

# in touch

The 2014 newsletter for retired and beneficiary members of USS

## Welcome to the 2014 'in touch' newsletter, and my first as Group Chief Executive.



Bill Galvin  
Group Chief Executive

Ensuring sustainable pension provision is the key challenge for all pension schemes that, like USS, promise a defined-benefit pension. A changed financial landscape and increasing longevity are driving up the likely costs of meeting these liabilities and have contributed to substantial funding deficits. These are the same challenges that have led governments to increase

state pension age, insurers to reduce annuity rates and employees in schemes without employer guarantees to postpone their retirements. We are working hard to find the right response to these challenges for this pension scheme, and for the higher education sector.

Every three years we carry out a formal valuation of the scheme's funding position. In 2011, at the last formal valuation, we reported a £2.9 billion deficit. The trustee publishes annual updates, and in March 2013 we reported an £11.5 billion deficit.

This year, in our formal valuation as at 31 March 2014, we anticipate we shall again report a continuing substantial deficit. We have already begun working with employer and member representatives to develop an appropriate response which ensures pension provision

*Continued overleaf...*

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# USS

in the higher education sector remains sustainable. A number of options are available, including increasing contribution levels and adjusting future benefits; the trustee and the stakeholders are likely to face some difficult decisions. It is important to note, however, that accrued rights are protected in this process, and members like you who are already receiving a pension will not be affected by any changes.

As well as delivering sustainable pensions, our focus will remain on providing a high standard of service to members and sponsoring institutions. We know from your feedback that you value the personalised service you receive from USS and we are determined to maintain that high-quality support.

Unlike many similar pension schemes, USS remains open to new members and the scheme continues to grow. In recent months we have seen the rate of new joiners increase, due largely to new legislation which requires employers to enrol all their staff into a qualifying workplace pension scheme. This is one of the biggest changes to pension provision in the UK for generations, bringing many new savers into pensions for the first time. USS serves institutions that already had high pension take-up, nevertheless we have had 25,700 new entrants since March 2013. Most new joiners enter the Career Revalued Benefits section, which now has some 44,500 members.

On the investment side, we have made excellent progress in the development of our in-house investment management team. This approach has proven to be cost-effective and has enabled us to make innovative direct investments in some key infrastructure assets such as Heathrow airport. These are attractive investments for long-term schemes like USS as they have the potential to deliver returns which are linked to inflation, matching the required cash flows of the pensions we pay.

In recent months we have made a number of new appointments, Sarah Bates, (Chair of St James' Place) has joined the investment committee as an expert member. Clive Brown (ex of JP Morgan) has taken up a non-executive director position on the USS Investment Management board and we have welcomed two independent trustees to the board – Ian Maybury (of Royal London, and Schrodgers) and Michael Merton (ex Rio Tinto). All have welcomed the opportunity to join the UK's leading pension fund, where they will enhance the considerable skill and expertise of the boards and committees on which they serve.

I'd also like to thank Mike Butcher for the nine years he served as an independent trustee. Mike stood down in February of this year, and we wish him all the very best for the future.

Bill Galvin  
**Group Chief Executive**

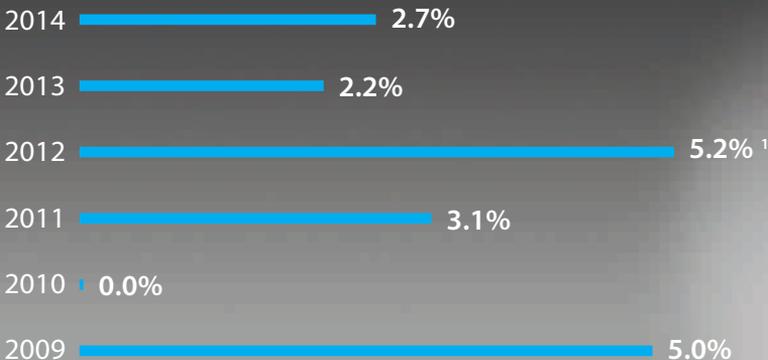
# Pension increases

## All qualifying pensions beginning before 23 April 2013 will be increased from 1 April 2014 by 2.7%.

The increase is based on the increases applied to 'official pensions' (those paid to members of public service pension schemes, such as teachers or civil servants). Increases to official pensions are based on the rate of inflation for the 12 months to September 2013, measured using the Consumer Prices Index.

- For pension rights built up before October 2011, increases match the full increase in official pensions.
- Increases to pension rights built up from 1 October 2011 match the rise in official pensions for the first 5%. If official pensions increase by more than 5%, then USS will match half the difference up to a maximum overall increase of 10%. So, if the rate of increase to official pensions was 15%, USS's increases would be 10% for post October 2011 pension rights.
- Pro-rata increases apply to pension benefits that came into payment on or after 23 April 2013.

## Pension increases for the last six years



<sup>1</sup> The increase to post October 2011 pension rights was 5.1%

# Tax allowances

**Most people have a Personal Allowance – an annual amount of tax-free income. The rates of Income Tax you pay depend on how much taxable income you have above your allowance.**

Here is confirmation of the main tax allowances for the 2014/15 year, subject to any changes in the law following the budget statement on 19 March 2014.

Age	Allowance
Born after 5 April 1948	£10,000
Born between 6 April 1938 and 5 April 1948	£10,500
Born before 6 April 1938	£10,660

At all ages, for every £2 your income is above £100,000 a year your Personal Allowance goes down by £1. This can reduce your Personal Allowance to zero if your income is high enough.

In addition, for those born before 6 April 1948 the Personal Allowance reduces where the income is above £27,000 a year - by £1 for every £2 of income above this limit. This will not fall below the basic personal allowance of £10,000 a year until income exceeds £100,000 a year.

Additional allowances can also be claimed. If you are married or part of a registered civil partnership, you can claim for the Married Couple's allowance. If you are blind, you may be able to claim Blind Person's Allowance of £2,230.

## Income Tax rates and bands

You pay tax at these rates on taxable income above your Personal Allowance.



## Income Tax on savings interest

Savings interest is automatically taxed at 20%. But if you're on a low income, you may be able to get the interest tax free or get half of the tax repaid.

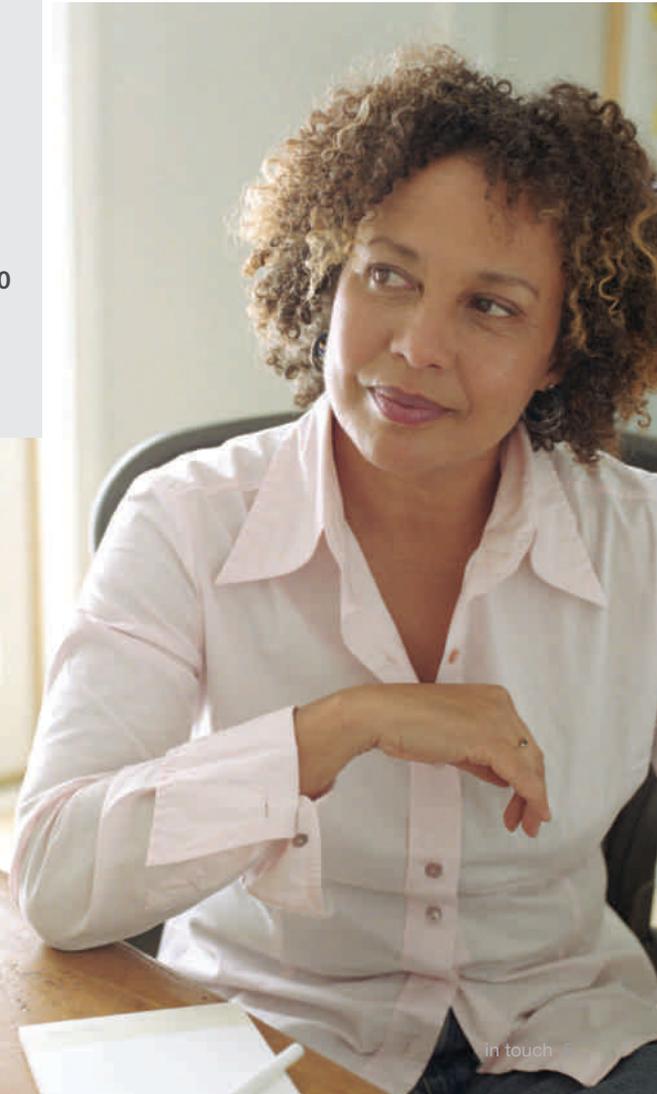
More detailed information is available at [www.gov.uk/income-tax-rates](http://www.gov.uk/income-tax-rates)

If you have any queries regarding the calculation of your tax code, these should be addressed to:

**HM Revenue & Customs**  
**Pay As You Earn**  
**PO Box 1970**  
**Liverpool**  
**L75 1WX**

**Telephone number: 0300 200 3300**

Please quote tax office reference 428/U168 together with your national insurance number.



# Current economic and market climate



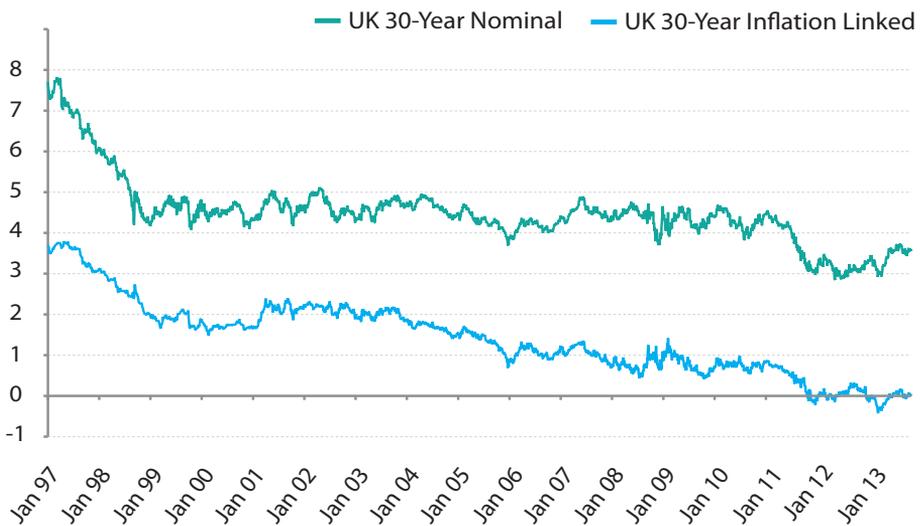
Roger Gray  
Chief Investment  
Officer and CEO  
USS Investment  
Management Ltd

**The impact of the global financial crisis continues to be seen in the scheme funding position, predominantly in the market-based value placed on the scheme's liabilities rather than the value of the assets.**

The low yields on UK Government bonds or 'gilts' drives a high present valuation of the scheme's liabilities. The funding position on an ongoing basis is calculated by discounting the scheme's projected liabilities using gilt yields plus 1.7%. This provides an estimate of the amount of assets needed today to pay all of the pensions promised.

When the scheme funding position was assessed at March last year, low gilt yields weighed heavily as a factor in the deficit of £11.5 billion. Gilt yields hit an all-time low in April 2013, and whilst they are showing some signs of recovery, they are not expected to return to pre-crisis levels at least in the short to medium term.

## UK 30 Year Gilt Yields (%)



Globally, the economic recovery has been erratic. We have seen strong returns in equity markets over the past five years, as disaster has been averted due to extraordinary monetary and other policy measures.

While the US economy has managed reasonable growth there has been only modest growth in Northern Europe. At the same time, Southern Europe has experienced financial stress and economic contraction. UK economic data had been relatively stagnant but has moved ahead in recent quarters.

Slow growth has led to lower global inflation; the UK had been an exception until recently, partly due to sterling's large devaluation in 2008 and a number of one-off additions to the cost of living.

The outlook for 2014 is continued moderate growth. After the strong recoveries in 'risky' assets in recent years, a degree of good news, positive expectations and reduced fears of serious market stress have been factored into market pricing. However, some uncertainties remain: potential shifts in official policies, the extent of downward pressure on inflation and possible weakness in emerging markets and even global growth could make 2014 a choppier year for returns. We have taken steps to diversify the scheme's asset mix into traditional and alternative assets (e.g. infrastructure) and developed our internal investment team to ensure we are well placed to meet the challenges and opportunities ahead. More information about our investment approach is on page 8.

Roger Gray  
**Chief Investment Officer and CEO**  
**USS Investment Management Ltd**



# Fund investments

**USS's £40 billion investment portfolio is managed predominantly by the internal investment team. The Trustee favours an in-house approach, as it is both cost effective and provides greater synergies between the strategic investment approach and the fund managers. External managers are used when specialist expertise is required and it is not economic to develop it internally on a timely basis.**

The fund is invested in a wide range of asset classes, both publicly traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). The Trustee's primary responsibility is to deliver the promised benefits to scheme members. To do this the Trustee collects contributions from employers and members, and endeavours to maximise the returns available from the assets within an acceptable level of risk. A diversified portfolio helps to spread investment risk across different asset classes and to boost the level of confidence in maintaining sufficient investment returns from the fund as a whole.

This investment approach is innovative and responsible, and targeted at achieving returns required to meet the scheme's liabilities. It has delivered good returns and the assets have increased in value by £8.6 billion in the three years to December 2013. Over this period the investment return on assets has been 26%, of which 1.2% or around £447 million was above expected returns.

Independent benchmarking demonstrates that USS also remains cost effective compared with similar pension schemes. In 2012, the latest year for which figures are available, USS investment management costs were estimated to be £40 million less than those of schemes with a similar size and asset mix.

"The Trustee's primary responsibility is to deliver the promised benefits to scheme members."



Recently, the Trustee has invested directly in infrastructure assets. These investments are typically illiquid, but can achieve attractive inflation-linked returns in ways often not available in the publicly-traded markets and which can match the scheme's liabilities to a high degree. The fund has made a number of high-profile investments in this area, with recent purchases including stakes in Heathrow Airport Holdings, NATS – the UK's National Air Traffic Services, and Brisbane AirTrain. USS is one of the few UK institutional investors with the size of assets, appetite and expertise to be able to invest directly in infrastructure.

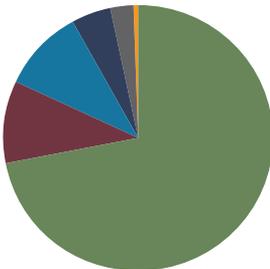
Responsible investment is a key focus for the Trustee across all its asset classes. Environmental, social and governance issues (ESG) are integrated into the investment process whilst at the same time the Trustee engages with global policymakers on issues that could impact the potential to deliver long-term sustainable returns.

**Visit the website – [www.uss.co.uk](http://www.uss.co.uk)**

For further information about the fund's top 100 public holdings, our responsible investment activities and announcements of recent major investments.

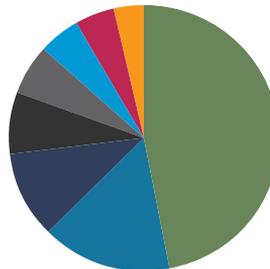


**Autumn 2009**  
Fund value £26.8 billion



- Equities 72%
- Property 10%
- Bonds (Govt) 10%
- Private markets - Private capital 4.7%
- Private markets - Infra/Timber 2.8%
- Hedge funds 0.5%

**Autumn 2013**  
Fund value £39.9 billion



- Equities 47.1%
- Bonds (Govt) 15.5%
- Private markets - Private capital 10.7%
- Private markets - Property 7.5%
- Private markets - Infra/Timber 6.1%
- Bonds (non Govt) 5%
- Index-linked gilts 4.5%
- Hedge funds 3.6%

# Upcoming formal valuation

**The Trustee measures the value of the assets and liabilities on a regular basis. These measures are produced by the scheme actuary every year and we send you an update in the summary funding statement, which forms part of your members' annual report.**

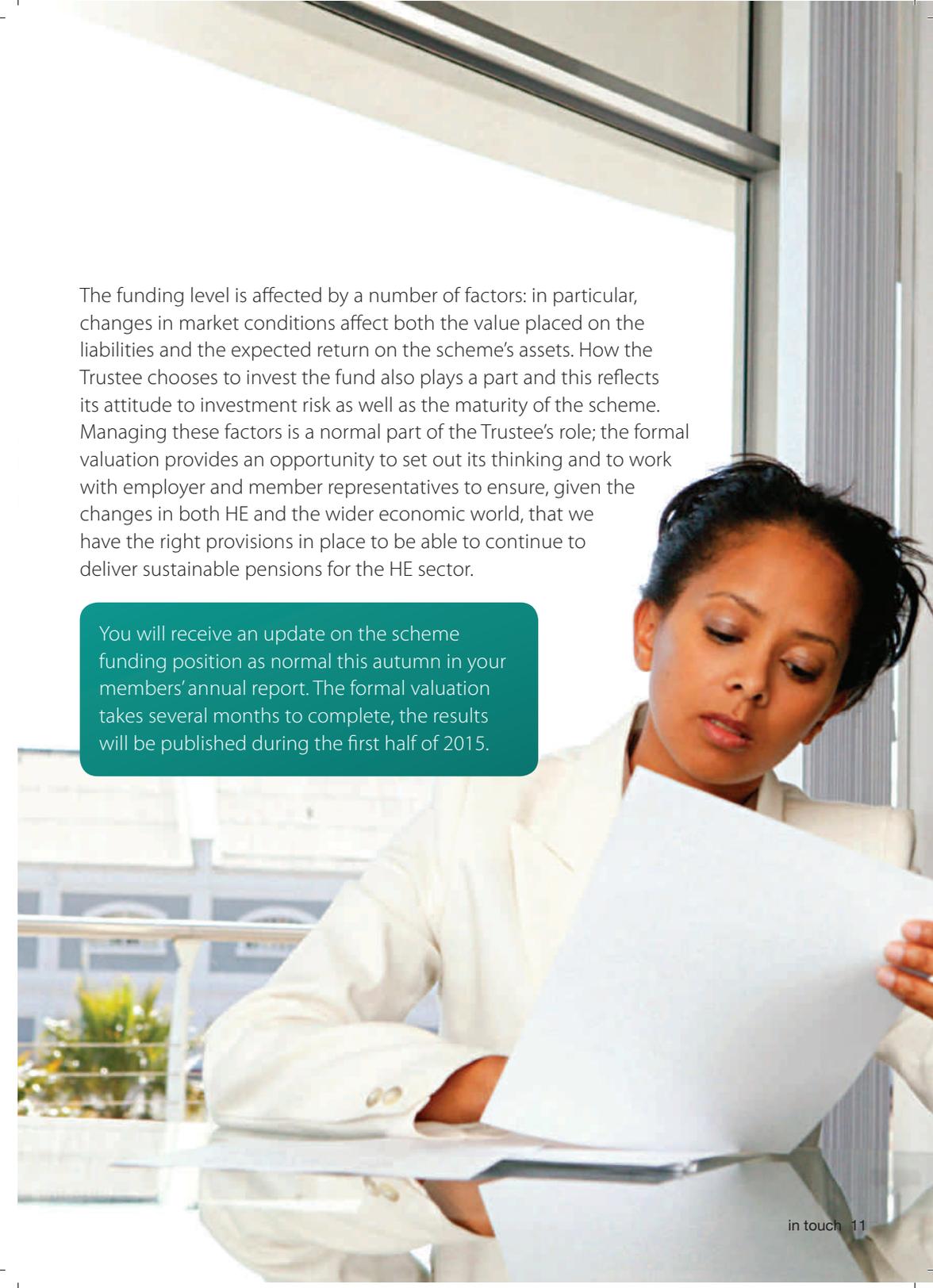
Once every three years, we undertake a formal valuation (also known as an actuarial valuation), which involves a full review of all aspects of scheme funding.

At the last formal valuation in March 2011, we reported a deficit of £2.9 billion. Many of you will remember a number of measures were put in place to respond to that deficit, including the introduction of a revised Career Revalued Benefits (CRB) section of the scheme. In the subsequent years, the deficit has increased, largely due to the changes in market conditions as discussed elsewhere in this newsletter, and in March 2013 we reported a deficit of £11.5 billion.

This year, we will complete a formal valuation and the Trustee anticipates an ongoing substantial scheme funding deficit, which could result in scheme changes. There are a number of options for dealing with the funding deficit including making changes to contribution rates and to future benefits. However, it is important to note that accrued rights are protected and pensions in payment will not be affected by any changes in the scheme rules that might arise from the review of funding.

“...it is important to note that accrued rights are protected and pensions in payment will not be affected by any changes in the scheme rules that might arise from the review of funding.”



A woman with dark hair, wearing a white blazer, is seated at a desk and looking down at a large white document she is holding. The background shows a bright window with a view of a building and some greenery. The lighting is soft and natural, suggesting an office environment.

The funding level is affected by a number of factors: in particular, changes in market conditions affect both the value placed on the liabilities and the expected return on the scheme's assets. How the Trustee chooses to invest the fund also plays a part and this reflects its attitude to investment risk as well as the maturity of the scheme. Managing these factors is a normal part of the Trustee's role; the formal valuation provides an opportunity to set out its thinking and to work with employer and member representatives to ensure, given the changes in both HE and the wider economic world, that we have the right provisions in place to be able to continue to deliver sustainable pensions for the HE sector.

You will receive an update on the scheme funding position as normal this autumn in your members' annual report. The formal valuation takes several months to complete, the results will be published during the first half of 2015.

# Scheme membership statistics

**USS pays benefits to many thousands of members of the scheme as well as their beneficiaries. Each month, our payroll team processes pension payments of over £100 million.**

Membership of the scheme is always changing. New employees join and become contributing (active) members, whilst existing members leave the scheme as they begin drawing benefits or perhaps through a career change, in which case, they may choose to retain their benefits in the scheme as 'deferred members'.

The rate at which new members join the scheme has continued to grow, mainly as a result of the new automatic enrolment rules. The illustration below shows how the scheme's demographics have changed between March 2013 and March 2014.



## Active

154,889 – 2014

148,466 – 2013



## Deferred

103,862 – 2014

98,975 – 2013



## Drawing benefits

57,896 – 2014

55,619 – 2013



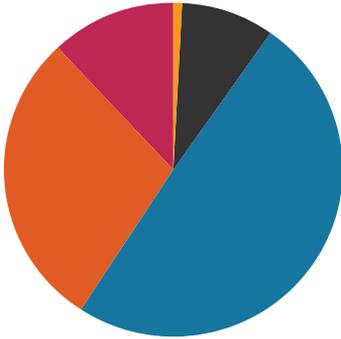
## Beneficiary

11,228 – 2014

9,827 – 2013

Over the last 12 months, the rate at which new members joined the scheme showed a marked increase on the previous year.

In general terms, the UK population is living longer. The life expectancy of an average 65 year old USS pensioner has increased by more than 5.5 years for men and 4 years for women over the course of the last 15 years.



### Members drawing benefits

50 & under	147	less than 1%
51 - 60	4,766	9%
61 - 70	28,041	50%
71 - 80	16,088	29%
81 & over	6,577	12%
<b>Total</b>	<b>55,619</b>	

In pension terms, every two years of extra life adds five percent to pension liabilities and this poses significant challenges for the scheme. The Trustee continues to meet these challenges and support the long-term sustainability of the scheme.

### Some scheme statistics

22 members and beneficiaries are over the age of 100.

Nearly 7% of our pensioners and beneficiaries live outside the UK. We correspond with retired members in 58 different countries.

The ratio of female to male retired members who are currently drawing benefit is 1:2.

# Overview of USS's Career Revalued Benefits section

## **USS has two sections: the original Final Salary section and the new Career Revalued Benefits (CRB) section.**

Since you're already in receipt of benefits, it's most likely that you were a member of the Final Salary section. But a number of our readers have told us that they'd still be interested to learn more about the new section.

Both sections of USS provide 'defined benefits'. This means a formula is used to work out members' pensions, based on service and salary rather than the investment performance of the money that is paid into the pension. Since 1 October 2011, new USS members have joined the CRB section, as the Final Salary section is now closed to new members.

Each year, members of the CRB section build up a benefit of 1/80th of the salary they earned during the year, plus a lump sum which is calculated as 3/80ths of that salary.

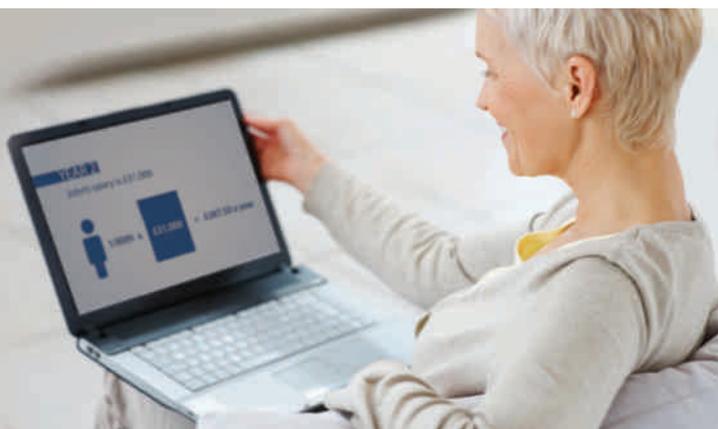
This calculation is used to work out members' benefits for every subsequent year of membership. Upon retirement, CRB members receive the total of the 'revalued' benefits that they've built up during their career.

'Revalued' refers to the fact that the value of benefits earned each year is increased in line with the standard USS pension increases. They continue to be applied once CRB members start to receive their pension, in the same way as they are for Final Salary section pensions.

Currently, CRB members contribute 6.5% of their salaries and their employer contributes 16%. Just like the Final Salary section, the CRB scheme provides members with protection should they be forced to retire due to ill-health, as well as protection for their beneficiaries in the event of their death.

**Visit the website –  
[www.uss.co.uk](http://www.uss.co.uk)**

For more information  
about how the  
CRB section works.



# Useful contacts

**Keep these pages for a list of USS contact information as well as some other non-USS contacts that may be of use to you.**

Universities Superannuation Scheme Limited, Royal Liver Building, Liverpool, L3 1PY

Telephone: 0151 227 4711 / 0845 068 1110 (local rate)

Fax: 0151 236 3173

**[www.uss.co.uk](http://www.uss.co.uk)**

Name of organisation	Purpose	Contact details
Citizens Advice	Helps resolve legal, financial and other problems with free, independent and confidential advice.	<b><a href="http://www.citizensadvice.org.uk">www.citizensadvice.org.uk</a></b> Check directories for local office details.
Department for Work and Pensions (DWP)	Provides information and advice on State benefits.	<b><a href="http://www.dwp.gov.uk">www.dwp.gov.uk</a></b>
HM Revenue & Customs	Provides information on tax and national insurance contributions.	Phone: 0300 200 3300 <b><a href="http://www.hmrc.gov.uk">www.hmrc.gov.uk</a></b>
Money Advice Service	Provides, free, clear and unbiased advice to help you make the most of your money.	Phone: 0300 500 5000 <b><a href="http://www.moneyadviceservice.org.uk">www.moneyadviceservice.org.uk</a></b>
The Pensions Advisory Service	Provides general information and advice on pensions.	Phone: 0845 601 2923 Email: <a href="mailto:enquiries@pensionsadvisoryservice.org.uk">enquiries@pensionsadvisoryservice.org.uk</a> <b><a href="http://www.pensionsadvisoryservice.org.uk">www.pensionsadvisoryservice.org.uk</a></b>
The Pension Tracing Service	Helps you to find any pension schemes you have lost touch with.	Phone: 0845 600 2537 <b><a href="http://www.gov.uk/find-lost-pension">www.gov.uk/find-lost-pension</a></b>
The Unclaimed Assets Register	Helps you to find any lost assets you might have and establish contact with financial institutions.	Phone: 0844 481 8180 Email: <a href="mailto:uarenquiries@uk.experian.com">uarenquiries@uk.experian.com</a> <b><a href="http://www.uar.co.uk">www.uar.co.uk</a></b>

# Useful contacts

Name of organisation	Purpose	Contact details
Age UK	Age UK is the largest charity working with and for older people.	<a href="http://www.ageuk.org.uk">www.ageuk.org.uk</a>
IDF50 (I don't feel fifty)	An online forum with lively articles written by and for older people.	<a href="http://www.idf50.co.uk">www.idf50.co.uk</a>
Later Life	This UK site is designed specifically for people over age 50 who want to plan and enjoy an active retirement lifestyle.	<a href="http://www.laterlife.com">www.laterlife.com</a>
Pensioners Forum	Established in 2006, Pensioners Forum is a public online forum for discussing issues facing pensioners and the elderly in the UK.	<a href="http://www.pensionersforum.co.uk">www.pensionersforum.co.uk</a>
Saga	Saga have an online social network, and lots of useful articles on health, money, travel and leisure.	<a href="http://www.saga.co.uk">www.saga.co.uk</a>
Silversurfers	A directory of websites covering travel, holidays, presents, family finances, health and genealogy.	<a href="http://www.silversurfers.com">www.silversurfers.com</a>
Retirement Reinvented	This site aims to make use of the experience, expertise and enthusiasm of retired people.	<a href="http://www.retirementreinvented.com">www.retirementreinvented.com</a>



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