USS

Members' Annual Report 2014

What's inside?

A large print version of this Members' Annual Report is available on request from USS. Telephone 0151 227 4711.

Welcome to the 2014 Members' Annual Report which includes an interim update of USS's financial position as at 31 March 2014. This edition provides key extracts from the annual Report and Accounts as well as an overview of the latest scheme developments and wider pensions news.

This year we are carrying out a formal valuation of the scheme's funding position. This involves a detailed review of the financial information regarding the fund and its investments, which is carried out by the trustee board and its advisers. This review also considers the changing demographics of the scheme's membership and information from the scheme's sponsoring employers. This work is not yet complete and is unlikely to be finalised until the new year. We have therefore provided an update on the scheme's funding based on the assumptions made in 2011, updated for market conditions. However, the numbers provided on page 13 will be further updated once the formal valuation process is complete. The trustee, as previously stated, anticipates a substantial deficit will be recorded when this formal valuation is complete and is supporting the stakeholders as they consider the responses necessary to ensure the level of risk inherent in the scheme remains proportionate to the support available from the sponsoring employers (which includes discussions regarding future benefit structures and changes to contribution rates). We acknowledge that this uncertainty is unsettling and we will write to you again with a further interim update in due course. It is worth remembering that accrued pension rights are protected in law and in the scheme rules, and are backed by employers within the Higher Education sector. We provide regular updates for members on our website, the details for which are below.

Roger Gray, Chief Investment Officer, provides an analysis of how shifts in global markets have affected the scheme and gives an overview of investment performance on page 6.

Further scheme news is available in the Responsible Investment update on pages 16 and 17 and there are further updates on the trustee company's activities on page 24.

I hope that you find this year's Members' Annual Report helpful. Further information about scheme funding matters and other scheme-related news is available on our website, **www.uss.co.uk.**

Sir Martin Harris
Chairman of the USS board

Summary of the scheme accounts

The scheme's income is derived from member and employer contributions, along with returns from the scheme's investments and incoming transfer payments. Throughout the year the scheme makes payments to scheme pensioners and their beneficiaries, as well as contribution refunds to members who leave the scheme along with outgoing transfer payments. A summary of the scheme's income and expenditure is shown below.

Income for the year	£m
Contributions from members and institutions	1,672.5
Premature retirement receipts	7.8
Transfers-in from other schemes	106.6
Total income	**1,786.9m**

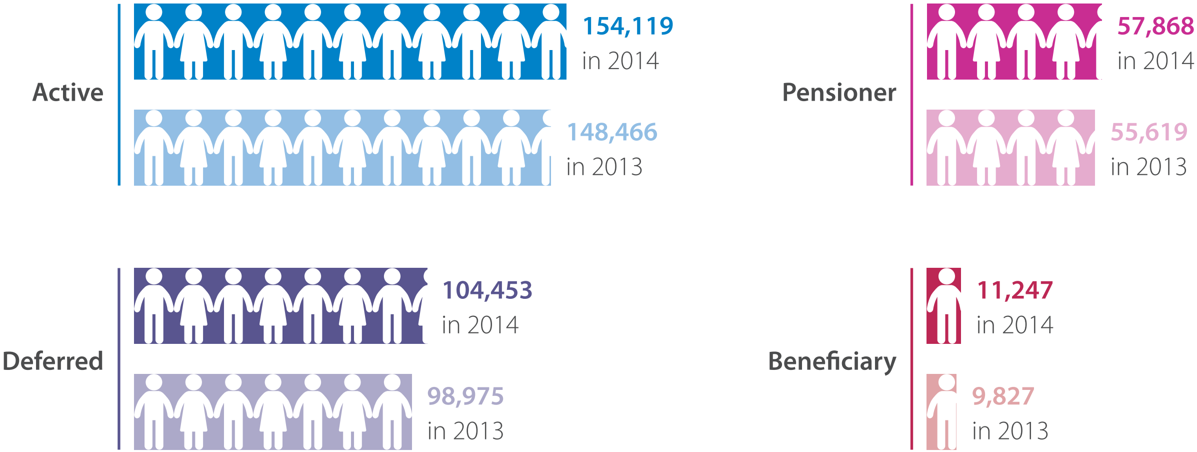
Expenditure for the year	£m
Benefits paid	1,508.7
Refunds	54.1
Administration costs	25.9
Total expenditure	**1,588.7m**

Returns on investments	£m
Investment income	1,017.2
Change in market value of investments	1,858.7
Investment management expenses	(57.5)
Total returns on investment	**2,818.4m**

Fund at 31 March 2013 £38,999.9m + **Net increase in the fund during the year £3,016.6m** = **Fund at 31 March 2014 £42,016.5m**

Membership as at 31 March 2014

USS provides benefits to the many thousands of pensioners of the scheme as well as their beneficiaries. Membership of the scheme is always changing as new employees join and become contributing (active) members and members leave the scheme and retire (pensioners), or retain their benefits in the scheme (deferred members). This section shows a summary of the scheme's membership and how the level has changed over the course of the previous year.



31,055 new members joined USS in the 12 months to 31 March 2014

Investment summary

In this section, Roger Gray, Chief Investment Officer, provides an analysis of how changes in global markets have affected USS and gives an overview of USS Investment Management Ltd's performance.

Investment performance

Strong all-round investment performance in the year to 31 March 2014 lifted the value of the scheme's net assets by a total of 7.6% or £3 billion over the financial year to £41.6 billion excluding Money Purchase AVCs. This has helped USS to become the largest pension fund in the UK, when measured by the value of assets under management. The in-house investment team outperformed the aggregate strategic benchmark by 1.4%, adding around £540 million in value to the fund above the anticipated returns. This has contributed to the reported fall in the deficit from £11.5 billion in last year's actuarial report to £7.2 billion, as calculated on actuarial assumptions from the 2011 valuation. However, as previously mentioned, this number will be updated once the formal 2014 valuation is complete.

Turning to how changes in global markets have affected the scheme's funding position; UK gilt yields recovered a little, but long-dated inflation-linked gilt yields were near zero at the end of March, which places a high current value on the scheme's long-term liabilities. Low yields have been persistent and there are no guarantees that they will revert to pre-crisis levels. Indeed between the end of March and the end of August this year, the yield on 30 year inflation-linked gilts fell to -0.3%, adding approximately £2.5 billion to the value of our liabilities on a technical provisions basis.

Market outlook

Markets have however benefitted from the continued highly accommodative stance of monetary policy. Over the 12 months to the end of March 2014, the MSCI All Countries World Index, a leading index of global stock markets, rose 17% in local currencies and 7% in sterling terms. The strongest performance came from peripheral European markets and the biotech and technology sectors within the US market. Returns from emerging markets again lagged behind, as GDP expectations were revised down and political risk rose with key elections approaching in a number of large countries (India, Brazil, Turkey and Thailand) and geopolitical tensions in Ukraine. Corporate bonds and international bond markets performed more strongly than UK government bonds.

A moderate improvement in economic growth is expected, particularly in the UK where 2014 GDP growth is now expected to be around 3%. This is the fastest growth rate anticipated amongst the G8 countries. A year ago, market consensus was that the UK economy would only grow by 1.5% in 2014. Somewhat faster growth should be generally favourable for pension funds, but it remains quite uneven across regions, with continental Europe not yet having demonstrated sustained upward momentum.

Investment strategy

The trustee board delegates implementation of its investment strategy to USS Investment Management Ltd, a wholly owned subsidiary company. USS Investment Management Ltd provides in-house investment management and advisory services to the trustee board. There are a number of advantages to having an in-house team, not least cost savings. Our in-house investment team is consistently shown to be relatively low cost compared with a peer group of large funds globally. Relating to 2012, the latest year for which independent peer group figures are available, independent CEM Benchmarking indicates that USS's investment management related costs were approximately £40 million less than the industry benchmark given our investment strategy mix.

The in-house investment team are 100% dedicated to one client, USS. This approach provides better alignment between the objectives of the trustee board and those of the investment team. It also delivers continuity and means we are able to incentivise long-term objectives.

In addition, having an in-house manager enables innovative solutions to meet the scheme's specific needs. For example, in the last financial year, we have made several direct and long-term investments in infrastructure, including Heathrow Airport Holdings, NATS (the UK air traffic control system), the Sydney Airport rail-link, as well as gas distribution in Spain and some international toll road assets. These investments can offer returns that are significantly correlated with the scheme's long-term liabilities, combined with return expectations well above UK inflation-linked gilts. Opportunities continue to be explored across the breadth of global capital markets.

Roger Gray
Chief Investment Officer

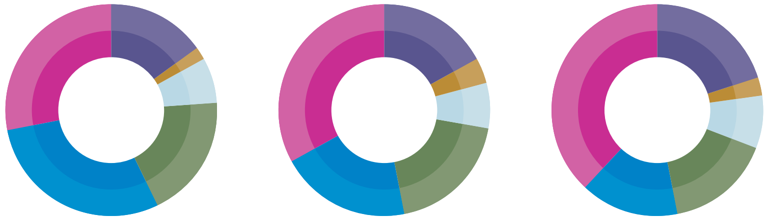
Scheme assets

Below you can find information about the scheme's assets and where they are are invested.

Distribution of assets

During the year the trustee company has, on the recommendation of the investment committee and after consultation with the sponsoring employers and investment advisors, established a liability driven investment (liability hedging) portfolio. As is common with liability hedging programmes, the investments in index-linked gilts or equivalent instruments need not be fully funded by equivalent sales of return-seeking asset exposures, introducing an element of (implicit) borrowing. This is considered prudent as it allows the fund's assets to be utilised more efficiently to maintain the expected returns. The Statement of Investment Principles was updated to reflect this change in approach.

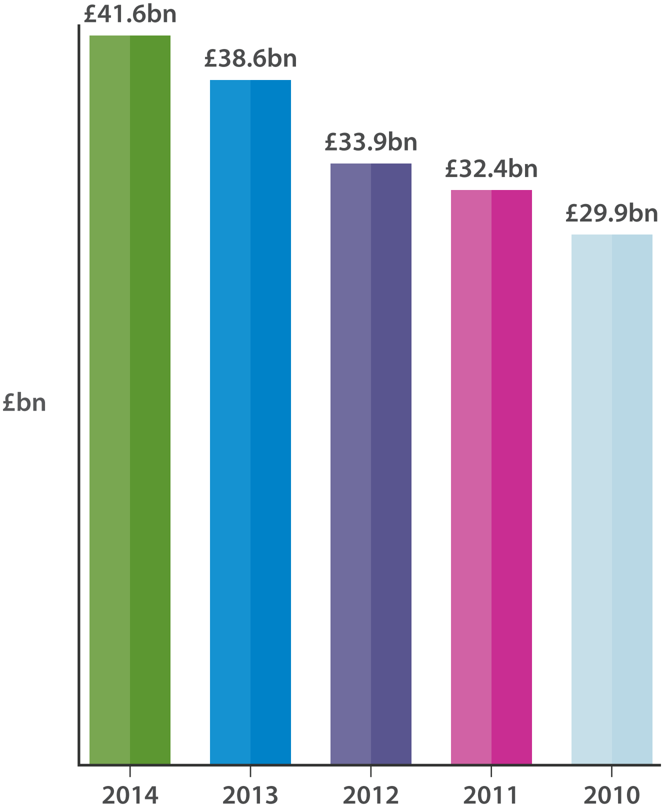
	2014	2013	2012
UK equities	**15%**	17%	20%
Cash and other assets	**2%**	4%	3%
Property	**7%**	7%	8%
Alternative investments	**19%**	19%	16%
Fixed interest	**29%**	20%	15%
Overseas equities	**28%**	33%	38%



Distribution of assets at 31 March 2014 **Distribution of assets at 31 March 2013** **Distribution of assets at 31 March 2012**

These charts have been revised from those presented in previous Members' Annual Reports to represent the combination of physical asset holdings and derivatives to show the economic exposures of the scheme. The figures exclude 4% in a liability-hedging (inflation-linked gilt) programme.

Total scheme assets*



*Excluding Money Purchase AVCs.

Largest listed equities and fixed-interest holdings at 31 March 2014

Largest listed equities holdings	Value £m	%
Royal Dutch Shell	351.1	0.8
HSBC Holdings	301.4	0.7
Nestle	193.7	0.5
GlaxoSmithKline	190.9	0.5
British American Tobacco	189.0	0.4
Vodafone Group	178.2	0.4
BP	163.1	0.4

Largest fixed-interest holdings	Value £m	%
UK Treasury Gilt 3.25% 22/01/2044	1,650.5	3.9
UK Treasury 0.75% IL 22/03/2034	1,385.9	3.3
UK Treasury 4.5% 07/09/2034	603.7	1.4
UK Treasury 0.625% IL 22/03/2040	501.5	1.2
UK Treasury 6% 07/12/2028	491.5	1.2
UK Treasury 4.25% 07/12/2040	465.1	1.1
US Treasury 0.625% IL 15/02/2043	421.4	1.0

Scheme funding

This scheme funding update explains the interim financial position. It includes:

- **A comparison of the scheme's assets and liabilities (the amount needed to pay future pensions and other benefits) as at 31 March 2014 using the 2011 assumptions updated for current market conditions**
- **An explanation of how the scheme's funding ratio (assets compared with liabilities) has changed since the last full financial assessment in March 2011**
- **An overview of the trustee's funding plans.**

Introduction

Each year the trustee company provides scheme members with a summary of the scheme's funding position in the form of a Summary Funding Statement. This statement provides an update on how the scheme's assets compare with the value of the scheme's liabilities, the latter being the amount needed to pay current and future pensions and other benefits, given prevailing market conditions.

This year a formal valuation is being carried out as at 31 March 2014, which happens once every three years, and work is well under way to complete this in-depth review of scheme funding. The process involves detailed consideration by the trustee board, supported by specialist advisers, of the scheme's underlying member data, of demographic patterns and movements within the membership, and of financial information regarding the fund and its investments.

As this work is not yet complete, the trustee cannot present a final position for the 2014 valuation at this stage (it will be completed early in 2015). However, the trustee has provided an assessment below using the assumptions used to deliver the 2011 actuarial valuation, updated for current market conditions. It is both the view of the trustee board and the scheme actuary that this figure will change as the trustee board reviews the underlying assumptions and implements revisions to the funding approach as part of its three-yearly formal assessment. As the formal review is completed, the assumptions will be updated and the funding position recalculated. Members will receive a formal update once the valuation process is complete.

In detail

How does USS work?
USS provides a defined set of benefits as set out in the scheme rules. The financing of these benefits is provided by the contributions from the sponsoring institutions and from the scheme members, which are paid into the USS fund. Together with the investment returns achieved on the fund's assets, these cover the payment of benefits to scheme members and/or their dependants now and in the future, as well as the operating costs for the scheme.

How is the financial position of the scheme measured?
The most common way to measure the scheme's financial position is to compare the current value of the assets of the fund with an estimate of the current value of the scheme's liabilities. The scheme's liabilities are the total value of all the benefits that members have accrued to date and which are paid now and in the future. The current value of the scheme's assets is relatively easy to determine at a particular point in time, using their present market value. There are, however, uncertainties inherent in estimating the current value of accrued liabilities. For example, for how long a future pension might be paid, the possibility that a survivor's benefit might be paid and at what level, as well as the rate of return on future investments. This last factor is used to determine the size of the funds that would be required today to enable the scheme to meet in full the benefits already accrued by scheme members.

The trustee board carries out an in-depth review of the scheme's finances every three years. This is known as the actuarial valuation and was last compiled as at 31 March 2011. It compares the value of the scheme's assets to its liabilities using two approaches, the technical provisions basis and the buy-out basis, as required by statutory regulations. The technical provisions basis reflects the trustee board's prudent, ongoing approach to funding the scheme and is used to determine the current funding level and, where appropriate, the extent of any deficit or surplus. The buy-out basis is based on the assumption that the scheme is being wound-up and all of the liabilities of the scheme are to be secured through an insurance company.

USS is required by law to publish this buy-out funding information even though neither the trustee board nor the scheme's stakeholders have any plans to wind-up the scheme. This same approach will be used to complete this year's actuarial valuation.

Summary funding statement continued...

What was the position at the last full actuarial valuation?
The latest full valuation, as at 31 March 2011, calculated that the funding level was 92% on a technical provisions basis and 57% on a buy-out basis.

How has the position of the scheme changed since then?
At March 2012 the actuarial report showed the funding level of the scheme on a technical provisions basis had fallen to 77% due to a large increase in the value of the liabilities, primarily due to the fall in gilt yields, although this increase was partially offset by higher than expected investment return. The funding position on a buy-out basis fell to 50%.

During the year to 31 March 2013 the assets of the fund increased by £4.7 billion, which equated to a 13.9% increase. At the same time further reductions in gilt yields meant that the value placed on the scheme's liabilities also increased substantially in the year (by £6.4 billion, an increase of 14.6%).

The funding ratio remained unchanged at 77%, albeit the deficit was larger in absolute terms at £11.5 billion. The funding position on a buy-out basis was 51%, which was a slight improvement on the 2012 figure.

Using the same base assumptions as the trustee board adopted at the last formal valuation in 2011, updated for market conditions, the latest funding deficit as at 31 March 2014 is estimated to be in the region of £7 billion representing an overall funding ratio of assets to liabilities of approximately 85%. However, as mentioned above this represents an estimated position based on the unadjusted 2011 assumptions (which are subject to review).

The funding ratio over the period since the last actuarial valuation is summarised in the table opposite.

	Actuarial valuation as at March 2011	March 2012 actuarial report	March 2013 actuarial report	March 2014 actuarial report
Assets	£32.4bn	£33.9bn	£38.6bn	£41.6bn
Value placed on scheme liabilities	£35.3bn	£43.7bn	£50.1bn	£48.8bn
Deficit	£2.9bn	£9.8bn	£11.5bn	£7.2bn
Funding ratio	92%	77%	77%	85%

The figures shown above for the value of the scheme's liabilities (the value at a point in time of the pensions and other benefits payable to current and future beneficiaries) are calculated on an ongoing basis, which assumes that the scheme will continue into the future and that employers and members will continue to make contributions.

Summary funding statement continued...

What is the trustee board's funding plan?

Following the 2011 valuation, the trustee board implemented a deficit recovery plan over a period of ten years in consultation with employers and after engagement with the University and College Union (UCU). There are two components to this recovery plan; the payment of contributions in excess of the value of accruing benefits; and the assumption that the scheme's investments will deliver a return approximately 0.5% per annum greater than the assumption made in the triennial valuation. The first component involves the employers making payments in the first six years of the recovery plan period at 16% of salaries, which is broadly 3.4% above the cost of accrual determined in the valuation. For the remaining four years the employers will make payments at 2% of salaries in excess of the (then) estimated future cost of accruals.

The trustee board is required to review and consult with employers regarding the contributions payable to the scheme following each actuarial valuation. It is likely that once the 2014 actuarial valuation is complete the fund will report a deficit which is substantially greater than the deficit reported as at 31 March 2011 and the recovery plan will need to be updated.

Pension Protection Fund

The government established the Pension Protection Fund (PPF) to provide benefits in the event that a scheme's sponsoring employer (or employers) becomes insolvent without there being sufficient funds available in the scheme. USS is recognised by the PPF as a last-man standing scheme, which means that it would only become eligible for the PPF in the extremely unlikely event that the vast majority (if not all) of the scheme's employers were to become insolvent.

If such circumstances were ever to occur, benefits would be payable to members from the PPF, but they might be less than the full benefit earned in USS. The precise amount would depend on the member's age, when the pension benefits were earned and the amount of the benefits overall.

Further information and guidance about the PPF is available on its website at **www.pensionprotectionfund.org.uk** or you can write to **Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA**

Responsible investment

USS Investment Management Ltd is a responsible long-term investor. Our approach is to integrate environmental, social and governance (ESG) issues into the investment process and, where material, these issues are taken into account in the selection, retention and realisation of our investments. We believe in active stewardship of the assets and markets in which we invest. This section details how the fund engages with companies, policy makers and other investors to improve the management of ESG issues and generate sustainable long-term returns.

As a multi-employer pension fund with nearly 400 member institutions, governed under trust law to invest and pay pensions for almost 330,000 individual members, our investment policy must be consistent with our legal duties. This means managing the fund with appropriate diversification and prudence in order to ensure there are funds available to pay members' accrued pensions.

Climate change

The trustee continues to address the issue of climate change through its investment portfolio. For many years the fund has been a leading proponent amongst pension schemes on climate change matters and actively engages with policy makers and companies on climate-related issues. Whilst USS does invest in oil, gas and other resources, the scheme also has holdings in renewable energy and other clean technology assets. The fund continues to engage with policy makers globally to ensure that appropriate policies are formulated to stimulate further investment in renewable energy.

Corporate engagement

The fund continues to engage with companies from a range of sectors covering a variety of subjects. Ensuring the remuneration of executives is linked appropriately to company strategy and performance remains an area of focus; the fund has a strong record of both engaging with companies with poor remuneration policies and practices and of voting against such practice. USS has specifically engaged with leading oil, gas and mining companies on the issue of stranded assets, and met with companies involved in providing solutions to the significant pollution problem faced in China.

Pre-investment due diligence

Due diligence is an important focus of the Responsible Investment team's activities across asset classes in which the fund invests. In public equities, the portfolio managers are provided with assessments of ESG risks prior to investing in a company. These data enable portfolio managers to analyse ESG risks alongside traditional financial analytics when they are constructing and reviewing their portfolios. As the fund seeks to allocate more capital to long-term investments such as infrastructure, it is important to assess potential ESG risks associated with these investments prior to deal completion.

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.

Investing for the long term

The fund's position as a large, long-term investor means that it has a responsibility to engage on policies that could impact its potential to deliver long-term sustainable returns. As a result, the fund has engaged with global policy makers on issues ranging from the independence of financial auditors to the price of carbon in Europe, and from corporate governance standards in Japan to the potential environmental impact of fracking. The trustee company expects this approach to both protect and enhance the value of the scheme's investments in the long term.

More information on the trustee company's responsible investment strategy is available on the USS website **www.uss.co.uk**

Scheme news

Throughout the year the trustee board considers a wide range of legislative and policy developments which might impact the scheme in the future. In this section we've highlighted a small number of recent issues which are for information purposes only – you do not need to take any action.

Budget 2014

The latest Budget, announced on 19 March 2014, introduced some major changes to the way in which individuals can draw their 'defined contribution' pension benefits, as well as announcing an increase to the minimum retirement age from age 55 currently to age 57 by 2028.

Savings paid into a defined contribution pension scheme are used to build-up a pot of money that is used to provide an income in retirement. Until now, on retirement you'd have been able to take up to 25% of your total pot as a one-off, tax-free payment. The other 75% had to be used to buy an annuity which provides an annual retirement income that is paid for life.

But there have been growing concerns that annuities don't provide good value for money and this has prompted a change in the rules. From April 2015, subject to any rules and conditions of their scheme, anyone retiring with a defined contribution pension scheme will be able to withdraw their funds without the need to buy an annuity.

In theory, members of defined contribution schemes could withdraw their entire fund when they retire. However, although the first 25% of such a withdrawal would not be subject to tax, the remainder would be taxed at the appropriate marginal rate of income tax. This could potentially be as high as 45%. Of course, members could manage their tax situation each year by withdrawing their funds gradually to avoid the higher tax rates; this is called 'income drawdown'. Details of how this will work in practice have yet to be announced.

How does this affect you?

This change currently doesn't affect USS as it isn't a defined contribution scheme. USS is a 'defined benefit' scheme which means your benefits are determined by a formula, providing defined benefits at retirement. Your retirement income isn't reliant on annuity rates but is based on your pensionable earnings and service.

For those wanting to pay more into USS, as an alternative to buying extra benefits in the scheme directly from USS, a defined contribution alternative is available (the USS Money Purchase Additional Voluntary Contribution facility). Subject to HM Revenue & Customs limits, on retirement it's possible for USS members to draw these benefits entirely as a tax-free cash payment. Alternatively, the fund can be used to buy an annuity or additional benefits directly from USS. This arrangement isn't affected by the recently announced budget changes.

USS members, in particular those that have left USS but not retired, have the option to transfer their benefits into a defined contribution scheme if they wish allowing them to exploit the potential benefits of being able to withdraw funds all at once or under an income drawdown arrangement.

The government is introducing some safeguards to ensure that individuals make the right pension choices, including a requirement for individuals to take financial advice from an adviser who is independent and authorised by the Financial Conduct Authority.

Scheme news continued...

Have you been contacted by anyone with a tempting pensions offer?

Pension scams – don't get stung!
There are already TV adverts, phone calls and emails circulating, trying to encourage members to transfer out of their defined benefit schemes into a defined contribution scheme. Just as we've seen with PPI and personal injury claims in recent years, companies are already springing into action.

If you're approached, please be extremely careful:

- Is the company genuine?
    - There have been a number of cases of criminal activity. Members of pension schemes are encouraged to transfer their benefits into other pension schemes which often don't exist. Not only do they lose all their money, but they're often subject to tax charges too.
- How much will this service cost you?
- Is it in your financial interests to move your benefits out of USS?

More information about the changes to the treatment of defined contribution pension schemes is available from **www.gov.uk** website and more information about pension scams can be found on the Pensions Regulator's website: **www.thepensionsregulator.gov.uk/pension-scams**

Contracting-out to end in 2016

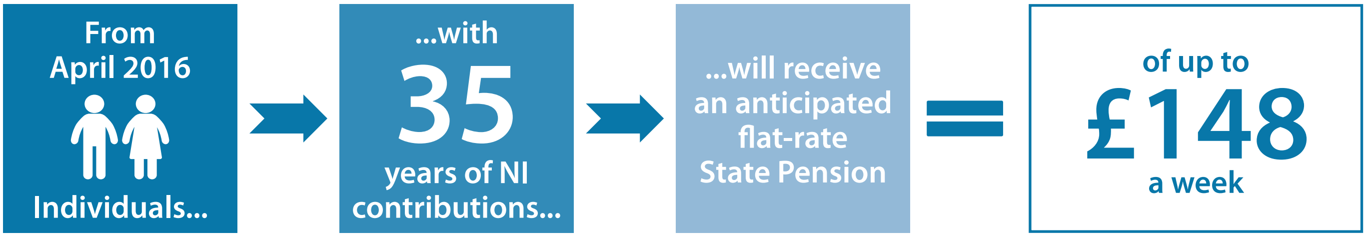
The government is introducing a new single-tier State Pension for people reaching state pension age from April 2016.

Under the proposals, individuals with 35 years of National Insurance contributions will receive an anticipated flat-rate state pension of up to £148 a week (less if you have under 35 years of National Insurance contributions and if you have been contracted out of the Additional State Pension).

Under the current system, there are two potential pensions from the state. There is the 'basic State Pension' and also an earnings-based income called the 'Additional State Pension'. Members of many occupational pension schemes like USS are 'contracted out' of the Additional State Pension scheme. This means you don't pay into the Additional State Pension scheme whilst you're a member of USS, so you pay a lower rate of National Insurance.

From April 2016, contracting out will end and a new State Pension will replace the existing basic State Pension and Additional State Pension schemes (you'll continue to receive benefits if you're already receiving it). Members of USS will notice a drop in their net pay as their National Insurance contributions will increase. The additional National Insurance contributions pay for the increase in value of the state benefits for the years leading up to State Pension age, each qualifying year of National Insurance contributions from April 2016 to your State Pension age will add about £4.24 per week to your State Pension, up to the maximum of £148.00 per week . The exact amounts will be announced by the government later in 2015.

More information on the new State Pension is available at **www.gov.uk/new-state-pension**



Scheme news continued...

Tax allowances

Lifetime allowance - Individual Protection 2014
If you're affected by the lifetime allowance and you're considering applying for Individual Protection 2014, the application form is now available on HMRC's website. Visit **www.hmrc.gov.uk/pensionschemes/ip14online.htm** to complete the form.

Annual allowance
In April 2014, the annual allowance reduced from £50,000 to £40,000.

Although this doesn't affect most USS members, before the end of the year it's worth checking how close you are to exceeding the allowance. If it looks like you may exceed the limit, you'll then have plenty of time to take action to manage and mitigate any potential tax charge.

Final Salary section members, who joined before 1 April 2014, can use USS's Benefit Modeller to obtain an estimate.

For Career Revalued Benefits section members, unless you've made substantial extra pension contributions, you're only likely to exceed the annual allowance if you earn a salary of £170,000 or more a year.

If it looks like you'll exceed the limit, there may be scope to utilise unused allowances from the previous three years – this is called 'carry-forward'.

See our interactive factsheet for more information on the annual and lifetime tax allowances. You'll also find this information on our website.

USS and you

USS provides a pension service which is tailored to meet the changing needs of both members and employers. We want to ensure we are providing an efficient and effective service every time you contact USS. Therefore, over the course of this year, members are being invited to share their views about our key processes – if you've recently been in touch with us about joining the scheme, retiring or making a change to your personal details you may have been asked for your feedback on the process.

We will also be sending invitations out with the service statements asking members to share their feedback more generally.

In addition we have invited a number of our participating employers to provide their feedback – we know often your first port of call is your employer's pensions contact and we want to make sure they have the tools they need to be able to provide you with the right support and information. Gathering your feedback is something we do periodically to understand how members' expectations are changing and how we may therefore be able to adapt our processes to suit you better.

Your views are important and will help to shape the services we provide going forward. Many thanks to those of you who have taken part so far – and if you are asked to participate in future we'd really appreciate your help.

Audit Commission's National Fraud Inititiative

In accordance with the Data Protection Act 1998, Universities Superannuation Scheme Ltd is required to inform you that, along with other organisations, it is taking part in the Audit Commission's National Fraud Initiative 2014/2015.

This initiative checks the data we hold against registered deaths to identify cases where pensions are still being paid despite the pensioner's death. This data matching exercise meets the requirements of the data protection law. The Audit Commission will be processing the data for this purpose only, and will comply with the data protection principles.

The main purpose for our participation is to ensure that USS benefits are paid to the correct beneficiaries. It will also assist in the identification of potential beneficiaries following the death of a deferred member. This will not affect members who are currently contributing to the scheme and is for information purposes only. You do not need to take any action.

Scottish referendum

Vote for Scotland to remain part of the UK
In its recent referendum, Scotland voted to remain part of the UK. USS will continue to serve institutions and members throughout Scotland, England, Wales and Northern Ireland in the same way it has to date. The trustee, however, will continue to monitor developments in this space just as we monitor wider developing legislative and regulatory requirements.

USS is committed to safeguarding the accrued rights of its members and we continue to work with our stakeholders to ensure that our members are able to enjoy good workplace pension provision.

Your trustee board

The trustee board is responsible for the proper running of the scheme; from the collection of contributions, to the investment of assets and payment of benefits. In this section you can see who the trustee board members are and the advisers that they get help from throughout the year.

Universities Superannuation Scheme Limited (the trustee company)
Universities Superannuation Scheme Limited is the trustee company established in 1974 solely to administer the scheme. Supervised by the Pensions Regulator, it operates the pensions scheme from its offices in Liverpool and London.

USS Investment Management Limited
In 2012 the scheme's London investment office was incorporated into a wholly owned subsidiary of the trustee company called USS Investment Management Limited. Regulated by the Financial Conduct Authority, it delivers investment and related activities for USS.

For more information see 'How USS is run' on **www.uss.co.uk**

Four directors are appointed to the trustee board by Universities UK (UUK).

Three directors are appointed by the University and College Union (UCU), one of them a pensioner director.

A minimum of three/maximum of five are independent directors appointed by the board.

Directors of the trustee company as at August 2014

Group Executive officers and advisers as at August 2014

Group Chief Executive Officer: Bill Galvin

Chief Investment Officer: Roger Gray

Chief Financial and Resources Officer: David Webster

Chief Policy and External Affairs Officer: Brendan Mulkern

Chief Service Delivery Officer: Kevin Smith

Group General Counsel: Jeremy Hill

Chief Technology & Change Officer: Howard Brindle

Actuary: Ali Tayyebi of Mercer, Birmingham

Solicitors: DLA Piper LLP, Liverpool

Auditors: Grant Thornton LLP, Liverpool

Bankers: Barclays Bank Plc, Manchester

Pension increases

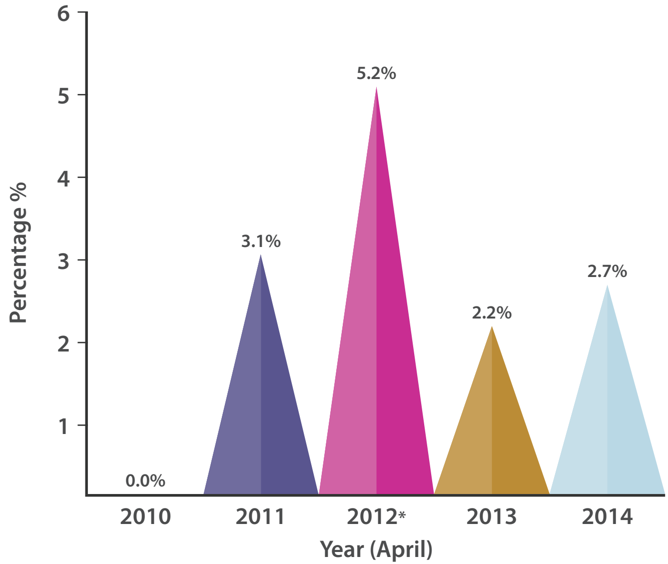
Pensions in payment and deferred benefits are reviewed annually and increases are applied in line with the rise in 'official pensions', such as those paid to members of public service schemes, including the Civil Service, Teachers and NHS pension schemes. Find out more about recent pension increases below.

How are pension increases calculated?

Service built up before October 2011
Increases will reflect the full rise in official pensions.

Service built up from 1 October 2011
Increases will match the rise in official pensions for the first 5%. If, however, official pensions increase by more than 5%, then the increase will be half the difference, up to a maximum total increase of 10%.

In deflationary periods, pensions are not reduced but no increase is applied (as was the case in 2010).



*Pension benefits built up since 1 October 2011 were subject to a cap of 5.1% in this year.

Further information

There are a number of tools you can use to find out further information about the scheme. Visit www.uss.co.uk for the most up to date information about USS.

On the website you will find:

- USS publications
- Pensions TV
- Regular updates
- Detailed scheme information

USS

Contact details

Members currently paying into USS

Contact their employing institution with any enquiries relating to their benefits.

Deferred members and those receiving benefits from the scheme

Contact USS directly at:

Universities Superannuation Scheme Limited
A: Royal Liver Building, Liverpool, L3 1PY
T: 0151 227 4711 (Local rate 0845 068 1110)
F: 0151 236 3173
W: **www.uss.co.uk**

Other useful contacts

The Pensions Advisory Service (TPAS)
A: 11 Belgrave Road, London, SW1V 1RB
T: 0845 601 2923
W: **www.pensionsadvisoryservice.org.uk**

The Money Advice Service
T: 0300 500 5000
E: **enquiries@moneyadviceservice.org.uk**
W: **www.moneyadviceservice.org.uk**

Pensions Ombudsman
A: 11 Belgrave Road, London, SW1V 1RB
T: 020 7630 2200
E: **enquiries@pensions-ombudsman.org.uk**
W: **www.pensions-ombudsman.org.uk**

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