



Via email: privatepensions.trusteeshipgovernanceconsult@DWP.GOV.UK

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Dear Trustee Governance Consultation team

USS response to DWP consultation: *Trustees and governance, building a stronger future*

The Trustee of the Universities Superannuation Scheme (USS) welcomes the opportunity to respond to this consultation. We are mindful that USS is very different to most UK pension schemes given our size, resources and hybrid nature. Proposals that might be appropriate for smaller DB or DC schemes may not be appropriate for USS. However, we understand that the Government would like the industry to consolidate into fewer, larger and well-resourced schemes like USS. Therefore, many of our answers to this consultation set out our approach to governance and how we achieve high standards of trusteeship.

We would highlight that:

- As schemes become larger and have more members and in-house resources, there is greater need for diversity of skills on a board, not just pensions expertise, in order to run a large and complex business;
- Any legislation/regulation on raising standards should not be so prescriptive as to restrict schemes in tailoring the skills and expertise required on their trustee boards as a whole, to the particular requirements of their schemes;
- We believe that the Master Trust Regulations ('MT Regs') are successful in requiring high standards of governance and trusteeship, whilst allowing sufficient flexibility to individual schemes to tailor their boards and skills required to their own particular circumstances; and
- The categories for the types of trustee to be disclosed in any potential trustee directory will need careful consideration as we believe that the three categories listed in the consultation (professional trustee, employer or member nominated trustee – para 57) are too simplistic. The directory should allow for multiple categories to be selected for a trustee director (e.g. employer-appointed and professional trustee) and consider other categories (e.g. union appointed).

We would welcome further discussion with you on the themes raised in our consultation response as helpful.

For the purposes of understanding our answers, we set out below details about USS and our governance structure:

About USS

Universities Superannuation Scheme 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

Universities Superannuation Scheme Ltd

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total assets of around £76.8bn (as at 31 March 2025). The trustee of USS is a company, Universities Superannuation Scheme Limited (USSL). It has overall responsibility for scheme management and administration, led by a non-executive board of directors (in this response we refer to them as ‘trustee directors’) and, together with its subsidiary, USS Investment Management (USSIM), employs a team of pension and investment professionals across Liverpool and London. USSL is regulated by The Pensions Regulator and has a legal duty to ensure that benefits promised to members are paid in full on a timely basis.

The scheme remains open to future defined benefit (DB) accrual for both new and existing members, with members also able to build up defined contribution (DC) benefits. As a non-associated multi-employer scheme offering DC benefits USS is an authorised Master Trust (MT).

USS governance

USSL currently has twelve trustee directors. Between them, they hold a wealth of competencies in, and knowledge of (amongst other things), pensions, investments, legal, actuarial matters, the Higher Education (HE) sector, audit and financial management, remuneration structures and communications. This diverse set of skills, experience and backgrounds helps ensure robust and effective governance of USS. This is particularly important for a scheme like USS, given its large size and significant in-house resources. These give rise to significant board oversight responsibilities over sizeable pensions administration and investment management businesses.

As a multi-employer scheme established for the Higher Education sector, our scheme constitution requires four trustee directors to be appointed by an organisation which represents participating employers in our scheme (the Universities & Colleges Employers Association (UCEA)), and three trustee directors to be appointed by a higher education union (the University and College Union (UCU)). The Board itself is responsible for appointing three to five trustee directors (including the Chair) to the Board. We refer to this last group of trustee directors as “independent” (i.e. they are not appointed by either UCEA or UCU). Appointments are made on a fixed term basis and guided by a board skills matrix.

The trustee directors are supported by a staff of over 700 led by a Group Executive team of eight senior executives, providing a breadth of relevant strategic, operational, professional and financial skillsets.

USSL 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 Scheme’s investments in-house and appoints, and oversees, external investment managers to manage the rest. USSIM is authorised and regulated by the Financial Conduct Authority.

Responses to Questions

Note - Like many UK pension schemes, and as noted above, the USS trustee is a company. We do not have individual trustees. We have responded to your questions by reference to the skills and experience of the directors of the trustee company; and (for ease) from this point on we use the term “trustee director” throughout our response when referring to our own trustee directors and processes. We use the term “trustee(s)” when referring to trustees in the industry more widely.

Please note that we have responded to those questions most relevant to USS.

Q1. What do you think works well in the current trusteeship and governance system?

There are a number of areas of the current regulatory approach which we believe are working well. In particular, we believe that the MT regulations are a good approach to ensuring high standards whilst allowing flexibility for trustee boards to consider the skills and expertise required for their boards. Pension schemes serve many different sectors of the economy. They vary considerably in size, complexity, structure and resource. It follows that any plans to enhance regulation around trustee requirements should be flexible enough to allow schemes to continue to appoint trustees with the range of skills and expertise required **for their own schemes**. This might

include appointing trustees with specialist skills and knowledge of sectors outside of pensions and then using training to upskill their pensions knowledge. We strongly believe that a good Trustee Board is the product of the range of skills and expertise of the full board of trustee directors. As outlined above, USS benefits from a board of twelve trustee directors, each from different backgrounds and each bringing different skills and views to discussions and decision making.

Q2. What are the barriers to good trusteeship?

We benefit from being able to appoint very capable and experienced trustee directors. We would highlight aspects of our own process that may be useful in identifying potential barriers to good trusteeship in the wider industry:

- As a MT, we are required by law to follow an open, fair and transparent process to recruit all our trustee directors, including those who are appointed by UCEA and UCU. This typically includes advertising the roles with a national newspaper and using recruitment firms as necessary;
- The advertisement (and appointment documentation) makes clear the time commitment required for the role;
- We pay a fee to all our trustee directors for their services (no matter who appointed them);
- We have annual trustee director appraisal processes; and
- Our trustee directors are also supported by a large and expert in-house executive team.

Being a trustee is an extremely important role with significant responsibilities and potential liabilities to consider – this requires appropriate investment of time, skill, diligence and commitment. We pay a fee to all our trustee directors recognising the time commitment we expect and the importance of the role. Trustees also need good support to run their schemes on a day-to-day basis, such that they can provide appropriate oversight, ensure that the scheme operates in a well-controlled manner, and focus on those strategic matters likely to make the most positive impact for the scheme and its members. In summary, trustees need to be given adequate time and resources to do the job well.

Q3. Looking ahead to 2030 and beyond, what further support will trustees need to ensure effective scheme governance?

Paragraph 9 in this section of the consultation states: *“We believe there should be a higher bar that all trustees must meet with regard to technical knowledge and understanding requirements, along with skills, such as those linked to effective leadership.”*

We support this approach and the consideration of diverse skills required to run pension schemes. As we set out above, USS is a large complex scheme. With increased consolidation in the sector, schemes will become larger and more complex with a greater need for depth of skills and experience from its trustees, including leadership skills required to oversee and lead an organisation of scale, with a meaningful in-house executive team.

As stated earlier, the current MT regulations allow for high trustee standards with sufficient flexibility to allow us to tailor our skills and competency requirements, and therefore the trustee directors we recruit, to the needs of our scheme and its context. As paragraph 10 of the consultation recognises, the pensions landscape (and the world in which it operates) is changing and will continue to change, and the trustees and skills required on trustee boards will need to change over time too. Any legislative or regulatory requirements to raise the bar for trustees should be flexible enough to allow individual pension schemes, such as USS, to be able to appoint trustees with the skills and expertise required by the particular circumstances of that scheme at that time.

We support an approach where the balance of skills and expertise on a Board as a whole are considered. In some circumstances this might mean appointing trustees with less extensive pensions experience, but with strong skills in another specialist area required by that Board (for instance strong technology skills, audit and risk skills, or business leadership skills). Any new legislative / regulatory minimum standards for trustees should therefore allow time for such trustees to complete a thorough induction which would include deeper training in pensions

over a period from appointment. Requiring overly stringent pensions expertise from the start might reduce the pool of diverse and skilled candidates eligible to be appointed as trustees and could deter candidates with wider business skills from applying, resulting in the unintended consequence of driving undue reliance on professional trustee firms.

Q4. Does effective scheme governance in a Megafund require additional support or any specific changes in regulatory approach?

As stated in prior questions, as schemes become larger and reach ‘Megafund’ levels (i.e. assets of £25 billion or more), their in-house resources are also likely to increase, such that the trustees of such schemes require broad and diverse skills and expertise to oversee and lead what are large and complex businesses. As stated above, this is likely to mean that trustees will need to be recruited with broad skills, including business leadership skills, which go beyond pure pensions experience; and/or relevant training will have to be in place to develop these wider skills. At Megafund scale, overall governance is the sum of the expertise of the trustee board and the in-house executive resource running the scheme on a day-to-day basis. This structure combines executive and non-executive skills with an appropriate separation of duties between a non-executive board of trustees and its in-house executive. This embeds good corporate governance and challenge in decision making and helps mitigate conflicts of interest

In short, larger schemes are likely to need more tailoring of their governance requirements to their particular circumstances, their size and the extent to which they have in-house resources available. As such, regulation needs to be flexible enough to allow for this tailoring, whilst stringent enough to make clear the high expectations of those in trustee roles. We believe that the Master Trust regulations strike this balance well.

In this section of the consultation, in paragraph 14, you state that *“we would like to understand the extent to which the relationship between the trustees and those that appoint and can remove them may cause conflict, and the extent to which trustees may not be fully able to act independently or provide sufficient challenge.”*

As stated earlier in our response, more than half of the USSL Board is appointed by our stakeholders (UCEA and UCU). The MT regulations: (i) are flexible enough to allow the scheme’s stakeholder trustee director appointment structure to be maintained, whilst (ii) put protections in place to ensure the fitness, propriety and suitability of those trustee directors. We have agreed with our stakeholders various methods by which to do this, including trustee director involvement in stakeholders’ interview processes, the requirement to consult the Independent Chair on all appointments, and due diligence processes. The Trustee (acting reasonably) therefore has a right of veto if a candidate proposed does not meet requirements of the role.

The introduction of the MT regulations was also a helpful prompt for our Trustee Board and stakeholders to review and agree appointment processes and the allocation of roles and responsibilities between all parties. The Master Trust requirements led us to develop a comprehensive trustee competency matrix which sets out the skills and competencies we require on our board. This helps us to identify the skills and competencies we require for each trustee director vacancy, no matter which stakeholder is appointing them, and to discuss these requirements with the stakeholders responsible for the appointment.

With regards to potential conflicts of interest where trustees are appointed by stakeholders, we have experience of these potential conflicts being managed through various methods:

- good and regular training on the fiduciary duty of all trustee directors;
- having a sufficient number and diversity of directors that any trustee director(s) who might be conflicted due to their position as (e.g.) a member of the scheme, or through their holding a senior role at an employer, can recuse themselves from a specific discussion, allowing the discussion and any necessary decision to proceed;
- having clear and documented expectations for how trustee directors should fulfil their responsibilities (through role descriptions and a Board Code of Conduct), and being clear also on the consequences of a failure to do so, up to and including removal as a director;
- processes to review performance and any issues, for instance director feedback processes and annual

- appraisals with the Chair; and
- Access to legal advice in the event of potential conflict.

Q5. Can you describe any potential or actual conflicts of interest that stem from the provision of further services within professional trustee firms and other third-party providers? How are these conflicts managed now? What is the scale of the residual risk in the market?

We recognise the importance of properly considering the potential conflicts and challenges that arise as the industry moves toward a model where professional trustee firms provide trustees for an increasing number of schemes. These firms are likely to offer a range of advisory and other services. We are mindful, however, that appropriate additional regulation to manage these potential conflicts of interest should not impinge on existing service provision where a trustee might have subsidiaries which provide services to a scheme for good reason and in the best interests of members given alignment and value for money factors. This is the case with USS where the Trustee's subsidiary, USSIM, is its FCA-regulated investment manager and principal investment advisor.

More broadly, this section of the consultation rightly discusses the increasing role of professional trustees in running trust-based schemes. Given our current governance model, we would emphasise that appointment of trustees from professional trustee firms is not the only way that trustees can access high quality individuals and expertise to run their schemes. The USS scheme has no trustee directors from a professional trustee firm, but has a highly qualified and skilled Board, with the combined competencies to run the large and complex scheme of USS. Either before joining or whilst serving on our board, some of our trustee directors have undertaken professional pension trustee accreditation and some have trustee roles with other unrelated schemes, meaning, under TPR's definition¹, they are deemed as professional trustees (albeit not under the auspices of a professional trustee firm). ***It is important therefore that any legislation or regulation on 'professional trustees' is clear on definitions and when regulations are directed at 'professional trustees' and when they are directed at 'professional trustee firms'.***

That being said, we acknowledge that remuneration of any trustee can present potential conflicts of interest, and these risks are heightened for professional trustee firms, particularly those offering ancillary services, where there are potential incentive structures for cross-selling of services or continuing to run a scheme rather than investigating buy-out or buy-in options. An increasing reliance of pension schemes on a small group of professional trustee firms also gives these firms great purchasing power in the market in terms of their selection of external service providers for their schemes. We support any regulation or guidance which recognises and seeks to mitigate these potential conflicts of interest.

Q7. Should there be restrictions on individuals acting as professional trustees, such as the number of appointments they can hold, to ensure individuals have the appropriate capacity to manage schemes?

Whilst we support monitoring the time commitments and capacity of trustees to perform their roles (something USS does) the size, complexity and support/resource provided to trustees can vary greatly and therefore the workloads of different pension schemes can vary greatly also. We would advocate good practice guidance rather than hard limits to allow for a comply or explain basis to operate, given the breadth of the market and the different types and situations for professional trustees.

For instance, we note that we are answering this question with our scheme in mind, where our trustee directors are individuals, with plural careers, and it is relatively easy for us to monitor their time commitments across multiple roles. However, we are aware that for professional trustee firms, it is usually the professional trustee firm *itself* that is appointed to a role, and the individual representing the firm across multiple appointments might be less easy to track, can be subject to change, and there might be differing amounts of support available to the lead trustee from their team.

¹ TPR Professional trustee description policy, August 2017

Q10. Given the future landscape for pensions, are any further controls or safeguards needed on the appointment of trustees to ensure that decisions are made in members' interests?

As per our answer to question 4, we have found the MT regulations helpful in ensuring that our appointment processes ensure that our Trustee Board is able to hire suitably fit, proper and skilled trustee directors, whilst not being so prescriptive as to fetter the Trustee Board's ability to decide on the particular diversity of skills and competencies required of trustee directors to run our Scheme.

Q11. What role can Government and regulators play in helping schemes to attract a diverse and talented pool of individuals to trusteeship?

The consultation cites graduate training programmes run by professional trustee firms as one way for encouraging diversity into the pension industry. However, we would note that the role of a trustee is one that requires complex oversight, considerable judgement and nuance - skills very often borne out of experience in other roles. We believe that programmes to develop individuals later in their careers and from other sectors are likely to be more valuable and a way of bringing more developed skills and talent to pensions more quickly and encouraging diversity.

USS currently supports a Trustee Accelerator Programme, originally established by Standard Life, now transferred to the Pensions Management Institute. This programme is designed to give mid-career professionals from different backgrounds or with different characteristics the training and trustee shadowing opportunities to become proficient and knowledgeable Pensions Trustees in the future.

Q12. Should there be any limits on length of trustee appointment, or should they be limited in number of repeat appointments to the same trust?

We follow the FRC's UK Corporate Governance Code and limit our directors to a term of a maximum of 9 years (noting that the MT regulations limit tenure to a maximum of 10 years). We believe that placing such limits on trustee director tenure promotes good governance. However, careful succession planning is required to ensure that scheme knowledge is not lost and that the Board retains an appropriate balance of skills and competencies. We believe that there are also risks to terms of office being too short, as it can take time for trustees to get up to speed with the particular circumstances of a scheme. For example, there are benefits in trustees undertaking multiple valuation cycles in DB. In light of this, we appoint our directors for four-to-five-year terms, with the option of one re-appointment.

Q15. How can TPR ensure it has the information it needs for the directory without creating greater administrative requirements for schemes?

We do not oppose a central directory of trustee directors, akin to the Companies House register of directors of companies, and do not believe that submitting such information would be burdensome for trustees. We support the proposal for a statutory definition of a professional trustee.

However, we believe that the proposed categorisation of trustees into three groups mentioned in the consultation (professional trustee, employer nominated or member nominated) is much too simplistic.

In practice, the types of trustee can overlap, for instance an employer might appoint a professional trustee, and Trustee Boards might appoint independent trustees who are not professional trustees.

Using USS trustee directors as an example:

- USS is exempt from and does not have member nominated trustees but does have trustee directors appointed by a union;
- That union has the power to appoint three trustee directors on the Board, but those appointees do not need to be a member of the scheme and could be professional trustees;
- An organisation representing employers has the power to appoint four trustee directors on the Board,

but those individuals might not be employed by a scheme employer and could be professional trustees or not;

- The USS Trustee Board has the power to appoint five trustee directors (we call them 'independent trustee directors'). These trustee directors, whilst very experienced, might not be 'professional trustees' under the current definition.

Therefore, the set up and categories in the directory might need careful consideration and should perhaps allow for multiple categories to be selected for a trustee director (e.g. Employer appointed and professional trustee).

Q16. What skills will trustees of trust-based pension schemes need in order to be an effective and efficient trustee board? For example, areas such as leadership experience, negotiation skills, investment management (including sustainability-related investment management), communications, financial planning? What other areas should trustees have proficiency in?

As a large multi-employer scheme with a large in-house executive, we support the view that trustees of such schemes need a range of skills and expertise on the Board that go beyond pure pensions expertise. This recognises that a large scheme or Megafund is effectively a large and complex financial services business.

We believe that a good Trustee Board is the product of the range of skills and expertise of the full board of trustee directors. We follow a process to identify the skills and competencies required on our board, recruit directors with the skills and experience we have identified as necessary and arrange training for our trustee directors to fill any gaps in knowledge /upskill an individual's expertise.

With regards to the areas of proficiency that trustees should have, this will depend on the structure and circumstances of individual schemes. Areas that are important for a large scheme, with a large in-house resource, will likely be different to those that are typically important for a small pension scheme. Examples include: staff remuneration strategy and policy experience; risk, control and compliance experience (from the perspective of overseeing a large organisation and staff); data management, IT and cybersecurity; change management; supplier management and media/communications skills.

As a large and complex scheme with a sizeable staff, we often look to corporate governance best practice in the corporate sector, as well as following FCA Senior Management and Certification Regime for our in-house asset manager, USSIM and its directors. Regulation and guidance in these sectors are focussed on, and include sufficient flexibility for, companies to consider the skills and competencies required for their boards, recognising the diversity of their sectors, rather than trying to adopt a one-size fits all approach to director competency requirements. Current MT regulations are similarly structured, and we would advocate such an approach to any further regulation, particularly if there will be more large / Megafunds requiring specialist expertise on trustee boards.

Q17. Would it be appropriate for TPR to set statutory higher standards for professional trustees? What should these standards look like?

As set out in our response to Question 3, we support setting higher standards for professional trustees and for these standards to recognise the diverse range of skills required to fulfil the role effectively, subject to this not becoming a significant barrier to entry for non-pensions experts with valuable wider experience.

Q18. We are moving towards models of trusteeship that do not include as many lay trustees as now. What important benefits or skills of lay trustee should we try to replicate in consolidated structures? And how should it be achieved?

For our scheme, which serves multiple employers in one sector (Higher Education), we find it beneficial to have some employer and union appointed trustee directors who are often selected from that sector. Alongside ensuring the required mix of relevant skills and experience, this helps bring the perspective of both employers and members into board decision making. This is in addition to exercises such as member surveys and other direct

engagement with the employers and members. We believe that having some trustee directors drawn from the sector which the scheme serves helps support member trust. The existing MT requirements therefore are not a barrier to ensuring a mix of trustee backgrounds as schemes develop scale if there are in place suitable mechanisms for recruiting trustees.

Q19. What support/continuing professional development (CPD) would you like to see put in place for lay trustees? Should all trustees be accredited? Would it lead to a trustee shortage? Who would pay for it including time as well as any L&D costs?

We pay all of our trustee directors a fee, given the important role that they play and the significant time they spend on trustee business, which includes training and maintaining trustee pensions knowledge. We agree that there is already a wealth of training and support for trustees with the TPR toolkit, TPR guidance, and many industry seminars, webinars and email alerts. However, the consultation's proposal for a 'one-stop shop' website to help trustees find / sign-up for such information would be useful. Arranging specific training from advisers, or in our case arranging in-house team prepared training, also supports trustees. With regards to the Trustee Toolkit, we would encourage TPR to commit to a full review and update of it on a regular basis – perhaps every three years, to ensure that it remains up to date with current issues and practices in pensions.

We would not be against continuing professional development requirements for trustees and indeed we expect our trustee directors to undertake ongoing training as part of their role. However, the system for recording CPD should be easy to use and not burdensome.

Whilst not against accreditation of lay trustees, we would highlight that there are potential risks that too difficult a process might deter people from taking on the role, particularly if those trustees are not receiving a fee for their time as a trustee. We do not believe that formal accreditation through qualification should be the only route to being considered appropriately qualified. If accreditation is required, it will be important for the authorised providers of such accreditation to provide value for money to those it provides accreditation to.

Q20. How can we ensure trustee boards take into account the perspectives of members in their decision making?

While all our trustee directors have the same legal duties, USS has trustee directors appointed by a union representing members (and often gains valuable insights from these appointees). We recognise that this is not the only way schemes can gain member insight. For example, we also undertake various forms of engagement activities with the membership (usually through surveys but also visiting employers to meet members and through a Member Voice panel) to ensure that we understand members' perspectives and can test new member tools / initiatives before launch. We believe that it is important to gain member and employer insight to help inform Trustee Board decision making. However, we would emphasise that a trustee's fiduciary duty is to act in the best interests of the scheme as a whole, consistent with the scheme's proper purpose, and not to respond to individual member preferences.

We would note that in line with good corporate governance practice, we report in our suite of annual report and account documents how member (and other stakeholder) views have been considered in decision making.

Q21. Can you give any examples of best practice in the UK or internationally that demonstrate schemes taking appropriate account of their members' views?

We have set out our approach in our answer to Question 20.

We reiterate that even when member views are sought, the fiduciary responsibility remains with the trustee to act and make decisions which they believe are in the best interests of members, even where these decisions might go against how members have responded to a survey for example. We would also note that processes to seek member views can sometimes only gain the views of members with a particular viewpoint/a particular interest in a given topic and will not necessarily reflect the views of the membership as a whole.

Questions 22-25

In terms of the questions set out in Chapter 5, covering 'Administration', we do not think additional requirements are appropriate for in-house administrators such as USS, who are, in effect, directly responsible for meeting all regulatory requirements through the trustee company.

Q26. What role should TPR take in reducing the risk and impact of a disorderly market exit by an administration provider?

Given that we carry out scheme administration ourselves we have no view on this. However, we would encourage TPR to ensure that, if further regulation of third-party administrators was regarded as appropriate, this would not create new duties (whether intended or unintended) on schemes where trustees have chosen to retain administration in house.

We would welcome direct discussion with you and your team on the points in this response as helpful.

Yours sincerely

Carol Young
Group Chief Executive