Actuarial report at 31 March 2021

Universities Superannuation Scheme

This report was commissioned by and is addressed to the Trustee of the Universities Superannuation Scheme ("the Scheme") and is the first actuarial report since the actuarial valuation at 31 March 2020.

Its purpose is to provide an estimate of the ongoing funding position at 31 March 2021 and an indication of the required contribution rate to fund future service benefits based on market conditions as at 31 March 2021.

The report takes account of the benefit changes recommended by the Joint Negotiating Committee ("JNC") which take effect from 1 April 2022, as determined at the JNC meeting on 22 February 2022 and enacted by the Deed of Amendment to the Scheme's Rules dated 28 February 2022. My report on the actuarial valuation at 31 March 2020 (dated 30 September 2021) provides further details of the JNC's original recommendation. The figures in this report take account of two minor updates to that recommendation, relating to lifting the 2.5% cap on annual inflationary increases in the short term, and benefits for leavers with less than three months' service.

The Trustee is required to share this report with the Scheme's participating employers within seven days of receiving it. Some of the information in this report also needs to be included in the next summary funding statement for members.

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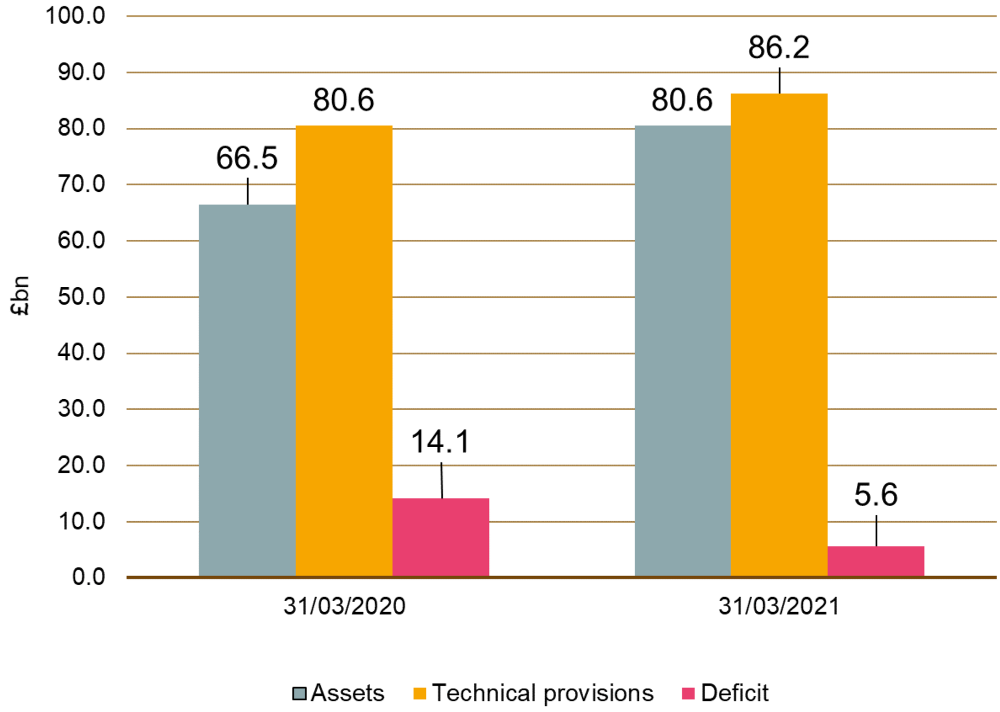
Professional Standards

This report is part of the work in connection with the valuation of the Scheme. The report has been produced for the information of interested readers and not with the intention that it should support any decision that they may make. Our work in preparing this document together with the accompanying cover paper complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work.

Estimate of funding position at 31 March 2021



The above chart shows the estimated position as at 31 March 2021 with the final results of the 31 March 2020 actuarial valuation for comparison.

The estimated deficit fell by £8.5bn over the period. The main reason is the positive investment returns achieved on the Scheme's assets over the period. The technical provisions have also increased, albeit by less than the asset value, and this is driven by higher expected future inflation which feeds through to higher expected pension increases, offset to an extent by higher discount rates both before and after retirement.

The calculation of the estimated technical provisions as at 31 March 2021 is consistent with the Trustee's Statement of Funding Principles (SFP) dated 28 March 2022. The SFP states that, given the unusual market conditions as at 31 March 2020, the Trustee may adopt different discount rates relative to gilts and / or a different derivation of its CPI inflation assumption at different effective dates. The assumptions used in this report reflect my advice on assumptions to adopt as at 31 March 2021, consistent with those as at 31 March 2020. A summary of the assumptions is set out in Appendix 2.

Estimate of future service contribution rate based on financial conditions at 31 March 2021

The indicative future service contribution rate based on financial conditions as at 31 March 2021 for benefits accruing from 1 April 2022 is **26.0%** of Salary (reducing to 25.6% of salaries from 1 April 2024). This compares with a result of 25.2% of Salary (reducing to 24.9% from 1 April 2024) calculated based on financial conditions as at 31 March 2020 and reflects the benefits being earned following the changes from April 2022. This figure does not include any allowance for deficit-reduction contributions.

The estimated future service contribution rate for benefits accruing from 1 April 2022 has increased due to changes in market conditions between 31 March 2020 and 31 March 2021 by just under 1% of salaries. The main reason for the increase is higher expected future inflation which feeds through to higher expected pension increases. The increase is partially offset by higher discount rates both before and after retirement. The increase would have been greater for benefits being earned up to 31 March 2022, given they are more closely linked to inflation.

Scope

The calculations in this report have been prepared in accordance with the requirements of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005. This document does not constitute an actuarial investigation of the Scheme under Rule 76.1.

This work has been undertaken assuming that there are no specific decisions for you to take as a result of this report. Please contact me if you do intend to take some specific actions on receiving this report, as it may then be appropriate for me to provide additional advice.

The next actuarial report is due with an effective date as at 31 March 2022 and the next full actuarial valuation is due no later than as at 31 March 2023.

The headline figures in this note have been calculated by the USS Funding Strategy Team based on my instructions using PFaroe, the Trustee's third-party valuation tool. I have reviewed the figures for reasonableness in view of the statutory requirements for an annual actuarial report. I am satisfied that the results are suitable for the purposes of this report.

Method

The technical provisions as at 31 March 2021 have been estimated by calculating projected benefit payments from the Scheme based on a projection of the Scheme membership data as at 31 March 2020 and the demographic assumptions adopted for the actuarial valuation as at 31 March 2020. The figures also allow for an estimate of a further year's accrual to active members based on the membership as at 31 March 2020. These cashflows have then been discounted to 31 March 2021 using the discount rates described in Appendix 2 to derive the estimate of the technical provisions.

The indicative contribution rate for future service benefits has been derived using a consistent method, allowing for the future service benefits that will apply from 1 April 2022.

The actuarial assumptions used for this purpose are intended to be consistent with the Statement of Funding Principles dated 28 March 2022. They are not necessarily the assumptions I would have recommended if an actuarial valuation had been carried out as at 31 March 2021, which would have been informed by a full analysis of membership experience up to the valuation date, and would have been subject to a formal consultation process.

I have assumed that all membership experience over the period was in line with the assumptions used in calculating the technical provisions, as set out in the Scheme's Statement of Funding Principles. If the Scheme's experience was significantly different from these assumptions or if there were significant events of which I am not aware, then the technical provisions based on a full actuarial valuation could be different from the estimated figures in this report.

This report does not consider the solvency level of the Scheme, either on a buy-out basis or on a basis relative to the compensation provided by the Pension Protection Fund. The cost of buying out benefits with an insurance company is likely to be significantly higher than the technical provisions.

Consistently with the actuarial valuation at 31 March 2020, the figures in this report relate solely to the defined benefits section of the Scheme.

Developments since the valuation date

I have reflected the benefit changes for future service from 1 April 2022. The revised Statement of Funding Principles dated 28 March 2022 reflects the covenant support that the employers have provided. I understand that there were no other material changes to the Scheme during the period.

Prepared on 29 March 2022

Appendix 1

Data used in our calculations

I have used the same membership data as for the full actuarial valuation of the Scheme as at 31 March 2020. A summary of and important notes in relation to the data are included in my report on the actuarial valuation dated 30 September 2021. In addition I have allowed for the general increase in CPI over the period as it applies to pension increases, namely 0.5% in April 2021 based on CPI in the year to September 2020.

Asset value at 31 March 2021

I have used a total asset value at 31 March 2021 for the defined benefits section of £80.6bn, as set out in the audited Scheme accounts.

Appendix 2

Actuarial assumptions

The key financial assumptions used have been set consistently with the approach set out in the Trustee's Statement of Funding Principles dated 28 March 2022, reflecting my advice in relation to financial market conditions and the outlook for future returns as at 31 March 2021. The financial assumptions at 31 March 2020 are shown for comparison.

	31 March 2021 % pa	31 March 2020 % pa
Price inflation (CPI)	2.5	2.1
Return from gilts	1.3	0.7
Discount rates – assumed return above gilts		
Pre-retirement	2.45	2.75
Post-retirement	0.55	1.0
Allowance for investment out-performance in calculation of future service contributions	0.25	0.5

The above rates for gilt returns and CPI are illustrative single-equivalent rates. In practice, full yield curves for gilts and inflation have been used in the calculations.

Pension increases before and after retirement are assumed to be 3bps higher than the CPI curve for uncapped or "soft cap"[1] pension increases (2020: 5bps higher) and 55bps lower than the CPI curve for benefits in line with CPI with a minimum each year of 0% and maximum of 2.5% (2020: 35bps lower).

The projection of mortality improvements has been updated from CMI 2019 to CMI 2020 (with zero weighting of 2020 experience) and all other parameters as set out in the Statement of Funding Principles dated 28 March 2022. If the mortality improvements allowance as stated in the Statement of Funding Principles were used, the estimated deficit would be £0.1bn higher at £5.7bn, ie a very similar position. All other non-financial assumptions are as set out in the Statement of Funding Principles dated 28 March 2022.

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[1] The soft cap of 5% refers to benefit increases in line with full CPI up to 5%, plus 50% of any CPI increase between 5% and 15%.