The Second Pensions Commission
Department for Work and Pensions

Your ref	
Our ref	CY/JMR
Date	14 July 2026

By email: views.pensions2050@dwp.gov.uk

Dear Commissioners

USS response: *Pensions 2050: Evidence and Future Priorities*

We would like to thank the Commission for their work and the opportunity to offer views on the interim report. As with the evidence and analysis presented by the first Pensions Commission, it is a significant and authoritative review of where the pensions landscape stands and what that means for savers. We are grateful for the engagement we have had with the Commission, both through the pensions industry liaison group and directly with Commissioners and officials as evidence was gathered. We look forward to the final report and the recommendations it will make.

USS occupies a unique position in the current landscape. USS is a large open hybrid scheme offering Defined Benefit (DB) benefits to all members up to a certain salary level (£74,208), and generous Defined Contribution (DC) benefits on salary above that level. It therefore provides security through a guaranteed income in retirement for all members combined with some element of flexibility and choice for higher earning members and those who choose to pay additional contributions. A changing labour market and wider societal trends means that many of our members will have mixed pension provision over their career and so their USS benefits alone cannot ensure adequacy in retirement. However, as the report suggests the experience of many of our members is likely to be diverging from that of the wider saver population.

We have provided comments both on areas of particular interest or concern to us that we would like to highlight, and on areas where we can share learnings and insights from our own experiences.

Areas of particular interest or concern to us are:

- ***The sensitivity of members to contribution rate increases*** – Our experience from valuation cycles at USS and member contribution increases and reductions has demonstrated the elasticity of opt-out rates within the 6-10% contribution rate range and the wide variation in opt-out rates that can be experienced between different member cohorts, particularly those at life stages where they are facing the most acute competing pressures. Our experience is in the context of relatively high employer contributions and generous DB, ill health and death in service benefits, which suggests elasticities in a more standard auto-enrolment DC arrangement could be higher. We have set out below further details of our own experience of opt-out rates.

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- ***The risks of a one size fits all approaches to decumulation pathways*** – While we strongly welcome the Commission's focus on 'decumulation as a driver of adequacy' that can 'decisively determine retirement outcomes', we would caution against recommending one size fits all approaches being mandated without recognising that the specifics of the scheme and/or the individual may merit exceptions in some cases. This would be of particular concern in USS if, for example, we were forced to default our members, who are already likely to have both state pension incomes and secure DB incomes, to convert their DC funds into a retirement income stream when there may be very good reasons why they wish to access that as cash or keep it invested for a period.

- ***Supporting innovation across the wider pensions landscape*** – There are still millions in the UK saving into different forms of pension arrangements, other than full DC, operating at scale both within the private and public sector. Ensuring the wider tax and regulatory landscape supports innovation in these funds, including through CDC and, potentially, Conditional Indexation (CI) arrangements more akin to those in Canada, can form a valuable part of the future UK landscape.

- ***Regulatory burdens*** - Creating pressures or operational requirements which mean unnecessary costs to USS, to our participating higher education employers, and potentially to our members, is likely to mean similar value leakage elsewhere in the pensions ecosystem. Our participating employers represent a wide group of universities and other organisations across the higher education sector, enrol into a wide range of different DC/MT and DB providers, both private and public sector, and work with different payroll providers. We would be happy to engage through our employer panels to test their views on specific proposals as they develop in future, including ensuring there are not disproportionate burdens where employers are dealing with multiple pension providers

Areas where we can share learnings and insights from our own experiences are summarised below. We agree that there is no single easy answer to giving people a reasonable expectation of a decent standard of living in retirement. We would flag three areas where we might helpfully support further work by the Commission, aligned with the areas of concern and interest outlined above, along with other areas where, if the Commission does further work, we'd be keen to contribute. While we have a specific interest in ensuring the value of USS is not inadvertently damaged by wider regulatory change, we have sought to offer thoughts where they can be valuable to all savers.

Participation and opt outs

We hope that the information we shared previously with the Commission on USS's experience of opt-outs was helpful. Our experience has been that while the scheme offers valuable benefits, higher contribution rates do influence (non) member behaviour, which can vary widely between different age groups, genders, and geographical locations.

We were concerned that during the period from April 2022 to January 2024, when our members were required to contribute a standard rate of 9.8% of salary following the 2020 valuation, we saw an overall opt-out rate from the scheme of around 15-20%. Observed opt-out rates were even higher amongst groups where competing demands for income were expected to be most acute, particularly younger cohorts, lower-median earners, and those living in areas with greater cost of living pressures and higher housing costs.

As the report notes, auto-enrolment opt-out rates experienced in practice have been around a third of what was expected (8-10% in practice compared to original DWP estimates of up to 28%). If higher minimum contribution rates and changes to the LEL and UEL thresholds are introduced too quickly or in an uncoordinated way, it might increase the opt-out rates by driving similar opt-out behaviours to those we saw in USS when our member contribution rate was higher. While we agree that default saving rates for the wider population need to increase over time to deliver adequate outcomes in retirement, any transition should be gradual, and seek to coordinate a range of policy levers to avoid cliff-edge effects for certain individuals and a risk that they feel they have no choice but to fully withdraw, resulting in limited or no workplace savings.

We work with employers to understand the drivers of opt-outs through collecting feedback surveys on reasons for opting out, and the fall we have seen (to around 10%) since our member contribution rate fell to 6.1% of salary gives helpful context around member sensitivity to cost.

We also have previous experience of employers offering matching contributions into our DC section so would be happy to share insight there.

Decumulation and default pathways

We agree that the DC system currently creates a cliff edge for savers, where strong employer and trustee led defaults in accumulation are followed by near complete transfer of responsibility and risk to them once they are able to access their pension.

Our experience may be helpful to the Commission. The nature of our membership and the evolution of the scheme means we have considered in detail the challenges of helping members navigate decumulation and the complexities in their own personal circumstances. This evolution includes the mix of DB and DC benefits, distinct lump sum accrual, and the ability to flexibly retire.

While this insight into member behaviour is not applicable to a number of challenges considered in the report, we think there are some helpful implications.

- ***Decision making support.*** We would agree that 'confidence in managing risks and making decumulation decisions for DC pensions is often limited'. This is often the case for DB benefits as well. We have invested in building frameworks that support members as they move toward retirement and to support pension decision making. The nature of our scheme, embedded with employers, makes this easier both in aligning with their engagement with members and in justifying the costs of this provision. The Commission may want to consider how this works with a wider discussion on costs and value.

- ***Non-linear retirement.*** Our scheme is explicitly structured to allow members to agree with their employer to flexibly retire, thereby providing a bridge into retirement and an opportunity to manage competing demands and interests while still supporting extended working lives. Around 1 in 7 of our 'retirements' involve a member remaining in employment in the Higher Education sector, often moving to a part-time basis, while drawing part of their accrued benefits. Accessing pension savings while remaining in employment may therefore not be inherently a bad thing, particularly in a more flexible labour market with a wider range of pension provision, an increasing SPA and wide variation in the health, employment and caring responsibilities of older workers.

- ***Lump sums are not all bad.*** The discussion of the international experience of minimum income guarantees by the Commission is a helpful one. Our experience is that the vast majority of our members with DC savings (c.80%) are choosing to take the pot as cash at retirement. While we offer access to drawdown through WTW's LifeSight, access to an annuity panel, or staying invested in our DC section and using UFPLS to access funds, the levels of encashment are not a current concern. That reflects that the vast majority of our DC members will have a solid underpin of DB benefits. A lump sum may be a sensible way for a member to fund higher levels of expenditure in the early part of their retirement in a flexible manner, or to manage outstanding mortgage and debts in a tax efficient manner.

We would therefore encourage the Commission to consider if default pathways, and perhaps default products, are always the best response to the challenges uncovered, or whether some targeted exemptions and exceptions are appropriate where DC flexibility is valued more by members than secure income. An assumption that all but the smallest DC pots should provide an income in retirement is likely to create unnecessary process and costs for some schemes and providers. It also risks being detrimental to members where they already have a strong underpin in place from the combination of their state pension and DB benefits, given we know the effect of a default can be powerful.

Supporting innovation

We are grateful for the Commission in not just considering the system as it currently stands but also emerging areas of innovation. As discussed at the Commission's launch event, there are a number of initiatives and regulatory changes which have yet to be implemented or have yet to mature, which will hopefully change the current landscape for the better. We would hope that any final recommendations will reflect that. We would also echo the concerns about the dangers of fatigue at the pace of change. There is a need for a stable pensions system - including tax treatment - so that members can develop their understanding of their retirement options and plan accordingly, rather than having to frequently learn, understand and work around changes to benefit options, taxation and so on.

As noted above, the discussion of innovation in the context of decumulation is helpful.

There are also broader innovation themes reflected in our ongoing work. We have been working at the request of our stakeholders to consider how a conditional indexation model of DB might work, akin to some of the scheme designs seen in Canada, and our stakeholders have published two reports on this topic[1]. We agree that a singular focus on headline DC contribution rates within certain models of accumulation and decumulation would risk detracting from the whole range of innovations and models that might help savers across the UK pensions landscape as a whole.

Other areas

The evidence base collated by the Commission is weighty and wide ranging. We note that it touches on a number of themes that are not then explored further, for example, domestic investment by schemes. If the Commission is minded to explore these in future, given the limited discussion to date, we would welcome further engagement with you. As one of the largest UK pension funds by assets, some of these investment-related themes have been considered in some depth, particularly where they risk undermining the primacy of fiduciary duty and might have unintended consequences both for our members and savers more generally.

The comprehensive and holistic assessment of the pensions system and adequacy in retirement the Commission has delivered contains many detailed insights. Given the lengthy period since the first Commission, more regular analysis would be welcome, and would provide an ability to keep monitoring trends, track progress against objectives and indicate future potential adjustments to policy levers. This would allow an ongoing debate about achieving fairness of outcomes across generations and build confidence that the system will continue to evolve to achieve this sustainably.

We thank the Commissioners and supporting officials for their work. The *Pensions 2050: Evidence and Future Priorities Report* is a significant and valuable piece of work. We wish you well in the next stage and

[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

stand ready to support your work as helpful. Getting a system that works better not just for our members but for the majority of UK savers is in all our interests.

Yours sincerely

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