

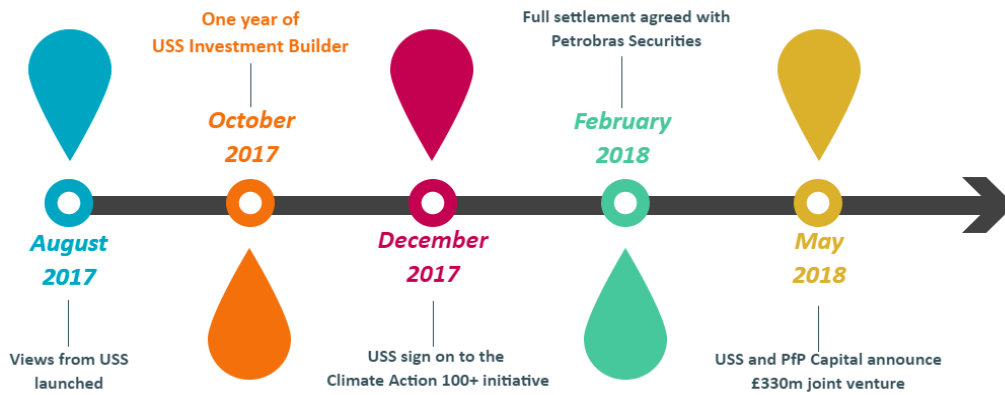


Welcome by the Chair

This has been a challenging year for USS, our members and our sponsoring employers. Public disagreements on what level of guaranteed pension is affordable in the current economic climate have given rise to a high-profile debate on the key issues. It has been important while working through these challenges to remain focused on our core purpose; to serve our members with dedication.

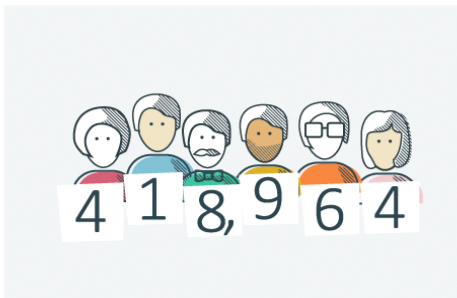


Read more on [how USS is facing these challenges](#).



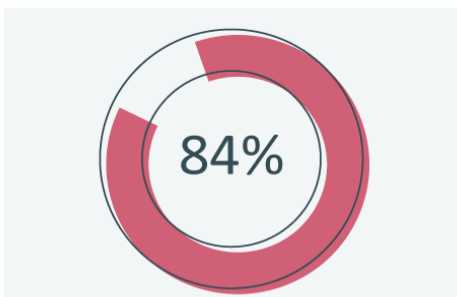
Click on the events to find out more.

Membership



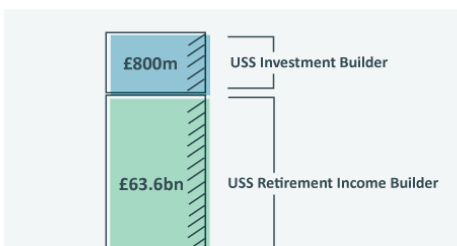
USS has a total membership of **418,964** and more than **350** participating employers across the higher education sector

Funding level



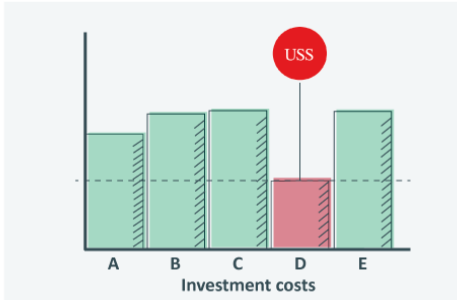
Funding ratio increased to **84%*** (as at 31 March 2018)
 Total deficit of **£12.1bn*** which has reduced by **£0.5bn**
 *based on 2014 valuation

Net assets and performance



Net assets of the scheme totalled **£64.4bn**
 USS Retirement Income Builder investment performance was ahead of benchmark by **1.44% (2017/18)**
 All but one USS Investment Builder fund

Value for money



USS Investment costs were independently benchmarked as **£61m lower than peers**

Your pension, USS, and the changing pension landscape

The pension landscape is changing. Historically low interest rates, high investment costs, longer life expectancies and depressed investment returns are challenging schemes across the UK. Political and economic uncertainty, such as Brexit, also play a major role in creating a changing and challenging market.

Find out more.

The 2017 valuation

After almost two years of analysis, the valuation showed us that the deficit has grown to £7.5bn and the cost of building up benefits has risen by a third.

Find out more about the valuation, its findings and how our stakeholders have responded on the [valuation page](#) of our website.

You can see a timeline of what has happened in the [valuation so far](#).

every **3 years**

Responsible Investment matters

Being a member of USS is more than just building up benefits for the future. It's more than the peace of mind you get from knowing your loved ones will be taken care of should the worst happen.

Being a member of USS Investment Builder means that you have the flexibility for USS to manage and invest on your behalf.

Find out more.

Resources

Board information	Full report and accounts
The 2017 valuation	How USS Invests
Governance information	Views from USS
A year of contrasts for USS	Contact Us

Feedback

[Tell us what you think](#) of this year's Members' Annual Report.

Welcome by the Chair

Guaranteed pension benefits, like those offered by USS, are now rare in the private sector, due to the significant increase in costs and risk that are entailed in funding them. The ability of universities to underwrite such guarantees with their future cash flows and balance sheets is a key issue for the higher education sector.

In the recent debate of these issues, differing views have been given on the health of USS and the performance of the trustee. Often the lines around accounting rules, pension funding and legislation were blurred. The trustee is responsible for ensuring that pensions promised will be paid when due, and benefits yet to be earned will be secure. Because of this, the trustee board has to have a high degree of confidence that the scheme can do that.

Uncertainty continues to be our single greatest challenge. No one can predict the future, but with Brexit, the slow recovery from the financial crisis and our aging society, the price of delivering certainty in the world of pensions has changed significantly over the past decade. In 2017/18, we had to consider carefully how much weight to give to the impact of these issues on the scheme's funding position. In doing so, we have engaged in complex and challenging consultations with stakeholders. The path we must now follow to complete the 2017 valuation – as required by law and set out in the scheme rules – is being given our full attention.

Against this backdrop, I am pleased to present a report that shows why members can continue to have confidence in the scheme and its ability to deliver value for money and high performance. The USS Retirement Income Builder has outperformed its investment benchmark in the year under review and we can also celebrate the strong performance of the USS Investment Builder in its first full year of existence. You can view my DC chair's statement on the USS Investment Builder in the [full report and accounts document](#).

The USS Investment Builder was designed around the needs of our members, based on extensive research, and drawing upon industry best practice. It shows that USS provides a bespoke pension plan; tailored to employers' and members' needs and driven by their feedback.

The broad and challenging agenda before us means it has never been so important to have a strong and capable trustee board. I am very grateful that we have on the board some of the most insightful and well-regarded individuals in both the pensions and higher education sectors – we have leant on that expertise very considerably this year, and will continue to do so

for the best possible solution to the challenges we face, for our members.

The trustee board has assisted USS to continue to deliver value for money, strong investment returns and member focussed services. All of these strengths will be called upon in a turbulent economic and political climate, and as our member and employer representatives continue to discuss the future shape of the scheme. As ever, we stand ready and willing to contribute to that discussion and to the development of your scheme into the future.

Professor Sir David Eastwood - Chair

Your pension, USS, and the changing pension landscape

USS isn't immune to these changing conditions. Like two thirds of UK defined benefit pension schemes in the private sector, USS has a deficit – but that doesn't affect our ability to make sustained investments, and our investment performance has been strong.

A defined benefit scheme, like the USS Retirement Income Builder, is a type of pension arrangement that gives a set level of benefits at retirement, based on salary each year and length of service.

In 2006, there were almost 3,500 defined benefit schemes in the private sector still open to new members. Ten years later, there were fewer than 700. By January 2018, just 19 of FTSE 100 companies offered defined benefit schemes to employees, and according to moneywise.co.uk, 11 of those companies had pension liabilities greater than their equity market value.



At USS, we saw our assets in the USS Retirement Income Builder rise to £63.6bn in the 12 months to March 2018, thanks to above benchmark investment performance. That is an increase of £3.6bn over the last financial year which, compared to more than £10bn the year before, reflects the challenging investment environment that is being driven by uncertainty in global markets.

In October 2016, we introduced the USS Investment Builder, the new defined contribution section, offering members greater control and flexibility in their retirement choices. USS is not alone in introducing more innovative hybrid arrangements that combine defined benefit and defined contribution benefits, with John Lewis, BT and Unilever also offering hybrid arrangements in different forms.

A defined contribution scheme is a type of pension arrangement in which the member builds up a pot of savings for retirement. The pot is based on the amount contributed by both the member and the employer, how the contributions are invested and how those investments perform. It differs from a defined benefit scheme in that it does not offer a 'set level' of benefits.

The performance of USS Investment Builder funds has



also been above benchmark in all but one fund, since they were launched, and this part of the scheme gives you the option of controlling your own investment choices. It also provides a range of flexible ways for you to access any pot you build up.



USS is working hard to ensure we can continue to deliver the best possible retirement outcomes for our members. USS has always been a leader in the UK's private pensions market, and even as we change to reflect the current challenges, our goal is to ensure that remains the case.

For the latest insights and commentary from USS on the pension landscape, visit [Views from USS](#).

The 2017 valuation story so far

Low interest rates, the high price of assets, longer life expectancies and the general outlook of lower investment returns in the future are challenging pension schemes across the UK, including USS. Here's an overview of what's happened since our 2017 valuation process started.

The valuation

Every 3 years, we must legally carry out a valuation to establish whether we have enough money to fund the benefits that members have already built up, and determine how much employers and members need to pay so we can provide the same benefits in the future.

every
3 years



What did it show?

The valuation showed a funding deficit of £7.5 billion (at 31 March 2017) and the cost of building up defined benefits has risen by roughly a third.

The big challenge is the investment outlook. Interest rates have fallen relative to inflation and the price of assets has soared. This means we expect to get less in investment returns than we had originally estimated.

So what happened next?

In January 2018, the Joint Negotiating Committee (JNC), made up of UUK and UCU representatives and an independent Chair, proposed changes to the future benefit structure to address the increase in cost of securing benefits.

It withdrew those proposals in April 2018 and no alternatives were tabled.



The JEP

Instead, UCU and UUK set up a Joint Expert Panel (JEP) to review the 2017 valuation.

The regulator

By law, we must complete the 2017 valuation and show the Pensions Regulator that we have a plan to address the scheme's funding position. We missed the statutory deadline on 30 June 2018 because of the extensions we provided to support UCU and UUK's discussions in the JNC.



What did this mean?

For these reasons, and in the absence of a decision by the JNC, the default cost sharing rule was invoked. This was introduced in 2011 at the request of our stakeholders via the JNC in case there was ever a time when they couldn't agree how to respond to an increase in cost.

This means contributions from both members and employers will increase from 1 April 2019, to cover the increased cost of securing benefits.

What are the next steps?

An employer consultation with affected employees and their representatives will take place from September 2018, so you can share your thoughts.

For information on the proposed increase in contributions under the cost sharing rule, [read our articles](#).

The cost sharing process will run in parallel to – but entirely separately from – the JEP process. We're engaging constructively with the JEP, which is expected to report its findings in September 2018.

We'll continue to provide regular updates to members on both the valuation and the JEP.



Responsible Investment matters

Being a member of USS means that you have a dedicated and experienced team of fund managers looking after the scheme's investments.

One of our key beliefs is that a well-run and appropriately governed internal investment team is the best way to meet our long term investment objectives in the most cost-effective manner. The USS Investment Management teams actively manage a high proportion of investments in-house, and this is key to achieving these long-term investment goals.



This not only saves costs compared to other peers around the world, it also works to bring in strong returns on the assets in the scheme. These can be seen in the 2018 annual report and accounts where you can see that both sections of the scheme have performed well against benchmark funds*. Our experienced fund managers are dedicated exclusively to looking after the scheme's investments to ensure our assets are well diversified and continue to grow over the long term.

The assets held and the oversight USS exercises as a responsible investor play an important role in determining the real value of your retirement income. We believe that our members want to retire into a world characterised by a healthy environment, vibrant economy and equitable society.

To support this aim, USS is actively involved in assessing how environmental, social, governance and ethical (ESG) issues impact the investments we make. As engaged stewards, we can influence how the companies we invest in operate, and engage policymakers on ESG issues. We have the largest responsible investment team for a pension fund in the UK and can use our seat at the table and voting rights to help encourage the businesses in which we invest to act responsibly. We can also play a part in areas such as addressing climate change and enhancing a company's corporate governance, which can contribute to strong returns on investment.

From motorway service stations and shopping centres, to airports, the National Air Traffic System, and off-shore wind farms, USS invests in a wide range of investments across the UK and globally. Each time you see a Moto service station, fly out on holiday or see an off-shore

and globally. Each time you see a EVTO service station, try out on holiday or see an on-shore wind farm, give a thought to how these businesses are working for you, and the part you're playing in making a difference to the way those businesses operate, now and for the future.

* Past performance is not necessarily a guide to future performance. The value of investments may go down as well as up and the return of your investments is not guaranteed.