptions on a variety of factors, including inflation, interest rates, the outlook for future expected investment returns, mortality, the covenant position, and risk capacity. As now, the aspects most likely to have the greatest bearing on a future valuation are interest rates and the outlook for both inflation and expected future investment returns.

It is impossible to say 'today' with sufficient confidence what the situation might be in three years' time. But there are steps the Trustee and the [Joint Negotiating Committee \(JNC\)](#) can take through the 2023 valuation to reduce the likelihood of the same funding challenges experienced over the past decade emerging again in future. Choices made 'today' will impact on the strength of the scheme tomorrow, as pensions promised to USS members will be paid for many decades into the future. The scheme's improved funding position can, to this end, also be a platform on which to build greater resilience and stability into the future – if stakeholders share that goal.

There is likely to be a range of contribution rates that could be acceptable to the Trustee at this valuation, and there may be a surplus, depending on the decisions stakeholders go on to make. If contributions were set at the lower end of the acceptable range, it is more likely they would need to increase again at the next valuation than if they were set at the upper end.

Surplus assets not applied (in part or in full) by way of benefit improvements or contribution reductions would be expected to reduce the likelihood of the same funding challenges experienced over the past decade emerging again in future. Depending on any proposals the stakeholders go on to make, and if/how the funding and investment strategy might evolve as a result, they may well be available to subsidise contributions at the next valuation if future contribution requirements go up.

### 4. Are additional covenant support measures still necessary?

As Trustee, we must make balanced judgements and assumptions on long-term economic growth, inflation and investment returns, with limited visibility of how these potentially volatile factors will actually play out.

The covenant support provided by employers will continue to be critical in managing risks such as those we have been able to navigate in 2022 – and will be a bulwark for the 2023 valuation and beyond.

Having the covenant support measures in place absorbs volatility in the external environment that affects employers' ability to support the scheme and allows us to take a long-term view of funding the scheme and the amount of risk it is possible to adopt in funding the scheme.

Without the covenant support measures in place, it is possible that the Trustee would decide to take less risk in funding the scheme and/or take a shorter-term view. This would (all things being equal) result in higher contributions being required.

From a practical perspective, the covenant support measures are a tangible demonstration of employers' commitment to the scheme and are crucial in supporting key assumptions around covenant strength and period of covenant reliability (for instance, in our interactions with TPR).

We will be providing UUK and employers with further information about the value of the covenant support measures, as committed to in the 2020 valuation, in due course.

### 5. Will The Pensions Regulator weigh-in?

As one of the UK's largest private DB pension schemes, and one of the relatively few still open to new members<sup>1</sup>, we are closely supervised by TPR – so they will inevitably have an interest in the outcome of the 2023 valuation.

The direction of travel has been positive in respect of the scheme's funding position, including the potential emergence of a surplus. But we would still expect TPR to take an interest in any assumptions we use – for example, in relation to the covenant horizon – that are significantly different to the assumptions used by other schemes.

We engage with them on a regular basis and have already briefed them on our planned approach to the 2023 valuation, our work on assumptions, the scope of the covenant assessment and the planned timetable. They have also attended a meeting of the Valuation Technical Forum.

We will continue to engage with them in the spirit of open and constructive dialogue. Ultimately, we expect that the information and explanation we provide to TPR, and the advice we share with them, will help them to understand the decisions made and how we (i.e., the Trustee and JNC) are progressing against our [accelerated timetable](#) and the statutory deadline.

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<sup>1</sup> According to [the Pension Protection Fund](#), 90% of private DB schemes in the UK have closed to new members since 2006, while 53% have stopped offering DB pensions altogether. USS members account for almost a quarter of the 930,700 people in the UK who are still actively paying into private DB schemes. USS is in the 10% of schemes still open to new members.

**6. If there is surplus at this valuation, what happens?**

Any surplus that arises following an actuarial investigation can only be applied in accordance with the Scheme Rules, the statutory funding regime and the Trustee's fiduciary duties. There is no power under the USS Rules to return surplus by making payments to employers on an ongoing basis (only in the event of the scheme winding-up).

In terms of process, the valuation and cost-sharing provisions of the Scheme Rules focus on contribution rates and are silent on the application of surplus beyond that.

Therefore, if the Trustee were to decide that a decrease in the overall contribution rate is required, the JNC will have a role under the Scheme's cost-sharing arrangements to decide how that reduction is addressed.

This could include benefit changes, but the cost-sharing process under the rules only addresses the decrease in contributions determined by the Trustee.

The JNC could – in parallel – initiate discussions on the application of any wider surplus indicated by the actuarial investigation (i.e., by recommending rule amendment to enhance benefits and/or further changes to contributions for the Trustee to consider.

Surplus assets not applied (in part or in full) by way of benefit improvements or contribution reductions would be expected, all else being equal, to reduce the likelihood of the same funding challenges experienced over the past decade emerging again in future. They may well be available to subsidise contributions at the next valuation if future contribution requirements go up.

The Trustee will need to understand and consider the implications of any JNC decisions and/or recommendations, in particular around equality and fairness (including inter-generational fairness).