

USS briefing: The scheme administration cost allowance

Part of the overall contribution rate required to fund USS benefits is an allowance for the costs of administering the scheme. This allowance was set at 0.4% of active members' pensionable payroll during the 2011 valuation and has not changed since. However, as laid out below, various factors have increased the costs of administering the scheme.

In its [consultation](#) with Universities UK (UUK) on the proposed Technical Provisions for the 2023 valuation, the Trustee reflected this by proposing to increase the allowance by 10 basis points to 0.5%. This avoids any excess of pension administration costs being drawn from the fund rather than being funded by current contributions.

Why is the allowance being increased?

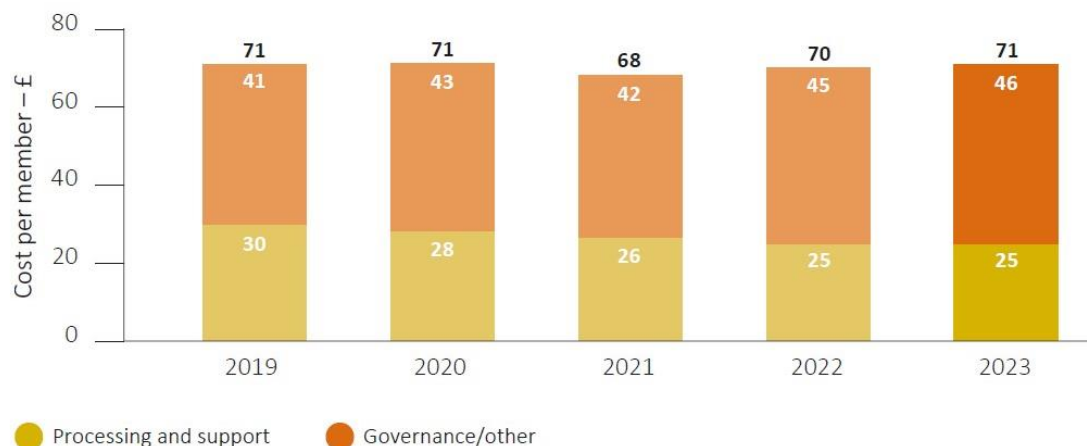
A lot has changed since 2011. The scheme is more complex, regulation has become more onerous, and the make-up of its membership has evolved with active member numbers growing more slowly than total scheme membership (i.e., also including deferred and pensioner members).

In terms of **complexity**, the most significant change came in 2016 when USS became a hybrid scheme – offering both DB *and* DC. All members of USS are part of the scheme's DB section. At 31 March 2023, around 168,000 members also had DC pots with USS. As well as introducing additional administrative, legal and compliance demands, this change has also introduced additional regulatory requirements which, since becoming an authorised Master Trust in May 2019, have become more complex.

Members with DC pots also have more decisions to make on their journey to and through retirement, so we have also invested in our support services, our online offering, and our Member Insight and Product Development teams.

The costs of carrying out the scheme's actuarial valuations, including supporting various technical discussion forums and commissioning bespoke analysis to support other stakeholder initiatives, have also increased. The table below shows that, despite the factors noted above and the impact of inflation, administration costs per member have not increased over the last five years.

Pension administration cost per member*



*The above ratios are shown following CEM Benchmarking adjustments to make them comparable across benchmarked schemes.

The allowance grows as active members grow but overall membership has grown much more than active membership. While the number of active members has increased by 60%, the number of non-actives (deferred and pensioner members) has increased by more than 120% over that time period. (Total member numbers are up to 528,000, of whom 305,000 are non-active members, up from a total membership of 278,000 in 2011.)

As the 0.4% of pensionable payroll allowance only relates to contributions coming into the scheme relating to *active* members, the allowance no longer covers costs relating to the increased proportion of non-active members.

What are the impacts on contributions payable and on scheme costs?

In [their response](#) to the Technical Provisions consultation for the 2023 valuation, UUK estimate that the impact of the change would be to increase contributions payable towards scheme administration expenses by £15.8m per year in 2023 compared to 2020. This estimate includes salary inflation and active member growth over the three years; the increase on a like-for-like 2023 basis is c£10m.

The change will have no impact on the total costs that are being incurred and recovered from the fund. Rather, the change to the allowance aims to ensure all administration costs are funded by current contributions rather than having any excess over the allowance being recovered from the fund.

Are your costs under control?

We demonstrate above that pension administration costs per member have not increased over the last five years and it is central to our role in managing the scheme that we keep tight control of costs as every penny we spend is drawn from the fund we are working hard to build to pay members' benefits.

Looking more widely at the scheme's overall cost management and value for money performance, we appoint CEM Benchmarking to review our performance against comparable schemes each year.

The administration costs referred to above form a relatively small part of the overall costs of running the scheme – the table below taken from the scheme's annual report and accounts lays out a high-level breakdown of those costs for the last two years. Further information on scheme costs and performance is available in the [annual report and accounts webpage](#).

Reported scheme costs

Costs £m	Pension management		Investment management		Total	
	2023	2022	2023	2022	2023	2022
Reported scheme expenses before pension deficit provision charges	43	42	126	121	169	163
Pension deficit provision (credit)/charge	(1)	6	(1)	25	(2)	31
Reported scheme expenses	42	48	125	146	167	194
Embedded investment management costs	–	–	92	91	92	91
Total costs of running the scheme	42	48	217	237	259	285

The total running costs have been independently assessed by CEM Benchmarking as being £117m a year (32%) less expensive than the median cost of peer schemes.

Nonetheless value for money assessment also needs to factor in:

- the benefits that are being delivered and the investments that will fund them,
- the quality of services we provide to members and sponsoring employers; and
- how we balance the costs of running the scheme with achieving good outcomes

Delivering value for money is a key focus and our performance in this area is reviewed in depth by the Trustee Board on an annual basis taking into account both our relative cost performance and the services that the scheme delivers. We lay out how we assess value for money and our recent performance on our [Value for Money webpage](#).