Private Pensions and Arm's Length Bodies Directorate
Scale and Consolidation Policy Team
Department for Work and Pensions
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Dear DWP Scale Team

USS response: *Discussion paper on key elements of the Scale Policy*

We welcome the opportunity to respond to this Discussion Paper. We are offering general views on the proposals rather than addressing the specific questions set out in the paper. This reflects our assumption that the forthcoming regulations will reflect the position taken by Parliament in the Pension Schemes Act that hybrid schemes will be exempt from the Scale Test. This was helpfully confirmed at a recent discussion with DWP officials, and we look forward to further confirmation that this will be the case.

We will be writing to you separately on the VFM framework consultation, but you may find it helpful to consider our responses together as they both reflect the specific circumstances of USS as a fully integrated and non-segregated hybrid scheme.

About USS

Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and Higher Education institutions in the UK. We work with around 320 employers to help build a secure financial future for almost 599,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of around £84bn, of which £4.2bn are in the defined contribution part (at 31 March 2026).

USS is a hybrid scheme, which means we have both a defined benefit (DB) part – the Retirement Income Builder - and a defined contribution (DC) part – the Investment Builder. Our members build up DB benefits on salary up to £74,208, with contributions on salary above that threshold paid into DC.

Scale and USS

As a hybrid scheme with significant scale, USS is harnessing the value of scale for the benefit of our members and participating employers through a combination of DB and DC provision, and we welcome the government considering the implications of how scale is best measured for Master Trusts. We are already delivering the stated policy intent of the benefits that scale can bring. We do this through our strong governance, investment management capabilities and diversification, integrated member and employer service, and our approach to cost efficiency across the whole hybrid scheme arrangement, as

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articulated here.

We also are not competing for auto-enrolment business in the open market. We are restricted to serving the Higher Education sector and our employers cannot exit the DC part of USS and access an alternative equivalent arrangement elsewhere in the DC or MT market. They would need to exit the whole scheme, which has specific restrictions around employer exits, including a moratorium, to protect the covenant supporting the DB scheme.

As noted above, the assets attributable to the Investment Builder (DC) part of USS would, on their own, fall well below the statutory £25 billion scale threshold applicable to a main scale default arrangement (MSDA). However, USS is not a standalone DC scheme or Master Trust: it is a hybrid DB and DC scheme operating under a single trust. The assets attributable to DC benefits are not legally segregated from the Scheme's DB assets. This structure enables the Investment Builder to benefit from the scale and investment capabilities of the £84bn Scheme as a whole. Applying the scale test to the DC part of the Scheme in isolation would therefore artificially separate what is, legally and operationally, an integrated hybrid scheme. The concern that hybrid schemes such as USS should not have their DC scale looked at in isolation was considered during the passage of the Pension Schemes Act 2026. There was recognition that hybrid schemes should not be caught by the test. Section 40(4)(1B) of the Pension Schemes Act 2026 (by the insertion of s.20(1B) into the Pensions Act 2008), expressly provides for regulations to exempt any description of relevant Master Trusts from the scale requirement and specifically identifies hybrid schemes as an example. This is particularly important for us because it is in our members' best interests.

We consider that USS is precisely the type of hybrid arrangement for which the exemption-making power is required and have welcomed the assurances and recent confirmation from engagement with the Minister and officials that the regulations would be drafted to protect the position of hybrid scheme members. It would align with the policy intent and avoid unintended negative consequences. We would welcome confirmation of how this exemption will be taken forward and would be happy to provide technical input to support the drafting of the regulations so that the policy intent and hybrid schemes like USS can be appropriately captured.

We recognise the benefits scale brings to member outcomes and look forward to engaging further on this important topic as the regulations are developed.

Yours sincerely

Carol Young
Group Chief Executive