Pension Schemes Bill Call for Evidence: USS submission

USS welcomes the opportunity to provide our views to the Committee on the Pension Schemes Bill.

The Bill is an important next step in reforming the UK pensions system and we welcome that the Government has brought it forward. We're grateful for the engagement that we have had with Ministers and officials in the Department for Work & Pensions and HM Treasury under both the current and previous Governments leading to this point.

We welcome the opportunity to engage in further discussion about how the Bill's provisions can work for members of our scheme – a large, open, hybrid scheme, primarily serving the UK Higher Education sector; a sector of strategic and economic importance to the country. While we are supportive of engagement by Pensions UK and others with the Committee on behalf of all pension schemes, we welcome the opportunity to provide our views in a number of specific areas.

About USS

The 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 around £76.5bn (at 31 March 2025).

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 must 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 three quarters 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.

USS is a hybrid pension scheme, which means we have both a defined benefit (DB) part – the Retirement Income Builder – and a defined contribution (DC) part – the Investment Builder.

Areas to note in the Bill

There are a number of areas of the Pension Schemes Bill where we offer comment to the Committee. We would be grateful if the Committee could consider these as part of their scrutiny of the Bill. In respect of the majority of our concerns, explicit on the record reassurance from Ministers to the Committee may be a valuable alternative to changes to the Bill itself, if those are considered too time consuming given the scope and passage of the Bill, and if Government support can be inferred from that reassurance. We also recognise that Government will need to bring forward the much-needed proposed changes to retrospective actuarial confirmation of benefit changes[1] during the passage of

[1] Retrospective actuarial confirmation of benefit changes - GOV.UK

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the Bill, and we would strongly support this being prioritised.

I. Mandation (Clauses 38-40, relating to scale and asset allocation / default arrangements in DC Master Trusts)

We are very clear that one of our primary fiduciary duties is to invest Scheme assets in the best financial interests of our members and beneficiaries. We are here to provide them with their promised pensions in our defined benefit (DB) section and, for some members, a flexible pot of savings in our defined contribution (DC) section. As part of our fiduciary duty to consider financially material factors when making investment decisions it is appropriate for us to consider material long term financial risks such as climate change. Broadly, our view is that any attempt to expand or redefine fiduciary duty risks confusing rather than clarifying.

We have a very serious responsibility which we have been entrusted to deliver. Given this, we need the right to invest in a manner we believe can best deliver that responsibility.

We therefore have serious concerns about Government seeking to confuse and dilute this fiduciary duty by creating a power which could be used to layer additional duties on trustees. This new power will potentially divert from and undermine existing duties to members. While we recognise that the Government has sought to tightly define the power, if, despite our views and those of Pensions UK[2] and others, it remains in the Bill, additional safeguards to further limit the scope, extent and ability to use the power now and in future would be appropriate.

We would note that we are already investing significantly via private markets. We signed the Mansion House Accord in May 2025 in part because we already invest a greater proportion of our assets than the 2030 target level of at least 10% of defined contribution default funds into private markets with 5% of that invested in UK assets. USS at present has a 25% allocation to private markets, with around 12% of the Growth Fund, where most of our DC assets are invested, in UK private markets. We do this because we believe our current investment strategy provides opportunities for improved risk-adjusted returns over the long term and we have already built the internal capability to manage these assets so this approach best delivers our fiduciary duty.

We would welcome reassurance during Committee Stage of the Bill that the Mansion House Accord commitment around the Government bringing forward a pipeline of investible assets will be taken forward.

II. Treatment of hybrid schemes (scale requirements: Clauses 38-40)

USS is a hybrid scheme. This means that all our members will accrue DB benefits, with those that chose to do so and/or earn above a salary threshold of £71,484 (2025/26)[3] also accruing DC benefits. Our non-associated multi-employer status means that we are an authorised DC Master Trust.

We therefore welcome the explicit provisions in the Bill that exempt hybrid schemes from the scale requirements. It would be nonsensical for us and our stakeholders, as well as counter to our members' best interests to have to change the nature of the scheme, both prospectively and retrospectively, when the scale of our DB assets already gives benefits of scale to our DC investment, including the previously cited ability to invest in a wide range of private market assets without adding

[2] https://www.pensionsuk.org.uk/Policy-and-Research/Document-library/Pension-Schemes-Bill-225-59-1-Pensions-UK-response

[3] https://www.uss.co.uk/for-members/your-pension-explained/how-your-pension-works

any material cost to the default fund.

We would welcome assurances during the passage of the Bill that this exemption for hybrid schemes will be extended to other areas of DC policy, where they would also be counterproductive and potentially detrimental for our members. For hybrid schemes such as USS, measures that treat the DC element as standalone and removed from the context of wider benefit design is likely to be disadvantageous to member outcomes. This includes small pot consolidation, which could result in our members having their DC benefits transferred out whilst still being active in the scheme[4]. It also includes guided retirement, where unlike members of regular DC schemes, all USS members with DC funds already receive secure incomes and longevity protection via the DB part of the scheme. Finally, reassurances about how hybrid schemes are being considered in the context of value for money measures (Clauses 10-19) would be welcome.

III. DB surplus (Clauses 8-9)

USS remains open to new members, with all active members accruing defined benefits. As reported on 24 July 2025, the scheme at 31 March 2025 had an estimated funding surplus of £10.1bn[5].

Unlike closed DB schemes, there are already a range of levers available to the trustee and stakeholders to reflect the overall funding level of the scheme. A surplus in an open scheme is more akin to a reserve or buffer than an available excess of funding as it might be in a closed and/or significantly mature scheme. In addition, a surplus position on a low dependency basis is of less relevance for an open scheme, reflecting the fact that they will likely be immature and be more likely to invest in growth assets rather than following a low dependency approach. Our surplus offers choices in respect of investment risk, future contributions levels and benefit levels that might not otherwise be available. The triennial valuation offers a structured process to consider these issues and it would be unhelpful if the perception arose that 'return of surplus' was the only or preferable tool for open schemes.

We recognise that this is very different to the position of closed and/or significantly mature DB schemes, where much of the discussion about these provisions in the Bill has focused. We welcome the recognition from both Government and the Pensions Regulator that open schemes are different. We would welcome assurance during the passage of the Bill that Government will continue to reinforce this point, including through future regulations and guidance.

IV. Pension Protection Fund Levies (Part 4, Clause 95)

With the PPF's surplus now standing at £14bn[6] and, as evidenced by the PPF 7800 Index[7], a much reduced risk of future claims, there is little reason for the Pension Protection Levy to continue to be charged. Having pressed our views with both Government and the PPF, we welcomed the announcement on 30 January that the Board of the PPF would like to set a £zero levy. This is subject to the provisions in the Bill; we therefore welcome them and look forward to the Bill making prompt progress.

[4] Currently, there are around 85,000 active USS members who have dormant DC benefits, which can be accessed at retirement alongside their DB benefits. Many of these members could make further DC contributions in the future.

[5] USS Report and Accounts 2025, https://www.uss.co.uk/about-us/report-and-accounts

[6] Pension Protection Fund, Annual Report and Accounts 2024/25, https://ppf.co.uk/annual-report

[7] PPF 7800 Index, July 2025 update, https://ppf.co.uk/PPF-7800-index

We are concerned that the mechanism proposed by the Department for Work and Pensions to allow the PPF to increase the Levy in future if required is unnecessarily complex and creates a risk of sudden very large increases. However, our overall priority is to see the Levy drop to £zero, and we would therefore encourage the Committee not to seek to unpick the proposals where doing so would put the planned levy reduction at risk.

While not in the Bill as it currently stands, we would also welcome amendments to the Bill that would implement the recommendation in DWP's 2022 Titcomb Review that the PPF Administration Levy be abolished. This Administration Levy was suspended for two years from 2023/24 onwards but has been reinstated for 2025/26 without prior notification or any further discussion with the industry. The current level of PPF surplus as mentioned above, along with a wider appetite not to charge levies unnecessarily and the previous recommendation to abolish this levy, should lead to this cost to schemes being removed. We would support the relevant running costs being borne from the PPF's substantial reserves rather than being increasingly borne by a small number of remaining, large open DB schemes whose members are unlikely to draw on the PPF.

In conclusion, we hope the Committee finds this submission helpful as it discusses the detailed provisions contained in the Bill. If you have any questions or would like any additional information, please contact us, as follows:

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