USS *For members, for the future.*

Consultation for the 2026 valuation 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.

Supporting Information

USS Retirement Income Builder Section
15 July 2026

Contents

This Supporting Information document provides further technical detail on the analysis underpinning the 2026 valuation consultation.

It should be read alongside the main consultation document and the draft Statement of Funding Principles.

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The Integrated Risk Management Framework (IRMF)

This section explains how the Trustee measures and monitors risks relating to its funding and investment strategy.

Purpose of the IRMF

The Trustee manages the Scheme's funding risks through an Integrated Risk Management Framework (IRMF). The purpose of the IRMF is to bring together the three key factors that determine the security of members' benefits:

- The strength of the employer covenant;
- The level of investment risk taken by the Scheme; and
- The funding strategy adopted by the Trustee.

These factors are interconnected. A stronger covenant can support a greater degree of funding and investment risk, while higher levels of funding and investment risk generally increase reliance on the covenant. The IRMF provides a structured way for the Trustee to assess these interactions and ensure risks remain within acceptable limits.

The IRMF is part of the Trustee's overall valuation methodology, as described in Appendix 1 of the consultation document.

The IRMF uses a number of key concepts:

- Self-sufficiency: the level of funding the Scheme would need if it could no longer rely on employers for future support.
- Affordable Risk Capacity: an estimate of how much additional support employers could reasonably provide if it were needed, taking account of what they can afford and their willingness to take on risk.
- Reliance: a measure of the extent to which the Scheme is dependent on the employers to support the funding and investment risk being taken.
- Transition Risk: a measure of the market risk of moving from the current investment strategy to a self-sufficiency strategy, together with the risk of life expectancy increasing (improving) faster than assumed.
- Technical Provisions: the target level the target level of funding for the Scheme's liabilities built up before the valuation date.
- Assets: the value of the investments and other monies the Scheme holds to meet the liabilities.

Employers' ability to support the Scheme is not unlimited

The Trustee's funding strategy is based on a core principle that employer support is valuable but finite.

Employers have finite affordability and there is therefore a finite amount of risk that can be supported. As a result, the amount of reliance placed on employers cannot be unlimited. Investment risk is taken because it is expected to reduce the long-term cost of providing benefits. However, if experience is unfavourable, additional funding may be required. In those circumstances the Trustee relies on employers to support the Scheme.

The IRMF therefore seeks to ensure that:

- The reliance placed on employers remains within their aggregate capacity to support risk; and
- The level of reliance remains within the Trustee's and employers' risk appetite.

Measuring reliance and risk capacity

The Trustee measures reliance relative to a self-sufficiency funding benchmark.

Self-sufficiency represents the level of assets the Trustee would wish to hold if there were little or no future ability to rely on employer support.

As such, self-sufficiency is used as a risk benchmark and reference point, rather than a funding target that the Trustee intends to achieve in normal circumstances. It provides the basis against which the Trustee measures how much reliance is being placed on employers to support the risks being taken within the Scheme.

This is captured within the IRMF which compares reliance with the risk capacity of the employers, as described below.

Reliance – How big is any gap that employers are standing behind?

The gap between the assets we hold today (or would hold were the Scheme to be fully funded), and the level of assets where we are confident of no future recourse to employers, quantifies the level of reliance on employer support.

Two measures are monitored:

- **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.

Risk capacity – How much would employers be willing to provide if needed?

For the 2026 valuation, the Trustee proposes to continue using **Affordable Risk Capacity (AffRC)** as its primary measure of employer risk appetite and risk capacity. This is the level of affordability the Trustee believes that employers would be willing and able to provide in the event that it is needed.

Bringing this together – Are employers backing a level of risk that is affordable?

The IRMF provides a way to check that employers can realistically afford to back the level of risk, and any funding gap, within the Scheme. If the Scheme is relying on more support than employers can provide, this might suggest that the current approach is too risky and may need to be reviewed. To do this, the IRMF compares Reliance against Affordable Risk Capacity as described in the next sections.

Deriving Risk Metrics within the IRMF

For the 2026 valuation we have retained a similar approach for the risk metrics we adopt within the IRMF to that used at the 2023 valuation.

The formulae for establishing Actual and Target Reliance are given in Table 1 below and Table 2 sets out the RAG status for the IRMF metrics.

In addition to the self-sufficiency liabilities, the IRMF includes an allowance for Transition Risk. This represents the estimated cost of adverse movements in financial markets and improvements in life expectancy during a hypothetical transition from the current investment strategy to the self-sufficiency portfolio.

Table 1: Metrics within the IRMF

Metric	How the metric is calculated
Actual Reliance	Self-sufficiency liabilities + Transition Risk – Assets
Target Reliance	Self-sufficiency liabilities + Transition Risk – Technical Provisions

Table 2: Proposed IRMF metric RAG status at the valuation date

Metric	Status
Actual Reliance	● Actual Reliance < or = Target Reliance
	● Target Reliance < Actual Reliance < Limit of Reliance[1]
	● Limit of Reliance[1] = or < Actual Reliance
Target Reliance	● Target Reliance < or = 95% of Affordable Risk Capacity[2]
	● 95% of Affordable Risk Capacity < Target Reliance < 105% of Affordable Risk Capacity[2]
	● 105% of Affordable Risk Capacity[2] = or < Target Reliance

1 Limit of Reliance is defined as 150% of AffRC (consistent with the 2023 valuation).
2 The central estimate of the AffRC is used here.

Self-sufficiency as our benchmark for risk

The self-sufficiency basis is intended to represent the level of assets the Trustee would wish to hold if benefits were to be supported with minimal reliance on employer covenant.

In determining an appropriate self-sufficiency discount rate, the Trustee considered a range of evidence including investment modelling undertaken by USSIM, prevailing insurance market pricing and actuarial advice from LCP. Given the introduction of the low dependency funding framework, the Trustee also considered the desirability of aligning the self-sufficiency and low dependency assessments to a common underlying low-risk investment strategy.

USSIM advised that a self-sufficiency discount rate in the range of gilts +0.0% p.a. to gilts +0.6% p.a. could be supported by wider analysis and market conditions, with modelling using long-term steady-state assumptions producing a result close to gilts +0.3% p.a.

LCP advised that current insurance pricing appears broadly consistent with discount rates of around gilts +0.3% to +0.4% p.a. and noted that self-sufficiency would generally be expected to remain more prudent than low dependency. The reduction in credit spreads since the 2023 valuation also supports a lower margin above gilts than was adopted previously.

Taking these factors together, the Trustee has adopted a **self-sufficiency discount rate of gilts +0.3% p.a.** as at 31 March 2026.

This assumption is broadly consistent with USSIM's steady-state modelling, falls within the range identified by USSIM, and reflects LCP's view of an appropriate balance between prudence and prevailing market conditions.

For the 2026 valuation the Trustee has adopted the following notional self-sufficiency investment strategy, aligned with the LDIA as explained in the consultation document:

Table 3: Notional self-sufficiency asset allocation[1,2]

Growth assets exposure	10%
Credit assets exposure	55%
Liability hedge ratios (on a self-sufficiency basis)	100%

We are content that this investment strategy will support a self-sufficiency discount rate at 31 March 2026 of gilts + 0.3% p.a.

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. For the last valuation, a time dependent self-sufficiency investment strategy was assumed. For this valuation, a fixed self-sufficiency investment strategy is assumed, which is simpler and more transparent.

How the IRMF is used

The IRMF is used in different ways at different times:

i. As part of the formal triennial valuation – to help set an appropriate funding strategy.

ii. For regular quarterly reporting – the Trustee uses the IRMF to monitor the financial position of the Scheme in between formal valuations.

At a formal valuation

During a formal triennial valuation exercise, the IRMF guides how the Trustee's funding strategy is set and operates in the following way:

- Setting Technical Provisions (TPs): the IRMF is one of a number of inputs considered when setting the Technical Provisions.
- Covenant assessment: evaluation of the financial strength of the employers and their ability to support the Scheme in adverse economic scenarios.
- Defining Risk Appetite: the Trustee uses the IRMF to set the amount of funding and investment risk that can be taken. It ensures that the reliance placed on employer covenant is within their risk capacity.
- The IRMF also informs development of the Valuation Investment Strategy (VIS) by helping the Trustee assess the level of investment risk that can be supported by the covenant.

At a quarterly monitoring point

The Trustee also monitors the IRMF through its regular Financial Management Plan reporting process.

- Following each valuation, a Financial Management Plan (FMP) is established. This specifies how the financial position will be tracked in between formal valuations.
- Under the FMP monitoring process, each quarter we report to the Trustee on the financial development of the Scheme. Reports are also shared with stakeholders and published externally.
- Monitoring involves updating assumptions in a mechanical way to reflect movements in financial market indicators and does not replicate the detail and rigour involved in the process the Trustee would undertake at a formal valuation.
- This allows the Trustee to track developments in funding and reliance between formal valuations and identify situations where further analysis or advice may be appropriate.
- The monitoring process does not itself automatically trigger any direct Trustee action around contributions and benefits, though it can lead to advice being commissioned to determine whether any action is required prior to the next valuation.

IRMF parameters at the 2026 valuation

The values of the inputs and the metrics for the IRMF at the valuation date are given in the table below.

Table 4: The values of the inputs and the metrics for the IRMF

Input/Metric	Value
Self-sufficiency liability	£70.7bn
Transition risk	£10.0bn
Assets	£79.8bn
Technical Provisions on consultation basis	£62.9bn
Affordable Risk Capacity (central estimate)	£24.1bn
Limit of Reliance	£36.2bn
Actual Reliance	£0.9bn
Target Reliance	£17.8bn
Ratio of Actual to Target Reliance	5%
Ratio Target Reliance to Affordable Risk Capacity	74%

The low level of Actual Reliance reflects the Scheme's current surplus position. While the funding strategy assumes a degree of reliance on employer support when the Scheme is fully funded on the Technical Provisions basis, the assets held at the valuation date exceed that level, significantly reducing current reliance.

At the valuation date, both Actual Reliance and Target Reliance fall within their respective "Green" thresholds. This indicates that the level of reliance being placed on employer support is comfortably within the Trustee's current assessment of employers' aggregate risk capacity and risk appetite.

The Trustee will be considering RAG thresholds for monitoring purposes once the valuation has been agreed.

Employer covenant analysis – detailed results

This section provides further detail on the Trustee's assessment of employer covenant strength and risk capacity.

As set out in Appendix 2a of the consultation document, the Trustee has concluded that, notwithstanding a more challenging operating environment, USS employers continue to provide strong and enduring support to the Scheme.

The Trustee has also concluded that, overall, the employer covenant in 2026 is sufficient to support the funding and investment risks being taken by the Scheme.

In arriving at its assessment, the Trustee received advice from PwC, which has acted as adviser to the Trustee on both covenant and UK Higher Education sector matters.

In the consultation document we also noted that:

- The 2026 valuation is the Scheme's first under a new regulatory framework that sets new requirements for how trustees should assess employer covenant and identifies specific aspects of the employer covenant that trustees are required to conclude upon (Supportable Risk; Reliability period; Longevity period).
- The Trustee proposes to continue to use the Affordable Risk Capacity metric to incorporate employer covenant into the Scheme's IRMF and decision making, as it has done in previous valuations.

This section sets out how covenant analysis undertaken in 2026 supports both the covenant metrics required by the regulatory framework and the assumptions used to calculate Affordable Risk Capacity.

A proportionate approach to covenant assessment

320 employers participated in USS as at 31 March 2026. However, more than 90% of the aggregate income of USS employers, and more than 95% of Scheme liabilities, are attributable to the Scheme's 122 university employers.

This university group also accounted for more than 95% of Scheme payroll and, therefore, more than 95% of contributions to the Scheme. The Pensions Regulator's guidance on covenant assessment under the new funding regime starts from the position that employer support for schemes stems primarily from the contributions employers make from cash flow. Analysis of covenant for the 2026 valuation has accordingly focused on USS university employers and their prospective cash flow.

Covenant assessment is also a relative, rather than an absolute, judgement: an assessment of the extent of support that employers can provide to a scheme relative to the amount of support that a scheme requires given the amount of funding and investment risk it is carrying. The improvement in the Scheme's funding position since the 2023 valuation is therefore highly relevant to the covenant assessment, reducing the extent to which the Scheme is currently reliant on employers and the risk of a shortfall in employer support in future.

How the covenant has been assessed

The fieldwork and analysis undertaken to assess the capacity of employers to support funding and investment risk was conducted by PwC between July 2025 and May 2026. It included:

- Review and analysis of historical financial information up to and including employers' 2023/24 financial year.
- Stress testing to consider the potential impact on the USS employer covenant of a group of hypothetical employer insolvencies.
- Desktop analysis and interviews with a small sample of universities to assess the risks to the USS employer covenant from climate-related factors.
- A report from PwC's education sector advisory team assessing the UK Higher Education landscape and prospects, outlining key risks and opportunities, and providing long-term projections of income, payroll cost and financial surplus for USS university employers.
- Collection, collation, aggregation and analysis of USS universities' financial forecasts (as prepared for their respective sector regulators), in most cases covering the period to 31 July 2030. Forecasts were received from 111 institutions accounting for more than 90% of Scheme liabilities.
- Interviews with a sample of 15 universities to review current and prospective financial performance and up- and down-side sensitivities. The sample was selected to provide reasonably representative coverage of the university employer base as a whole, taking into account liabilities to the Scheme, geographic location and different university types and sizes.
- Development of long-term, aggregate financial projections for the USS university employer group (and the main segments within it). These projections formed the basis for calculating employer cash flow potentially available from employers to contribute to support the Scheme, if required. The calculation was carried out using the methodology set out in the Pensions Regulator's guidance on assessing employer covenant.

Reliability, Longevity and covenant horizon

Reliability period

The new DB Funding Code states that trustees should limit their assessment of employer capacity to support a scheme to the period over which they have "reasonable certainty" of employers' available cash flow – the Reliability period – and are required to disclose this period as part of their overall assessment of covenant.

Following advice from PwC, the Trustee has determined that it **can have reasonable certainty over the cash flows of USS employers for a period of 30 years,** based on a range of factors, including:

- The positive structural characteristics that have underpinned previous Scheme covenant assessments (the Scheme's large, diverse employer group, its joint-and-several, mutual nature, and its single contribution rate linked to eligible payroll) that mean the Scheme can rely upon continuing access to support from all employers and which mitigate the risk of individual employer failure.
- The strong position of the UK HE sector, its continuing strong global reputation (including 4 of the top 10 and 16 of the top 100 universities globally in the 2027 QS university rankings), and the ongoing importance of the sector to the UK economy and competitiveness, coupled with the Scheme's sector-wide coverage.
- The resilient outlook for USS universities provided by PwC's sector team that sees them continuing as a leading global study destination over the long term, with extensive capacity to adapt operating models and cost structures to respond to external challenges, as demonstrated during the Covid-19 pandemic and since, and backed by a strong aggregate balance sheet.
- The continuing presence and effectiveness of the package of covenant support measures introduced at the time of the 2020 valuation that mitigate the risk of employer support weakening over time as a result of employers leaving the Scheme or a deterioration of employers' aggregate financial position.

Longevity period

PwC also advises that the Trustee can have reasonable certainty that the Scheme's employers **will continue to support the Scheme for a period of at least 40 years**, albeit that there is less certainty about the quantum of support beyond 30 years.

PwC notes that the Regulator's guidance is that covenant longevity ends when trustees no longer have reasonable certainty that the employers or their market will continue. PwC considers it difficult to envisage a scenario in which the UK Higher Education sector, and the USS employer group within it, would not continue to exist in some form.

Covenant horizon

PwC notes that in previous valuations it has interpreted covenant horizon (for the purposes of calculating Affordable Risk Capacity) as "the period over which the Trustee can reasonably rely on the ongoing financial support of employers" and considers this to be closely aligned with the definition of Reliability period under the new regulatory framework.

PwC has advised accordingly that it considers **a covenant horizon of 30 years** to be reasonable, for the same reasons supporting its advice on Reliability period.

Supportable Risk

PwC has assessed the Supportable Risk of USS employers to be £147bn in undiscounted, nominal terms.

Supportable Risk represents the sum (for all USS university employers, and over the 30-year Reliability period) of the maximum contributions employers could potentially afford to make to the Scheme if required to recover a deficit in the Scheme's funding position, over and above the ongoing cost of benefit accrual.

The amount is derived from the long-term financial projections for USS employers developed together by PwC's sector and covenant teams. These were, in turn, informed by the sector team's advice on UK HE sector dynamics and outlook, and the aggregated historical financial results and forecasts shared by universities.

As noted in Appendix 2a of the consultation document, most USS employers, including most USS universities, operate on a not-for-profit basis, typically aiming to generate sufficient operating cash flow just to cover finance costs and capital investment required to support ongoing operations. This is reflected in PwC's financial projections for USS universities which anticipate USS employers in aggregate broadly breaking even in net cash flow terms over the Reliability period.

USS employer capacity to support the Scheme with additional contributions to close a deficit if required therefore comes largely from their capacity to reduce non-pension expenditure and switch it towards pension contributions. Based on feedback received from employers, the advice from PwC's HE sector team and experience from wider USS covenant monitoring activities, PwC's calculation of Supportable Risk assumes that USS universities are able to make an additional 10% of total expenditure available on a sustainable basis if required over the Reliability period.

The Regulator's methodology for calculating maximum affordable contributions requires also that allowance be made for employers' obligations to other defined benefit pension Schemes and the actual or potential need to make deficit repair contributions to those Schemes. PwC's assessment of Supportable Risk therefore assumes an appropriate proportion of employer cash flow potentially available to address deficit repair (c37% on average across all USS university employers) is allocated to other schemes.

Affordable Risk Capacity

AffRC, the present value of 10% of expected Scheme-eligible payroll over a 30-year horizon, is calculated to be £24bn as at 31 March 2026, 15% lower than at the 2023 valuation.

Affordability of contributions

Our AffRC model assumes that, in a hypothetical downside scenario in which the Scheme were closed to accrual, employers could sustainably afford pension contributions of 15% of payroll to cover ongoing retirement provision and 10% to underwrite risk or repair a deficit (25% total employer contributions). As in previous years, PwC's analysis therefore considered the affordability to employers of total contributions of 25% of Scheme payroll.

PwC's conclusion is that most USS employers have the capacity to pay total contributions of at least 25% of USS payroll (and therefore 10% to repair a deficit) over a 30-year covenant horizon. PwC's analysis suggests that most USS university employers could support an increase from the current employer contribution rate of 14.5% to 25%, if required. At an aggregate level, PwC assumes that higher contributions could be funded through reducing other expenditure by 4% or less, well within employers' capacity to reduce expenditure in most cases.

The difference in size of Affordable Risk Capacity (£24bn in 2026 present value terms) and Supportable Risk (£51bn when restated to 2026 present value terms) reflects primarily differences in the level of affordability embedded into the assumptions of the respective metrics. Supportable Risk allows for employers' maximum affordable cash flows (supported by employers' capacity to reduce expenditure), while Affordable Risk Capacity focuses on a level of affordability that employers, when asked, have generally agreed they could support.

PwC notes that the gap in 2026 from current USS contribution rates to 25% is significantly larger than was the case at the time of the 2023 valuation. Closing the gap would for many universities require more significant changes to planned expenditure, and potentially take longer to implement, than was the case in 2023.

Moreover, while the number of universities for whom a sustained increase in USS employer contributions to 25% in 2026 could be challenging remains relatively small, it is somewhat larger than in 2023 as a result of the continued divergence in individual institutional financial performance.

Expected payroll growth rate

Our AffRC model assumes in 2026 that Scheme payroll will on average grow at a rate of CPI+0.2% p.a. over the covenant horizon. This reflects the average rate of growth in total USS university staff costs projected in PwC's long-term financial projections. This is a lower rate of growth than was assumed in 2023 (CPI+1% p.a.), reflecting a weaker outlook for sector growth overall in 2026.

Discount rate for estimating Affordable Risk Capacity

As in previous valuations, our AffRC model uses a discount rate to estimate a net present value of future contributions potentially available to support risk that reflects the creditworthiness of the USS employer group. The rate used, gilts + 0.7% p.a., reflects average market-implied credit spreads over UK Gilts for rated, university-issued debt instruments as at 31 March 2026.

This represents the same spread over gilts that was used in the 2023 valuation. However, interest rates for UK gilts have risen since the 2023 valuation and are projected to remain higher than previously expected. The overall discount rate used to calculate AffRC is therefore higher in 2026 than it was in 2023.

Downside risks

USS university employers are exposed to a variety of risks over the short, medium and long-term, including the key risks outlined in Appendix 2a of the consultation document. Risks most frequently cited in university regulatory returns and discussions with university management teams involved:

- Challenges around international student recruitment, including lower demand (due to global competition, student affordability challenges or as a result of government policies) and reliance on a small number of markets (e.g. China).
- Concerns around UK student recruitment, driven by increasing competition between universities, cost of living pressures facing students, and perceptions that the value offered by traditional higher education pathways may be less compelling than was previously the case.
- Pressure on costs and capital expenditure from inflation, regulation and compliance, climate considerations and government policy.
- Uncertainty around UK government policy regarding immigration and international students, domestic tertiary education participation and funding, and national research priorities and funding.
- Cyber security.
- Staff morale and retention.

Universities identified a wide range of mitigations in response to downside risks, including growing and diversifying income streams (e.g. expanding online and overseas provision), further efficiency and cost reduction levers, and estate rationalisation. Most universities considered that they had the ability to mitigate likely downside risks without needing to revisit financing arrangements, although a small minority (representing less than 5% of Scheme liabilities) noted that downside scenarios could require renegotiation of lender covenants.

PwC modelled the impact of a range of downside scenarios and sensitivities on base case aggregate financial projections as part of their analysis. Those relating to international recruitment and mismatches between income and cost inflation had the greatest impact.

PwC identified a “plausible downside” scenario combining reduced domestic HE participation, lower international student recruitment and reduced research funding. It concluded that while USS Supportable Risk would be lower in this scenario, it would still be significantly more than required to support Scheme funding and investment risks.

Enduring value of the Scheme’s Covenant Support Measures

The Trustee’s assumption is that the package of measures to support the covenant agreed at the end of the 2020 valuation will remain in place. This assumption plays an important role in the 2026 assessment of covenant, Reliability period and employer risk capacity:

- demonstrating the long-term commitment of employers to the Scheme;
- reinforcing Scheme mutuality and the Trustee’s ability to rely on the support of all employers well into the future;
- reducing the probability that the Scheme returns to a deficit funding position in future; and
- contributing directly to more stable valuation outcomes.

The Trustee believes the support measures provide significant value to the Scheme, members and employers. Our assessment of the ongoing value and importance of the support measures is summarised in the later section on employer Covenant Support Measures.

We believe the support measures have generally operated smoothly, without burdening employers disproportionately or constraining their operations significantly. We recognise, however, that the measures are not without some cost to employers, and we continue to engage with employer representatives on covenant matters on an ongoing basis.

Investment modelling – assumptions and methodology

This section explains the modelling approaches and assumptions used in our analysis of future outcomes.

Deterministic analysis – Methodology and Key Assumptions

This section sets out the methodology and key assumptions underlying modelling results included in Appendix 4 of the consultation document.

We have modelled a stress scenario where real interest rates fall by 2% and growth assets fall by 30%. This has been designed to represent a plausible tail scenario.

We have considered the position based on using a constant spread over CPI (for ROCA) and gilts (for the LDIA) (i.e. not allowing for potential increases in return expectations following the modelled stress event).

Under these assumptions, the higher-growth/lower-hedging investment strategies lead to a more significant detrimental impact on funding.

We might anticipate increased expected returns on return-seeking assets relative to CPI following the modelled stress. This may mean an increased ROCA discount rate spread over CPI; however, this may be constrained by the IRMF and would be subject to Scheme Actuary advice.

For simplicity we have considered the position based on fixed discount rates for this modelling*, noting that allowing for potential changes in the discount rate may narrow the range of future outcomes, and lead to lower contribution requirements. (In practice we would review expected returns and discount rates in light of circumstances at the time, which may well result in different discount rates expressed relative to CPI.)

* However, for the purposes of deterministic stress testing we do not allow the setting of the Technical Provisions post-stress to breach Target Reliance.

Key assumptions:

- Figures are based on the provisional 2026 valuation results
- The ROCA discount rate is fixed at CPI + 3.8% for current VIS (and adjusted for the alternative investment strategies so as to get the same overall discount rate)
- The LDIA discount rate is fixed at gilts + 0.6%

Stochastic DB Fund Modelling within GLASS platform

Assumptions and limitations

Financial models in general use a series of assumptions and inputs to enable projections of the distribution of future outcomes, allowing for random variation of one or more variables. These models should be considered a tool to aid decision making, by building intuition, rather than an absolute prediction of future outcomes. It is also worth noting that different models may produce different outputs. We set out below details about the financial modelling our investment adviser has used.

Scope: multi-year stochastic ALM projection on a self-sufficiency (SS) and Technical Provisions (TP) basis

The Ortec Finance Economic Scenario Generator (the GLASS platform), when aligned to USSIM's Capital Market Expectations (CMEs), attempts to provide a representation of future states of the world, by simulating 5,000 different paths.

In particular, the model assumes:

- Each simulated path is feasible
- Each simulation is equally probable
- The overall distributions of paths reasonably describe the future possible states of the world
- TP discount rate spreads are static
- SS discount rate spreads evolve in line with the spreads (in excess of gilt yields) of a basket of investment-grade corporate bonds
- Where relevant, at monthly rebalancing points, liability hedging is adjusted to target levels, unless such an adjustment results in excessive leverage

With these key points in mind, we note that the output of the stochastic modelling (indeed any specific modelling which involves simplifying assumptions) should be treated with due care and considered in the context of these assumptions and used alongside a wide range of analysis and professional judgement.

As for deterministic stress testing fixed spreads, over CPI and gilts, have been used.

Inputs

Liability cashflows and discount spreads:

- Value of £71bn and duration of around 15 years (on a gilts + 0.3% self-sufficiency basis)
- Value of £63bn and duration of around 15 years (on a CPI + 3.8% ROCA and gilts + 0.6% Technical Provisions basis)

Starting level of assets

- Value of £80bn

Composition of the VIS and alternative strategies

- Composition of the VIS as described in the consultation document with a level of LDI assets recomputed to achieve a 50% liability hedge ratio (on a self-sufficiency basis) at 31 March 2026. Alternative strategies are constructed by scaling the growth and LDI allocations, and adjusting credit as a balancing item to maintain desired collateral buffer.

Payroll, adjustments to payroll, payroll growth assumptions

Reflects the membership at the valuation date and the assumptions shown elsewhere within the consultation.

Contribution strategy

- Stated contributions rates are inclusive of Scheme administrative costs and DC contributions. For the purpose of modelling the DB section of the Scheme, these elements are removed, since they are not paid into that section. They're then added back on to the contribution rates which are derived from the modelling.

Methodology

- The economic scenario generator of Ortec Finance produces realistic scenarios similar to those used by financial institutions globally to inform investment decisions and manage risks.
- Key features of the scenario methodology:
  - Single integrated approach for short, medium and long-term investment horizons and across asset classes and economies.
  - Robust replication of a set of well-known historical relationships (stylized facts) that are relevant for investment decision and risk management. Examples: non-normal distributions, tail risks, time varying volatility and business cycle dynamics.
  - Takes into account the current economic market conditions, such as initial bond yields to value fixed income portfolios and liabilities and the relevant stage of the business cycle.
- Volatility and correlation statistics (shown below) are generated based on the Ortec Finance scenario methodology and the specific asset portfolio setup and currency overlay strategy of USSIM.
- Expected returns are calibrated to the USSIM CMEs.

Key Summary Output Statistics

Annual return volatility and correlation over 30-year projection horizon:

	Volatility (p.a.)	Correlation		
		Growth	Credit	VIS Matching (LDI)[1]
Growth	15%	1	X	X
Credit	8%	0.4	1	X
VIS Matching (LDI)[1]	11%	0.2	0.5	1

1 "VIS Matching" reflects the statistics associated with the self-sufficiency liability, and is a representation of the matching component of the VIS given the self-sufficiency-derived Hedge Ratio

1 Target hedge ratios exclude emerging market debt and factor in beta adjustments for non-GBP hedging

Summary of Membership Data for the 2026 Valuation

The membership data used for the valuation of the Scheme was extracted from the administration system on 27 April 2026 following the running of the year-end processes.

The extract classifies members by their status as at 31 March 2026. The pension figures for pensioners and dependants include the pension increase immediately following the valuation date, while the figures for deferred pensioners do not.

	31 March 2023	31 March 2026
Active Members		
Number	214,374	228,232
Total salary p.a.	£10,320m	£12,103m
Average salary p.a.	£48,140	£53,029
Average age	45	45
Deferred Members		
Number	227,518	271,629
Total pensions p.a.	£524m	£692m
Average pension p.a.	£2,303	£2,548
Average age	46	47
Pensioners and dependants		
Number	101,978	118,894
Total pension p.a.	£1,937m	£2,361m
Average pension p.a.	£18,994	£19,858
Average age	73	74

In addition to the table above there were 1,266 members receiving a child's pension (1,298 in 2023).

Reconciliation of 2023 valuation and 2026 proposed results

This section analyses how the funding position and the Future Service Cost have changed since the 2023 valuation.

The tables on the next page show reconciliations of the change in the Technical Provisions surplus and Future Service Cost between the 2023 valuation and the 2026 proposed results.

A proportion of the Scheme's assets are classified as "hedges" for interest rate and inflation risk, whereby changes in the value of these hedging assets are expected to closely match changes in the value of the associated liabilities. All else equal, as real interest rates fall the value of both the hedging assets and the Scheme's liabilities rises. The remaining "non-hedging" assets are broadly classified as "Growth and Credit" assets in this context and are expected to deliver positive real returns over time vs the liabilities.

The purpose of hedging is to dampen volatility in the funding position. Given this intention, for the purpose of the reconciliation of the funding position, changes in the value of the hedging assets and the associated liabilities are considered together and aggregated for the investment return and discount rate items.

Reconciliation of Technical Provisions funding position between 31 March 2023 and 31 March 2026

Item	Funding position (£bn)	Effect(£bn)
2023 surplus / (deficit)	**+7.4**	
April 2024 benefit uplift		-1.1
Interest on surplus		+1.0
Contributions vs value of benefits earned		+1.5
Membership experience, updates to data, miscellaneous		-0.5
Actual investment returns relative to 2023 valuation discount rate		+7.0
Change in discount rates (before change in financial assumptions approach)		+0.4
Change in financial assumptions approach		+1.6
Change in mortality and demographic assumptions		-0.3
Addition of expenses reserve		-0.1
2026 surplus / (deficit) under proposed assumptions	**+16.9**	

Note: the effect of hedging on the value of the assets and liabilities has been considered together and aggregated for the investment returns and change in discount rate items as described on the previous page.

The item for the actual investment returns illustrates the funding gain over the period from growth and credit assets relative to the discount rate assumed as part of the 2023 valuation.

The item for the changes to the discount rate can be further split into two components.

1. The impact of change in gilt yields on the Technical Provisions, net of hedges, adds £5.6bn to the surplus.
2. The change in future return expectations, which reduces the surplus by £5.2bn.

The first of these components shows that the impact of the movement in interest rates, having not fully hedged the liabilities, is positive – adding £5.6bn to the surplus.

The second of these shows the reduction in surplus due to changes in the returns we expect to achieve on growth and credit assets going forward, which have fallen relative to interest rates over this period, as equity markets have performed very well whilst interest rates have risen, and so the extra returns expected on growth and credit assets over and above gilt returns have fallen.

This item is before the effects of changes in the financial assumptions approach described elsewhere in the consultation document (e.g. the term dependent discount rate and its parameterisation), which is shown as a separate item.

Reconciliation of Future Service Cost between 31 March 2023 and 31 March 2026

Item	Future Service Cost (% of Salaries)	Effect (% of Salaries)
2023 Future Service Cost (NPA66)	**20.6**	
Change in membership		+0.1
Change in discount rates (before change in financial assumptions approach)		-4.6
Change in financial assumptions approach		+0.8
Change in mortality assumptions		+0.0
Change in NPA to 67		-0.5
2026 Future Service Cost (NPA67)	**16.4**	

Unlike the accrued benefits, the Future Service Cost is not yet backed by assets as the contributions that fund it have not yet been paid. This means that there is no corresponding hedging impact on the future service meaning that it is more sensitive to changes in market conditions, which flow through the discount rate.

Evaluation of Employer Covenant Support Measures

This section looks at the value provided by the support measures, both at this valuation and in the longer term.

The Covenant Support Measures agreed in 2020 strengthen the collective commitment of all USS employers to support the Scheme. This section evaluates their enduring value in managing risks and ensuring stable valuations that benefit members, employers and the Scheme's long-term sustainability.

Consideration of the enduring value of Covenant Support Measures in future valuations

When the Covenant Support Measures were agreed towards the end of the 2020 valuation, we committed to continue to take their ongoing value in managing covenant risks into account in future valuations.

The specific risks to the employer covenant, identified in previous valuations, that the support measures are designed to address are:

- The risk of financially significant employers leaving the Scheme.
- The risk of the financial leverage of employers growing faster than their ability to support it.
- The risk of subordination of the Scheme without an increase in the value of the covenant to offset such subordination.

The Covenant Support Measures agreed with employers to address these risks include:

- A rolling 20-year moratorium on employers withdrawing from the Scheme except with Trustee agreement,
- A Debt Monitoring Framework setting out mechanisms for USS to:
  - monitor employer debt levels and engage with employers where individual leverage exceeds agreed thresholds
  - seek “pari passu” (matching) security where employers pledge assets as security for their debt beyond agreed thresholds, save where the security is being granted to fund covenant enhancing activity.

The following sections summarise the Trustee’s assessment of the value of the support measures in the 2026 valuation and their continuing importance to the Scheme in the future, noting that a final evaluation of the support measures can only be made once the parameters of the 2026 valuation have been agreed. The consistent support received from employers through multiple valuation cycles for these measures helps reinforce their longer-term value; any future indications of reduced support for them may of itself affect that assessment.

The support measures maximise employer capacity to support risk

In previous valuations, we have considered the weakening of covenant that would result from not having the Covenant Support Measures in place through the lens of Affordable Risk Capacity and the reduction in AffRC that would result. We have then considered the consequences of lower risk capacity for contribution rates in order to attribute a value to the support measures.

In 2023, we noted that, without the support measures, there would be more risk to employer cashflows on which the Scheme relies for deficit repair contributions, requiring a higher discount rate to be used in the calculation of, and therefore a lower value for, Affordable Risk Capacity. We estimated the reduction in Affordable Risk Capacity at that time to be £2.8bn or 12%.

The new regulatory framework in place in 2026 emphasises Reliability period as a key assumption and driver of risk capacity. Our covenant adviser, PwC, has indicated that, in its view, Reliability period – and, similarly, the covenant horizon used to calculate AffRC – would be up to 10 years shorter if the covenant support measures were not in place. Such a reduction in horizon would reduce Affordable Risk Capacity by up to 23% / £5.6bn.

Reduced impact of support measures on near term contribution requirements in 2026

To preserve a prudent margin between Affordable Risk Capacity and the extent of the Scheme's reliance on employers in 2023, a lower value of AffRC as a result of not having the support measures in place required more prudent assumptions (i.e. lower discount rates) to calculate Technical Provisions. These resulted in a higher required contribution rate than would have been the case with the support measures in place. We estimated total contributions would need to be c3 percentage points of payroll /£330m p.a. higher in total (for pre-April 2022 benefits), two-thirds of which would fall on employers.

However, in 2026, the improvement in the Scheme's funding position means the headroom between AffRC and the extent of the Scheme's reliance on employers is more substantial than in 2023. Headroom would be reduced if the support measures were not in place and AffRC was 23% lower, but it would remain substantial and we estimate no resulting adjustment to discount rates would be required as a result.

A shorter Reliability period would however require earlier de-risking of the Scheme's investment strategy under the journey planning requirements of the new regulatory framework than would otherwise be the case. This would result in a lower discount rate for liabilities and would consequently increase the future service cost by around 0.2% of salaries (equivalent to around £25m p.a.) compared with the cost with the support measures in place.

Enduring value of measures is in enhancing stability of valuation outcomes

Focusing on the impact of the support measures on near term contribution requirements only provides a snapshot view of their value, however. While the current Scheme surplus is large, risk run in the Scheme is also substantial and the last 6 years have demonstrated that conditions can change quickly.

The enduring value of the support measures is in their role in maximising the buffer of employer risk capacity that is available to absorb external volatility and in strengthening the Trustee's ability to take a long-term approach to running the Scheme.

The measures provide a collective, long-term commitment from all employers to support the Scheme into the future. This supports stability by making it less likely that the Trustee needs to adjust its funding or investment approach in response to events that might erode the Scheme's funding position or weaken the financial strength of sponsoring employers. The support measures also enable the Scheme to target higher levels of investment return than would otherwise be the case, which, over time, means the Scheme is likely to be better funded and therefore less likely to face the consequences of being in deficit.

Minimising the likelihood of being in deficit in future and avoiding additional deficit repair contributions is likely to be more valuable under the new regulatory framework; the consequences of being in deficit are potentially more severe than previously, given the new legal requirement that deficits be eliminated as quickly as reasonably affordable.

In practice, modelling suggests that removal of the support measures – and the associated reduction in covenant reliability and risk capacity – would mean the likelihood of a deficit at a future valuation more than doubles.

The combination of the exit moratorium and Debt Monitoring Framework maximises the value of the support measures

The Trustee considers that retention of both the moratorium and the Debt Monitoring Framework is important in maximising the support the measures provide to the Scheme's collective nature at a time of increasing divergence in the financial performance of individual employers.

The moratorium reduces the risk of employers settling 'Section 75' obligations, particularly when they are low, and exiting the Scheme, which would increase the burden of support on remaining Scheme employers should the funding position weaken. The Debt Monitoring Framework promotes financial discipline among the sponsoring employer group which in turn protects employers bound into the Scheme, and its joint and several support obligations, by the moratorium.