

# in touch

The 2015 newsletter for retired and beneficiary members of USS

## Welcome to the 2015 *in touch* newsletter



Bill Galvin  
Group Chief Executive

As we enter a year that will be dominated by preparations for very significant changes to the future benefits proposed for our active members, I am pleased to say that the trustee company continues to be highly valued by both employers and members for the quality of the service and support we offer.

Over the past year we have spoken with scheme members to understand which elements of the service they value, where improvements could be made and how we can develop to meet future requirements. We recently surveyed active members on some key processes, including the retirement process, and the results were encouraging. Of those going through the retirement process, around four out of five were satisfied with the timeliness and responsiveness of the service they received, felt the information received was both clear and concise, and stated that they would talk positively to a colleague about the service. We have also identified some areas for improvement, for example seeking more effective use of email and digital processes within our administration.

*Continued overleaf...*

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# USS

The trustee will shortly complete its formal valuation of the scheme's assets and liabilities and confirm the difficult funding challenges which exist for the scheme, including a substantial deficit. In response, the scheme's stakeholder bodies, (Universities UK and the University and College Union) after many months of discussions, have put forward a package of proposals to change the future pensions provided by the scheme to its active members.

The proposals are now subject to a consultation by employers with affected employees and their representatives. The proposed changes do not affect the pension benefits of our retired members. These changes would only apply to pension benefits provided by the scheme in the future; if you remain in active membership of the scheme any pension benefits you earn in the future may be affected. More information on the consultation by employers is available at: [www.ussconsultation.co.uk](http://www.ussconsultation.co.uk)

The scheme's funding position has deteriorated because the overall amount required to pay pensions now and in the future – what is referred to as the scheme's liabilities – has increased substantially and in particular faster than the amount of assets available to pay those pensions. This is despite strong asset performance from the in-house investment team in the year to 31 March 2014 which has outperformed its benchmarks by 1.4%, adding an additional £500m to the fund above the amount anticipated. During the course of the year we have also made some key investments, continuing with our strategy to seek higher returns than those offered by the public markets in equity and debt. 2014 saw our first direct infrastructure investment in the US with a majority stake in a port terminal in Virginia. More information on the scheme's funding position and recent investment activity is available on the scheme funding pages of the USS website [www.uss.co.uk](http://www.uss.co.uk)

We have also welcomed a new board member since the last *in touch* update. In May 2014 Kirsten English joined the trustee board as a new independent director. Kirsten arrives after a 16 year career with Reuters plc and brings a wide range of experience to the USS board.

Finally after 24 years of distinguished service to the USS Board (nine as chairman) we will say a fond farewell to Sir Martin Harris as he steps down from his role from 31 March 2015. We will miss Sir Martin's enormous skill and expertise in leadership of the trustee board, and we wish him all the best for the future. Sir Martin's successor is Professor Sir David Eastwood, current Vice-Chancellor of the University of Birmingham and a Universities UK appointed director since 2007, and we wish him well as he takes up board chairmanship.

Bill Galvin  
Group Chief Executive

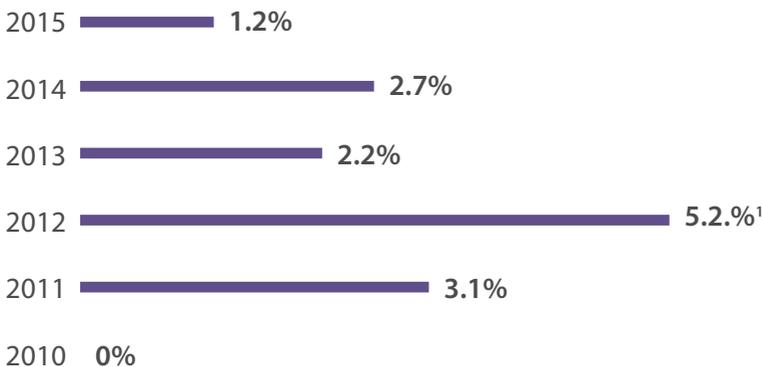
# Pension increases

## All qualifying pensions beginning before 22 April 2014 will be increased from 1 April 2015 by 1.2%.

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 2014, 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%.
- Should there be a period of negative price inflation, USS benefits will not be reduced but no increase will be applied to your pension.
- Pro-rata increases apply to pension benefits that came into payment on or after 22 April 2014.

## 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 2015/16 year, subject to any unexpected changes in the law following the budget statement on 18 March 2015.

Age	Allowance
Born after 5 April 1948	£10,600
Born between 6 April 1938 and 5 April 1948	£10,600
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 1938 the Personal Allowance reduces where the income is above £27,700 a year - by £1 for every £2 of income above this limit. This will not fall below the basic personal allowance of £10,600 a year until income exceeds £100,000 a year.

Married Couple's Allowance may be available if you (and/or your spouse or civil partner) were born before 6 April 1935; it may reduce your tax for 2015/16 by up to £836. If you are registered blind, or are living with a spouse or civil partner who is, you will generally be entitled to a deduction from your income for tax purposes of £2,290 from your combined income for 2015/16.

## 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 on your USS pension, 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.

## New! Transferable Income Tax allowances

A new transferable tax allowance has been introduced with effect from 6 April 2015. The 'Marriage Allowance', as it's to be known, will be available to married couples and civil partners. It will allow a person to transfer a fixed amount of their personal allowance to their spouse or civil partner.

To qualify in any tax year, neither person can be a higher rate tax payer or claiming Married Couple's Allowance for that year.

Married couples and civil partners will qualify where one partner has taxable income not exceeding the personal allowance (2015/16 - normally £10,600). The partner who earns less than the personal allowance will be allowed to transfer up to £1,060 of their unused personal allowance to their partner, reducing their tax bill by up to £212.

Where a couple is neither married nor in a civil partnership, they will not be entitled to claim.

To register your interest in claiming this allowance, visit

[www.gov.uk/marriage-allowance](http://www.gov.uk/marriage-allowance)

# Actuarial valuation

**USS, in common with many defined benefit pension schemes, has seen reduced funding levels in recent times. At the March 2011 valuation the trustee reported a £2.9bn deficit; the deficit is the shortfall between the amount of the assets in the fund and the amount that is needed to pay the pensions already promised.**

Since 2011, the deficit has increased significantly and, based on the current benefit structure (ie without taking any account of the proposed changes), the trustee anticipated that it would report a deficit of approximately £12 billion as at 31 March 2014. This substantial increase in the deficit is as a result of a number of factors. One such factor is improvements to members' life expectancy. This kind of improvement is of course much welcomed but has added almost £1bn to the amount needed to pay the pensions promised.



Following advice and analysis the USS trustee has determined that in the future it should plan on lower returns from its investments than it has done in the past, because of the substantial economic changes and the more difficult global environment in which returns on assets are to be gained. These assumptions are ultimately judgements which all trustees must make about future anticipated investment returns. These assumptions are reflected in the valuation of scheme liabilities, and can be seen in the increased deficits seen by many defined benefit pension schemes.

Towards the end of last year the trustee consulted with Universities UK, as representative of the sponsoring employers, on the various assumptions it must make in order to complete the 2014 valuation. As a result the trustee has modified some of its assumptions, for example on the allowance it should make for future investment returns and for future improvements to life expectancy.

The proposed changes to future pension arrangements, which are currently out for consultation with affected employees and their representatives, would have an effect on the scheme's funding position. The proposal to remove the link to final salary in respect of the benefits that active members have built up in the final salary section has a significant impact on the amount the trustee needs to put aside now to pay for the benefits already earned. This is because it changes the amount that is needed for future increases on benefits that have been built up. The trustee therefore anticipates that if the proposed changes were implemented as described the deficit would be reduced by approximately £5 billion. The proposed changes cannot by law – or under the USS scheme rules – have any impact upon the pension rights already earned by current USS pensioners.

Under the proposed changes, the overall employer contribution rate to the scheme would increase from 16% to 18% of total pensionable salary. The trustee will finalise the scheme funding level once the employer consultation with affected employees is complete and the final form of any changes has been decided upon. It will also confirm the updated arrangements for the scheme's recovery plan, incorporating the deficit contributions required from the scheme's sponsoring employers. Further information on these matters will be available in the autumn and an update will be provided in the Members' Annual Report.

# Fund investments

**The trustee's primary responsibility is to deliver pension benefits to scheme members as they fall due. To do this it invests the contributions it collects from employers and members 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 has an in-house investment team which allocates the scheme's assets and directly manages the majority of its investments. There are a number of benefits to having an in-house investment team, not least, the team only serves one 'client' – the trustee itself - and is therefore closely aligned to its long-term objectives.

The role of the in-house investment team is to maximise the returns available from the scheme's investments within an acceptable level of risk. A diversified portfolio helps the trustee to spread investment risk across different asset classes and to boost the level of confidence in maintaining sufficient investment returns as a whole.

In the year to 31 March 2014, the in-house investment team achieved returns better than the asset allocation benchmark set by the trustee. The additional investment return of 1.4% added over £500 million to the fund's value. This out-performance has contributed to the overall growth of the fund which at the end of 2014 totalled approximately £45 billion, meaning USS remains amongst the very largest pension funds in the UK.

The in-house investment team consistently proves to be more cost-effective than its peers. In 2013, the latest year for which figures are available, USS's in-house investment team's costs were approximately £23 million less than the industry benchmark for a fund of a similar size and asset mix.

*"USS's in-house investment team outperformed its benchmarks by 1.4% in the year to 31 March 2014, adding £500m to the fund's assets."*



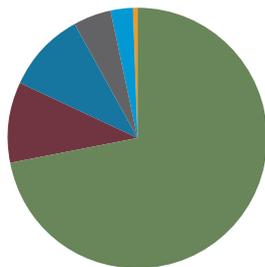
Over the past 12 months, the in-house investment team has continued to develop its investment capabilities, including its ability to invest directly in infrastructure assets. These investments are typically illiquid, and can provide attractive inflation-linked returns helping to achieve the trustee's long-term aim of an increased match between assets and liabilities. The investment team has made a number of important investments this year, including the fund's first US infrastructure holding, a port terminal in Virginia.

The trustee remains committed to a programme of engagement and stewardship across all asset classes and responsible investment continues to be an important part of the investment team's activity. Its approach is to integrate environmental, social and governance (ESG) issues into the investment process whilst at the same time engaging with global policy makers on issues which could impact on a company's potential to deliver long term sustainable returns. Where they are material, these issues are taken into account in the selection, retention and realisation of investments. The trustee believes in active stewardship of the assets and markets in which it invests.

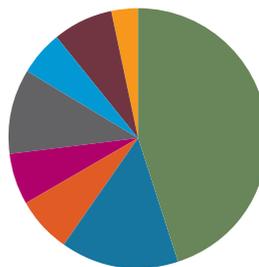
As the trustee seeks to allocate more capital to long term investments such as infrastructure, it is important to assess potential ESG risks ahead of investment. This activity builds on the experiences gained from the due diligence process conducted on private equity and hedge funds developed by the in-house investment team over recent years.

The trustee's website has further information about the fund's top 100 public holdings, its responsible investment activities and announcements of recent major investments – [www.uss.co.uk](http://www.uss.co.uk)

**Autumn 2009**  
Fund value £26.8 billion



**Autumn 2014**  
Fund value £44.3 billion



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

- Equities 45.1%
- Private capital 10.6%
- Bonds (Govt) 14.8%
- Infra/Timber/Others 5.6%
- Bonds (non Govt) 7%
- Property 7.5%
- IL Bonds 6.3%
- Hedge funds 3.2%

# Avoiding investment fraud

**The Financial Conduct Authority (FCA) is encouraging anyone who is considering an investment to check its 'Scamsmart' website, [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart), and seek independent financial advice from a regulated professional before going ahead. The FCA is concerned over the level of investment scams.**

Investment scams generally involve high-pressured selling for products which often do not exist.

Investment scams are difficult to spot and are designed to look like genuine investments. The FCA has seen examples of fraudulent websites that mimic those of legitimate firms and investment brochures that would be likely to convince even an experienced investor that the product was genuine.

Those most at risk of investment fraud are people in retirement who are actively seeking an investment opportunity. The average investor loses around £20,000 and the FCA receives around 5,000 calls a year from investors about suspected investment fraud.

Key signs that the investment may be a scam:

- You are contacted unexpectedly about an investment opportunity through a cold call, email, or follow up call after receiving a promotional brochure out of the blue
- You are pressured to invest in a time-limited offer, for example, a bonus or discount is promised if you invest before a set date
- The risks to your money are downplayed, for example you are told that you will own assets you can sell yourself if the investment doesn't work as expected, or legal jargon is used to suggest the investment is very safe
- The returns sound too good to be true, for example, better interest rates than those offered elsewhere
- You are called repeatedly and kept on the phone for a long time
- You are told the offer is only available for a limited time or to a limited group of people.

Visit the [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart) website for more information.

# Scheme news

## Economic climate

The scheme continues to face significant funding challenges; interest rates remain low which affects the valuation of the scheme's liabilities and the future investment outlook remains uncertain. It is therefore the trustee's view – having taken advice from its advisers and from the in-house investment team – that it should have less optimism about future investment returns, and it has accordingly revised its investment return assumption for this latest valuation of the scheme.

## Potential changes to future pension benefits

The proposed changes to future pension benefits put forward by the employer and member representatives are now the subject of a consultation with affected employees and their representatives. To reiterate, **pension benefits provided to retired members are unaffected**, though if you are concurrently also in active membership, or return to it, benefits earned from future service could be affected. The consultation is intended to run until 22 May 2015, with the final changes being agreed in autumn 2015; the earliest implementation date is 1 April 2016. Updates will be available via the USS website.

## On-line access

If, following the consultation with affected employees, the proposed changes are implemented as they have been described there will be significant operational implications for USS. The trustee company is going through the process of looking at its current infrastructure, technology, and business processes and considering if improvements can be made alongside the operational changes we shall be required to make. This will include a refreshed online offering, and we continue to consider the possibility of developing online access for all members, including (of course) our members currently receiving a retirement pension. We will provide a further update on this work in due course.

# Useful contacts

## If you'd like to write to USS about your pension, our address is:

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

If you'd like to talk to someone from USS about your pension, please call us on:  
0845 068 1110 (local rate)

For more information about the scheme and how it works, please visit our website:  
[www.uss.co.uk](http://www.uss.co.uk)

## Other useful contacts

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



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