Summary Funding Statement

The Summary Funding Statement is an update of our funding position: how our assets compare with our liabilities.

It's a regulatory requirement and a way for you to get a picture of the funding that underpins your pension and see how it compares with previous years. This Summary Funding Statement is based on the figures as at 31 March 2018 and 31 March 2019, following completion of the 2018 valuation and the subsequent actuarial report in 2019.

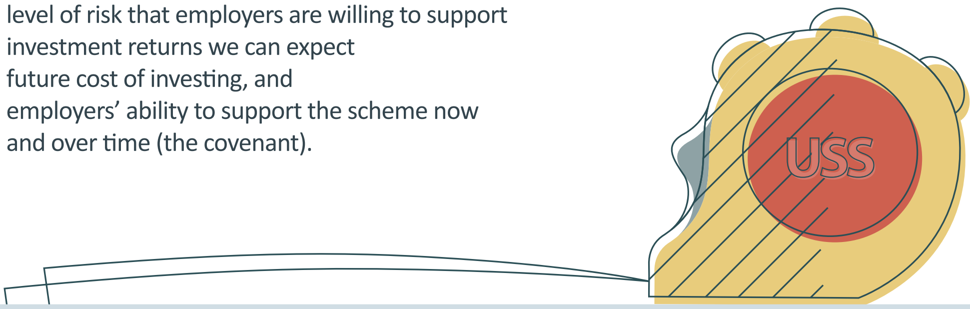
Background

At least every three years, we carry out an actuarial valuation – this is an in-depth analysis of our funding position and the factors that influence it. In-between each actuarial valuation we complete an actuarial report to review how the fund compares to the latest valuation.

We completed the 2018 actuarial valuation in September of this year. It assessed factors like the:

- age and life expectancy of USS members
- types of investments we hold on your behalf
- level of risk that employers are willing to support
- investment returns we can expect
- future cost of investing, and
- employers' ability to support the scheme now and over time (the covenant).

The result shows the amount of money we need in order to provide your USS Retirement Income Builder benefits – essentially, how much money we need to bring in, including the contributions we need from members and employers. Find out more about the impact on your contributions in the future contributions section on page 3. For information on the valuation, visit our website uss.co.uk/valuation18



How do we measure the funding position of USS?

We look at how much money has been built up from the contributions our members and employers pay, and the investment returns we have achieved – **our assets**.

Then, we look at all the benefits we've promised to everyone building up USS Retirement Income Builder pensions – **our liabilities**.

Calculating our assets is fairly simple; it's just the actual value of all our investments at a set point in time – in this case, 31 March 2018 and 31 March 2019.

For our liabilities, it's slightly different. We value our liabilities in a number of ways. The principle calculation assumes that the USS Retirement Income Builder will remain open to new and existing members, and that members will continue to build benefits into the future.

This is called a 'technical provisions basis' and it means we can make an allowance in our funding assumptions for the investment returns we could reasonably achieve over time by investing existing assets and future contributions.

Once we've put values on everything, we compare our assets with our liabilities and this gives us a snapshot of our funding position.

You can find more detail, including the assumptions we used for the 2018 actuarial valuation, at uss.co.uk/actuarial-valuation

Assumptions

When we calculate our liabilities, we have to think about a number of things, which we can't always quantify with absolute certainty. We make informed assumptions on these, including:

- the state of the economy and how investments might perform in the future, and
- how much it might cost to invest in certain assets in the future.

While nobody likes to think about death, we have to make assumptions about this too because higher life expectancies mean we pay pensions for longer.

We also have to think about paying pensions to members' beneficiaries and the possibility of paying ill-health benefits to members who have to leave work early.

While the analysis we have carried out has been independently assessed, ultimately these are assumptions about how the future might unfold – so we cannot simply take them for granted; the law says that we must apply a degree of prudence when we estimate our liabilities and the assets we need to fund them.

What was the position at the last valuation?

The last actuarial valuation calculated that, as at 31 March 2017, we were 89% funded on a technical provisions basis. That means the value of our assets was 89% of the value of our liabilities. This equated to a USS Retirement Income Builder deficit of £7.5bn.

What was the position at the 2018 valuation?

The 2018 actuarial valuation calculated that, as at 31 March 2018, we were 95% funded on a technical provisions basis. That means the value of our assets was 95% of the value of our liabilities. This equated to a USS Retirement Income Builder deficit of £3.6bn.

How has the funding position changed since the 2018 valuation?

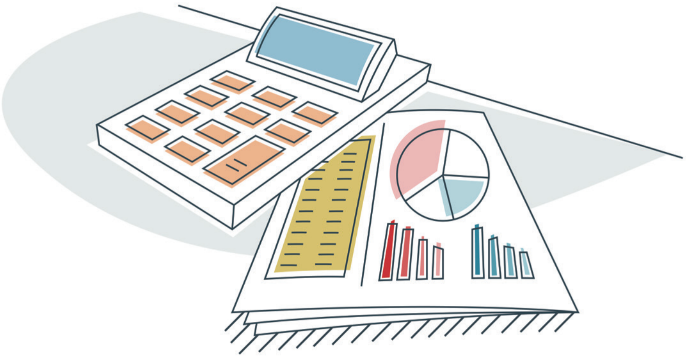
In the years that we don't do an actuarial valuation, we produce an actuarial report called a funding update. The results of the funding update, as at 31 March 2019, showed that our liabilities have increased faster than our assets since the 2018 valuation, causing the USS Retirement Income Builder deficit to increase to £5.4bn and the funding level to fall to 93%. While this is a better picture of our funding ratio and deficit in comparison to the 2017 valuation, it shows an increase in the deficit and decrease of the funding ratio in comparison to the 2018 valuation.

Year ended 31 March	Valuation 2017 in £billions	Valuation 2018 in £billions	Funding update 2019 in £billions
Value of assets	60.0	63.7	67.4
Value placed on liabilities (on a technical provisions basis)	67.5	67.3	72.8
Deficit	7.5	3.6	5.4
Funding ratio	89%	95%	93%

Financial conditions improved slightly over the 2017/18 year, leading to an increase in assets of 6% (£3.7bn) and a slight fall in liabilities mainly resulting from higher expected future investment returns at 31 March 2018. Over the 2018/19 year, assets increased by a further 6%. However liabilities increased by 8% as falls in interest rates led to decreases in future expected returns at 31 March 2019.

The 2019 funding update is based on projecting forward the assumptions used for the 2018 actuarial valuation (updated for market conditions). It doesn't involve the same detailed review of the underlying assumptions that takes place as part of the full actuarial valuation. For more information, including the detail of the underlying assumptions for actuarial valuations, visit uss.co.uk/actuarial-valuation

As well as calculating our liabilities on a technical provisions basis, we also have to do it on a buy-out basis during a valuation. That means we need to estimate their value based on what it would cost if they were bought-out by an insurance company. Neither we nor our stakeholders have any intention of implementing a buy-out. On a buy-out basis, the funding ratio increased from 48% as at 31 March 2017 to 56% as at 31 March 2018.



Our funding plan

We aim to provide secure pensions for all our members. This is at the heart of everything we do and it underscores our approach to investment.

We have an active investment strategy and innovative approach to portfolio management, with an in-house investment management team.

We believe it's crucial that the investment portfolio is managed in such a way that the amount of investment risk taken is proportionate to the amount of financial support available from our sponsoring employers.

With the right economic conditions, we believe that opportunities should be taken over the years ahead to reduce the amount of risk – specifically investment risk taken in the funding of defined benefits – so it is consistent with the level of financial support employers have told us they are willing to provide in the long term, should experience prove to be worse than our expectation.

At the 2017 and 2018 actuarial valuations, we incorporated this long-term, gradual de-risking into our funding approach, with the intention of reducing the amount of investment risk over a 20-year period.

You can find out more about our investment approach in the Statement of Investment Principles in the How USS invests section of our website uss.co.uk/ussinvests

Future contributions

The contributions that employers pay go mainly towards the pensions that members are building up. We calculate the cost of these using the same assumptions as we do for the liabilities. In the 2018 actuarial valuation, we determined that employers also need to make annual deficit recovery contributions equivalent to 2% of salaries from 1 October 2019 until 30 September 2021, at which point the rate will increase to 6%, in order to recover the USS Retirement Income Builder deficit. This is in addition to the contributions they need to pay towards building future USS Retirement Income Builder benefits and USS Investment Builder savings for members earning above the salary threshold, and the costs of running the scheme.

Based on this approach and our assumptions, we expect the USS Retirement Income Builder deficit to be removed by 31 March 2028. You can find more detail in the valuation report on our website uss.co.uk/actuarial-valuation

The 2018 valuation resulted in lower overall contribution requirements than the 2017 valuation. However an increase in contributions was still necessary, and agreed by the Joint Negotiating Committee:

	Percentage of pensionable salaries (%)		
	1 April 2019 to 30 September 2019	**1 October 2019 to 30 September 2021**	**30 September 2021 onwards**
Total employer	19.5	21.1	23.7
Total member contributions	8.8	9.6	11
Total contributions	28.3	30.7	34.7

The total employer contributions cover:

- the cost of building future USS Retirement Income Builder benefits (net of member contributions)
- contributions from 1 October 2019 towards the recovery of the USS Retirement Income Builder deficit
- non-investment related administrative expenses and Pension Protection Fund levies (at an assumed level of 0.4% of total salaries)
- contributions towards members' savings in the USS Investment Builder and provision for certain investment management costs, subject to review by the JNC if those investment management costs exceed 0.1% of total salaries.

Member contributions go towards the cost of building future benefits.

Statutory statements

There has been no payment out of the scheme's assets over the period from April 2017 to March 2019 to the scheme's sponsoring employers, nor has this happened previously.

There has been no intervention from The Pensions Regulator to use its powers to modify the scheme or to impose a direction or schedule of contributions.

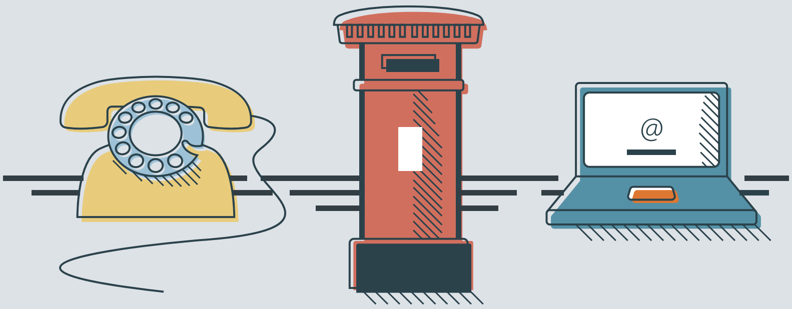
Pension Protection Fund

The Government established the Pension Protection Fund (PPF) in 2005 to provide benefits in the event that a scheme's sponsoring employer (or employers) become(s) insolvent without there being sufficient funds available in the scheme.

USS is recognised by the PPF as a multi-employer scheme with a joint liability. This joint liability is based on the 'last man standing' concept, which means it would only become eligible to enter the PPF in the event that the vast majority (if not all) of the scheme's employers were to become insolvent.

If such circumstances were ever to occur, the PPF would take over the payment of pension benefits to members but the benefits received might be less than the full benefits earned within USS. The precise amount that the PPF would pay to each member would depend on the member's age, the period over which the benefits were earned and the total value of benefits.

You can find more information about the PPF on its website ppf.co.uk or by writing to The Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.



Contact us

If you would like to find out more about USS, please get in touch with the person who deals with USS matters at your workplace. Alternatively, you can visit our website, uss.co.uk. You can also write to us at Universities Superannuation Scheme Ltd, Royal Liver Building, Liverpool, L3 1PY.