

Charting a course for the USS 2026 valuation

Introduction

The 2026 valuation provides an important opportunity to consider how the scheme is financed over the long term to best meet the needs of its members, beneficiaries and sponsoring employers. The current surplus can support a range of options from improving long-term stability to reducing short-term cost to improving benefits.

It is therefore important that stakeholders consider how they build consensus on what they want to **achieve** and what they want to **avoid**.

To help stakeholders build informed views ahead of the valuation, this document sets out a short update on how the financial position of the scheme has evolved and some of the key choices and trade-offs that the current level of funding could support. It covers:

1. **Where we have come from:** Background to recent valuations
2. **Where we are now:** An overview of the financial position at September 2025
3. **Where we go from here:**
 - How we expect the position to evolve absent any changes, and the range of plausible outcomes
 - The impact on funding of prioritising stability of outcomes
 - The impact on funding of releasing surplus via reduced contributions or benefit improvements (or some combination of the two)
4. **Governance and timetable:** A high-level timeline for the valuation and key engagement points

We understand that UCEA is producing supporting documentation to gather employer views ahead of the valuation. Feedback from employers, including views on desired outcomes, should be sent to UCEA directly as part of this process so that it can be collated and shared with the Trustee.

This document has also been shared with UCU.

A glossary of terms relating to the 2026 valuation can be found on our [2026 valuation webpage](#).

1. Background – where we have come from

Following a sustained period of challenging actuarial valuations, the 2023 valuation marked a turning point in the funding of USS. The scheme held a surplus on a technical provisions basis¹ for the first time in over a decade, and a lower overall contribution rate requirement meant that the JNC decided to:

- improve new benefits (reinstating the benefit structure that had been in place up to 2022);
- reduce contributions to 14.5% for employers and 6.1% for members;
- grant a one-off benefit improvement in respect of the 2022-24 period when accruing benefits had been lowered, funded with around £1.2bn of surplus at March 2024.

In prior valuations, the Trustee's funding plan was heavily dependent on the covenant provided by the scheme's employers; substantial deficits (over £14bn in 2020) meant that the scheme's ability to continue to invest in return-seeking assets was reliant on the employers' ability to make good any potential losses. With a Technical Provisions surplus as a buffer, and lower ongoing contribution requirements, although the

¹ Used in funding the scheme, in particular determining whether a recovery plan is required

immediate reliance on the covenant is reduced, the covenant support measures in place allow the Trustee to take a long-term view of how the Scheme is funded and how its assets are invested. The 2023 valuation was carried out under an accelerated timeline with agreement in advance between the stakeholders over the desired outcome, and stakeholders expressed a desire to mitigate the need for future changes to benefits and contributions for at least the next two valuations.

2. Context of the 2026 valuation – where we are now

Since the 2023 valuation, the scheme's funding has continued to improve. The [September 2025 Financial Management Plan \(FMP\)](#) monitoring report shows a £15bn Technical Provisions surplus, increased from £7.4bn at the 2023 valuation, and indicative overall contribution requirement for future benefits of 16% of salary, decreased from 20.6% of salary at the 2023 valuation.

The change in the scheme's funding position in a period of around five years has been notable, with an improvement of nearly £30bn over that time. Such improvement gives grounds for cautious optimism ahead of the valuation date with the current surplus able to support a wide range of possible options for the 2026 valuation outcome, from improving stability in the existing benefits and contribution rates, to the ability to make improvements in either or both.

The improvement in funding also serves to illustrate the extent to which things can change over a relatively short period.

Actions over time have increased the resilience of the funding position meaning that a return to a stressed position like 2020 is now less likely, but we must also be mindful that the scheme continues to run an investment strategy with a relatively high (c.60%) allocation to "growth" assets such as equities. This sort of strategy means that there is still significant potential volatility in the scheme's funding position and things could change ahead of the valuation date or in the future.

The 2026 valuation is also the first under the new statutory funding regime, with revised legislation and new guidance from the Pensions Regulator. Constructive work has taken place between stakeholders and the Trustee to revise the valuation methodology to both reflect this and to help support increased stability. One of the implications of the new regime is that the options available in the event of a deficit are now more restrictive:

- The requirement for deficits to be removed as quickly as is 'reasonably affordable' is now enshrined in law.
- There are new requirements to consider how the scheme could recover from a downside event that could constrain the ability to seek return and take risk whilst in deficit.

We understand that the Higher Education sector is also experiencing broader financial pressures which may mean that the sector's potential ability to afford increased contribution rates if needed in future is under strain. This brings the treatment of any surplus and implications for contributions and risk into sharp focus.

Taken together, whilst a deficit may now be less likely, the consequences could be more severe.

This valuation also needs to be considered from a member perspective. Risk and cost sharing between different groups of members is an inherent feature of DB pension schemes. Decisions taken at this valuation on how any surplus is used, how contributions and benefits are set, and how much risk is taken will have implications for which members bear the cost, benefit and risk associated with the scheme.

3. Where we go from here – the outlook

The current level of surplus enables a broad range of options for how the scheme could be financed going forwards depending on the range of objectives held by stakeholders.

Based on current contributions and the existing investment strategy, all else being equal, the surplus is expected to grow by around £2.5bn per year. This breaks down broadly as £1bn of interest on the surplus, £1bn of return expected in excess of the Technical Provisions discount rates, and around £0.5bn due to the contributions currently payable being higher than required on the Technical Provisions basis.

However, such an outcome is far from certain. At previous valuations, stakeholders were clear that they viewed maintaining a growth orientated investment strategy as important to the ongoing funding and financing of the scheme. The Trustee has been able to support such an approach reflecting the long-term nature of the covenant provided by the employers and the related covenant support measures.

Maintaining such a strategy leads to a broad range of plausible outcomes. Against a backdrop of a larger surplus and the financial pressures on the sector, this may merit testing whether previously shared views on investment strategy still hold in light of current conditions.

Some possible considerations and implications of this, that stakeholders may wish to have in mind, are:

- i. Firstly, the majority of any significant change in funding position over the shorter term (in particular, the position at the 2029 valuation) is likely to be due to investment outcomes (i.e., how the scheme's assets move relative to the liabilities) rather than contributions decisions. A change in contribution rate of 3% is worth about £1bn over a 3-year period, equivalent to a difference in investment return of around 0.5% per year.
- ii. Secondly, the extent of the risk being run:
On a self-sufficiency basis (the basis through which the Trustee assesses reliance on the sector to support the scheme – i.e., the employer covenant), the current 'value-at-risk' is £14bn (a 1 in 20 downside event would see funding deteriorate by £14bn or more over a 12-month period)². Considering how much this position could deteriorate by over the longer period to the 2029 valuation suggests that a 1-in-20 downside would see the current self-sufficiency surplus of £10bn become a c£10bn deficit or more. This demonstrates the level of reliance that the Trustee places on employers, the covenant, and associated support measures to support risk over the short and long term.
- iii. Thirdly, the likelihood of a deficit arising over time on the Technical Provisions basis (the basis that drives cash contributions for employers and members). Maintaining a Technical Provisions surplus helps enable cash contributions to be more stable over time, avoiding the need for contribution increases (via use of surplus to subsidise contributions) and the challenges that come with a deficit, such as the increased reliance on the covenant, the need for deficit recovery contributions, or changes to future benefits. This can be illustrated by considering the likelihood of a Technical Provisions deficit in the shorter and longer term (two and five valuations respectively):

² As an illustration, the effect of a 1-in-20 event over a 1-year horizon could correspond to an equity fall of around 30%, or a fall in gilt yields of around 2%

Current contribution rate, benefit structure, and investment strategy

Valuation date	Likelihood of deficit at the valuation date	Likelihood of deficit arising in advance of the valuation date
2032 valuation	8%	18%
2041 valuation	9%	30%

However, it is important to remember that modelling has limitations. Recent history has demonstrated that unlikely events can, and do, occur. Since 2008 there have been four separate events (the 2008 financial crisis, Brexit, the COVID pandemic, and the market movements following the 2022 budget) that would have represented extremely unlikely outcomes within this modelling. Ultimately, the only thing that is certain is that unlikely events will happen. Considering how to best position the scheme to insulate members and employers from such events is particularly pertinent when considering how any surplus is used.

Where we go from here – the options

Maintaining the current contribution rate and investment strategy would be expected to grow the surplus over time. This could help provide a bigger buffer against future risks or be used to improve benefits and/or reduce contributions in future. However, absent a clear plan to use a growing surplus, such an approach exposes members and employers to higher contributions and risks than are strictly necessary to support the current level of benefit provision. Whilst contributions could be reduced or benefits improved in future, this would introduce questions of intergenerational fairness that would need to be considered.

Absent plans to improve benefits or reduce contributions, there may be diminishing benefit of growing the surplus indefinitely, and the Pensions Regulator suggests schemes should have a plan for how a surplus would be used. Such options could include:

- A. Prioritising the **stability of contributions and benefits**
- B. **Releasing surplus** – either by reducing contributions or improving benefits

We consider these in turn:

A. Stability of contributions and benefits

Stakeholders have previously shared their desire for increased stability in contribution rates and benefits. The surplus would help support contribution rates landing within agreed ranges across future valuations.

Should stakeholders wish to continue their investigation of a Conditional Indexation benefit structure in future, then maintaining the current level of contributions could help support this. Equally, the current funding position could support lower contribution rates (including potentially stabilisation of contribution rates at a lower level) and we are aware of the financial constraints facing the sector and that views may have evolved since the 2023 valuation.

Maintaining the current contribution rate and benefit structure may have the following high-level pros and cons relative to reducing the contribution rate (for the same benefit structure):

Pros	Cons
Improved certainty and predictability of cost with contributions less likely to need to rise in the future	Contributions above minimum required by the valuation for members and employers, leading to more money being paid into the scheme than is currently necessary, and potential perception of overcharging
Improves confidence for all involved against the context of recent benefit and cost volatility.	Doesn't take the potential opportunity to improve affordability which could encourage wider participation
Avoids charging different members and employers differing amounts over time for the same underlying benefits	Overfunding the scheme could have diminishing benefits without a plan for the use of surplus

Where the Trustee determines a reduction to the required overall contribution rate, the attribution of that reduction between employers and members would be determined by the [Joint Negotiating Committee \(JNC\)](#). Maintaining the current contribution rates in these circumstances would require rule amendments to be proposed by the JNC. By default (in the absence of any decision on cost-sharing by the JNC), the required reduction would be shared in a 65:35 ratio between employers and members respectively.

The chances of achieving contribution and benefit stability in the short and long term could be increased via particular changes to the investment strategy, and this would need to be considered in more detail as part of the broader valuation process, and through further engagement with employers.

B. Releasing surplus – reducing contributions or improving benefits

The primary ways of releasing some surplus would be via a reduction in contribution rates below that required to fund new benefits, benefit improvements³, or a combination of the two.

The JNC has the power to propose benefit improvements, and the Trustee also has the ability under the Scheme Rules to use surplus to grant discretionary increases for deferred and pensioner members. We also note that stakeholders are considering the potential for benefit improvements through [Conditional Indexation](#).

The surplus is large enough that one bookend that could be considered is a temporary cessation of employer and employee contributions. This is a deliberately extreme bookend for the purposes of facilitating conversation – in practice such a step would be unprecedented within USS and the practical considerations would need to be carefully worked through.

Such a reduction could not be expected to be indefinitely sustainable. The lower the total contribution rate, the faster the surplus is expected to be depleted, and the more exposed the scheme becomes to the instability associated with market movements, with higher reliance on returns from growth assets to fund the ongoing benefits accruing within the scheme.

³ A benefit improvement funded by release of surplus would normally relate to existing benefits. An improvement to future benefits would increase the future service contribution requirement.

All else equal, if surplus is used to support contribution reductions or benefit improvements, changes are more likely to be required in future. The larger the contribution reduction, or larger the benefit improvement, the greater this risk.

As an illustration of a smaller contribution rate reduction that would be more resilient to market movements, we set out below the likelihood of a Technical Provisions deficit emerging under a 15% total contribution rate (this analysis can be compared with the table on page 4):

Valuation date	Likelihood of deficit at the valuation date	Likelihood of deficit arising in advance of the valuation date
2032 valuation	12%	23%
2041 valuation	17%	40%

Investment strategy

Whilst not the primary focus of this document, the investment strategy could be changed to support and amplify the likelihood of being able to achieve the desired option(s).

Under previous conditions, stakeholders were clear that they viewed maintaining a growth orientated investment strategy as important to the ongoing funding and financing of the scheme. The surplus can provide a buffer to help ride out day-to-day investment volatility associated with the current strategy. However, significant changes in economic conditions, alongside the improvement in funding position mean that the trade-offs between growth and matching assets are different than at previous valuations.

Present conditions, with a large surplus, could also allow the scheme to seek less return and risk whilst keeping cost at an affordable level further increasing the stability of contributions and security of accrued benefits – minimising the chances of needing deficit recovery contributions in future.

There is no single right answer, and preferences will depend on the short- and long-term objectives and concerns of stakeholders. With this in mind, we will engage further on the investment strategy as part of the valuation process as this picture becomes clearer.

4. Governance and timetable

The Trustee is responsible for conducting the valuation of the scheme in a manner that meets the requirements of the Scheme Rules and legislation. The Trustee will be separately communicating with UCU and UCEA regarding the proposed methodology.

Following the publication of this document, the next formal engagement on the valuation will be as part of the Technical Provisions consultation with UCEA that we expect to share in the summer of 2026. Responses to this discussion document will help us sharpen the focus of that consultation to ensure that time and attention is focused in the most important areas.

Following the Technical Provisions consultation, a contribution determination will be provided by the Trustee to the JNC, setting out any required change to the overall contribution rate for the scheme based on the existing benefits. Next steps following this are dependent on the extent and nature of any changes proposed by JNC in response to the determination.

A high-level timeline for the valuation, with key engagement points, is shown below:

- **31 March 2026**

The valuation date – when relevant data and analysis will be captured to inform the assessment of the scheme's funding position.

- **April to June 2026**

The Trustee considers relevant data and analysis to establish our proposed funding methodology and assumptions.

- **July to September 2026**

The Trustee consults with UCEA on our proposals (referred to as the Technical Provisions consultation).

- **October 2026**

The Trustee confirms the funding position, and any change required to the overall contribution rate, to the JNC. The JNC then considers how any change will be met (e.g., via benefit changes and/or the split of contributions from members and employers) and if it wishes to propose other changes (e.g., to maintain current contribution rates or improve existing benefits).

- **February to April 2027**

Anticipated employer-led consultation with affected employees and their representatives on potential changes to contributions and benefits proposed by the JNC (if needed). For clarity, if there are no changes to benefits or contributions, then no member consultation will be required. If the consultation is not required, then future dates can be brought forward.

- **May/June 2027**

The Trustee consults with UCEA on the Schedule of Contributions and Statement of Strategy Part 1, and with employers on Statement of Strategy Part 2.

- **30 June 2027**

This is the statutory deadline for completing the valuation.

- **2027 – once valuation is nearing conclusion**

The Trustee conducts a round of investment engagement followed by a consultation with employers on the Statement of Investment Principles.

How should employers engage with this document?

We understand that UCEA is producing supporting documentation to gather employer views ahead of the valuation. Feedback from employers, including views on desired outcomes, should be sent to UCEA directly as part of this process so that it can be collated and shared with the Trustee.

Annex – Previous valuation results

Year	Technical Provisions surplus / (deficit) £bn	Self-sufficiency surplus/(deficit)	Future service contribution requirement (overall)	Deficit recovery approach	Overall contribution requirement
2014	(5.3)	(14.5)	23.9%*	17-year plan, additional contributions of 2.1%	26% (implemented 1 April 2016)
2017	(7.5)	(22.4)	30.6%	17-year plan, additional contributions of 5%	Phased increases over 2019/20 from 28.3% to 35.6% (only 28.3% was implemented)
2018	(3.6)	(20.8)	28.7%	10-year plan, additional contributions of 2% over 2019/21 then 6%	Stepped increase from 30.7% in October 2019 to 34.7% in October 2021 (not implemented)
2020**	(14.1)	(35.5)	24.9% <i>(reduced accrual)</i>	<i>18-year plan, additional contributions of 6.3%</i>	<i>31.2% from 1 October 2021</i>
2023	7.4	(5.1)	20.6%	n/a (no adjustment for surplus)	20.6% from 1 January 2024

* includes “employer match” of 1% additional DC contributions

** results shown in italics allow for the introduction of covenant support measures and a reduced level of benefit accrual from 1 April 2022, both agreed as part of the 2020 valuation. The covenant support measures remain in place.

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