USS For members, for the future.

A consultation for the 2026 valuation

Consultation with the Universities and Colleges Employers Association on the proposed methodology and assumptions for the Scheme’s Technical Provisions and the Statement of Funding Principles.

USS Retirement Income Builder Section
15 July 2026

About this consultation

Purpose of this report

This document begins the statutory consultation by the Trustee with UCEA on the proposed methodology and assumptions to be used in calculating the Technical Provisions and draft Statement of Funding Principles for the 31 March 2026 valuation of the Retirement Income Builder section of the Universities Superannuation Scheme.

The core consultation matters are set out on page 8 at questions 1 to 3.

This consultation also provides an opportunity for UCEA to confirm or update the Trustee on employers' long term objectives (questions 4 to 6) and other additional elements relevant to the valuation and the Scheme's long term strategy (questions 7 to 10).

UCEA's response to this consultation needs to be provided to the Trustee by 30 September 2026.

Important notice: please read

In formulating this consultation document, the Trustee has received actuarial information and actuarial advice (together the 'Actuarial Information') from the Scheme Actuary, Aaron Punwani of LCP, investment advice from USS Investment Management Limited and Mercer, and covenant assessment and sector advice from PwC. The Scheme Actuary has confirmed to the Trustee that the Actuarial Information complies with relevant Technical Actuarial Standards.

For the avoidance of doubt, this consultation document is addressed to UCEA only. Neither UCEA, nor any other entity or person who might receive or otherwise come into possession of a copy of this document, are considered to be 'users' of the Actuarial Information or other information, input or advice that has been provided to the Trustee by the Scheme Actuary or other advisers. To the extent that any of the Actuarial Information, or other information, input or advice provided to the Trustee, is included within this consultation document, it is provided for information only and on a non-reliance basis. Neither the Trustee nor any of its advisers accepts any liability to any other entity or person. We recommend that UCEA or any other entity or person who might receive or otherwise come into possession of a copy of this document take their own advice, including actuarial advice, on which they can rely. References to 'the consultation document', 'the consultation' and 'the document' include the appendices and the Supporting Information.

Roles and responsibilities

The Trustee has sole responsibility for setting the Scheme's Technical Provisions and for determining the Scheme's investment strategy. The Trustee is required to consult UCEA, acting on behalf of all employers participating in USS, on its proposed assumptions and methodology to be used in calculating the Technical Provisions and on its Statement of Funding Principles, which are the subject of this consultation.

The Trustee is also required to consult UCEA on the Schedule of Contributions and on Part 1 of the Statement of Strategy, which is planned to take place later in the valuation process.

Consultation by the Trustee on the Statement of Investment Principles and on Part 2 of the Statement of Strategy will take place directly with employers.

Please get in touch with us if you need an accessible version of this document.

Please send any general enquiries about this document and the enclosed Supporting Information to **valuation@uss.co.uk.**

Contents

Cover image: 'Mirrored' by Nigel Hall RA (Worcester College, University of Oxford, 2011). Mirrored explores how perspective shapes understanding. This bronze sculpture celebrates the value of seeing from multiple viewpoints and the balance required in thoughtful decision-making.

Foreword

"The sustained improvement in funding is an important opportunity to revisit objectives and consider how best to position the Scheme strategically for the longer term."

Dame Kate Barker
Chair of the Trustee Board

Since the last valuation the Scheme's funding position has continued to improve, placing USS in a position of significant strength at this valuation.

Financial market conditions since 2023 have remained favourable overall, with interest rates staying at materially higher levels than those experienced over much of the previous decade as central banks have continued efforts to bring inflation under control, government borrowing has increased in many countries, while labour markets have so far remained resilient to higher borrowing costs.

This has supported higher expected investment returns at this valuation, reducing both the value of the Scheme's existing liabilities and the cost of providing new pension promises. Over the period, the Scheme's assets have performed strongly relative to liabilities, further strengthening the funding position.

At the 2023 valuation, stakeholders clearly articulated the importance of stability. We note that the current position could support the continuation of existing benefit and contribution levels. However, as with all defined benefit arrangements, uncertainty and risk remain inherent.

Over the intervening period, we have worked closely with stakeholders through the joint Stability Working Group to explore mechanisms that could enhance the Scheme's resilience over time. This collaboration has directly informed the proposals and supporting analysis set out in this consultation.

The sustained improvement in funding is an important opportunity to revisit objectives and consider how best to position the Scheme strategically for the longer term.

In its January discussion document, *Charting a course for the USS 2026 valuation*, the Trustee highlighted that following a long period of challenging valuations, we currently have fewer constraints around funding risk. That means valuation decisions can be informed by a strategic long term view on risk, benefits, surplus, and stability – for members and employers alike. While this is a favourable position to be in, we are conscious that conditions can change.

The prospect of a growing surplus raises important questions about how that surplus should be managed over time: the extent to which it should be retained to support long term stability and resilience, or used for other purposes such as supporting contributions, benefits or future benefit design developments. Different approaches involve different trade-offs, and the choices made now will influence the Scheme's future funding position, contribution requirements and resilience to adverse outcomes.

Alongside the discussion document, we have engaged extensively with employers to support early consideration of these issues and explore emerging perspectives. We are grateful for the thoughtful and constructive feedback received, both directly and through the response coordinated by UCEA. That input has been reflected in the proposals and supporting analysis we present here. This consultation represents a further opportunity to deepen that dialogue, as we develop our funding and investment approach in the context of stakeholder objectives.

We have renewed our assessment of the financial health of, and outlook for USS employers which remains central to our judgements. Overall, we continue to assess the covenant as robust, underpinned by the sector's scale and diversity, its continuing resilience, and the established covenant support framework. This provides confidence that the amount of reliance placed on the covenant remains well within the collective capacity of the employer group. This enables us to continue to take risk in a measured way in support of better long term outcomes.

However, we recognise the financial pressures facing parts of the sector. Although the likelihood of a future funding deficit has reduced, the implications may be more challenging for the sector to respond to.

In recent months, we reconvened the Valuation Technical Forum, creating an open and constructive space for early discussion of key technical aspects of the valuation – including our updated methodology which, among other changes, reflects the requirements of the new regulatory funding regime applying at this valuation. I would like to thank the representatives and advisers of UCU and UCEA for their continued engagement, challenge, and insight. This collaborative approach has supported a thorough and transparent process.

We look forward to considering your consultation responses and to ongoing engagement on the Scheme's future direction in that same spirit.

Kate Barker

Dame Kate Barker
Chair of the Trustee Board

15 July 2026

Executive summary

Sustained favourable financial conditions, together with strong asset performance relative to the Scheme's liabilities, have led to a further significant strengthening of the Scheme's funding position since the 2023 valuation.

At a glance

The provisional view presented by the Trustee as at 31 March 2026, subject to the outcome of the consultation with UCEA, is:

A funding surplus of

£16.9bn

on the Technical Provisions basis (compared to a surplus of £7.4bn at the 2023 valuation).

A Future Service Cost on the Technical Provisions basis of

16.4%

of salaries (the current overall contribution rate is 20.6%).

These developments mean that a wide range of options can be explored at this valuation, including employers' previously stated desire for stability.

The Scheme's financial position has continued to improve

- Financial market conditions since 2023 have remained favourable overall. Expected future investment returns are higher at this valuation, reducing both the value of the liabilities and the cost of providing new pension promises. In addition, the strong returns we achieved on the Scheme's growth assets (relative to the liabilities) since the last valuation have further increased the surplus.
- As a result, the Scheme's funding position has strengthened materially including on more cautious bases. That places the Scheme in a strong position from which to consider long term objectives, how these may be achieved and how much risk to take.

An opportunity to consider the Scheme's future strategy

- Triennial valuations provide a periodic opportunity to assess whether the overall approach to funding the Scheme, and the costs and risks associated with this, remain appropriate. It is important that decisions we take are informed by what employers are seeking to achieve and to avoid.
- The position at this valuation provides a natural point – and an important opportunity – to consider how to fund the Scheme over the long term to best meet the needs of its members, their beneficiaries and the sponsoring employers.
- Feedback received to date suggests a continued desire for contribution and benefit stability across multiple valuation cycles, with the surplus providing a buffer against future volatility.

This valuation can support stability of benefits and contributions

- Our provisional results indicate that the Future Service Cost (FSC) on a Technical Provisions basis is lower than the current overall contribution rate of 20.6%.
- If stability remains the objective for stakeholders, maintaining contributions and benefits at their existing levels could be an outcome of the valuation process.
- However, the improved financial position creates additional options and, for example, may provide scope for:
  - Reducing contributions, either to the level of the FSC or to a level between the current rates and the FSC;
  - Reducing contributions below the FSC, by using a portion of the surplus to subsidise costs;
  - Increasing future service benefits, reflecting the lower FSC at this valuation;
  - Improving benefits by using a portion of the surplus.
- Absent plans to improve benefits or reduce contributions, there may be diminishing value in continuing to grow the surplus indefinitely.
- The choices made at this valuation should be consistent with the longer-term strategic goals for the Scheme and we explore that further in this consultation.
- Central to those choices is our investment strategy. The improved funding position creates greater flexibility in the level of investment risk taken and raises the question of whether some degree of investment de-risking could help support long term contribution and benefit stability, reflecting the early employer feedback we heard.

First valuation under the new funding regime: An evolved methodology

- This will be the first valuation of the Scheme under the new funding regime introduced for valuations with effective dates from 22 September 2024.
- Following the introduction of the new funding regime, the Trustee has reviewed its valuation methodology.
- Our proposed approach reflects the new legislative requirements and takes on board constructive engagement with stakeholders via the Stability Working Group (StWG), on the suite of metrics used to inform judgements and decision making.
- Key amongst these changes is a proposal to set out results under three legs:

Leg 1: Best Estimate

Leg 2: Technical Provisions

Leg 3: Contingency Measures

- We have reconvened the Valuation Technical Forum to engage informally with representatives and advisers from UCU and UCEA. This process has allowed technical issues relating to assumptions, methodology and regulatory considerations to be explored constructively in advance of this statutory consultation.

Funding and investment risk: Key inputs

- We have retained our core principles for managing risk, including that the reliance we place on employers funding the Scheme must remain within their risk capacity and within both the Trustee's and employers' risk appetites.
- Despite some headwinds, employers continue to provide strong support to the Scheme, underpinned by the sector's scale, diversification and resilience.
- Under the revised regulatory framework, the Covenant Support Measures continue to deliver value to the Scheme through supporting the Trustee's ability to take a long term view when setting the funding and investment strategy. This supports greater flexibility in our approach to Scheme funding.
- Accordingly, the level of risk currently being taken in our Valuation Investment Strategy (VIS) can continue to be supported, and as such our assumption for the purposes of this consultation is that the VIS is unchanged. However, a range of potential investment strategies could be compatible with the proposed assumptions and provisional results.

Proposed assumptions for Technical Provisions

- Consistent with the approach taken in 2023, we ensure liabilities are valued prudently by including explicit margins in the discount rate and mortality assumptions. All other assumptions reflect our best estimate of future experience.
- The discount rate (the assumption for future investment returns) is one of the most important assumptions we make. It is the primary place where we include a margin for prudence.
- To reflect the requirements of the new funding regime better, the proposed discount rate uses a "term structure" approach. This allows clear demonstration of how the Scheme complies with the new requirement to target full funding on a 'low dependency' basis by the time the Scheme is 'significantly mature'. This approach received stakeholder support during engagements through the StWG. Broadly, we propose the following parameters:
  - An initial discount rate based on best estimate expected returns on the VIS, less a margin of prudence of 1.1% p.a.
  - A long term discount rate equivalent to best estimate expected returns on the low dependency investment allocation less a margin of 0.7%.
  - We assume that we hold the VIS for 30 years and then move to the low dependency allocation over the following 10 years.
- These assumptions are consistent with our view of the support provided by the employer covenant which allows us to take a long term view on funding and reflects that the Scheme is open to future accrual and to new entrants.
- The liabilities and FSC at this valuation are most sensitive to the choice of initial discount rate.
- The initial discount rate we have put forward corresponds to a 'confidence level' of 73%. That means our modelling suggests there is a 73% chance of experience turning out better than assumed and a 27% chance that experience is worse than assumed.
- We estimate that the impacts of the overall change in methodology and associated changes to assumptions are to decrease the Technical Provisions (increasing the surplus) by £1.6bn and increase the FSC by 0.8% of payroll (noting the FSC has fallen overall).
- There is no single correct answer when setting discount rates. Our proposals reflect a balanced judgement, informed by economic conditions, employer covenant, stakeholder views, long term considerations and the legal requirement for prudence.

Provisional results

Our proposed assumptions would produce the following results. For comparison we have also shown the results of the 2023 valuation.

Amounts in £bn	2026 Valuation	2023 Valuation
Assets	79.8	73.1
Technical Provisions	62.9	65.7
Surplus/(Deficit)	16.9	7.4
Funding Ratio	127%	111%
Future Service Cost for current benefits*	16.4%	20.6%

* The contribution rates shown do not include any adjustments which may in due course be considered in light of the surplus. FSC for the 2026 valuation assumes an NPA of 67 reflecting forthcoming changes to NPA for new accrual in March 2028. Without the change in NPA the FSC would be 16.9% of salaries.

Next steps

- We invite UCEA to consider the consultation questions set out below.
- To help ensure we complete the valuation within the statutory 15-month timeframe, **UCEA's response needs to be provided by 30 September.** We understand individual employers should provide their **feedback to UCEA by 11 September**.
- We will be running a consultation webinar on 24 July where employers will have an opportunity to put questions to the Trustee to help inform their feedback to UCEA.

At the end of this consultation process we will consider feedback received from UCEA and determine the final assumptions and methodology for the 2026 valuation.

- Following the conclusion of this consultation and receipt of the Scheme Actuary's Rule 76.1 report, the Trustee will:
  - Engage with the Joint Negotiating Committee (JNC) around decisions on benefits and member and employer contribution splits; and
  - Prepare a new Schedule of Contributions, followed by a short consultation with UCEA.
- Depending on decisions taken by the JNC in due course, we will need to consider whether any changes are required to the Scheme rules and potentially an employer consultation with affected employees and their representatives if certain types of contribution or benefit changes ('listed changes') are proposed by the JNC.
- We will continue to develop our funding and investment strategy for the Scheme, informed by stakeholder views.
- Under the new funding regime, we are required to develop a 'Statement of Strategy' for the first time, which formally documents the Scheme's objectives, its funding and investment strategy and how the main risks faced by the Scheme are mitigated.
- Based on feedback received to date, we assume that the Long Term Objective (LTO) for the Scheme – a requirement of the new funding regime – is to run on as an open scheme, and we have reflected that in our consultation proposals.
- We will formally consult on the new 'Statement of Strategy' (which includes the LTO) towards the end of the valuation process, as well as the proposed Schedule of Contributions. This will necessarily be informed by (and need to be consistent with) the outcome of this consultation.
- While this consultation is with UCEA as required by the Scheme Rules and legislation, we encourage all employers to consider the consultation questions, join the interactive webinar on 24 July 2026 and provide written feedback to UCEA (by 11 September).
- In the interests of transparency and collaboration, this document has been published on our website so it is available to all stakeholders.

Consultation questions

As part of this consultation we are seeking your feedback on the core consultation matters (questions 1-3) along with additional elements related to the valuation and the Scheme's longer-term strategy (questions 4-10).

Core consultation matters | **Section reference**

Proposed methodology and assumptions and Statement of Funding Principles
These elements are the formal statutory consultation with UCEA, as required under the rules of the Scheme and legislation.

Please provide your views on the following:

	Section reference
1. Proposed discount rates, both for the purposes of valuing Technical Provisions and for determining the Future Service Cost.	Pages 16-18
2. Remaining proposed assumptions and any other matter set out in the Statement of Funding Principles.	Pages 43-50
3. Any other aspect of the proposed assumptions and methodology.	Pages 26-37

Additional matters related to the valuation and future strategy

Validation of employer feedback on objectives
We invite UCEA, on behalf of employers, to confirm or update these statements which reflect earlier feedback on the Scheme's future strategy.

Do you agree or disagree with the following?
Please provide any supporting comments.

	Section reference
4. Employers' preference continues to be for 'stability'. We interpret this to mean an aversion to the emergence of future funding deficits and a desire to maintain contribution rates and benefits at stable, predictable levels.	Pages 13-14
5. Employers' preference is to retain the surplus expected at this valuation as a buffer against future adverse experience.	Pages 22-23
6. Employers' preference at this valuation is to maintain overall contribution rates at their existing levels.	Page 23

Additional elements
These further questions cover other matters related to the valuation and the Scheme's future strategy.

Please provide your views on the following:

	Section reference
7. A range of views have been expressed by employers on the appropriate investment strategy that best supports their objectives. Is the prevailing view amongst employers to reduce risk in order to reduce volatility, maintain the existing strategy or take increased risk in order to seek greater returns?	Pages 24-25
8. The proposed retention of Affordable Risk Capacity (as currently specified) as the primary measure of employer risk appetite.	Pages 30-32
9. The assumed Long Term Objective (LTO) to "run on as an open scheme". (Note the LTO forms part of the Statement of Strategy, which will be consulted on later in the valuation process.)	Page 14
10. Any other aspect of this consultation.	

UCEA needs to to provide their response by 30 September 2026.
To help meet that timeframe, we understand that employers should plan to provide their individual feedback to UCEA by 11 September.

Introduction

We are consulting UCEA on the proposed methodology and assumptions for the 2026 valuation, together with the Statement of Funding Principles.

This is also an important opportunity to consider our longer-term funding strategy.

A new formal valuation of the Scheme is due

Under Part 3 of the Pensions Act 2004, the Trustee must carry out a formal actuarial valuation of the Retirement Income Builder section of the Scheme at least every three years. The previous valuation date was 31 March 2023. This valuation has an effective date of 31 March 2026.

Valuations help us assess whether the Scheme is expected to have enough money to pay members the pensions they have built up and enable us to review and, if necessary, change the overall contribution rate.

When carrying out a valuation, we are required to make a series of financial and demographic assumptions about the Scheme, its beneficiaries and the future economic environment.

Purpose of this consultation with UCEA

This document begins a statutory consultation with UCEA on the proposed methodology and assumptions for the 2026 valuation and on the Statement of Funding Principles (SFP), as required under the rules of the Scheme and legislation. The consultation matters on which we are seeking feedback are set out on the previous page.

In due course, we will also consult UCEA on a new Schedule of Contributions and on Part 1 of the Statement of Strategy, which is a new regulatory requirement.

In parallel with that, we will consult with employers on Part 2 of the Statement of Strategy. Production of a new Statement of Investment Principles (SIP) is planned to follow later in the process. Consultation on these documents takes place with individual employers, rather than with UCEA.

Decisions regarding how any changes in the contribution requirement are split between members and employers and on any benefit changes are the responsibility of the Joint Negotiating Committee (JNC).

The JNC comprises of five representatives each from UCEA and UCU and an Independent Chair.

Your views on the Scheme’s future strategy

Continuing the dialogue we started through the January 2026 Discussion Document, we are also inviting your views on the Scheme’s future strategy more broadly.

Through the feedback we received on our Discussion Document from UCEA, echoed by our direct engagement with employers, we recognise a continued desire for contribution and benefit stability. Employers have also indicated an interest in exploring how our approach to funding and investment risk could support more stable outcomes over time.

Added to the continued improvement we have seen in the Scheme’s financial position, the 2026 valuation provides a natural point – and an important opportunity – to review and recalibrate our long-term funding strategy.

A growing surplus unlocks a broader array of options and choices for Scheme funding.

Absent plans to improve benefits or reduce contributions, there may be diminishing benefit in growing the surplus indefinitely, and the Pensions Regulator advocates for schemes to form plans for how surpluses would be utilised.

While we continue to run a significant degree of risk in our investment strategy, there is a material chance that we could fall back into deficit at a future valuation.

Introduction
Continued

Even if we were to further hedge the risks in our portfolio and mitigate against a future deficit arising, calculations of the future contribution requirement would remain exposed to movements in financial markets (though could be mitigated by retaining surplus as a funding buffer).

The approach taken to growing and releasing surplus, investment strategy and where the long term contribution rate is set are all part of the overall funding strategy.

We explore some of these choices and trade-offs in our section on Future Strategy, supported by analysis and modelling. The broader strategy questions on which we welcome your feedback are included on page 8.

The consultation process

While this consultation document will be read by employers (and may also be of interest to members), the formal consultation is specifically with UCEA as required by the Scheme rules and legislation.

As part of the valuation, the Scheme Actuary is required under the Scheme rules to report to the Trustee on the financial condition of the Scheme including making recommendations about contributions. This is known as the 'Rule 76.1 Report', which will be provided to the Trustee after this consultation has concluded.

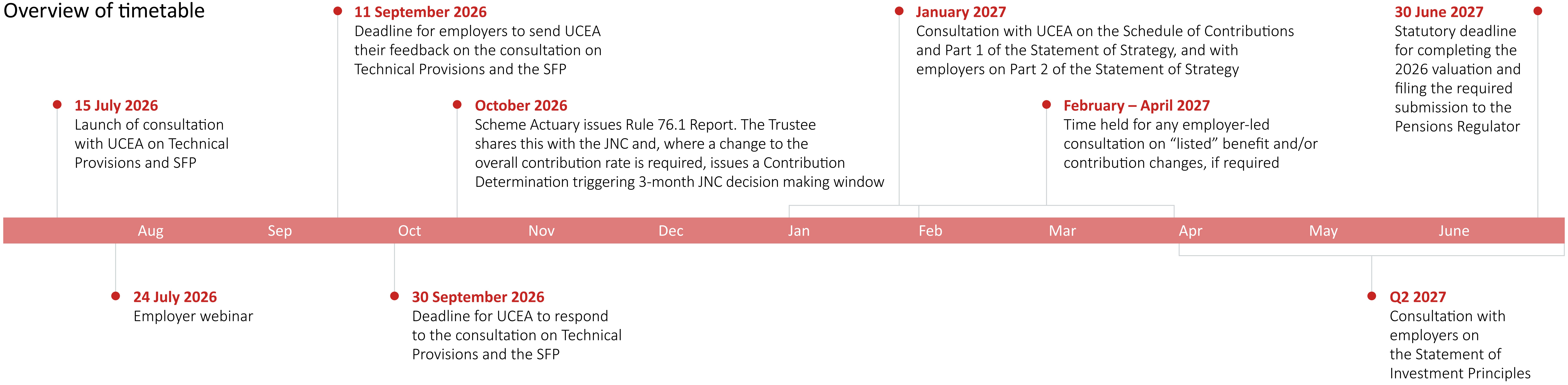
After considering consultation feedback and the Scheme Actuary's report, the Trustee will issue a copy of the Rule 76.1 Report to the JNC. If a change to the overall contribution rate is required, the Trustee will issue a notice to the JNC confirming its Contribution Determination, and the JNC will then have up to three months (or such other period as the Trustee may allow) to decide how to address the required change to contributions, whether by changes to the member and employer contributions, changes to the future benefit structure, or both.

Where JNC proposals involve certain 'listed' benefit and/or contribution changes a statutory 60-day employer-led consultation with affected employees and their representatives will be required.

This Technical Provisions and SFP consultation will close at **5pm on 30 September 2026**. In order to meet this deadline, we understand that UCEA needs to receive feedback from individual employers by **5pm on 11 September**.

We explain our consultation proposals in this document with further detail included in the Supporting Information. We have set out below an indicative timetable for the 2026 valuation.

Overview of timetable



Developments since the last valuation

The Scheme's financial position has strengthened further since 2023, whilst the wider regulatory and sector landscape has continued to evolve.

The Scheme's financial position has improved further

Since the 2023 valuation, the Scheme's assets have grown in value by £6.7bn to £79.8bn, outperforming the assumption for the Technical Provisions. Higher interest rates have also supported higher expected returns, reducing both the value of the liabilities and the cost of providing new pension promises. As a result:

- The Technical Provisions surplus has continued to grow; and
- The cost of future accrual on a Technical Provisions basis (the Future Service Cost, or FSC) is lower than the overall contribution rate currently being paid by members and employers.

These developments provide an opportunity to look afresh at Scheme objectives and implications for the strategic choices informing our funding and investment approach; questions which we look to explore alongside this consultation process.

> "...an opportunity to look afresh at Scheme objectives and implications for the strategic choices informing our funding and investment approach..."

We have renewed our assessment of employer covenant and outlook for the sector

We retain the view that the covenant remains robust overall, though we recognise that there are significant headwinds within the Higher Education sector with some institutions facing financial pressure. Coupled with the new regulatory regime, this means that whilst the likelihood of a future funding deficit has reduced, the impact could be more challenging to address.

The Scheme's jointly and severally liable structure mitigates the impact of challenges at an individual institution level, and the Covenant Support Measures agreed at the 2020 valuation continue to be valuable in underpinning the Trustee's capacity to take appropriate funding and investment risk in support of long-term member outcomes.

This provides confidence that the level of reliance placed on the covenant remains well within the collective capacity of the employer group, allowing us to consider proportionate use of risk in support of long term outcomes.

We have held early discussions with employers on their objectives and concerns

Feedback we have heard so far indicates a clear preference for stability of both contribution rates and benefits. Employers generally view the surplus as a valuable buffer against future uncertainty rather than for immediate use and highlighted the importance of investment strategy as a key lever in supporting long term stability, while seeking further clarity on its role. Overall, responses suggest a focus on stable and predictable outcomes and avoiding future funding and contribution volatility.

A new funding regime takes effect for this valuation

The updated Funding and Investment Strategy Regulations and accompanying regulatory code ("the new funding regime") is now in effect and applies for valuations with effective dates on or after 22 September 2024. The new funding regime requires all schemes to develop a funding and investment strategy that targets full funding on a low-dependency basis by the time the scheme is "significantly mature". Further detail is provided in Appendix 1 and the new terminology is explained in the Glossary at Appendix 5.

We have supported joint stability investigations

As part of the 2023 valuation, the JNC established an informal Stability Working Group (StWG) to explore options for improving stability at future valuations. The StWG was facilitated and supported by the Trustee.

Discussions were collaborative and productive, yielding notable progress in **two key areas:**

Trustee review of valuation methodology

The Trustee has reviewed its valuation methodology to reflect the requirements of the new funding regime now in force, and having regard to proposals put forward by UCU. This review has been supported by collaborative engagement through the StWG.

The review considered the continued appropriateness of the methodology in light of the new funding regime and potential refinements that could improve clarity, transparency and stability of outcomes whilst remaining compliant and proportionate. Further details of the Trustee's proposed valuation methodology are included in Appendix 1.

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Joint exploration of Conditional Indexation

Work on exploring Conditional Indexation (CI) is ongoing. The stakeholders' CI Sub-Group (CISG) published two reports last year, advancing understanding of CI design options, member impacts and the interactions with funding, investment and covenant.

Investigation remains exploratory at this stage and any change to benefit design remains a matter for the JNC and subject to a statutory employer-led consultation process.

Early discussion has taken place on technical aspects

The Trustee again hosted a Valuation Technical Forum to provide an opportunity for early and informal discussion between the Trustee and representatives of UCU and UCEA around the technical aspects of the valuation.

We are grateful for the constructive engagement that has taken place through that forum.

Feedback on strategic priorities

Ahead of this consultation we engaged with employers and stakeholders to understand their priorities and objectives.

Their feedback has informed this consultation and will be a key input in our development of the Scheme's future strategy.

A broader range of options at this valuation

As part of the 2023 valuation, stakeholders expressed a desire to mitigate the need for future changes to benefits and contributions for at least the next two valuations (i.e. this valuation and the one planned for March 2029). The improved funding position combined with the wider context for the sector mean that these views may have evolved.

Specifically, continued growth of the surplus and reduction in the cost of funding future benefits means that a broader range of options can now be explored – ranging from enhancing long term stability, to reducing short-term costs, to improving member benefits.

The 2026 valuation therefore represents an important opportunity to review how the Scheme is funded over the long term, to ensure it continues to meet the needs of members, their beneficiaries, and sponsoring employers.

The approach and assumptions adopted for this valuation will be informed by stakeholder views on key considerations, including stability, cost, the prudent management of risk, and the potential use of any surplus, both now and in the future. In evaluating these options, it is important that we understand stakeholders' priorities – what outcomes they wish to achieve, and what risks they would prefer to avoid, as well as the trade-off between the two.

To support stakeholders in developing informed views ahead of the valuation, we issued a Discussion Document earlier this year which UCEA used to support early engagement with employers on objectives at this valuation. We followed that up through direct engagement with employers and their representative bodies. We are grateful for this engagement and the rich feedback we have received so far, which has helped shape the information and analysis we are providing to support this consultation.

> "The 2026 valuation therefore represents an important opportunity to review how the Scheme is funded over the long term."

Initial feedback from UCEA and employers

In our Discussion Document we presented some of the key choices and trade-offs.

Maintaining the current contribution rate and investment strategy would be expected to grow the surplus over time. This in turn could help provide a bigger buffer against future risks or be used to improve benefits and/or reduce contributions in the future.

However, such an approach exposes members and employers to higher contributions and risks than are expected to be necessary to support the current level of benefit provision. And, whilst contributions could be reduced or benefits improved in future, any such decisions would need to take account of a range of considerations, including intergenerational fairness.

UCEA used the Discussion Document to engage employers on key strategic themes, receiving responses from employers covering 86% of the Scheme's active membership:

Feedback from UCEA on the Discussion Document:

At this stage, the key messages from employers were:

"A clear preference for caution and stability, with a strong desire to avoid a return to disruptive valuation cycles, unexpected contribution increases or a renewed deficit position."

"On contribution levels, a preference for stability over a reduction."

"On benefits, a strong preference to retain the current structure for this valuation."

"Support for continuing the joint work on Conditional Indexation, as a potential future benefit design."

This was echoed through our direct engagement with employers, which covered 50% of our active membership. These engagements provided initial additional context on investment strategy which we build upon later in this document. Importantly, there was broad acknowledgement amongst employers that investment strategy is a key lever in helping to achieve overall objectives.

Consultation question:
Do you agree or disagree with the following statement? Please provide any supporting comments.

Employers' preference continues to be for "stability". We interpret this to mean an aversion to the emergence of future funding deficits and a desire to maintain contribution rates and benefits at stable, predictable levels.

Long term objective

As the first USS valuation under the new funding regime, there is a requirement to develop and consult on a 'Statement of Strategy', setting out the Scheme's long term objective, funding and investment strategy, and approach to managing key risks.

We will consult formally on the wording of this document towards the end of the valuation process; however, this will necessarily be informed by (and need to be consistent with) the outcome of this consultation.

A key part of the Statement of Strategy is the "Long Term Objective" (LTO) for the Scheme. This describes how the Trustee intends to provide benefits over the long term and informs the funding assumptions and SFP we consult on in this document.

Consultation question:
Do you agree or disagree with the following statement? Please provide any supporting comments.

Employers' preference for the Long Term Objective is to "run on as an open scheme".

Key financial inputs

In the following sections we set out our provisional results and proposed assumptions that are the subject of the statutory consultation.

Two of the key inputs that inform the assumptions are:

1.

The employer covenant

which is the legal obligation and financial ability of participating employers to support the Scheme now and in the future.

2.

The investment strategy

which informs assumptions about our expected future investment returns and therefore the amount of money we need to hold today to pay future benefits.

Covenant-related inputs

The new funding regime requires a more quantitative, forward-looking and cash flow-based assessment of employer covenant than previously. For the purposes of determining assumptions for the Technical Provisions, there are three main assessments the Trustee must make:

- The period over which there is 'reasonable certainty' of employer cash flows to support the Scheme ("the period of covenant reliability");
- The period over which employers are expected to continue supporting the Scheme, without any requirement for reasonable certainty over cash flows ("the period of covenant longevity"); and
- The maximum amount of cash flow support for the Scheme that employers could provide over the period of covenant reliability ("Supportable Risk").

The proposed assumptions reflect the Trustee's updated assessment of employer covenant, supported by independent advice from PwC.

While recognising increasing financial pressures across parts of the Higher Education sector, the Trustee has concluded that the employer covenant continues to provide robust and enduring support, underpinned by the Scheme's mutual structure and Covenant Support Measures.

Consistent with that assessment, the Trustee proposes:

- A period of covenant reliability of 30 years
- A period of covenant longevity of at least 40 years
- Supportable risk of £147bn (over 30 years and undiscounted)

Further details of these proposals can be found in Appendix 2.

Investment strategy-related inputs

On the basis of our assessment of employer covenant, we believe the current level of investment risk in the Scheme remains supportable.

For the purposes of deriving our proposed financial assumptions, our modelling is based on a central Valuation Investment Strategy (VIS) that is unchanged from the current strategy, as follows:

- Growth assets exposure: 60%
- Credit assets exposure: 20%
- Liability hedge ratio: 50% (of self-sufficiency liabilities)

A range of different Valuation Investment Strategies with more or less risk could potentially support the proposed financial assumptions, and we explore the impact of adopting these other strategies later.

Under the new funding regime, we are required to set a notional journey plan. This journey plan is hypothetical and assumes that the assets we hold are de-risked over time to the "Low Dependency Investment Allocation" (LDIA).

The LDIA is notional, rather than reflecting or dictating how we expect the Scheme's assets to be invested in future, and must satisfy certain prescribed requirements, such as being highly resilient to short-term adverse changes in market conditions. Our proposed LDIA assumes the following:

- Growth assets exposure: 10%
- Credit assets exposure: 55%
- Liability hedge ratios: 100% (of low dependency liabilities)

How we invest is key to future outcomes and the associated risks. We discuss this further in our section on Future Strategy.

Further details of these proposals can be found in Appendix 2.

Proposed methodology and key assumptions

The methodology and assumptions we have proposed for valuing the Scheme's liabilities and calculating the FSC are core matters at this consultation.

In developing these proposals, we have reflected the outcome of the methodology review described earlier, and considered changes in financial, demographic and regulatory factors since the last valuation, alongside advice from the Scheme Actuary.

Three-leg methodology

As explained earlier, this is the first USS valuation carried out under the new funding regime introduced in 2024. As a result, we have reviewed and updated aspects of our valuation methodology, informed by engagement with stakeholders through the Stability Working Group.

Under this approach we will consider a range of metrics under three separate "legs":

Leg 1

Best Estimate

Considers results on a 'Best Estimate' basis.

Leg 2

Technical Provisions

Incorporates the necessary margin for prudence and meets the legislative and regulatory Scheme funding requirements.

Leg 3

Contingency Measures

Considers information in the hypothetical event that the journey plan to low dependency may need to be accelerated (such as in the event of Scheme closure).

Taken together these legs enable us to consider and communicate a wide array of information when forming judgements on the appropriate level of prudence.

The most material changes we have put forward are intended to improve alignment with the new legislative framework and provide a broader range of information to support assessment of prudence and risk. We summarise the outputs under each of the three legs below:

Three Legs

Leg 1

Best Estimate

- Best Estimate results assuming an evolution of the investment strategy consistent with the Technical Provisions.
- Supplementary information illustrating the value of the liabilities and FSC maintaining the same investment strategy.

Leg 2

Technical Provisions

- Technical Provisions liabilities whose assumptions are the subject of this consultation.
- Future Service Cost on the proposed Technical Provisions assumptions.

Leg 3

Contingency Measures

- The Trustee's existing self-sufficiency measure and Integrated Risk Management Framework (IRMF), for the purposes of considering reliance on the employer covenant.
- The 'closure metric' which seeks to quantify the impact on the Technical Provisions of specific provisions for open schemes that were adopted under the new funding regime.
- An 'escape route metric' which considers the likelihood of achieving self-sufficiency in the future following a hypothetical closure of the Scheme to future accrual, alongside the potential for material funding deterioration along the way.

Prudence requirement

We are required to take a prudent approach by the scheme funding regulations.

In line with the approach used at the previous valuation, we again propose that assumptions are based on best estimates of future experience with the principal source of prudence being in the discount rate assumptions. We also include a small margin for prudence in the assumed initial mortality rates (as required by legislation) equivalent to c.0.5% of the liabilities.

Further detail on the proposed methodology and assumptions can be found in Appendices 1 and 2. The assumptions adopted at this valuation will form part of the Statement of Funding Principles (SFP) and a draft is included in Appendix 5.

Discount rates

Approach to setting discount rates

Following the implementation of the new funding regime, and taking into account stakeholder input through the StWG, we are proposing a change to the way that we set discount rates at this valuation. The proposed term structure discount rate replaces the approach adopted at the past two valuations, which implicitly assumed de-risking as members retire (known as a dual discount rate approach). Under the new regime, we need to be able to demonstrate that the Scheme is targeting full funding on a low-dependency basis by the time the Scheme reaches "significant maturity" (that occurs when the Duration of the Scheme's liabilities falls to 10 years and might be considered broadly as the point at which the Scheme membership would be all pensioners). Our proposed change helps to demonstrate more easily compliance with the new funding regime and is broadly consistent with the approach advocated by stakeholders.

As before, this requires us to make assumptions about the investments we hold now and in the future. What is new is the need to make explicit assumptions on the notional transition from the current investment strategy to the LDIA as the Scheme matures (the "Journey Plan").

There is no single correct answer in setting the discount rates. In deriving the proposed assumptions set out below, we have considered a range of factors, making a balanced overall judgement. We believe the assumptions we have chosen are appropriate in the context of the Scheme, the requirement for prudence, the strength of the covenant and feedback received from stakeholders to date.

Initial discount rate

The value of the liabilities and Future Service Cost are most sensitive to the initial discount rate, which we focus on here. This is in part due to the long term view that we take on how we fund the Scheme, reflecting the unique nature of the sector and the covenant it provides, underpinned by the Covenant Support Measures.

We base the initial discount rate on prudent returns on the VIS and assume that we remain invested in this way for 30 years – equal to the period of covenant reliability.

Our best estimate return on the VIS (with 0.1% allowance for an illiquidity premium) is 4.5% p.a. above CPI and 2.2% p.a. above gilts.

We set out further detail on the parameterisation of the discount rate in Appendix 2, but broadly:

- Our proposed initial discount rate is a deduction of 1.1% p.a. vs best estimate returns.
- This equates to a margin of 1.1% p.a. above the gilt yield curve at the valuation date.
- This falls at the 73% confidence level meaning that our models suggest that there is a 27% chance that returns turn out to be worse than assumed over the long term.

To illustrate the sensitivity of the results to this assumption, we estimate that a 0.1% p.a. change in this discount rate equates to around a £900m change in the value of the liabilities and a change in the Future Service Cost of around 0.3% of salaries.

Long term discount rate

Our proposed long term discount rate is an addition of 0.6% p.a. to the gilt yield curve at the valuation date.

The low-risk investment strategy that notionally underpins this assumption is based on the self-sufficiency investment strategy (which is set out in the Appendix 2). The Trustee needs to be satisfied that were the Scheme to be invested in this way, closed and mature, and fully funded on a basis using the proposed discount rate throughout, we would expect the Scheme to be able to recover from a 1-in-6 1-year funding shock over a 6-year period without further contributions. The proposed long term discount rate fulfils these criteria and provides a 60% chance of recovery (Recovery rate) based on our modelling.

Our best estimate return on this notional portfolio is 1.3% p.a. above gilts. As such, this discount rate equates to a deduction of 0.7%. p.a. vs best estimate returns.

We assume that that the long-term discount rate applies from year 40 – the point of reaching significant maturity, if we allow for 10 years of new entrants.

To illustrate the sensitivity of the results to this assumption, we estimate that a 0.1% change in this discount rate equates to around a £100m change in the value of the liabilities and a change in the Future Service Cost of less than 0.1% of salaries.

Summary

Below we compare the proposed Technical Provisions discount rates to the best estimate investment returns and the corresponding confidence levels.

Initial discount rate

Best Estimate VIS returns[1]	Gilts + 2.2%
Technical Provisions discount rate	Gilts + 1.1%
Confidence level	73%

Long term discount rate

Best Estimate low dependency returns	Gilts + 1.3%
Technical Provisions discount rate	Gilts + 0.6%
Confidence level	89%
Recovery rate	60%

1 Best Estimate figures based on USSIM analysis (with 0.1% explicit allowance for an illiquidity premium)

The change in valuation methodology means that these discount rates are not directly comparable to those used in the 2023 valuation, however, we note that the proposed assumptions produce results that are similar to the 31 March 2026 monitoring position.

Further detail of the construction and parameterisation of the discount rate can be found in Appendix 2.

Core consultation points:

We invite feedback on the following core matters for this consultation:

- Proposed discount rates, both for the purposes of valuing Technical Provisions and for determining the Future Service Cost.
- Remaining proposed assumptions set out in the Statement of Funding Principles (Appendix 5).
- Any other aspect of the proposed assumptions and methodology.

Provisional results

The proposed assumptions indicate a stronger funding position and a lower cost of future benefit accrual than at the 2023 valuation.

This section sets out the provisional results under each leg of our valuation methodology.

Overview

On the basis of the assumptions we have proposed, the funding position is as follows:

Amounts in £bn	2026 Valuation	2023 Valuation
Assets	79.8	73.1
Technical Provisions	62.9	65.7
Surplus/(Deficit)	16.9	7.4
Funding Ratio	127%	111%
Future Service Cost for current benefits*	16.4%	20.6%

* The contribution rates shown do not include any adjustments which may in due course be considered in light of the surplus. FSC for the 2026 valuation assumes an NPA of 67 reflecting forthcoming changes to NPA for new accrual in March 2028. Without the change in NPA the FSC would be 16.9% of salaries.

These results show an improvement in the position from a surplus of £7.4bn at the last valuation, to a surplus of £16.9bn at this valuation. This has been driven by higher assumed future investment returns at this valuation, which have reduced the value of the liabilities. In addition, the strong returns we achieved on the Scheme's growth assets have further increased the surplus.

We set out in the following sections detailed results under each of the three legs. A detailed breakdown of the change in provisional results from 2023 is included in our Supporting Information.

Leg 1 – Best Estimate Results

Under Leg 1, we illustrate the results on a best estimate basis. That is, assumptions consistent with the proposed Technical Provisions, but with margins for prudence removed from the discount rates.

These are as follows:

Amounts in £bn	2026 Valuation	2023 Valuation
Assets	79.8	73.1
Best Estimate Liabilities	54.3	57.5
Surplus/(Deficit)	25.5	15.6
Funding Ratio	147%	127%
Best Estimate Future Service Cost for current benefits*	12.9%	15.2%

* Based on NPA67

Consistent with the Technical Provisions, this assumes notional future de-risking beyond 30 years.

Hypothetically, if such a restriction were removed, the Scheme were to remain open in perpetuity, and reliability on the covenant were indefinite, the reported surplus would be £300m larger, and the Best Estimate FSC would be reduced by 0.2% of payroll.

Leg 2 – Technical Provisions Results

Under Leg 2, we report results on the proposed Technical Provisions assumptions as follows:

Amounts in £bn	2026 Valuation	2023 Valuation
Assets	79.8	73.1
Technical Provisions	62.9	65.7
Surplus/(Deficit)	16.9	7.4
Funding Ratio	127%	111%

Leg 3 – Contingency Measures

Under Leg 3, we report results under three separate metrics that consider how the journey plan may need to be amended in a hypothetical scenario such as Scheme closure.

These are used alongside the Leg 1 results to help the Trustee form a judgement in the round on the appropriate level of prudence within the Technical Provisions and resulting reliance on employers.

Further information on the construction of these metrics can be found in Appendix 1.

Leg 3 – Self-sufficiency Results

This metric measures the reliance we are placing on employers in taking funding and investment risk. The results of which are as follows:

Amounts in £bn	2026 Valuation	2023 Valuation
Assets	79.8	73.1
Self-sufficiency Liabilities[1]	70.7	78.2
Surplus/(Deficit)	9.1	(5.1)
Funding Ratio	113%	93%

1 A discount rate of gilts + 0.30% has been used for calculating the self-sufficiency liability, and is explained further in the Supporting Information.

Leg 3 – Closure Metric Results

This metric quantifies the impact on the Technical Provisions of the flexibilities available to open schemes under the new funding regime. These flexibilities allow future accrual after the valuation date to be taken into account when determining the point of "significant maturity". Removing these flexibilities would bring forward the point of significant maturity and the associated relevant date by 10 years, meaning that assumed de-risking begins and ends 10 years earlier than under Leg 2.

The results of which are as follows:

Amounts in £bn	2026 Valuation
Assets	79.8
Technical Provisions (with no allowance for open scheme flexibilities)	63.3
Surplus/(Deficit)	16.5
Funding Ratio	126%

Note:
Such flexibilities were not a feature of the funding regime applicable at the 2023 valuation and therefore no comparison is available.

The value of the open scheme flexibilities within the proposed Technical Provisions at this valuation is £400m.

Leg 3 – Escape Route Metric Results

This metric measures the likelihood of being fully funded on a self-sufficiency basis 30 years after closure, assuming closure at the next valuation, with annual contributions of 10% of payroll (in line with the definition of employers' Affordable Risk Capacity) and gradual de-risking thereafter.

It also illustrates the likelihood of a material adverse funding shock during the journey to self-sufficiency to illustrate both the likelihood and severity of downside risk over the period. The more severe the shock, the more likely that the Trustee would take action to ensure that funding and investment risks being taken were supportable.

		2026 Valuation
Assumed closure date		31 March 2029
Likelihood of full funding in 2059		>99%
Likelihood of material funding deterioration	Greater than AffRC	1%
	Greater than Limit of reliance (150% of AffRC)	<1%
	Greater than Maximum Affordable Contributions	<1%

Future Service Cost (% of salaries)

We report below the Future Service Cost (FSC) for the current benefits on the proposed Technical Provisions assumptions:

Future Service Cost	2026 Valuation	2023 Valuation
NPA 66	16.9%	20.6%
NPA 67	16.4%	N/A

Note:

1. The FSCs shown above take no account of the current surplus against Technical Provisions.
2. The Normal Pension Age (NPA) of new benefits accruing within the Scheme is linked to the State Pension Age. As such, this is due to change to 67 from March 2028.

The main factors behind the reduction in FSC at this valuation are higher expected future investment returns which have reduced the cost of providing future benefits.

Contribution determination

The Trustee determines the overall contribution rate payable following advice from the Scheme Actuary. The surplus on the proposed assumptions provides broader flexibility in making this determination. We discuss potential options in the next section on our future strategy.

The funding position at this valuation means that a broad range of contribution rate outcomes can be considered. If the preferred approach is to set the overall contribution rate equal to the FSC (as set out in the table above), it may be most practical to reflect the rate applicable to NPA 67 benefits. Whilst the change in NPA takes place after the valuation is expected to be concluded, adopting the new, lower, rate earlier would be administratively more straightforward and is made possible by the Scheme's funding position and contributions currently being paid at a higher level than the NPA 66 FSC.

Cost share

The JNC can determine how any change to the contribution rate is split. If the JNC does not reach a decision in the time allowed under the 'cost sharing process' the default cost-share rule would apply requiring the change to the contribution rate to be split 35%:65% between members and employers respectively.

The contribution rates include the DC contribution elements of 1.8% and 0.5% of pay for the administration expenses of running the Scheme (consistent with the last valuation).

The provisional results set out here assume that the current benefit structure is maintained. If in due course the JNC proposes changes to the benefit structure, we may need to revisit the FSC calculation.

Consultation on new Schedule of Contributions

Once the overall contribution rate has been determined by the Trustee, and proposed member and employer contribution splits have been confirmed following any decisions of the JNC (or the 35%:65% default cost sharing position, if triggered), we will prepare an updated draft Schedule of Contributions and run a consultation process with UCEA in a similar manner as previous valuations.

This will take place at the same time as consultations on Part 1 and Part 2 of the new Statement of Strategy and be based on the final assumptions and methodology taking into account the outcome of this consultation and stakeholder feedback where relevant.

Appraisal of Covenant Support Measures

The Covenant Support Measures continue to be fundamental in our assessment of the employer covenant, the period of covenant reliability and our estimation of employers' capacity to support risk.

The enduring nature of these support measures provides us with the degree of confidence necessary to adopt a long term approach to the funding and investment strategy reflecting the unique nature of the covenant.

This is even more important under the new funding regime, where certainty and visibility of covenant support is central to the required assessment of the investment and funding risk that can be supported by employers.

At this valuation, it is likely that we would report a material surplus and a FSC below the current contribution rate even if the support measures were not in place. However, modelling suggests that if these measures were removed – with the consequent reduction in covenant reliability and risk capacity that would result – the likelihood of a deficit at a future valuation would more than double.

Furthermore, although it may in principle be possible to flex the measures over time, their value would be materially diminished if they were no longer an established, enduring commitment, but instead subject to renegotiation at each valuation.

We have included a summary of our assessment of the enduring value of the support measures in the Supporting Information.

> "Whilst at this valuation, it is likely that we would report a material surplus and lower FSC even if the support measures were not in place, the value of the measures is in their enduring nature, and the benefit that this provides over the long term in supporting the Scheme's funding and investment strategy."

Setting the future strategy

This section explores how choices around contributions, the use of surplus and investment strategy could support employers' objectives.

Funding position supports broad range of options

The proposed results set out in the previous section facilitate a wide range of options for how the Scheme is funded going forwards, in particular:

1. How the reported surplus is to be used.
2. Whether contribution rates are kept stable or reduced.
3. How the investment strategy should be set in support of these aims.

Different choices will lead to different outcomes. Employer views on these questions should be informed by their objectives so that the resulting strategy operates in a cohesive way.

In this section, we seek to test and further refine the objectives employers have articulated so far, supported by quantitative analysis at the valuation date. We also illustrate how different choices could translate into different outcomes, both at this valuation and over the longer term.

Any 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 market movements following the autumn 2022 'mini budget') that each would have represented extremely unlikely outcomes within our modelling. The extent and rate of any recovery from an adverse event cannot be known at the time.

Further detail on the quantitative analysis provided in this section can be found in the Supporting Information.

1. Use of surplus

Our provisional results show that the Scheme is in surplus on the proposed Technical Provisions basis.

This is a funding surplus which means under our proposed assumptions we expect to have more than sufficient funds to meet benefit promises made to members. In practice, a surplus could only be confirmed with certainty once the Scheme had fulfilled its benefit payment obligations in full, an eventuality which is not anticipated in the foreseeable future as the Scheme remains open with new members accruing further benefits.

Whilst guidance from the Regulator says that it is a matter of good governance to have a clear plan for use of surplus, there is currently no legislative requirement to take any specific steps in surplus situations.

Any surplus that arises as part of a valuation must be considered in accordance with the Scheme rules, the funding regime and the Trustee's fiduciary duties. There is no power under the Scheme rules to return a surplus by making payments directly to employers on an ongoing basis.

The primary ways of releasing part of the surplus at this valuation would be through reducing contribution rates, making benefit improvements, or a combination of the two.

Utilising surplus to reduce contribution rates could, in principle, provide short term financial relief to employers and/or members by lowering the immediate cost of Scheme participation. All else being equal, the lower the total contribution rate, the faster the surplus is expected to be depleted, and the more exposed the Scheme becomes to the volatility associated with market movements. That would place greater reliance on returns from growth assets to fund the ongoing benefits accruing within the Scheme.

As a result, utilising surplus to lower contributions or improve benefits will increase the likelihood of contribution volatility over time and the need for corrective action at subsequent valuations.

Benefit improvements could be provided in one of two main ways; the JNC has the power to propose benefit improvements, and the Trustee has the ability under the Scheme's discretionary increase and augmentation rules to grant certain improvements.

In either case, the Trustee would need to consider the implications of such decisions or recommendations, in particular around equality and fairness (including intergenerational considerations).

Consultation question:
Do you agree or disagree with the following statement? Please provide any supporting comments.

Employers' preference is to retain the surplus expected at this valuation as a buffer against future adverse experience.

An alternative use of surplus in an ongoing scheme such as USS would be to retain the surplus as a buffer against future volatility improving resilience to future market movements. This would be consistent with employer feedback set out in our Feedback on Strategy section on the desire for stability and an aversion to future funding deficits arising and any associated increases to contribution rates.

2. Contribution rates

We note from the feedback that the employers' preference is broadly to maintain the overall contribution rate set at this valuation for the current benefits at or around the existing level of 20.6%.

There is a broad range of possible outcomes at this valuation, from maintaining the contribution rate at the existing level, through to reductions in contributions up to and including a temporary contribution holiday.

In our earlier Discussion Document, we set out some of the key considerations as follows:

Stable contribution rates and benefits:

Pros	Cons
Improved certainty and predictability of cost with contributions less likely to rise in the future.	Contributions paid exceed the minimum amount required, which could give rise to a perception of overcharging.
Greater confidence for all stakeholders against the backdrop of recent benefit and cost volatility.	Does not take advantage of the opportunity to improve affordability, which could support wider member participation and provide cost relief to employers.
Avoid charging different members and employers differing amounts for the same underlying benefits.	The continued build up of surplus may offer diminishing value in the absence of an agreed plan for how surpluses will be used.

Based on feedback received to date, we understand employers are most interested in considering quantitative analysis on two main scenarios under different time horizons:

1. Maintaining contributions at the current rate (20.6%)
2. Reducing contributions to the level of the FSC (16.4%)

Under each scenario, we consider the likelihood at different future time periods of:

1. A Technical Provisions deficit emerging
2. The contribution rate needing to rise

These are designed to illustrate the impact on funding and contribution stability and the likelihood of future corrective action and are based on the current benefit structure and investment strategy.

Likelihood of deficit emerging

Contribution rate	Current rate (20.6%)	2026 FSC (16.4%)
Short-term (6 years)	5%	7%
Medium-term (12 years)	6%	10%
Longer-term (30 years)	4%	9%

Likelihood of contribution rate needing to rise

Contribution rate	Current rate (20.6%)	2026 FSC (16.4%)
Short-term (6 years)	3%	8%
Medium-term (12 years)	5%	10%
Longer-term (30 years)	4%	10%

Modelling results in the tables above assume that contributions are paid from the valuation date at the rate shown for each column.

The modelling also assumes that, where the Scheme is in surplus but the FSC has increased, surplus could be drawn from in full over a 10-year period before contributions would need to rise.

Over the medium to long term – the modelled likelihood of requiring a contribution increase more than doubles if the contribution rate is reduced to the FSC.

Consultation question:
Do you agree or disagree with the following statement? Please provide any supporting comments.

Employers' preference at this valuation is to maintain overall contribution rates at their existing levels.

3. Use of investment strategy to support objectives

Investment strategy plays a central role in determining both the long term cost of providing benefits and the stability of future funding outcomes. Investment risk is taken in order to generate a higher expected return, which would be expected to reduce costs, on average, over the long term. However, that additional risk introduces greater funding volatility which may translate ultimately into more variability in contribution requirements.

At previous valuations, stakeholders have expressed broad support for maintaining a growth orientated investment strategy to support the ongoing funding of the Scheme. The Trustee has been able to pursue such an approach, reflecting the long term nature of the employer covenant and the Covenant Support Measures in place, which together provide capacity to tolerate a degree of investment risk.

The current level of surplus provides greater flexibility in how the Scheme could be funded in future and enables a broader range of strategic options to be considered. In particular, it raises important questions around the role that investment strategy should play in supporting stakeholder objectives – balancing the desire for greater contribution stability with the opportunity to allow the surplus to grow further and strengthen the Scheme's resilience over time.

Based on current contribution rates and the existing investment strategy, and all else being equal, the surplus is expected to increase by around £2.5bn per year. This breaks down broadly as £1bn of interest on the existing surplus, £1bn from an expectation that returns will exceed those assumed within the Technical Provisions discount rate, and around £0.5bn reflecting contributions currently exceeding those required on the Technical Provisions basis. If our expectations are borne out in practice, the surplus is projected to grow.

However, such outcomes are inherently uncertain. While the presence of a surplus may provide some protection, the potential impact of adverse scenarios may still be material.

In this context, a key consideration is the extent to which investment strategy should prioritise growth in the surplus – which could support the build up of a larger buffer against future risks – versus a shift towards a lower risk approach aimed at reducing volatility in funding and contribution rates.

At the time of publication, expected returns available on matching assets (such as gilts) are higher than in recent history, which could present an opportunity to help achieve the required rates of return to support stable contribution rates in a lower-risk way. Investment strategy could seek to take advantage of that compared with seeking further potential upside from riskier assets (such as equities).

Employer views expressed so far span a range of perspectives, but on balance suggest there may be a preference for a degree of risk reduction in support of funding and contribution stability.

The appropriate balance between these objectives will be explored further with stakeholders in the later stages of the valuation process, as part of more detailed engagement on the Scheme's investment strategy and formal consultation with employers on the Statement of Investment Principles (SIP), helping to inform the Trustee's investment strategy decisions.

However, to help employers form a cohesive view of the options available at this valuation, and the impact of specific choices, USSIM has produced metrics on three illustrative investment strategies (in practice these represent points on a spectrum of choices rather than an exhaustive list of possible options):

1. The current VIS (with 60% growth, 20% credit and 50% liability hedge ratios)
2. A lower risk strategy (VIS with 20% less growth, 10% more credit and 20% higher liability hedge ratios)
3. A higher risk strategy (VIS with 20% more growth, 10% less credit and 20% lower liability hedge ratios)

We believe that each of the proposed strategies, and therefore the full range of strategies between those points, could support the proposed discount rates.

Full details of these illustrative investment strategies and associated metrics can be found in Appendix 4 and our Supporting Information.

Modelled outcomes on the proposed TP basis:

Current Rate (20.6%[1]) – 6-year time horizon

Investment strategy	Lower risk	Current VIS	Higher risk
Likelihood of deficit	2%	5%	9%
Likelihood of contributions needing to rise[2]	1%	3%	6%

2026 FSC (16.4%[1]) – 6-year time horizon

Investment strategy	Lower risk	Current VIS	Higher risk
Likelihood of deficit	3%	7%	12%
Likelihood of contributions needing to rise[2]	3%	8%	12%

1 Modelling assumes that contributions are paid from the valuation date at the rate indicated (20.6% and 16.4% respectively).
2 Modelling allows for surplus to be drawn from in full over a 10 year period before contributions would need to rise.

The tables above consider the likelihood of deficit and contribution changes over two valuation cycles under different investment strategies and contribution rates. Similar patterns can be observed at different time horizons and we set this out in Appendix 4.

The tables above show that the likelihood of either a deficit re-emerging or of the contributions having to rise in six years' time are higher, if a lower contribution rate is adopted and/or a higher risk investment strategy is adopted.

There are multiple ways in which to assess the benefits and risks of a given investment strategy. Based on conversations with employers and feedback from UCEA, we have produced analysis on four further metrics as follows:

The metrics we show below are:

1. The expected annual real return for each illustrative investment strategy
2. How the Technical Provisions funding position could look if interest rates fell by 2% and if growth assets (for example the equity market) fell by 30%
3. How the self-sufficiency funding position could look if the Scheme suffered a 1-in-20 market shock
4. A distribution of the projected Technical Provisions funding position

The first metric is an annualised expected return over UK CPI, using our long term (30 year) forecasts. The second metric shows an instantaneous shock to the Technical Provisions funding position. The third metric shows a 1-in-20 market shock over a three-year period and the footnotes below show the same metric over a one-year period.

The other metrics for each of the illustrative investment strategies have been shown over a six-year period. We have included these metrics over the medium term (12 years) and long term (30 years) in Appendix 4.

Investment strategy	Lower risk	Current VIS	Higher Risk
1. Expected annual real return[1]	4.1%	4.5%	4.8%
2. Technical Provisions funding position after market shock (£bn)	12	2	-9
3. Self-sufficiency funding position in 3 years' time after 1-in-20 shock (£bn)[2]	-7	-14	-21
4. Projected Technical Provisions funding position in 6 years' time (£bn)			
1st percentile	-2	-10	-17
5th percentile	5	0	-6
25th percentile	17	15	14
50th percentile	26	27	29
75th percentile	35	41	48
95th percentile	49	63	80
99th percentile	61	83	108

1 Includes an addition of 0.1% in respect of the illiquidity premium.
2 Based on an assumed self-sufficiency surplus of £9bn as at 31 March 2026. Over a one-year period, these figures are £0bn,-£4bn and-£8bn for the lower risk, current VIS and higher risk investment strategies respectively.

The first metric shows that we expect the higher risk strategies to generate more return than the lower risk strategies over time. However, due to our relatively high expected returns on bonds and relatively low additional expected returns on equities, the difference in the expected returns across these three strategies is lower than it has been historically.

The other metrics show that funding and contribution risks increase with a higher risk investment strategy. Those are the risks of there being a deficit in future, of a future deficit being larger following a market shock or of needing to increase contribution rates in the future. While more return is expected from the higher risk investment strategy, there is also a wider distribution of potential outcomes. This means that there is a higher chance of an adverse funding or contribution outcome taking place in the future.

However, while the fourth metric also shows that there is more downside risk to the Technical Provisions funding position over six years by adopting a higher risk investment strategy, there is also more upside potential. The projected surpluses from the 50th percentile up to the 99th percentile are higher for the higher risk investment strategy, than they are for the lower risk investment strategy.

When setting investment strategy, there is no single right answer. The range of metrics produced serve to illustrate that preferences will depend on the short and long term objectives of stakeholders: whether to manage and reduce funding and contribution volatility; or seek to build the surplus and reduce costs (or improve benefits).

During direct engagements with employers, a range of views have been shared from significant risk reduction through to seeking to maintain or increase risk in pursuit of higher returns. However, based on the feedback received to date, we believe on balance that there is appetite amongst employers to reduce risk to a degree, reflecting lower financial risk appetite within the sector and the current funding position and financial environment.

Whilst noting that the power to set the investment strategy rests solely with the Trustee, confirming our understanding of evolving employer views will help inform the formal consultation on the SIP with employers due to take place later in the valuation process.

Consultation question:
A range of views have been expressed by employers on the appropriate investment strategy that best supports their objectives.

Is the prevailing view amongst employers to reduce risk in order to reduce volatility, maintain the existing strategy or take increased risk in order to seek greater returns?

Please provide any supporting comments.

Appendices

1

Appendix 1 – Approach to valuing the Technical Provisions

(i) This valuation falls under the new funding regime

A new statutory and regulatory framework for DB scheme funding is now in effect and applies for valuations with effective dates on or after 22 September 2024. The new regime, introduced through amendments to the Pensions Act 2004 and supported by a regulatory code of practice, introduces several new requirements that can be summarised as follows:

- Funding and Investment Strategy (FIS) – under the new regime, all schemes are required to develop a "funding and investment strategy" – a formal plan that targets full funding on a low-risk basis (Low Dependency Funding Basis (LDFB)) with a low-risk investment strategy (Low Dependency Investment Allocation (LDIA)) by the time the scheme is "significantly mature" (broadly, the point in time where the Duration of the scheme is 10 years).
- Long Term Objective (LTO) – this describes how trustees intend to provide members' benefits over the long term. As a scheme open to future accrual and new entrants, we would expect to set a 'remain open and run on' objective, rather than pursue an external risk transfer option such as insurer buy-out.
- Low-Dependency Funding Basis (LDFB) – a target funding basis at maturity that assumes scheme assets are notionally invested in line with a low dependency investment allocation (LDIA).
- Low-Dependency Investment Allocation (LDIA) – a notional investment strategy under which the funding position would be highly resilient to short-term adverse changes in market conditions.
- Statement of Strategy (SoS) – a formal document that has to be submitted to the Regulator, which describes the Scheme's funding and investment strategy, the journey plan to low dependency, and how key risks are identified, monitored and managed. **The Trustee is required to consult UCEA on Part 1 of the SoS and employers on Part 2.** This will be the subject of subsequent consultation exercises later in the valuation process (as detailed in our timetable on page 10).

Taken together, the most material change is that it is now a legal requirement that we have a plan that targets de-risking to a low-risk basis in the future and for us to fund consistently with this.

Importantly, as long as USS remains open to new entrants, the point of significant maturity can be deferred at each valuation meaning that such de-risking may not be required in practice (provided risk can continue to be supported by the employer covenant).

Appendix 1
Continued

Further considerations for schemes open to future accrual

During the consultation process for the new regulatory code of practice, we lobbied for recognition that the circumstances for open schemes could be fundamentally different than those for closed, maturing schemes.

We welcomed the support we received from UCEA and UCU on the views we expressed, and we are pleased that the final version of the Pensions Regulator's code saw the inclusion of specific provisions for schemes open to future accrual. In particular, the Regulator's funding code explicitly recognises that maturity emerges more slowly for open schemes and that the point of reaching low dependency may be materially later than for closed schemes. Ongoing accrual, new entrants and longer investment horizons can therefore be reflected in the Technical Provisions assumptions.

Requirements for prudent, market-based actuarial assumptions continue

The regulations require us to calculate the value of the assets and liabilities of the Scheme at the valuation date (31 March 2026). On the asset side, this means that we obtain a market valuation of the assets held by the Scheme. On the liability side, we are required to observe relevant economic indicators on the same date.

The updated regime continues to require that the actuarial assumptions underpinning the Technical Provisions be chosen using prudent principles. This means that the likelihood of actual experience being better than assumed should be greater than the likelihood of experience being worse than assumed.

With cashflows projected several decades into the future, selecting appropriate and prudent discount rates when calculating the Technical Provisions requires a significant degree of judgement. The Trustee's valuation methodology describes the framework we use to make the necessary judgements.

(ii) The Trustee has updated its valuation methodology

Scheme funding regulations require any change in the method or assumptions used to calculate the Technical Provisions to be justified by a change of legal, demographic or economic circumstances.

While the core principles underlying the Trustee's approach to risk management remain unchanged, elements of the valuation methodology have been updated to reflect the requirements of the new funding regime now in force and having regard to proposals put forward by UCU which were supported by collaborative engagement through the StWG.

As a result, our proposed methodology for this valuation includes some additional key features:

Valuation results are presented using a "three-leg" approach

To inform setting appropriately prudent assumptions, the Trustee will consider a range of metrics under three separate "legs":

- Leg 1 (Best Estimate) considers results on a 'Best Estimate' basis, with no margins for prudence.
- Leg 2 (Technical Provisions) incorporates the necessary margin for prudence and meets the legislative and regulatory scheme funding requirements.
- Leg 3 (Contingency Measures) considers information in the hypothetical event that the journey plan to low dependency may need to be accelerated (such as in the event of Scheme closure).

Results on a Best Estimate basis will be given greater prominence (Leg 1)

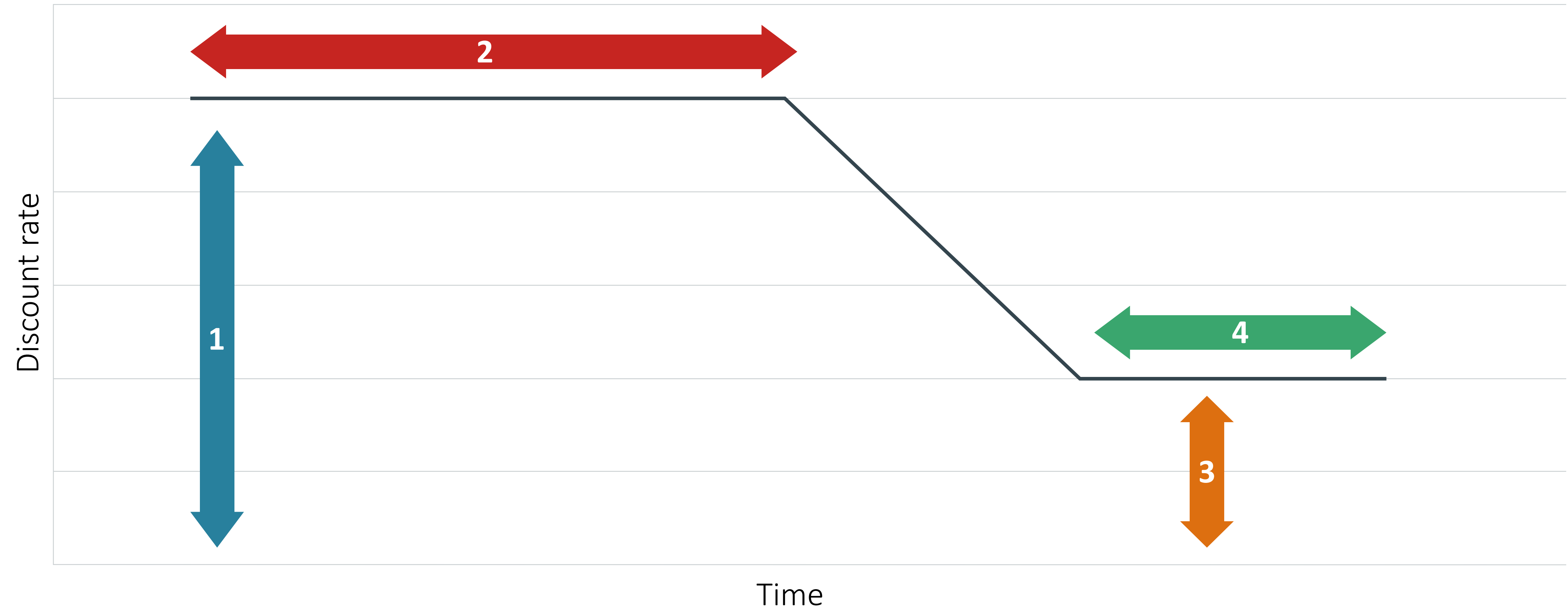
- In response to stakeholder feedback, we include a broader set of information on a Best Estimate basis.
- Our approach to setting best estimates similarly assumes a journey plan towards low dependency, as required by legislation when deriving the Technical Provisions, but with margins for prudence in investment return assumptions removed.
- In addition, as requested by UCU and UCEA we also include an illustration of the value of the liabilities and contribution rate absent a journey plan towards low dependency. This is a purely hypothetical scenario that assumes that the existing covenant can be relied on indefinitely and the starting investment strategy is held in perpetuity (i.e. disregarding the legal requirement for Technical Provisions to assume future de-risking.)

Appendix 1
Continued

Move to a 'term structure' discount rate (Leg 2)
The Trustee is proposing to move from a 'dual discount rate' to a 'term structure discount rate'. This represents a change from the approach adopted at the previous two valuations, in order to align more readily with the intended journey planning aspects of the new regulatory regime that require the Scheme to reach full funding on a low dependency basis by the point of significant maturity. Stakeholders considered the impacts of this change through analysis discussed in the StWG, expressing support for the proposal.

The term structure approach may be represented graphically in the following way:

Figure 1: Indicative notional journey plan



Key:

1 Initial discount rate

2 Period invested in the starting investment strategy

3 Long term discount rate

4 Period from relevant date

Under the proposed approach, assumptions need to be made about the initial discount rate, the low dependency funding basis, and the journey plan over time, reflecting any assumptions made about new entrants and future accrual.

In the same way as under the previous methodology, discount rates will continue to reflect investment return expectations on the assets we assume the Scheme holds, with a margin deducted for prudence, rather than adopting fixed margins above gilts. As such, margins will vary dynamically with market conditions, based on the Capital Market Expectations (CMEs) supplied by our investment adviser, USSIM.

All other assumptions represent our best estimate of future experience, except for our mortality assumption, where regulations require us to adopt prudent principles.

Retaining an asset-based approach to valuing Technical Provisions would, broadly speaking, be expected to lead to comparable results under the old and new discount rate construction. However, we would note that for a given level of Technical Provisions, the future service contribution rate would tend to be higher under a term structure approach than under a dual discount rate approach. Further analysis of the impacts is included in Appendix 3.

New tests are included to model contingency scenarios (Leg 3)
Leg 3 considers how funding would fare in the event of a stress scenario such as Scheme closure, helping the Trustee consider a wide array of information when forming judgements on an appropriate level of prudence.

Leg 3 includes the Trustee's existing Integrated Risk Management Framework (IRMF) as well as two additional tests adapted from proposals initially put forward through the StWG. The following sections provide a recap of the IRMF and introduce the two new metrics for Leg 3.

(iii) We propose to operate our IRMF in a similar way to the 2023 valuation

Our current funding and investment strategy involves calculated risks
Benefits are met by a combination of contributions from members and employers, and the investment returns on those contributions. In principle, therefore, if higher investment returns can be achieved, then all else equal lower contributions will be required for a given level of benefits. We invest Scheme assets in a combination of matching assets (low risk) and growth assets (higher risk and higher expected return).

An alternative approach would be to invest entirely in matching assets, which we would expect to generate lower returns, and always aim to hold sufficient funds to meet members' benefits based on those lower returns. Whilst that might offer greater funding stability, it would tend to lead to higher expected contributions over time.

Appendix 1
Continued

The Trustee's IRMF seeks to ensure we are not taking excessive risk
A degree of funding risk may be considered acceptable, provided that level of risk can be supported. In taking risk, we rely on employers to support the Scheme where additional funding requirements arise. However, we believe there is a limit to the reliance that can be placed on employers. In setting that limit, we take into account the amount of risk that the employers are able and willing to support.

Our Integrated Risk Management Framework (IRMF) helps us measure and monitor the risk associated with our funding and investment strategy.

The IRMF allows us to check that the reliance placed on employer covenant is:

- Within the employers' aggregate risk capacity; and
- Within the Trustee's and the employers' risk appetite.

The IRMF is explained in more detail in our Supporting Information, along with how it is used at a formal valuation exercise and for monitoring purposes in between valuations.

(iv) Contingency metrics under Leg 3

Under Leg 3, we report results under three separate metrics that consider how the journey plan may need to be amended in a hypothetical scenario such as Scheme closure.

These are used alongside the Leg 1 results to help the Trustee form a judgement in the round on the appropriate level of prudence within the Technical Provisions and resulting reliance on employers.

Self-sufficiency metric
We use this metric to measure the reliance we are placing on employers in taking funding and investment risk.

Under this approach, we calculate reliance by reference to the "self-sufficiency" measure of liabilities – this is the level of assets we would wish to hold if we were seeking to meet members' benefits with little or no reliance on future employer support.

Under our IRMF the following risk metrics help us measure reliance on employers.

- **Actual Reliance:** this is the current level of reliance on employer covenant given the current level of assets we hold.
- **Target Reliance:** this is the level of reliance on employer covenant when the Scheme is fully funded, that is, with assets and Technical Provisions equal.

The risk metrics described above are compared with the amount of risk we are comfortable employers can support, which we call the 'Affordable Risk Capacity' (AffRC).

At this valuation, we propose to retain the self-sufficiency metric and introduce two additional contingency metrics, which it is envisaged will provide a broader array of information for the Trustee to consider in a stressed scenario.

Escape Route metric
This metric measures the likelihood of being fully funded on a self-sufficiency basis 30 years after closure, assuming gradual de-risking.

It also illustrates the likelihood of a material adverse funding shock during the journey to self-sufficiency to illustrate both the likelihood and severity of downside risk over the period.

At this valuation, we propose to parameterise this metric as follows:

- Scheme closure assumed to occur three years after the valuation date.
- The current investment strategy is assumed to be de-risked to the self-sufficiency portfolio linearly over a 30-year period following closure.
- In line with the definition of employers' Affordable Risk Capacity, employer contributions of 10% of salaries are assumed to be available during the 30-year period following closure.

Within the broad construction of this metric, there may be flexibilities we can explore in circumstances where this parameterisation of the Escape Route metric "fails" (i.e. produces too low a likelihood of reaching a sufficiently well-funded position without experiencing a shock that is deemed too severe). For instance, in such circumstances the test could be extended (if appropriate) to consider the impact of varying the investment strategy assumptions and whether any resulting change in investment risk would be acceptable in these contingency scenarios.

Closure metric
This metric quantifies the impact on the Technical Provisions of the flexibilities available to open schemes under the new funding regime.

The funding position under this approach is calculated assuming the Scheme is closed to future accrual on the valuation date. That means no allowance can be made for new entrants and future accrual and accordingly shortens the period to significant maturity. Of course, if the Scheme were to close in practice, further changes to the Technical Provisions assumptions, Statement of Funding Principles and Statement of Strategy would likely be required reflecting the specific circumstances at the time.

2 Appendix 2 – Assumptions and inputs

This section details how the inputs we require under our proposed methodology are derived.

Appendix 2a – Employer covenant assumptions

(i) Financial backing from employers allows us to take investment risk

The employer covenant represents the legal obligation and financial ability of participating employers to support accrued benefit obligations under the Scheme, now and in the future.

This support allows the Trustee to take funding and investment risk in a measured way. Where adverse outcomes arise (for instance, if actual investment returns are lower than expected), the Trustee relies on employers to provide additional contributions over time to eliminate any resulting funding deficit in the Scheme.

The level of risk that can be taken depends on the mutual ability of employers to support the Scheme over time. This is reflected in the Trustee's IRMF and is in line with the Pensions Regulator's guidance on assessing and monitoring covenant.

(ii) The new regulations introduce new requirements in assessing employer covenant

The 2026 valuation is the Scheme's first under the new funding regime, which requires a more quantitative, forward-looking and cash-flow based assessment of employer covenant than previously. Trustees are no longer required to provide a qualitative covenant "rating" and instead must assess:

- The period over which there is reasonable certainty of employer cash flows (the "reliability period");
- The period over which employers are expected to continue supporting the Scheme (the "longevity period"); and
- The maximum amount of cash flow support for the Scheme that employers could afford over the reliability period ("Supportable Risk").

For the employer covenant to be "adequate" to support the Scheme under the new Code, Supportable Risk should be sufficient to close any funding gap at the end of the reliability period (measured on a Technical Provisions basis) in a downside scenario **that has a 1-in-6 probability of occurring**.

(iii) We have updated our assessment of employer covenant strength

The Trustee has undertaken an updated covenant assessment for the 2026 valuation, supported by independent advice from PwC. This assessment incorporates:

- Research on the landscape of, and outlook for, the Higher Education sector and USS' university employers within it.
- A review of publicly available financial and other information about employers.
- Collection, aggregation and analysis of financial forecasts and assumptions from more than 100 employers, representing over 90% of Scheme liabilities.
- Development of financial projections for employers in aggregate over the long term, including up- and down-side scenarios.
- Interviews with 15 institutions, selected to provide reasonable coverage and a representative sample of USS employers.

Their work helps to inform our assessment of the amount of risk employers are able to support and the amount of risk we may be prepared to accept in funding the Scheme. The stronger the covenant, the more risk that can be taken in funding the benefits, all else being equal.

Further information about the covenant review we commissioned is included in the Supporting Information. The headline conclusions are summarised here.

(iv) The covenant continues to provide strong support to the Scheme

We have concluded that the covenant continues to provide strong overall support, based on the advice we have received. This reflects a number of enduring covenant strengths:

- The substantial financial resources to which the Scheme has access from the highly regarded UK HE sector, including support from some of the highest-ranked universities in the world;
- The Scheme's joint and several ("last man standing") structure, which pools risk across a diverse group of more than 300 sponsoring employers and mitigates significantly the risk of individual employer insolvencies;
- The financial resilience of USS employers and their ability to respond to financial challenges and protect cash flow when required that was evidenced during the Covid-19 pandemic and since; and
- The security provided by Covenant Support Measures introduced at the 2020 valuation (described below) which remain in place.

Appendix 2
Continued

In addition, the Scheme's improved funding position has reduced reliance on covenant support significantly compared with previous valuations.

In arriving at this assessment, we recognise that there are financial headwinds facing the sector, including:

- Reduced international student demand and rising costs, which have led to weaker employer financial performance overall in recent years.
- Increasing divergence in the financial performance of individual employers and of different segments of the USS employer group.

We note that employers have responded to these challenges with restructuring initiatives and are forecasting a recovery in overall financial performance over the medium term.

Taken together, the Trustee considers that, notwithstanding a more challenging operating environment, the covenant provides robust and enduring support to the Scheme overall.

(v) We propose to retain our approach to measuring employer risk appetite

As with previous valuations, for the 2026 valuation we have incorporated employer covenant into the Scheme's risk management processes via the metric of Affordable Risk Capacity.

Affordable Risk Capacity
Affordable Risk Capacity ('AffRC') is our estimate of the amount of support employers are willing and able to provide over the long term to eliminate a scheme funding deficit if required, over and above the cost of ongoing benefit accrual, and without compromising their long term financial sustainability. It is calculated as the net present value of 10% of Scheme payroll over 30 years. Our covenant adviser has confirmed that these assumptions are still appropriate.

Calculating Affordable Risk Capacity

Additional employer contribution capacity	10% of payroll
Covenant horizon	30 Years
Discount rate[1]	Gilts + 0.7%
Assumed payroll growth[2]	CPI + 0.2%
AffRC[3]	**£24bn** (range £23bn to £25bn)

1 Based on average credit spread for all tradable rated UK university-issued debt (rated A-AA)
2 Supported by projections from PwC
3 Range for AffRC reflects allowance for forecasting variation of +/- 5%

The AffRC at this valuation remains substantial, although it is approximately 15% lower than at the previous valuation. This is due to:

- A higher rate of interest being used to discount future contribution cashflows to the valuation date.
- Our assumption of slower growth in future of total Scheme payroll (CPI+0.2% p.a. on average, compared with CPI+1% p.a. previously).

Affordable Risk Capacity is one of a range of possible approaches to estimating employers' capacity to support risk. The Pensions Regulator's new DB Funding Code introduces an additional measure, "Supportable Risk", which we look at below.

Supportable Risk
Conceptually, Supportable Risk is similar in nature to the Affordable Risk Capacity measure described above. The key difference is that rather than forming a subjective view on the level of contributions that we are comfortable that employers would be willing and able to provide, 'maximum affordable contributions' are calculated via a mechanical formula considering total cashflows available to the Scheme to fund recovery from a deficit.

The not-for-profit nature of the sector means that risk capacity is typically only available by diverting expenditure from existing uses towards pension contributions when required. With that in mind, the calculation of Supportable Risk assumes that the sector is able to make additional savings of 10% of total expenditure on a sustainable basis if required over the next 30 years. This is based on feedback received from employers, the advice from our HE sector advisers and our wider covenant monitoring activities.

Taking employers' ability to divert expenditure in this way into account, PwC have calculated Supportable Risk at this valuation to be £147bn in nominal, undiscounted terms. Converting this to 2026 present value terms to facilitate comparison with AffRC, Supportable Risk is equivalent to £51bn, more than twice AffRC.

The Trustee's view is that there are aspects of the Supportable Risk methodology that may mean it is less appropriate as an assessment of employer risk appetite for our particular scheme structure than Affordable Risk Capacity:

- It provides a measure of the maximum potential support employers could provide, without allowance for the potential impact on employer viability that might result should maximum support over a long period be required.
- It is a bottom-up measure that considers the affordability of support on an employer-by-employer basis, rather than via a single contribution rate for all employers and affordable by the employer group overall that is an important element in the Scheme's mutual structure.

The Trustee therefore proposes that the current Affordable Risk Capacity measure continues to be used to assess employers' ability to support risk.

Appendix 2
Continued

(vi) The existing Covenant Support Measures enable a long covenant time horizon

As part of the 2020 valuation, the employers agreed a package of Covenant Support Measures. It involved:

- A 20-year moratorium on employer exits.
- A debt monitoring framework including pari passu security arrangements.

These measures address two key risks highlighted at previous valuations, namely the risks of stronger employers leaving the Scheme and of rising debt levels.

As a result, the Trustee has greater confidence in the continuity and durability of covenant support, which allows for a longer funding and investment horizon. This enables a longer term, growth-oriented investment strategy than would otherwise be the case, thereby supporting lower contribution requirements than would otherwise be necessary. A longer time horizon also means greater covenant capacity to absorb volatility in interest rates and asset values, reduces the likelihood of a deficit arising in future and contributes directly to stability in valuation outcomes.

Without these measures, the Trustee would need to adopt a more cautious approach, with a shorter horizon, greater reliance on near-term funding certainty and a higher likelihood that contribution rates and/or benefits might need to change at future valuations in response to market developments.

We outline the enduring value of the Covenant Support Measures in more detail in the Supporting Information.

(vii) Key conclusions for employer covenant for the 2026 valuation

Taking account of the analysis and advice received, the Trustee has reached the following conclusions for the 2026 valuation:

Covenant horizons

- A covenant reliability period of 30 years
- A covenant longevity period of at least 40 years
- A covenant horizon for the purposes of Affordable Risk Capacity of 30 years

Risk capacity

- Affordable Risk Capacity of £24bn (in 2026 present value terms)
- Supportable Risk of £147bn on an undiscounted basis (£51bn in 2026 present value terms)

The Supportable Risk figure of £147bn is substantially greater than the level of support that may be required at the end of the 30-year reliability period under the Trustee's 1-in-6 downside scenario, in which the Scheme is expected to remain in a small surplus on the Technical Provisions basis. This indicates substantial risk capacity headroom and supports the Trustee's conclusion that the funding and investment risks being taken are supportable by the employer covenant.

(viii) Outlook for the UK HE sector

USS universities remain well positioned overall in a sector that is expected to continue to:

- Play a key role in the UK economy and society over the long term, anchoring UK competitiveness and skills development;
- Attract international students, supported by a strong global reputation and high quality of provision; and
- Adapt to a changing HE sector environment

We are, however, mindful that the UK HE sector is experiencing more challenging dynamics than was the case at the time of the previous valuation. Those challenges include changing UK and international demographics impacting student demand, evolution of governmental policies, technological disruption as a result of advances in AI and ongoing inflationary pressure on costs.

Additionally, while USS universities in aggregate continue to be financially robust, there is increasing divergence in the financial performance of individual institutions.

The divergence in individual employer financial performance underlines the importance of the Scheme’s sector-wide, mutual, joint-and-several structure to the continuing strength of the employer covenant and of arrangements, such as the Covenant Support Measures, that help to support the covenant’s collective nature.

(ix) Overall

We have concluded that, underpinned by the Covenant Support Measures, employers will continue to provide strong and enduring support, and that the covenant provided is sufficient at this valuation to support the funding and investment risks being taken by the Scheme.

?

Consultation question:
Do you agree that the proposal to retain Affordable Risk Capacity (as currently specified) remains suitable as the primary measure of employer risk appetite?

Appendix 2
Continued

Appendix 2b – Investment strategy assumptions

(i) How the investment strategy is used in the valuation

The Trustee sets the Scheme's investment strategy, which is one of the key inputs to the valuation. To calculate the amount of money we need to meet future benefit payments, we make assumptions about the return we might expect to see on the assets in the future.

The assumed investment return is driven by the types of assets we expect to invest in, and a notional journey plan (which we describe below) reflecting the requirements of the funding regime. We can broadly group assets into 'matching' (low risk) and 'growth' (higher risk) investments:

- Matching assets are low risk because they protect the Scheme against movements in the value of the liabilities driven by changes in long term interest rates and inflation expectations. Matching assets are not expected to generate much return over the liabilities.
- Growth assets are expected to deliver a higher investment return than matching assets (and liabilities) over the long term. However, growth assets present more risk against the liabilities.

We currently invest Scheme assets in a mix of growth and matching investments. For the purposes of the valuation, we specify a theoretical but investible investment strategy, referred to as the Valuation Investment Strategy (VIS), which is calibrated to the Trustee's risk appetite and return objectives.

Under the new defined benefit funding regime, we are required to set a notional journey plan. This journey plan is hypothetical and assumes that the assets we hold are de-risked over time:

- The initial investment strategy assumes we remain invested in line with the VIS and accordingly, the expected returns reflect the current mix of matching assets and growth assets which make up the VIS.
- For the period after the Scheme has reached the point of significant maturity, the journey plan assumes investment in the Low-Dependency Investment Allocation (LDIA), which is predominantly made up of matching assets.

As USS is an open scheme with a stable membership profile, the investment strategy we expect to implement in practice is expected to remain reasonably similar over time as retiring members are replaced by new entrants to the Scheme. This means that whilst the Scheme remains open to new entrants with a stable membership, we expect that at each valuation the assumed de-risking in the notional journey plan would be pushed back.

(ii) Assumed investment strategy for this consultation

Investment strategy for the initial period
Having established that the covenant continues to provide strong support to the Scheme, the Trustee believes the current level of investment risk in the Scheme is a reasonable assumption to use for the purposes of this consultation. (Note that the actual VIS resulting from the 2026 valuation will be subject to further engagement. We also plan to consult on the Statement of Investment Principles (SIP) next year.)

Accordingly, for the purposes of this consultation, we have used the current investment strategy as the basis for deriving our proposed financial assumptions. Consistent with our approach at previous valuations, this means assuming that the 2026 VIS is unchanged from the current VIS, as set out below:

Assumed VIS asset allocation[1]	Growth assets exposure	**60%**
	Credit assets exposure	**20%**
	Liability hedge ratios[2] (on a self-sufficiency basis)	**50%**

In practice the actual portfolio ('the implemented portfolio') can hold a wider range and different mix of investments. We set risk and return objectives for our investment manager, USSIM, paying regard to the level of risk and expected return associated with the VIS. The implemented portfolio is monitored and managed by USSIM and overseen by the Trustee's Investment Committee. A wide array of risk and return metrics are employed, including expected return, asset allocation limits and collateral headroom.

Notional low-risk investment allocation

Under our proposed methodology, we define a high-level notional 'low risk' investment allocation for the purposes of setting both the self-sufficiency and low dependency funding bases:

- Self-sufficiency basis: The self-sufficiency measure of the liabilities provides the level of assets we would wish to hold if we could no longer rely on employer support. It is required in order to produce results under Leg 3 (Contingency Measures). It assumes a low-risk investment allocation consistent with the Trustee's definition of self-sufficiency, i.e. for the Scheme to be able to stay well-funded and meet all benefit payments with a high degree of confidence, without additional contributions from employers. The resulting asset mix is used to support the derivation of the self-sufficiency discount rate, which underpins the calculation of downside risk tolerances under the IRMF.
- Low dependency basis: The new funding regime requires scheme to target full funding on a low-dependency basis at the point the Scheme is significantly mature. The Low Dependency Investment Allocation (LDIA) represents the intended low-dependency position of the scheme within the journey plan, reflecting a point at which reliance on the employer covenant is expected to be materially reduced but not fully extinguished.

1 Please note that these percentages are not additive (and hence do not total 100%). The hedge ratios are not asset exposures, but show how much the investment strategy has protected (or hedged) the Scheme against interest rate or inflation moves impacting the value of the liabilities.
2 The actual matching assets exposure (and amount of leverage) required to support these liability hedge ratios above varies over time with market conditions. However, the collateral headroom assumed in this allocation is expected to withstand comfortably a combination of the worst historical shocks across interest rates, foreign currency and equities.

Appendix 2
Continued

In both cases, the high-level notional low-risk investment allocation is constructed illustratively for valuation purposes, rather than reflecting how we expect the Scheme's assets to be invested. It is produced with supporting evidence from a range of modelling approaches, market pricing observations (including insurer pricing), and broader investment considerations.

We propose to adopt the same high-level notional investment allocation for setting the self-sufficiency and low-dependency bases at this valuation. This allocation is characterised by high exposures to credit and matching assets, with limited exposure to growth assets, and hedge ratios calibrated to provide a high level of protection against interest rate and inflation risks:

Low-Dependency and self-sufficiency investment allocations[1]	Growth assets exposure	**10%**
	Credit assets exposure	**55%**
	Liability hedge ratios (on a low dependency or self-sufficiency basis)	**100%**

The respective discount rates for the self-sufficiency and low dependency bases are derived based on the underlying low risk allocation, with differing levels of prudence reflecting the differing levels of reliance placed on the employer covenant as explained in Appendix 2c.

(iii) Investment return expectations at this valuation

In order to determine the risk and return information required under our methodology, we use USSIM's long term expected investment return assumptions for the main asset classes relevant to the Scheme. We use them as inputs to modelling tools that help us to understand the potential spread of investment return outcomes for the different investment strategies over time. USSIM has considered a wide range of macro-economic and financial market inputs, including the potential impact of climate risk factors.

Long term (30 year) investment return expectations

	Annual expected return as at 31 March 2026 (relative to expected CPI)[2]	Annual expected return as at 31 March 2023 (relative to expected CPI)[2]
Equities	4.8%	4.1%
Property	2.4%	1.9%
Infrastructure	4.8%	-
Listed Credit	3.1%	2.1%
US TIPS	2.3%	0.6%
LDI (Liability Proxy)[2]	2.3%	0.5%
Cash	1.2%	0.7%

A summary of the overall return metrics for the VIS as at 31 March 2026 is shown below.

Expected return[3]	30 year expected annual real return (above UK CPI)	**4.5%**
	30 year expected annual return above gilts[4]	**2.2%**

Details of the full implemented portfolio can be found on our website (see Useful links in Appendix 6).

(iv) Reviewing our strategy

As part of the actuarial valuation, the Trustee reviews the DB investment strategy alongside the funding strategy to assess whether the overall approach remains appropriate in light of the Scheme's improved funding position and evolving stakeholder objectives.

At this valuation, the strengthened financial position enables a broader range of viable and supportable funding and investment strategies. Importantly, choices made at this valuation will play a significant role in shaping longer-term outcomes for members and employers.

This consultation sits alongside a wider dialogue on the Scheme's future strategy. In particular, we recognise that different choices – such as the balance between growth and matching assets, the extent to which surplus is retained or released, and the prioritisation of stability versus affordability – can lead to different, but still supportable, funding and investment strategies.

Following this consultation, we will undertake further engagement with employers on investment strategy to inform the Trustee's decisions on the VIS resulting from the 2026 valuation. This will include a consultation on the Statement of Investment Principles (SIP), which is scheduled for early next year.

The financial assumptions we have proposed in this consultation may be compatible with a range of potential investment strategies, rather than being tied to the assumed 2026 VIS and/or notional low risk portfolio (as set out above). This means that, within certain tolerances, alternative strategies – with different allocations to growth and matching assets – could be adopted, without materially changing the provisional results set out in this document.

That flexibility is not unlimited, however. Different strategic choices will have implications for expected returns, funding volatility and downside risk. In our section on Future Strategy (and expanded in Appendix 4), we illustrate a range of alternative investment strategies to demonstrate how these choices may affect the Scheme's future funding position, contribution requirements and resilience under a range of scenarios.

1 Please note that these percentages are not additive, as above.
2 The Liability Proxy is a blend of gilt indices which could theoretically be used to replicate the market (interest rate and inflation) sensitivities of the liability cashflows.
3 Expected returns taken from an asset and liability financial modelling tool, calibrated to the USSIM long term expected returns. Includes allowance for an illiquidity premium of 0.1%, reflecting the additional expected return potential from investing in illiquid assets, which are not already included in the VIS. A similar approach was adopted for the 2023 valuation.
4 The gilt investments assumed reflect the Liability Proxy, as described above.

Appendix 2
Continued

Appendix 2c – Actuarial assumptions

(i) The main actuarial assumptions

We set out in our proposed methodology and assumptions an overview of our proposed approach for setting the assumptions for the purposes of calculating the Technical Provisions liabilities and contribution rate for future service.

As a reminder, our proposed approach is for assumptions to be based on best estimates of future experience with the principal source of prudence being in the discount rate and a small margin for prudence in the assumed initial mortality rate (as required by legislation).

Here we provide further information on the demographic and financial assumptions where we are proposing changes from the last valuation. These are:

- Life expectancy after retirement
- Expected future rate of CPI inflation
- Discount rate

Consistent with the expectations of the new funding regime, we have also included an expenses reserve of £0.1bn, representing expenses from the relevant date onwards.

(ii) Life expectancy after retirement

The Scheme Actuary has conducted a review of the assumption for post-retirement life expectancy, studying both the general mortality trends and projections, and the specific characteristics of the Scheme's membership. His advice included views from a range of experts, including epidemiologists and medical doctors and emerging best practice in setting mortality assumptions post pandemic.

The life expectancy assumption is made up of two elements:

1. The base mortality table (initial mortality rates)
2. An assumption for future improvements in life expectancy.

Base mortality table

Our proposed approach to setting initial mortality rates is to: identify the mortality characteristics of the Scheme membership; select the most appropriate set of corresponding historical mortality data, that is, a suitable 'base table'; and apply an adjustment to reflect the Scheme's characteristics. We then apply a small margin for prudence, which is consistent with the approach adopted at the last valuation.

As part of reviewing the assumption for the 2026 valuation, the Scheme Actuary considered the experienced level of deaths within the USS pensioner population over the period from 2011 to 2024 and compared this to industry standard tables.

These standard tables are then adjusted to produce a best estimate base mortality table appropriate for the Scheme. A 2% reduction to the mortality rates is applied as a margin for prudence consistent with the approach adopted at the last valuation. This equates to a c.0.5% addition to the value of the liabilities.

The proposed base tables are as follows:

	Standard table	2026 best estimate	2026 proposed assumption
Male	S4PMA_L	101%	99%
Female	S4NFA	91%	89%

Overall, these updates to the base tables, viewed in isolation, increase life expectancies at 65 by 3 months. This equates to around a 0.9% addition to the value of the liabilities.

Future improvements in life expectancy

Our proposed approach is to set the assumption for expected future life expectancy improvements in line with our best estimate, that is, with no explicit margin for prudence. This is consistent with the approach adopted at the last valuation.

Since the 2023 valuation, the Continuous Mortality Investigation (CMI) has updated their approach to modelling future mortality improvements to better allow for the high level of deaths during the pandemic.

We have taken advice from the Scheme Actuary on the choice and parameterisation of the latest CMI model as a result of these developments. This has included updating the assumptions to the most recent CMI 2025 model where CMI 2021 was used at the 2023 valuation, and adjusting the parameters used in the CMI model.

With assumed life expectancies rising less quickly in future, the value of liabilities and future service contributions would fall, all else being equal.

The impact of the updates to the future improvements assumption, viewed in isolation, is to reduce the value of the liabilities by less than 0.5%.

Overall, these assumptions lead to life expectancies which increase over time. Example life expectancies under the proposed Technical Provisions assumptions are set out below.

Member	Technical Provisions life expectancy from age 65	
	2026 valuation	2023 valuation
Male aged 65 in 2026	23.8	23.8
Male aged 65 in 2046	25.3	25.8
Female aged 65 in 2026	26.1	25.6
Female aged 65 in 2046	27.8	27.3

Appendix 2
Continued

Other demographic assumptions

We make assumptions about other demographic factors, including the following:

- Assumed age of retirement
- Rates of early retirement
- Rates of ill-health retirement
- Rates of withdrawals from active service
- Proportion of members leaving a dependant on death, and age difference

Following analysis of the Scheme's experience in relation to other demographic factors, the Scheme Actuary has advised that it would be reasonable to maintain the same assumptions that we used in the 2023 valuation. The only exception is to assume a retirement age of 66 for those members where all of their service relates to an NPA of 66.

These are set out in the draft Statement of Funding Principles in Appendix 5.

(iii) Inflation

To better reflect short term expectations of inflation, we are proposing to move to a yield curve approach for inflation, rather than assuming a fixed inflation assumption at each term. Aside from reflecting changes in economic circumstances, this also better aligns with the requirements of the new funding regime.

Our proposed assumption for the rate of RPI inflation has been derived via the difference in yield between nominal and index-linked government bonds. This provides an estimate of RPI inflation at each term.

From that, an adjustment is made to allow for the best estimate assumed difference between RPI and CPI. It is assumed that up until 2030 RPI will be 100bps above CPI and 20bps higher thereafter (reflecting the well-publicised changes to the calculation of RPI).

Reflecting updated expectations at the valuation date leads to a 10bps increase in the RPI/CPI gap from 2030 compared with the approach adopted at the last valuation.

(iv) Discount rate

Discount rate parameters under term dependent methodology

We are proposing a change to the way that we present discount rates in order to demonstrate compliance with the new funding regime. At the past two valuations, we have used discount rates that implicitly assume de-risking as members retire and the Scheme matures (known as a dual discount rate approach). Under the new regime, we need to be able to demonstrate that the Scheme is fully funded on a low-risk basis by the time the Scheme reaches "significant maturity".

As before, this requires us to make assumptions about expected investment returns on the assets we hold now and in the future. What is new is the need to make explicit assumptions on how we might transition from the current investment strategy to a notional low-risk strategy as the Scheme matures.

This means that there are four key parameters that need to be chosen for the discount rate structure:

- Initial discount rate
- Period initial discount rate is assumed for
- Long term discount rate
- Point in time from which long term discount rate applies

Initial discount rate – Construction

We propose to set our initial discount rate by considering prudent returns on the VIS.

The VIS assumed for the purposes of this consultation was discussed in Appendix 2b. It is composed of a mixture of matching assets and growth assets. Generally speaking, over the long term:

- Matching assets such as bonds have expected returns that are 'gilt like' (i.e. the expected returns can be expressed as premiums over gilts that are relatively stable over time).
- Growth assets such as equities have expected returns that are primarily related to inflation (i.e. the expected returns can be expressed as premiums over inflation that are relatively stable over time).

In practice, this means that the expected returns on the VIS will change (potentially materially) over time irrespective of whether we think about these returns relative to gilts, relative to inflation, or in nominal terms.

At the valuation date, judgements can be formed on appropriate prudence levels by considering returns in multiple ways (for example relative to CPI or relative to gilts) and weighing the metrics from each of the three legs.

However, from discussions with stakeholders it is clear that it is desirable to have underlying premiums that are stable where appropriate, and also for the premiums applied to underlying yields to better reflect the asset classes that they are trying to model.

Our proposed approach to achieve this is to notionally decompose the VIS into two component allocations:

- Low Dependency Investment Allocation (LDIA) – To reflect the bond-like assets within the VIS that mirror the allocation we would hold in low dependency. **LDIA expected returns would be measured relative to gilts**.
- Return oriented component allocation (ROCA) – To reflect the rest of the portfolio, predominantly the return-seeking assets that are expected to have inflation-like returns. **ROCA expected returns would be measured relative to CPI**.

Appendix 2
Continued

Importantly, we propose to set the discount rate on the ROCA in order to achieve an appropriate overall discount rate for the VIS when aggregated with the LDIA. This ensures that we capture the benefits of rebalancing and diversification of holding a mix of matching and growth assets within the VIS.

The two key advantages of the proposed decomposition approach are that:

- It provides a more intuitive link between investment strategy and funding approach than the current primary approach of presenting discount rates as premia over gilt yields.
- It is expected to provide more stable and predictable premiums over the underlying reference points (gilt yields or CPI respectively) over time for the purposes of monitoring and future projections.

Initial discount rate – Prudent margins
The best estimate return on the VIS, including the illiquidity premium, is 4.49% p.a. above CPI and 2.23% p.a. above gilts.

A prudent margin of 1.1% relative to best estimate returns relative to gilts corresponds to a 73% confidence level, meaning that our models suggest that there is a 27% chance that returns turn out to be worse than assumed over the long term.

This is equivalent[1] to:

- A ROCA discount rate of Best Estimate minus 0.84% where best estimate is CPI + 4.67%
- A low dependency discount rate of Best Estimate minus 0.74% where best estimate is Gilts + 1.34%

We blend the ROCA with low dependency based on holding them in a 63.6%/36.4% proportion.

Period initial discount rate is assumed for
For the purposes of setting the discount rate, we need to make an assumption on when the assets would be de-risked from the VIS to the LDIA (noting that whilst the Scheme remains open with a strong covenant, such de-risking may not take place in practice).

Under the Scheme funding regulations:

- We can assume that the VIS is held for a maximum of the reliability period
- We must assume that the Scheme is fully de-risked to the LDIA by the point of significant maturity

In addition, we have considered:

- The practical limitations over the pace at which the VIS could be de-risked (we have been advised by USSIM that it would be reasonable to assume that de-risking could take place over a 10-year period).
- The duration of the Covenant Support Measures (which are notably shorter than the reliability period).
- The extent to which the Trustee is comfortable assuming a high degree of investment risk many years into the future, beyond the duration of the Covenant Support Measures.
- The transparency of placing prudence in discount rate premiums, rather than taking prudent assumptions throughout the parameterisation of the discount rate.

Taken together, we propose an assumption that the VIS is held for **30 years** from the valuation date.

Long term discount rate
Our proposed long term discount rate is an addition of 0.6% p.a. to the gilt yield curve at the valuation date.

In setting this assumption the Trustee is satisfied that were the Scheme to be invested in the LDIA, closed to new accrual, at the point of significant maturity, and fully funded on a basis using the proposed long term discount rate throughout, we would expect the Scheme to be able to recover from a 1-in-6 one-year shock over a six year period without further contributions. The proposed long term discount rate fulfils these criteria and provides a 60% chance of recovery, based on analysis carried out by USSIM.

Our best estimate return on this notional portfolio is 1.34% p.a. above gilts. As such, this discount rate equates to a deduction of 0.74% p.a. vs Best Estimate returns.

Point in time from which the long term discount rate applies
Linked to the assumption required for how long we assume the initial discount rate applies for, we must also make an assumption for the point in time from which the long term discount rate applies.

We must assume that the Scheme is fully de-risked to the LDIA by the point of significant maturity. Currently this is 30 years based on benefits earned to date.

Under the new funding regime, there is flexibility to make some allowance for new entrants and new accrual when calculating the point of significant maturity (and hence the point at which we must assume the Scheme is de-risked).

We propose that the long term discount rate would apply from the point of significant maturity with allowance for 10 years of new accrual and new entrants within this calculation, meaning that the point of significant maturity is at 40 years. This point is consistent with the period of covenant longevity whilst also producing an assumed journey plan that reflects the practical limitations over which the VIS could be de-risked. For the avoidance of doubt, we propose selecting the "relevant date" to be consistent with this.

Taken together with the assumption that the VIS is maintained for the first 30 years, this implies a notional 10-year transition period from the VIS to the LDIA.

1 Equivalence calculated as producing the same Technical Provisions liabilities.

3 Appendix 3 – Sensitivities and risk metrics

As set out in our Methodology and Assumptions section, the Trustee is required to adopt prudent assumptions when calculating the Technical Provisions.

In practice, the Trustee considers a range of information in forming views on an appropriately prudent set of assumptions, as set out below:

- Principal risk and prudence metrics arising from the proposed valuation assumptions;
- Illustration of the sensitivity of the results to changes in key assumptions; and
- Presentation of the proposed discount rate structure as a single-equivalent discount rate for comparison purposes.

The information should be viewed collectively, rather than any individual metric being considered in isolation.

Risk and prudence metrics
There is no universally accepted measure of prudence. The Trustee therefore considers a range of perspectives when determining whether the Technical Provisions satisfy the statutory requirement to be prudent whilst remaining consistent with the strength of the employer covenant and the long term nature of the Scheme.

We consider prudence through a range of metrics including:

- Distance from Best Estimate: Measures the extent to which the Technical Provisions exceed the Best Estimate liabilities and therefore the level of explicit prudence incorporated within the valuation.
- Confidence level: Measures the likelihood, based on stochastic modelling, that future experience is equal to or more favourable than assumed. Higher confidence levels generally indicate greater prudence.
- Prudence/dependency percentage: Considers where the Technical Provisions sit relative to a range of alternative funding measures, helping to illustrate both the level of prudence and the extent of reliance on future employer support.

Consistent with the Trustee's Integrated Risk Management Framework, we monitor a range of metrics which provide quantitative evidence regarding both reliance on employers and the level of prudence within the valuation.

	2026 Valuation	2023 Valuation[1]
Risk metrics		
Target Reliance[2]	£17.8bn	£20.5bn
Target Reliance as a percentage of AffRC	74%	73%
Actual Reliance[2]	£0.9bn	£13.1bn
Likelihood of material funding deterioration under Escape Route[3]	1%	n/a
Prudence metrics		
Confidence level[4] for chosen discount rates:		
Initial discount rate	73%	n/a
Long term discount rate	89%	n/a
Long term discount rate recovery likelihood	60%	n/a
Distance from Best Estimate	£8.6bn	£8.2bn
Ratio of TP to Best Estimate	116%	114%
Distance from low dependency	£4.8bn	n/a
Ratio of TP to low dependency	93%	n/a
Ratio of self-sufficiency to low dependency	104%	n/a
Distance of TPs from closure metric	£0.4bn	n/a
Prudence/dependency percentage	52% : 48%	40% : 60%

In forming views on an appropriate level of prudence, the Trustee considers these measures collectively and alongside the strength of the covenant, stakeholder objectives and the level of investment risk being assumed.

1 2023 figures shown on the nearest equivalent basis.
2 Actual Reliance and Target Reliance include allowance for Transition Risk at this valuation of £10bn.
3 Illustrated using AffRC over 30 year timeframe, see Provisional Results section for more detail
4 The pre-retirement and post-retirement discount rates for the 2023 valuation had confidence levels of 70% and 69% respectively

Appendix 3
Continued

Sensitivities

The sensitivities below illustrate the approximate impact of changes to the key assumptions:

Technical Provisions sensitivities:

Change in assumption	Approximate impact on liabilities
Initial discount rate reduced by 0.2% p.a.	+£1.7bn
Initial discount rate increased by 0.2% p.a.	-£1.7bn
Initial period reduced by 10 years	+£0.2bn
Long term discount rate reduced by 0.1% p.a.	+£0.1bn
Long term discount rate increased by 0.1% p.a.	-£0.1bn
Pension increases 0.1% p.a. higher	+£0.9bn

Future Service Cost sensitivities:

Change in assumption	Approximate impact on FSC
Initial discount rate reduced by 0.2% p.a.	+0.7% of payroll
Initial discount rate increased by 0.2% p.a.	-0.6% of payroll
Initial period reduced by 10 years	+0.2% of payroll
Long term discount rate reduced by 0.1% p.a.	+<0.1% of payroll
Long term discount rate increased by 0.1% p.a.	-<0.1% of payroll
Pension increases 0.1% p.a. higher	+0.4% of payroll

The results at this valuation are most sensitive to the choice of initial discount rate.

Single-equivalent discount rate

The Technical Provisions are calculated using a term-structure discount rate that reflects the assumed journey plan described in our Methodology and Assumptions section.

For information, we show below the equivalent single discount rates which would produce the same Technical Provisions at the valuation date, alongside the equivalent 2023 rates.

Single-equivalent discount rate	2026 valuation	2023 valuation
Technical Provisions	Gilts + 1.1%	Gilts + 1.4%
	CPI + 3.4%	CPI + 2.2%
Future Service Cost	Gilts + 1.0%	Gilts + 1.8%
	CPI + 3.3%	CPI + 2.5%

4 Appendix 4 – Modelling future outcomes

This Appendix sets out detailed results for the investment metrics produced by USSIM (referred to in our section on Future Strategy), along with additional projections of future outcomes.

The purpose of these projections and metrics is to illustrate how funding outcomes, contribution requirements and downside risks may evolve under different investment strategies, contribution levels and surplus management approaches.

The analysis is based on a range of modelling assumptions and simplifications and should therefore be interpreted as indicative and comparative. It is intended to support understanding of potential trade-offs, rather than to determine or form part of the proposed methodology and assumptions at this valuation.

(i) Volatility in pension funding

Experience from recent valuations demonstrates that changes in financial market conditions can have a material impact on contribution requirements and benefit outcomes. This has led to an increased focus from stakeholders on improving the stability and resilience of the Scheme.

Funding outcomes are inherently uncertain and can vary over time. The most significant driver of this variability is movements in financial markets, particularly long term interest rates and expected investment returns. As actuarial valuations are market-based, both assets and liability values are measured at a point in time, which can lead to fluctuations in the reported funding position.

A key source of volatility is the Scheme's investment strategy. Growth assets are expected to deliver higher long term returns than matching assets, reducing the ultimate cost of providing benefits. However, growth assets present more risk against the liabilities. Scheme assets are currently invested in a mix of growth and matching assets, contributing to volatility in funding levels.

Contribution requirements may also change as expectations for future investment returns evolve. In addition, where deficits emerge, contributions may need to be adjusted, further contributing to variability over time.

A range of tools can be used to manage this volatility. These include funding strategies that retain a margin or buffer against adverse experience, investment strategies that increase alignment between assets and liabilities, and benefit design features that can respond to changing conditions. The analysis that follows illustrates how these factors interact under different scenarios.

(ii) Modelling a range of investment strategies

To inform the impact of investment strategy on the projections, we show results based on the current VIS as well as two simple and illustrative alternative investment strategies:

- **Less growth, more hedging** – lower expected return but reduced short-term volatility and downside risk
- **More growth, less hedging** – higher expected return with increased variability in outcomes

For the illustrative alternative strategies shown we have also increased (or decreased) the allocation to credit assets. However, the results for the investment metrics (shown in the next section) are materially more sensitive to changes in the growth asset exposure and liability hedge ratios than to changes in the credit allocation.

Illustrative Alternative Investment Strategies[1]		Less growth, more hedging	Current VIS	More growth, less hedging
Asset allocation[2]	Growth assets exposure	40%	60%	80%
	Credit assets exposure	30%	20%	10%
	Liability hedge ratios (on a self-sufficiency basis)[3]	70%	50%	30%

1 See Supporting Information for the return metrics associated with these portfolios.
2 Please note that these percentage allocations are not additive (and hence do not total 100%), because we show liability matching assets in terms of their hedge ratio.
3 Please note, to support the liability hedge ratios, as at 31 March 2026 the less growth, more hedging, current VIS and more growth, less hedging strategies have liability matching assets with weights of 42%, 30% and 19% (and leverage of 12%, 10% and 9%) respectively. These strategies are all expected to have collateral which would withstand comfortably a combination of the worst historical shocks across interest rates, foreign currency and equities.

(iii) Investment metrics

From the feedback we received in our preceding engagement, we know that employers find it useful to consider a balanced range of metrics which capture short, medium and long term perspectives, as well as upside and downside scenarios.

In the Provisional Results section, we introduced a range of investment metrics, covering expected returns, funding and contribution stability as well as the upside growth potential of the surplus. We provided those metrics for each investment strategy on a short-term (6 years) basis. In this appendix, we have also provided those metrics over the medium-term (12 years) and long term (30 years). For each strategy, projections have been produced on a consistent basis, and assume the proposed methodology and assumptions apply throughout the projection period.

Appendix 4
Continued

Projected Technical Provisions funding position – 12-year time horizon (£bn)

Investment strategy	Lower risk	Current VIS	Higher Risk
1st percentile	-5	-15	-23
5th percentile	5	-2	-9
25th percentile	23	22	21
50th percentile	37	41	46
75th percentile	52	65	79
95th percentile	77	106	142
99th percentile	99	143	197

Projected Technical Provisions funding position – 30-year time horizon (£bn)

Investment strategy	Lower risk	Current VIS	Higher Risk
1st percentile	-14	-26	-40
5th percentile	14	5	-5
25th percentile	55	61	65
50th percentile	94	120	148
75th percentile	145	205	280
95th percentile	240	373	571
99th percentile	347	570	930

Modelled outcomes on proposed TP basis: Current Contribution Rate (20.6%)

Current Rate (20.6%): 12-year time horizon

Investment strategy	Lower risk	Current VIS	Higher Risk
Likelihood of deficit	2%	6%	10%
Likelihood of contributions needing to rise	2%	5%	8%

Current Rate (20.6%): 30-year time horizon

Investment strategy	Lower risk	Current VIS	Higher Risk
Likelihood of deficit	2%	4%	6%
Likelihood of contributions needing to rise	3%	4%	6%

Modelled outcomes on proposed TP basis: 2026 FSC (16.4%)

2026 FSC (16.4%): 12-year time horizon

Investment strategy	Lower risk	Current VIS	Higher Risk
Likelihood of deficit	6%	10%	13%
Likelihood of contributions needing to rise	7%	10%	14%

2026 FSC (16.4%): 30-year time horizon

Investment strategy	Lower risk	Current VIS	Higher Risk
Likelihood of deficit	6%	9%	12%
Likelihood of contributions needing to rise	8%	10%	12%

In the tables opposite, our modelling assumes that contributions are paid at, respectively, 20.6% and 16.4% from the valuation date, over both time horizons illustrated. The results show the probabilities of a deficit or of contributions needing to rise at the end of the time horizon modelled.

The modelling allows for surplus to be drawn from in full over a 10-year period before contributions are increased.

All results are indicative. Actual outcomes will depend on future conditions and decisions taken at subsequent valuations.

Appendix 4
Continued

(iv) Interpreting the results

The metrics illustrate the trade-offs between stability, downside risk and the potential for higher long term returns.

- Strategies with lower allocations to growth assets and higher levels of liability hedging tend to deliver greater short-term stability, with deficits less likely to occur in adverse market scenarios and consequently a reduced likelihood of increases in contribution requirements. However, they offer lower upside potential to grow the surplus, particularly over the long term.
- In contrast, strategies with higher growth allocations and lower levels of liability hedging offer higher expected returns and greater potential for surplus generation over the longer term, but with increased variability in funding and contribution outcomes in the short to medium term. Consequently, for these types of strategies, the funding and contribution risks are slightly lower over the long term than they are over the medium term.

No single strategy performs best across all metrics. Improvements in one area are typically offset by less favourable outcomes in another, emphasising the need to balance competing objectives.

Please note metrics over long projection periods are highly sensitive to input assumptions including, for example, USSIM's CMEs. Moreover, the modelling assumes that no management or Trustee actions are taken over the period in question, which becomes less realistic as the modelling horizon increases or the further into the tail we look. Even though all modelling is indicative, particular caution should be exercised in these cases.

(v) Looking ahead

Most of the scenarios we have modelled project the Technical Provisions funding position to improve over time, with the potential for the Scheme to generate a material surplus under a range of outcomes. The analysis shows that how surplus is utilised has a meaningful impact on both downside risk and the stability of future contribution requirements. This highlights the importance of considering, in due course, how any such surplus should be managed, including the extent to which it is retained to support stability or used for other purposes. As stakeholder objectives are refined, consideration can be given to how different approaches to the management and use of surplus align with, and help deliver, those objectives.

The results also point to the potential role that benefit design may play in responding to funding outcomes. As part of ongoing stakeholder discussions, Conditional Indexation (CI) has been explored as one possible approach to mitigating the impacts of funding volatility. As highlighted in the joint stakeholder reports published last year, this work suggests that a CI Scheme may operate more effectively when supported by a significant starting surplus, which could provide additional resilience as benefits build up in the early years.

Our further planned engagement with stakeholders will be an important part of developing these areas. This will include continued discussion with employers on investment strategy and risk trade-offs ahead of consultation on the SIP later in the valuation process, alongside consideration of approaches to surplus management and potential future benefit design options. Our aim is to support an approach aligned with stakeholder objectives and the Scheme's overall risk framework.

5 Appendix 5 – Statement of Funding Principles

Universities Superannuation Scheme (the Scheme)

This Statement of Funding Principles (SFP) sets out the policies of the Trustee of the Universities Superannuation Scheme (the Trustee) for securing that the statutory funding objective is met.

It has been prepared by the Trustee to satisfy the requirements of section 223 of the Pensions Act 2004, after obtaining the advice of Aaron Punwani, the Scheme Actuary appointed under s47 of the Pensions Act 1995. It reflects the guiding principles on risk management adopted by the Trustee. This SFP reflects the covenant support measures in place at the 31 March 2026 valuation date. The SFP will be reviewed and, if necessary, revised, before being taken into account at subsequent valuations under Part 3 of the Pensions Act 2004.

In accordance with legislation and the Scheme Rules, the Trustee has consulted with the Universities and Colleges Employers Association (UCEA) over the content of this Statement of Funding Principles.

The statutory funding objective

The statutory funding objective is that the Scheme has sufficient and appropriate assets to meet the amount required, on an actuarial calculation, to make provision for the Scheme's liabilities (the technical provisions).

Calculation of the technical provisions

Principles

The principal method and assumptions to be used in the calculation of the technical provisions are set out in the notes to this document.

In setting the technical provisions, the Trustee will consider results under a range of approaches including results on a best estimate basis as well as contingency measures.

The general principles adopted by the Trustee are that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights. The basis will include appropriate margins to allow for the possibility of events turning out worse than expected and will only be adopted after considering the Trustee's Integrated Risk Management Framework.

However, the Trustee does not intend for the method and assumptions to remove completely the risk that the technical provisions could be insufficient to provide benefits in the future. While the technical provisions are assumed to converge to a low dependency funding basis, this is intended to represent a lower but not nil level of reliance on the employers.

As part of its process for choosing the assumptions and determining the size of the margins to include, the Trustee makes an objective assessment of the employer covenant and the level of risk present in the investment strategy of the Scheme.

The low dependency funding basis and the relevant date

The Pension Schemes Act 2021, the Funding and Investment Regulations 2024 and the Pensions Regulator's "Defined benefit funding code of practice" introduce a requirement for the technical provisions to be at or above those calculated on a low dependency funding basis by no later than the end of the scheme year in which the Scheme is expected to reach significant maturity. This requirement is integrated into the technical provisions, which are assumed to converge to the low dependency funding basis over time rather than the low dependency funding basis being an additional standalone funding objective.

Under a low dependency funding basis, if fully funded and invested in a low dependency investment allocation (see below), no further employer contributions would be expected to be required.

The low dependency funding basis will use a method and assumptions consistent with technical provisions other than the choice of discount rate. The low dependency discount rate will reflect a low dependency investment allocation, which for technical provisions purposes is assumed to apply from a future date known as the "relevant date". The relevant date is set by the Trustee and must be no later than the point that the Scheme is expected to reach significant maturity. The choice of the relevant date will be informed by the Trustee's view of the covenant and practical considerations relevant to de-risking the investment strategy.

The low dependency investment allocation is a notional investment strategy assets whereby the assets of a scheme are invested in such a way that the value of the assets relative to the value of the scheme's liabilities is highly resilient to short-term adverse changes in market conditions so that further employer contributions are not expected to be required to make provision for the scheme's liabilities.

Reflecting that the Scheme remains open to new entrants and to new accrual, the assessment of significant maturity will include allowance for new entrants and new accrual of benefits. This has the effect of increasing the investment time horizon and results in the point that the Scheme is expected to reach significant maturity and therefore low dependency being later.

As USS is an open scheme with a stable membership profile, the investment strategy we expect to implement in practice is expected to remain reasonably stable over time as retiring members are replaced by new entrants to the Scheme. This means that whilst the Scheme remains open to new entrants with a stable membership, we expect that at each valuation the assumed de-risking in the notional journey plan would be deferred.

Appendix 5
Continued

Self-sufficiency basis

Under the Trustee's Integrated Risk Management Framework (IRMF) the Trustee will have regard to the self-sufficiency basis when setting the technical provisions basis. Self-sufficiency is a low-risk strategy for funding the Scheme in the absence of a covenant. It corresponds to a very high confidence level of both being able to pay all benefits when they fall due without the need for any additional contributions, and also maintaining a high funding ratio. Whilst there are some similarities between self-sufficiency and low dependency, there are two key differences. Firstly, self-sufficiency is not a target level of funding, but rather it provides a benchmark from which the level of reliance on the employer covenant can be measured at any point in time. Secondly, the self-sufficiency basis is considered at the valuation date rather than with reference to the relevant date.

The Trustee takes into account its IRMF, which considers the difference between the self-sufficiency basis and the technical provisions basis in order to ensure that it is within a range that is considered acceptable.

The Trustee considers the difference between the assets held and the self-sufficiency liabilities as another key risk measure in the IRMF.

The key differences between the assumptions used for the self-sufficiency basis and the technical provisions assumptions are summarised in the notes to this document.

2026 valuation

The Trustee's approach to the actuarial valuation at 31 March 2026 adopts a term structure discount rate that makes explicit assumptions on the notional transition from the current investment strategy to the low dependency investment allocation as the Scheme matures (the "Journey Plan") including convergence to the low dependency funding basis as described above. This differs to that adopted for the valuation at 31 March 2023, which used dual discount rates i.e. different rates for the period before and after members are assumed to retire.

The Trustee's IRMF has been adopted for this valuation as used previously, with updated assumptions where relevant, alongside additional contingency metrics. The IRMF is designed to ensure that the reliance on the covenant remains within employers' aggregate risk capacity, and within the risk appetite of the Trustee and the employers.

The input assumptions to the valuation have been considered carefully in light of the market conditions around 31 March 2026. The Trustee is satisfied that they are appropriate for that date, but the Trustee would not necessarily expect to adopt the same assumptions and parameters for calculations at different dates.

Policy on discretionary increases and funding strategy

The Trustee has certain discretionary powers under the Scheme Rules to provide altered, increased, additional or new benefits to or in respect of any member, former member or other person. No allowance has been included in the assumptions for paying discretionary benefits or making increases to benefits that are not guaranteed under the Scheme Rules.

There are no funding objectives provided for in the rules of the Scheme or which the Trustee has adopted in addition to the Statutory Funding Objective.

Rectifying a failure to meet the statutory funding objective

If the assets of the Scheme are less than the technical provisions at the effective date of any actuarial valuation, a recovery plan will be put in place, which may require additional contributions to meet the shortfall. The Trustee will start from the principle that steps will be taken to rectify any funding shortfalls as soon as the employers can reasonably afford.

Additional contributions have previously been expressed as a percentage of pensionable payroll.

In determining the actual recovery plan period at any particular valuation, the Trustee will take into account the following factors:

- The impact of the recovery plan on the sustainable growth of the employers.
- The size of the funding shortfall and the Scheme's current asset and liability structure.
- The risk profile, liquidity requirements and the age profile of the members.
- The Trustee's future investment strategy, as set out in the Statement of Investment Principles.
- The Trustee's objective assessment of the financial covenant of the employers.
- Investment market conditions at the valuation date.
- The Trustee's objective assessment of the affordability of contributions for employers – in some circumstances this may lead to a recovery plan structure where contributions increase over time to allow employers time to plan for increases.

Where necessary, the Trustee expects to adopt a recovery plan appropriate for the circumstances of the Scheme, the covenant support, the prevailing market conditions and the regulatory environment at the time.

At 31 March 2026, the Scheme's assets exceeded the technical provisions and as such no recovery plan was needed.

Calculating the normal cost of the Scheme

The cost of benefits accruing by members after the valuation date will be calculated using the method and assumptions set out in the notes to this document.

Contributions payable to the Scheme

The contributions payable to the Scheme by members and employers will be set out in the Schedule of Contributions following each valuation.

Appendix 5
Continued

Arrangements for other parties to make payments to the Scheme

There is no provision except in specific, limited circumstances in the Scheme Rules to allow someone other than the employers or a Scheme member to make contributions to the Scheme and no such arrangements are currently in place.

Policy on reduction of cash equivalent transfer values (CETVs)

At each valuation, the Trustee will ask the actuary to report on the extent to which assets are sufficient to provide CETVs for all members. If the assets are insufficient to provide 100% of benefits on that basis, so that payment of full CETVs would adversely affect the security of the remaining members' benefits, and the employers are unable or unwilling to provide additional funds, the Trustee will consider reducing CETVs as permitted under legislation.

At the 2026 actuarial valuation date, the actuary has confirmed that the assets are sufficient to provide 100% of benefits on the CETV basis.

If, at any other time, the Trustee is of the opinion that payment of CETVs at a previously agreed level could adversely affect the security of the remaining members' benefits, the Trustee will commission a report from the Scheme Actuary and will use the above criteria to decide whether, and to what extent, CETVs should be reduced.

Payments to the employer

There is no provision in the Scheme Rules for employers to receive a refund of any assets other than in the circumstance where the Scheme is being wound up and there are excess assets over the cost of buying out benefits of all beneficiaries with an insurance company.

GMP Equalisation

As a result of the court ruling in respect of the Lloyds Banking Group Pension Schemes, schemes are required to equalise benefits taking account of Guaranteed Minimum Pensions accrued between 17 May 1990 and 5 April 1997. There is no explicit allowance for this in the 2026 actuarial valuation and any additional funding costs required to uplift benefits will be met by either the Scheme's assets or future contributions. Owing to the benefit structure of the Scheme it is expected that any such costs will be immaterial in the context of the Scheme as a whole.

Frequency of valuations and circumstances for extra valuations

Subsequent valuations will in normal circumstances be carried out every three years. In intervening years, an actuarial report will be produced.

The Trustee will monitor the funding level on a regular basis between valuations in order to determine what action, if any, it needs to take. If the Trustee decides that it is appropriate, it may commission a full actuarial valuation when, after considering the Scheme Actuary's advice, it is of the opinion that it is necessary to do so and is an effective use of its resources.

This Statement of Funding Principles, revised from [date], has been agreed by the Trustee of the USS after obtaining advice from the Scheme Actuary and having consulted with UCEA.

Signed on behalf of the Trustee of the Scheme	
Name	
Position	
Revised and effective from date	

Appendix 5
Continued

Notes to Statement of Funding Principles

Method and assumptions used in calculating the technical provisions

Summary of decisions made as to method and key assumptions used for calculating technical provisions as at 31 March 2026

The method used was the Projected Unit method.

Principal actuarial assumptions for technical provisions at 31 March 2026

Market derived price inflation	In line with the difference between Fixed Interest and Index-Linked gilt yield curves
Price inflation – Retail Prices Index (RPI)	Market derived price inflation
RPI / CPI gap	1.0% p.a. to 2030, reducing to 0.2% p.a. from 2030 onwards
Price inflation – Consumer Prices Index (CPI)	RPI assumption less the RPI / CPI gap with allowance for published inflation from September 2025 to February 2026 being the most recent month's published inflation as at 31 March 2026 The single equivalent of this assumption is approximately 3.1% p.a.
Discount rate: Construction of the term dependent discount rate	• The initial discount rate applies for 30 years • The long term discount rate applies from time 40 onwards • The transition from the initial discount rate to the long term discount rate happens over the period starting at time 30 and ending at time 40 in annual steps. • For the purpose of setting the discount rate the Valuation Investment Strategy (VIS – see below) is decomposed into two component allocations as follows • Return Oriented Component Allocation (ROCA); This is 63.6% for the initial period transitioning to 0% for the long term allocation • Low Dependency Investment Allocation (LDIA); This is 36.4% for the initial period transitioning to 100% for the long term allocation
Term dependent discount rate on the respective components	• CPI inflation curve + 3.83% p.a. for ROCA • Fixed interest gilt yield curve + 0.6% p.a. for LDIA The full blended curve is set out in the Appendix The single equivalent of the discount rate assumption is approximately Gilts + 1.1% p.a.
Pension increases (all subject to a floor of 0%)	Using Black's model with a volatility of 1.75% p.a. The values are determined year on year and the full curves are set out in the Appendix At the valuation date this produces the following adjustments to single equivalent CPI for the key benefits: • Benefits with no cap: CPI + 3bps • Benefits subject to a "soft cap" of 5% (providing inflationary increases up to 5%, and half of any excess inflation over 5% up to a maximum increase of 10%): CPI- 4bps
Mortality base table	99% of S4PMA "light" for males and 89% of S4NFA for females
Future changes to mortality rates	CMI_2025 with a smoothing parameter of 7.0, an initial addition of 0.75% p.a., a one-year half-life, adjusted for ages over 80 (compared with the core values, the convergence period is increased to 20 years for ages from 80 to 100, then tapering to nil by age 120) and a long term improvement rate of 1.5% p.a. for both males and females

Appendix 5
Continued

The derivation of these key assumptions and an explanation of the other assumptions to be used in the calculation of the technical provisions are set out below.

The assumptions set out in the table above reflect the market conditions at 31 March 2026. The derivation of assumptions at other dates (in particular the discount rates relative to gilt yields or CPI, future CPI price inflation, and the pension increase assumptions relative to CPI), consistent with the funding principles, may be different at other dates.

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit method with a one-year control period.

Financial assumptions
The financial assumptions shall be determined using a 'yield curve approach', with different assumptions applying at different points in time, reflecting the term structure of financial instruments. The particular approach to be used in determining each of the financial assumptions is set out below.

Inflation (CPI and RPI)
The assumption for the rate of change in the Retail Price Index (RPI) will be derived from the difference between an estimate of the yields available on conventional and index-linked UK Government bonds appropriate to the date of each future cash flow (extrapolated for cashflows beyond the longest available gilts using a broadly constant forward rate). No deduction is made in respect of an inflation risk premium.

The assumption for the rate of change in the Consumer Prices Index (CPI), is the RPI assumption less the expected difference between RPI and CPI (1.0% p.a. until 2030 and 0.2% p.a. thereafter).

In both RPI and CPI, realised inflation over the period from the most recent pension increase date to the most recent month's published inflation is allowed for in determining the inflation curve.

For the self-sufficiency basis at the 31 March 2026 valuation, CPI will be derived in the same way as for the technical provisions.

Discount rate
The Trustee currently invests Scheme assets in a mix of growth and matching investments. For the purposes of the valuation, a theoretical but investible investment strategy is specified, referred to as the Valuation Investment Strategy (VIS), which is calibrated to the Trustee's risk appetite and return objective.

Under the new funding regime, the Trustee is required to set a notional journey plan. This journey plan is hypothetical and assumes that the initial assets are held for a period and then are de-risked over time to the "Low Dependency Investment Allocation" (LDIA).

The LDIA is notional, rather than reflecting or dictating how the Trustee actually expects the Scheme's assets to be invested in future.

This leads to there being four key parameters for the discount rate structure:

- Initial discount rate.
- The period the initial discount rate is assumed for.
- The long term discount rate.
- The point in time from which the long term discount rate applies.

The discount rates for technical provisions reflect a prudent allowance for future investment returns on the VIS and the LDIA, taking into account the Trustee's Integrated Risk Management Framework (and in particular the strength of the covenant).

1. The Initial Discount Rate
The initial discount rate is set by considering prudent returns on the VIS. This ensures that the method captures the benefits of rebalancing and diversification of holding a mix of matching and growth assets within the VIS. At the 2026 valuation this initial discount rate is equivalent to the best estimate return on the VIS – 1.1% p.a. Whilst the overall expected return on the VIS is based on the whole portfolio, for the purposes of the discount rate assumption, this is decomposed in two parts.

- Low dependency investment allocation (LDIA) – To reflect the bond-like assets within the VIS that mirror the allocation we would hold in low dependency. LDIA expected returns are measured relative to gilts.
- Return oriented component allocation (ROCA) – To reflect the rest of the portfolio, predominantly the return-seeking assets that are expected to have inflation-like returns over the long term. ROCA expected returns are measured relative to CPI.

The two prudent discount rates are derived differently. The discount rates for the 2026 valuation are set out below:

- For the ROCA component: this is determined as best estimate minus 0.84% p.a. where the best estimate is CPI + 4.67% p.a.
- For the LDIA component: this is determined as best estimate minus 0.74% p.a. where the best estimate is Gilts + 1.34% p.a. This is in line with the long term discount rate, described in 3 below, and is influenced by the outcome of the Trustee's tests of high resilience to changes in financial markets (a necessary condition for low dependency under the scheme funding regime).

The ROCA discount rate is set in order to achieve an appropriate overall discount rate for the VIS when aggregated with the LDIA.

2. The period the initial discount rate is assumed for
The Trustee has determined that the period for the initial discount rate should be set at 30 years from the valuation date, equal to its view on the covenant Reliability Period.

3. The long term discount rate.
The long term discount rate is also used as the LDIA component of the initial discount rate. It is a prudent discount rate consistent with an assumption of having fully transitioned to the low dependency investment allocation. At the 31 March 2026 valuation is set as Gilts + 0.6% p.a. This is the discount rate used for the low dependency funding basis.

4. The point in time from which the long term discount rate applies.
The point in time from which the long term discount rate applies, known as the "relevant date" must be no later than the end of the scheme year in which the Scheme is expected to reach significant maturity. With no allowance for new entrants or future accrual, this would be 30 years from the valuation date. An open scheme can make allowance for both future accrual and new entrants joining the Scheme. The Trustee has determined that an allowance of 10 years of new entrants and future accrual is used when considering significant maturity, which extends this point to 40 years from the valuation date.

Appendix 5
Continued

The Trustee has determined that the relevant date is set at 40 years from the valuation date. This is consistent with the period of covenant longevity whilst also producing an assumed journey plan that reflects the practical limitations on moving the assets to those required for the LDIA component, i.e. this is assumed to take place over the 10-year period between the 30-year period the initial discount rate is assumed for and time 40.

Other discount rate considerations
The transition from the initial discount rate to the long term discount rate is assumed to happen over the 10-year period starting at time 30 and ending at time 40 in annual steps.

The discount rates above have been determined at 31 March 2026 taking into account market conditions at that date. The Trustee's decisions reflect the covenant support package in place. A consistent approach at other dates could be expected to result in different deductions relative to the appropriate measure, to reflect changes in the Trustee's expectations of future investment returns. Adjustments may also be applied if indicated by the Trustee's Integrated Risk Management Framework. The time horizons for the initial and long term discount rate will be reevaluated at future dates.

If, following a review of the investment strategy, there are consequential changes to the Statement of Investment Principles after completion of the valuation, the discount rates may also change at subsequent funding updates.

For the "Self-sufficiency" basis the discount rate assumes a margin of 0.3% p.a. added to the gilt curve at 31 March 2026. This reflects market conditions and a range of relevant factors including the level of credit spreads available at that date and may be expected to be different at other dates.

Pension increases
All pension increases in the Scheme are subject to a minimum of zero. Pension increases apply on each 1 April based on inflation to the previous September, with various caps depending on the period the benefit was accrued.

The adjustments to the future inflation assumption in respect of different caps applicable to subsequent increases are determined using the Black Model with a volatility assumption of 1.75% p.a.

Summary of the financial assumptions
The Appendix contains a table showing the year-by-year value of the discount rate and pension increases assumptions at 31 March 2026.

Demographic assumptions
Mortality
The mortality assumptions are based on scheme-specific experience analysis and are expressed as liability-equivalent adjustments to standard tables published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables are as follows:

Base tables
- Males: S4PMA "Light" with 99% weighting
- Females: S4NFA with 89% weighting

Allowance for changes in mortality rates (to be applied to base tables)
Using CMI_2025 with smoothing parameter 7.0, initial addition 0.75% p.a., a one-year half-life and adjusted for ages over 80 (compared with the core values, the convergence period is increased to 20 years for ages from 80 to 100, then tapering to nil by age 120) and a long term rate of improvement in mortality rates of 1.5% p.a.

Early retirement
The allowance for early retirements will reflect emerging experience of retirements as monitored at each actuarial valuation and any adjustment for future expectations which is considered appropriate. For the 31 March 2026 valuation, it has been assumed that ex-final salary active members will retire in line with the following decrement table. Benefits relating to service accrued prior to 1 October 2011 are assumed to be paid with no reduction, and allowances have been made for benefits accrued between October 2011 and September 2020 to be reduced by reference to the payable age of 65, and for benefits accrued from October 2020 to be reduced by reference to the payable age of 66.

Age	% leaving per annum
60	30
61	10
62	15
63	15
64	20

Other members of the Scheme who have service prior to October 2020 are assumed to retire at 65 in respect of accrued liabilities and allowance is built in for the appropriate adjustment to each relevant tranche of benefit applicable to members in line with the benefit age or associated contractual pension age.

Members who only have service accruing from October 2020 are assumed to retire at 66.

Future service benefits use a different assumption, as defined later in this document.

Ill health retirement
A small proportion of the active members will be assumed to retire owing to ill health. As an example of the rates assumed at the valuation with an effective date 31 March 2026, the following is an extract from the decrement table used:

	% leaving per annum	
Age	Males	Females
35	0.01	0.01
45	0.04	0.05
55	0.14	0.25

Appendix 5
Continued

Withdrawals
This assumption relates to those members who leave the Scheme with an entitlement to a deferred pension. It has been assumed that active members will leave the Scheme at the following sample rates:

Age	% leaving per annum
25	20.11
35	10.02
45	5.64

Commutation
No allowance has been made for the option that members have to commute part of their pension at retirement in return for an additional lump sum (or indeed exchange part of their additional lump sum for pension) on the basis that the overall effect of these options is not expected to be material to the Scheme.

Cash equivalent transfer values
No allowance has been made for deferred members to take a cash equivalent transfer value from the Scheme.

Proportion of beneficiary pensions payable and age difference
It has been assumed that a proportion of members will have an eligible beneficiary at the time of death based on bespoke scales derived from the 2018 ONS data for co-habiting couples.

Sample rates as shown in the table below.

	% spouse / partner	
Age	Males	Females
45	80.5	66.3
55	80.1	65.0
65	77.7	59.3
75	74.7	45.8
85	68.6	22.3

The surviving beneficiary of male members is assumed to be four years younger, on average, than the deceased Scheme member, and the beneficiary of female members one year older.

Expenses
Expenses including any PPF Levies are met by the fund. A provision for this is included by adding 0.5% of salary to the total contribution rate. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

An allowance in the technical provisions is made for expenses (other than investment expenses) from the relevant date onwards. The allowance made at the 2026 valuation is an expense reserve of £0.1bn in the technical provisions.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual is calculated using the projected unit method with a 1-year control period. The same assumptions as those used to calculate the technical provisions are adopted, with the exception of retirement age and no allowance for known inflation is made in the first year.

Benefits currently being accrued are assumed to be payable from 66 increasing to 67 in line with the change to the Scheme's Normal Pension Age which takes place during the inter-valuation period with an effective date of 6 March 2028.

Appendix 5
Continued

Appendix

The table below shows the term dependent blended discount rate and pension increases assumptions at 31 March 2026 determined in line with this Statement of Funding Principles.

Time	Discount rate	CPI benefits with no cap	CPI benefits with a "soft cap"
0	7.84%	3.87%	3.55%
1	5.75%	3.66%	3.54%
2	5.74%	2.34%	2.31%
3	5.78%	2.35%	2.32%
4	6.09%	2.73%	2.68%
5	6.38%	2.98%	2.92%
6	6.50%	2.99%	2.93%
7	6.64%	3.03%	2.97%
8	6.77%	3.09%	3.03%
9	6.88%	3.16%	3.09%
10	6.97%	3.23%	3.15%
11	7.04%	3.27%	3.19%
12	7.08%	3.30%	3.21%
13	7.10%	3.31%	3.23%
14	7.11%	3.32%	3.24%
15	7.10%	3.31%	3.23%
16	7.07%	3.29%	3.21%
17	7.04%	3.27%	3.19%
18	7.00%	3.24%	3.16%
19	6.95%	3.21%	3.13%
20	6.90%	3.18%	3.10%
21	6.84%	3.14%	3.07%
22	6.79%	3.12%	3.05%
23	6.72%	3.09%	3.02%
24	6.67%	3.06%	3.00%

Time	Discount rate	CPI benefits with no cap	CPI benefits with a "soft cap"
25	6.61%	3.04%	2.98%
26	6.56%	3.03%	2.97%
27	6.51%	3.02%	2.96%
28	6.46%	3.01%	2.95%
29	6.41%	3.01%	2.95%
30	6.31%	3.02%	2.96%
31	6.18%	3.03%	2.97%
32	6.04%	3.04%	2.97%
33	5.89%	3.06%	2.99%
34	5.73%	3.08%	3.02%
35	5.55%	3.11%	3.04%
36	5.35%	3.14%	3.07%
37	5.14%	3.17%	3.10%
38	4.92%	3.21%	3.14%
39	4.69%	3.25%	3.17%
40	4.43%	3.29%	3.21%
41	4.33%	3.34%	3.25%
42	4.23%	3.40%	3.31%
43	4.14%	3.45%	3.35%
44	4.05%	3.50%	3.40%
45	3.95%	3.56%	3.45%
46	3.87%	3.63%	3.51%
47	3.80%	3.67%	3.55%
48	3.78%	3.68%	3.56%
49	3.78%	3.68%	3.56%

Numbers shows are 1-year forwards for the first 50 years, in respect of the Technical Provisions.

6 Appendix 6 – Glossary and useful links

2026 valuation: The formal valuation exercise being carried out with a valuation date of 31 March 2026.

Affordable Risk Capacity (AffRC): The main covenant-related input to the Scheme's IRMF. It sets a limit for the total amount of risk that we are comfortable employers can support. It is our estimate of the financial resources that employers are willing and able to commit to the Scheme over and above future service contributions, to underwrite risk in the Scheme to eliminate a deficit if required.

Asset-Liability Modelling: A financial modelling tool that shows the range and likelihood of potential future outcomes for assets and liabilities from a given investment strategy, or variety of strategies. The Trustee commissions modelling from USSIM, who licence software from Ortec Finance, an external provider.

Assets: The investments the Scheme owns, like shares, property, and government bonds. Assets generate the money we need to pay benefits and expenses now and in the future. 'Assets' can also mean the total value of our investments as a figure in pounds.

Best Estimate: A measure assuming no margins for prudence. On this basis there is expected to be an equal chance of experience turning out to be worse or better than assumed.

Capital Market Expectations (CMEs): USSIM's Best Estimate central expectations of future investment returns for each asset class relevant for the Scheme, including equities, bonds and property.

Closure metric: This metric quantifies the impact on the Technical Provisions of the flexibilities available to open schemes under the new funding regime. It illustrates how the funding position would change if the Scheme were assumed to be closed to future accrual at the valuation date, with no allowance for future accrual or new entrants when determining the point of significant maturity, and all else equal.

Collateral: Security required to be made available to counterparties when using leverage in the Scheme's investment strategy. The use of leverage in portfolio construction brings additional liquidity risks and requirements as these collateral demands can change over short periods when market levels change.

Confidence level: The probability that future experience is in line with, or better than, our assumptions.

Contribution Determination: The determination made by the Trustee following receipt of the Rule 76.1 Report where either an increase or decrease in the aggregate contribution rate payable by employers is required. If a change to the overall contribution rate is required, the Trustee will issue a notice to the JNC.

Contribution rate: The required level of contributions determined by the Trustee that members and employers are required to pay into the Scheme. The contribution rate will be informed by, but need not be set equal to, the Future Service Cost.

Cost-sharing process: The process under the Rules that is engaged following receipt by the JNC of a copy of the Rule 76.1 Report and notice of the Trustee's Contribution Determination. The JNC will have up to 3 months (or such longer period as the Trustee may allow) to decide how any increase or decrease in contributions required is to be addressed, whether by changes to the future benefit structure, changes to member and employer contributions or both. To the extent the JNC does not make a decision the default cost-share provision would apply. This pre-set position would require the decrease (or increase) in the overall contribution rate to be split 35%:65% between members and employers respectively.

Covenant: The legal obligation and financial ability of employers to financially support the Scheme now and in the future. When the Scheme takes risk, it is relying on the covenant for support. If any of those risks materialise, for example, investment returns are lower than we expected then the covenant needs to be sufficiently strong for the shortfall to be made good.

- **Period of Covenant Reliability:** Under the new DB Funding Regulations, this is the timeframe over which the Trustee can be reasonably certain of the employers' available cash flows to fund the Scheme.
- **Period of Covenant Longevity:** Under the new DB Funding Regulations, this is the timeframe over which the Trustee can be reasonably certain that the employer will be able to continue to support the Scheme.
- **Covenant Horizon:** This is the period over which the Trustee can reasonably rely on the ongoing financial support of the employers. It is the basis for the Trustee's calculation of Affordable Risk Capacity.

Covenant Support Measures: The Covenant Support Measures are a package of arrangements introduced following the 2020 valuation to strengthen and evidence employer covenant support. They include: a 20-year moratorium on employers exiting the Scheme and a debt monitoring framework including pari passu security arrangements, designed to monitor employer borrowing and provide a mechanism for engagement where borrowing exceeds agreed thresholds.

DC contribution element: The portion of the overall contribution rate attributable to DC benefits on salary above the salary threshold, calculated by applying the 20% DC rate to that pay and averaging the resulting cost across total payroll.

Deficit recovery contributions (DRC): The contributions required to help repair any funding shortfall (deficit) in the Technical Provisions identified by a valuation.

Defined Benefit (DB): A type of pension scheme where members' benefits are defined according to a combination, typically, of their salary and length of service. The USS Retirement Income Builder is an example of a DB pension arrangement.

Defined Contribution (DC): A type of pension scheme where members' and employers' contributions are invested, and the proceeds used to buy a pension and/or other benefits at retirement. The value of the ultimate benefits payable depends on the amount of contributions paid, the investment return achieved less any fees and charges, and the cost of buying the benefits. The USS Investment Builder is an example of a DC pension arrangement.

Appendix 6
Continued

Dependency: The gap between the Technical Provisions and self-sufficiency. It is used as part of the suite of metrics used to inform the degree of prudence included in the Technical Provisions.

Discount rate: The rate of interest that is applied to all the benefits that members have already been promised to calculate their present-day value and applied to the benefits members may earn in the future to identify the required contribution rate for future service. We work out this rate using a forecast of investment returns and a margin for prudence.

- **Term Structure Discount Rate:** An approach to setting the Technical Provisions discount rate where different discount rates are applied to future expected cashflows at different points in time. This reflects how the Scheme's investment strategy – and therefore expected returns and risk – are expected to evolve over time.
- **Initial Discount Rate:** The discount rate applied during the initial period of the Journey Plan, when it is assumed Scheme assets remain invested in line with the Valuation Investment Strategy (VIS).
- **Long Term Discount Rate:** The discount rate applicable later in the Journey Plan, once the Scheme is assumed to have reached Significant Maturity, reflecting the Low-Dependency Investment Allocation (LDIA).
- **Dual Discount Rate (DDR):** The approach used for setting the Technical Provisions discount rate at the 2020 and 2023 valuations. A DDR approach uses one discount rate to value the benefits in payment (in respect of members when they have retired) and another for benefits for the period before they come into payment (in respect of active and deferred members before they retire).

Duration: A measure of scheme maturity, calculated as the weighted average time until future pension benefits and cash flows (in respect of accrued benefits) are expected to be paid, with the discounted value of the cash flows used as weights.

Employers: The sponsoring employers of USS – the institutions whose employees or ex-employees are members (or prospective members) of USS.

Escape route metric: This metric measures the likelihood, following the hypothetical closure of the Scheme to future accrual, of being fully funded on a self-sufficiency basis at a specified point in the future, assuming gradual de-risking and including allowance for any remaining Affordable Risk Capacity at that point.

Funding and Investment Strategy (FIS): This sets out how the Trustee plans to fund the Scheme and invest its assets to meet the long term objective. It forms Part 1 of the Statement of Strategy and includes the approach to Technical Provisions, the Journey Plan, and how the investment strategy is assumed to evolve over time. The FIS must be set following consultation with UCEA.

Future Service Cost (FSC): The cost (expressed as a percentage of salaries) of benefits expected to accrue in the future under the current benefit structure, based at this valuation on the assumptions underlying calculation of the Technical Provisions. The FSC is a mechanical calculation based on the specified assumptions set by the Trustee, whereas the contribution rate payable may take into account a range of additional factors.

Growth Assets: Investments expected to deliver higher long term returns (relative to the value of the liabilities) with greater variability of outcomes.

Hedge ratio: A measure of the degree of expected hedging of a particular liability-side risk (such as interest rate or inflation risk) present within a portfolio. A hedge ratio of 100% would indicate that the portfolio would be expected to be perfectly immunised against a particular risk (for small movements).

Hedging: Taking an investment position intended to offset potential movements in the value of the Scheme's liabilities.

Illiquidity Premium: This is the additional return that investors expect to receive for holding assets that are harder to sell or take longer to realise (i.e. are less liquid).

Inflation Assumptions (CPI / RPI): Assumptions about future inflation levels, affecting benefit increases and the value of the liabilities.

Integrated Risk Management Framework (IRMF): The framework the Trustee uses to manage the risks associated with Scheme funding. It brings together three key areas: funding, investment and the employer covenant.

Joint Negotiating Committee (JNC): A body responsible for decisions on benefit design and on the contribution split between members and employers. It comprises an equal number of employer (UCEA) and member (UCU) representatives, and an Independent Chair.

Journey Plan: The Trustee's plan that sets out how the Scheme is expected to progress from the current investment strategy to a low dependency investment allocation by the Relevant Date.

Liabilities: An estimate of the money that the Scheme needs to pay the benefits that members have built up so far. When talking about scheme funding, we express liabilities as the present value of the money we will have to pay out from the valuation date onwards.

Liability-Driven Investment (LDI): An investment strategy commonly used by many DB pension schemes with the aim of reducing volatility in scheme funding levels by investing in assets whose value moves in the same direction as that of the scheme's liabilities.

Leverage: An investment strategy of using borrowed money to increase the underlying portfolio exposure to a particular investment.

Listed Changes: Certain types of benefit and/or contribution change proposals that would require a statutory 60-day consultation process with affected employees and their representatives. Examples of listed changes include reductions in the level of future service benefit accrual, increases in employee contributions and changes in the nature of the pension benefit (for example between defined benefit and defined contribution).

Long Term Objective (LTO): Under the new funding regime, this is the Trustee's objective for how the Scheme's benefits will be provided over time, typically a choice between running on or arranging for another party, often an insurer, to provide the benefits. The LTO is set out in the Statement of Strategy and consulted on with the employers.

Low Dependency Funding Basis: Under the new funding regime, this is the actuarial basis used in conjunction with the Low Dependency Investment Allocation such that, if fully funded, no further employer contributions would be expected to be required. The Scheme is required to target being fully funded on the low-dependency funding basis by the time it reaches the Relevant Date.

Appendix 6
Continued

Low Dependency Investment Allocation (LDIA): Under the new funding regime, this is a notional low risk investment strategy assumed to apply from the Relevant Date to support a Low Dependency Funding Basis and minimise reliance on employers. It reflects a notional investment strategy whereby the value of the assets relative to the value of the Scheme's liabilities is highly resilient to short term adverse changes in market conditions.

Matching Assets: Investments intended to move broadly in line with the Scheme's liabilities, reducing funding volatility.

Maximum Affordable Contributions: The level of cash over the Reliability Period that could be paid to the Scheme, if required, to remedy any deficit from a downside scenario.

Mortality Assumptions: Assumptions about life expectancy of members, affecting the duration and cost of benefit payments.

Member Consultation: Employer-led consultation with affected employees and their representatives where certain benefit and/or contribution changes are being proposed by the JNC. For certain types of benefit and contribution changes ('listed changes'), a statutory 60-day consultation process is mandatory.

New Funding Regime: The new funding regime is the updated regulatory framework governing how defined benefit pension schemes set their new funding and investment strategies. It is established under the Pension Schemes Act 2021 and supporting regulations, and came fully into force on 22 September 2024, alongside the Pensions Regulator's revised funding code.

Prudence: Taking a margin on the cautious side of the best estimate of future experience. The outcome of this is that the chance of experience being better than assumed is higher than the chance of experience being worse than assumed. Prudence in the context of the proposed Technical Provisions may be achieved by including margins in some or all of the actuarial assumptions.

Relevant Date: The date set by the Trustee by which point the Scheme is expected to be fully funded on a low dependency funding basis and invested in line with its low dependency investment allocation (LDIA). It must generally be no later than the end of the Scheme year in which the Scheme reaches significant maturity.

Reliance: A measure of the extent to which the Scheme is dependent on the employers to support the funding and investment risk being taken.

- **Actual Reliance:** this is the current level of reliance on employer covenant given the current level of assets we hold.
- **Target Reliance:** this is the level of reliance on employer covenant when the Scheme is fully funded, that is, with assets and Technical Provisions equal.
- **Limit of reliance:** 150% of Affordable Risk Capacity.

Retirement Income Builder: The Defined Benefit (DB) section of the Scheme.

Risk appetite: Willingness to take risk in the way the pensions promised to members are funded, now and in the future, while continuing to comply with legal and regulatory obligations.

- **The Trustee's risk appetite** reflects our willingness to place reliance on the employer covenant to fund the Scheme if there is, or could in the future be, a deficit against Technical Provisions.
- **The employers' risk appetite** is the collective ability and willingness of employers to bear funding and investment risk, with potentially higher contributions required where experience turns out to be worse than assumed.

Rule 76.1 Report: The Report from the Scheme Actuary to the Trustee on the financial condition of the Scheme following an actuarial investigation and including such recommendations on contributions as the Scheme Actuary shall think fit. The Rule 76.1 Report will take account of decisions which will be made by the Trustee on assumptions and methodology having considered UCEA's feedback to this consultation. A copy of the Rule 76.1 Report will be issued to the JNC.

Run on (Open Scheme): One of the available options for a scheme's Long Term Objective. Typically, a scheme with this objective would expect to remain open to new entrants and future accrual, and in order to do so, would expect to continue to be supported by a viable employer covenant.

Salary threshold: Under the rules of the Scheme, the salary threshold is used to determine how a member's pension accrual is split between the Retirement Income Builder (DB) and Investment Builder (DC) sections. Members accrue benefits in the DB section on salary up to the threshold and in the DC section on salary above it. For 2026/27, the threshold is £74,208, which sets the point at which earnings begin to build DC benefits in addition to DB accrual.

Schedule of Contributions (SoC): The document setting out the contributions we need for any Recovery Plan plus the contributions we need to be able to fund future pension benefits being built up.

Self-sufficiency: A low-risk strategy for funding the Scheme in the hypothetical scenario where the Trustee doesn't believe it will be able to call on the employers for financial support in the future. It is intended to provide a benchmark from which the level of reliance on the employer covenant can be measured, rather than being a target level of funding.

Significant Maturity: The point at which the Scheme is expected to be predominantly pensioner focused and must be funded on a low dependency basis. For a DB Scheme such as the Retirement Income Builder part of USS, it is defined as the point at which the Duration of the Scheme's liabilities falls to 10 years.

Statement of Funding Principles (SFP): A written statement which sets out our policies on how we fund the Scheme so that we can pay all the benefits that have been promised to our members. It includes details of the actuarial assumptions we have adopted in the valuation.

Appendix 6
Continued

Statement of Investment Principles (SIP): A written statement of the investment principles governing decisions about investments. The purpose of a SIP is to set out the Trustee's investment strategy, including the investment objectives and investment policies we adopt.

Statement of Strategy: A new regulatory requirement documenting the Scheme's long term funding and investment strategy, including risk management. Trustees must prepare a written statement of strategy made up of two parts and submit it to the Regulator. Part 1 records the funding and investment strategy and Part 2 records various supplementary matters (including matters related to the journey plan, how well the funding and investment strategy is being implemented, the main risks to the strategy and how they are being managed).

Supporting Information document: A separate document [link] containing supplementary detail accompanying the consultation document.

Supportable Risk: A regulatory metric that represents Maximum Affordable Contributions plus, where applicable, the value of any contingent assets.

Surplus: A technical surplus which arises where the valuation reveals an excess of assets over the Technical Provisions at the valuation date.

Technical Provisions (TP): The target level of funding for the Scheme's liabilities built up before the valuation date. The liabilities are valued on assumptions determined by the Trustee on a prudent basis, as is required by law. They are driven by the benefits members have already earned and the actuarial assumptions we make about what will happen in the future.

Three-leg approach: One of the features of the Trustee's proposed new methodology. It provides for a broad array of results to be considered by the Trustee in reaching its valuation proposals.

- **Leg 1 – Best Estimate:** This is an assessment of the Scheme's funding position using assumptions that reflect expected outcomes, with no deliberate margin for prudence. (i.e. a 50% likelihood of being achieved).
- **Leg 2 – Technical Provisions:** This represents the formal funding basis used to determine the value of the Scheme's liabilities and FSC. It reflects regulatory requirements, including a margin for prudence and an allowance for a notional progression to a low-dependency investment allocation as the Scheme matures.
- **Leg 3 – Contingency Measures:** This is a set of additional metrics used to assess the Scheme's resilience to adverse outcomes and ensure risks remain within acceptable tolerances. These measures provide insight into downside scenarios and the Scheme's resilience to stress events by including: the Integrated Risk Management Framework (IRMF), incorporating a self-sufficiency measure; a "closure metric" to quantify the value of open scheme flexibilities assumed in the Technical Provisions; and an "escape route" style metric assessing the likelihood of achieving a low-risk funding position under adverse conditions.

Transition risk: The potential additional market and demographic risk of moving from the current funding position to self-sufficiency.

Trustee/we/our: The people responsible for the management and administration of the Scheme.

Universities and Colleges Employers Association (UCEA)/you: The representative body for employers on the JNC and which must be consulted on valuation methodology and assumptions to be used in calculating the Scheme's TP and the SFP.

University and College Union (UCU): The representative body for Scheme members on the JNC.

USS: The Universities Superannuation Scheme ("the Scheme").

USSIM: USS Investment Management Limited, the Scheme's principal investment manager and adviser to the Trustee.

Valuation: An assessment of the Scheme's financial position. It is carried out by the Trustee with the support of the Scheme Actuary, an appointed independent specialist who advises the Trustee Board, as required under the Scheme rules and by law. A valuation is a budgeting exercise that establishes a plan for how the Scheme will generate enough money to be able to pay the pensions that members are expecting, now and into the future. We must carry out formal valuations at least every three years.

Valuation Investment Strategy (VIS): A theoretical but investible investment strategy, reflecting the Trustee's risk appetite and return objectives, used to determine valuation assumptions.

Useful links

Our valuation homepage (including Supporting Information and relevant updates
https://www.uss.co.uk/about-us/valuation-and-funding/2026-valuation

TPR's DB Funding Code:
https://www.thepensionsregulator.gov.uk/media/fadho5ur/db-funding-code-of-practice.pdf

Information about Scheme investments:
https://www.uss.co.uk/how-we-invest

USS employers' website:
https://www.ussemployers.org.uk/news