Department for Work and Pensions
Automatic Enrolment Policy Team
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By email: caxtonhouse.automaticenrolmentconsultation@dwp.gov.uk

Dear Automatic Enrolment Policy Team

USS response to DWP call for evidence: Automatic Enrolment: Alternative quality requirements for defined benefit, hybrid schemes and collective defined contribution schemes being used as a workplace pension

I am writing in response to your consultation dated 16 June 2026. This response is submitted jointly by the USS Trustee, UCEA and UCU.

About USS

By way of introduction, 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 330 employers to help build a secure financial future for almost 577,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of over £80bn (at 31 December 2025 as set out within the Financial Monitoring Report published on the USS website which you can find here).

The Trustee of USS is Universities Superannuation Scheme Limited. It has overall responsibility for scheme management and administration, led by a non-executive board of directors and employs a team of pension professionals in Liverpool and London. The Trustee is regulated by The Pensions Regulator and has a primary responsibility to ensure that benefits promised to members are paid in full on a timely basis.

The Trustee delegates implementation of its investment strategy to a wholly-owned subsidiary – USS Investment Management Limited (USSIM) – which provides in-house investment management and advisory services to the Trustee. USSIM manages around 70% of the investments in-house and appoints and oversees external investment managers to manage the rest. USSIM is authorised and regulated by the Financial Conduct Authority.

UCEA is the representative body for employers within the Scheme and appoints Directors to the Trustee board and the employer representatives on the Joint Negotiating Committee in addition to being the representative body identified in the scheme rules for technical provisions consultations within triennial scheme valuations.

UCU is the representative body for members within the Scheme and appoints Directors to the Trustee board and the representatives on the Joint Negotiating Committee.

USS is a hybrid pension scheme, which means we have both a defined benefit (DB) part (which provides average salary benefits) – the Retirement Income Builder – and a defined contribution (DC) part – the Investment Builder. USS is open to new entrants and new accruals, representing about a third of those accruing DB benefits in the private sector, based on information in tPR's Purple Book.

Background to the development of this response

The Scheme's stakeholders, UCEA and UCU, are exploring the relative merits and risks of a conditional indexation (CI) benefit design and, whilst no decisions have been taken at this stage on whether to implement a CI scheme or not, a key consideration within the design is the revaluation requirements for average salary pension schemes. In particular, realising this design would likely require the implementation of a new alternative quality test to allow pre-retirement inflationary increases to fall below 2.5% (or CPI, whichever is the lesser) whilst still allowing the scheme to be deemed AE compliant.

The Trustee has met with colleagues from the DWP on several occasions to discuss the options and process steps. It has been suggested by officials that it would be possible to implement a new alternative quality test, if required, outside of the regular triennial review cycle. However, we are aware that making changes to regulations and guidance can be a lengthy process and so wish to maintain an ongoing dialogue and ensure DWP is aware of how stakeholders discussions are developing. A CI scheme, if agreed by stakeholders and implemented by the Trustee, would be an innovative structure for an open DB scheme in the UK, and would seek to deliver better outcomes and improved long-term stability for members and employers.

The Trustee submitted a response to the June 2023 consultation which was jointly signed by UUK (the body then responsible for the role now fulfilled by UCEA). The points made in that response still remain and we have looked to add some further points which we would hope are also helpful. The prior response is linked here for information.

Since we last responded, two CI reports have been published on the USS website[1] which were produced by a joint working group of employer and member representatives (UCEA and UCU). The next output will be defined and developed by the working group over the course of the next 8-10 months and this consultation is therefore very timely.

Response to the consultation

In response to Question 1, the USS hybrid scheme currently meets the alternative DB requirements through the **test two cost of accrual test**. This is a helpful simplification for DB pension schemes.

In response to Question 3, the requirement to fund for revaluation is a barrier that unnecessarily restricts innovative DB structures such as CI, which would otherwise provide benefits far in excess of the AE minimum for DB and in excess of AE compliant benefits envisaged under other structures.

The position for DB schemes could be addressed in future by either:

[1] See https://www.uss.co.uk/news-and-views/latest-news/2025/06/06252025_conditional-indexation-interim-report and https://www.uss.co.uk/news-and-views/latest-news/2026/01/01152026_conditional-indexation-second-report-december-2025

- removing the revaluation requirements for average salary pension schemes from all elements of the DB tests; or

- if there are reasons for the revaluation requirements to be retained for certain circumstances then we would suggest an additional test for DB schemes implementing CI within the DB framework could be a future solution.

An additional test for DB schemes seeking to use conditional indexation could be introduced in future without the requirement to fund revaluations at the minimum level; this way conditional revaluation levels different to the current minimum could still pass a DB cost of accruals test for CI schemes if the resulting cost of the **guaranteed** benefits is sufficient. The target revaluation increases awarded in excess of the guaranteed benefits would deliver benefits over and above the minimum requirements for a qualifying scheme. This change would still achieve the aim of testing that the DB pension is at or above the minimum value level.

Regulation for innovations, such as CDC, has recognised the role for conditionality of indexation while still being AE compliant, by testing the value of the benefits accruing. We welcome these innovations and seek similar within the DB framework, should our stakeholders agree to pursue a CI design. Amendment of the tests for DB as we describe above would be a way to extend the support for conditionality within the DB framework, recognising the important differences between DB and other forms of benefit.

Even absent of meeting the revaluation requirements, any options modelled in CI would be expected to deliver more value than other schemes that would pass the test. We would be happy to meet with you to demonstrate how this is the case and work with you further on potential amendments to the tests as our stakeholders develop and refine proposals based on a CI design.

We hope that our response to this call for evidence will assist in your deliberations and look forward to keeping DWP officials updated as the stakeholders' discussions on potential CI designs continue.

Please let us know if we can provide any further information or assistance.

Yours sincerely

Mel Duffield
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