Summary Funding Statement

This Summary Funding Statement gives an update of our funding position, in years when we do not carry out a full actuarial valuation, we produce a funding update called an actuarial report. It is the results of this update that this Summary Funding Statement updates the Universities Superannuation Scheme's ("USS" "the scheme") funding position: How the scheme's assets compare with its liabilities.

It's a regulatory requirement and a way for you to get a picture of the funding that underpins your defined benefits in the scheme and to see how it compares with previous years. This Summary Funding Statement is based on the figures as at 31 March 2021, following completion of the 2021 actuarial report.

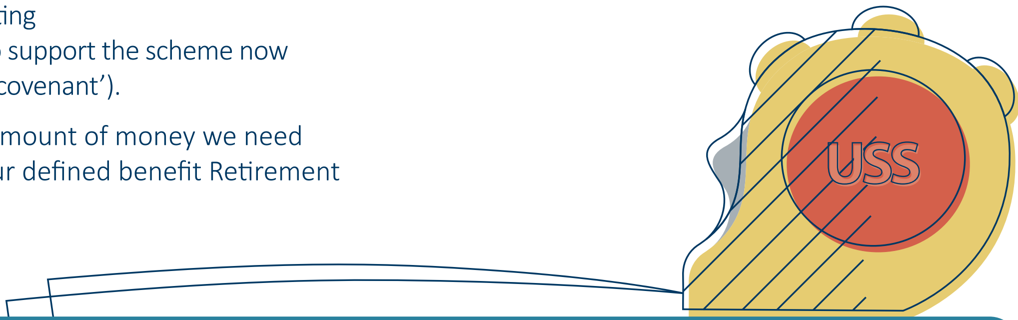
Background

At least every three years, we carry out an actuarial valuation. This is an in-depth analysis of the scheme's funding position and the factors that influence it. We completed the 2020 actuarial valuation in September of last 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
- 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 defined benefit Retirement Income Builder benefits, including the contributions we need from members and employers and the returns on our investments.

Find out more about the impact of the 2020 actuarial valuation on your contributions in the 'future contributions' section of this document.
For information on the 2020 actuarial valuation, visit our website: uss.co.uk/2020val-sfs.



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 that have been achieved – our assets.

Then, we look at all the benefits we've promised to everyone building up 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 2021.

For our liabilities, it's slightly different. We value our liabilities in a number of ways. The principal calculation assumes that the Retirement Income Builder will remain open to new members, and that members will continue to build benefits in the scheme in 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 expect to achieve over time by investing existing assets and future contributions.

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

Assumptions

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

And, while nobody likes to think about death, we have to make assumptions about this too because higher life expectancies mean that the scheme will need to 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 can't 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.

You can find more detail, including the assumptions we used for the 2020 actuarial valuation, at uss.co.uk/2020val-report-sfs.

What was the funding position of USS when we provided the last Summary Funding Statement?

The last Summary Funding Statement that we provided in 2021, showed the position based on the 2020 valuation as at 31 March 2020. This showed that the value of our assets was £66.5bn and the value of our liabilities was £80.6bn after benefit changes and covenant support measures which were agreed and implemented from April 2022.

This means that the value of our assets was 83% of the value of our liabilities and equated to a Retirement Income Builder deficit of £14.1bn.

How has the funding position changed since the 2020 valuation?

The results of the actuarial report, as at 31 March 2021, showed that our assets have increased faster than our liabilities since the 2020 valuation, causing the Retirement Income Builder deficit to decrease to £5.6bn and the funding level to increase to 94%.

Year ended 31 March figures in £billions	**Valuation 2020** (with benefit changes and additional covenant support)*	**Actuarial report 2021****
Value of assets	66.5	80.6
Value placed on liabilities (on a technical provisions basis)	80.6	86.2
Deficit	14.1	5.6
Funding ratio	83%	94%

*Rolling 20-year moratorium on employers exiting the scheme without the consent of the trustee and the debt monitoring framework and pari passu arrangements as published by the trustee on 30 September 2021.

** A much shorter moratorium on employers exiting the scheme without the consent of the trustee (lasting until the point at which the next full actuarial valuation is signed, or a replacement moratorium is agreed – whichever comes first) and debt monitoring limited to data collection.

Financial conditions improved over the 2020/21 year, leading to an increase in assets of 21% (£14.1bn) partly offset by a rise in liabilities mainly resulting from lower expected future investment returns at 31 March 2021.

The 2021 actuarial report is based on projecting forward the assumptions used for the 2020 actuarial valuation (updated for market conditions). It doesn't involve the same detailed review of the underlying assumptions that takes place as part of a full 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. Although this calculation must be undertaken by law, it should be noted that neither we nor our stakeholders have any intention of implementing a buy-out. The estimated buy-out funding level was 51% as at 31 March 2020.

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 inhouse 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.

We have reviewed the investment strategy following the 2020 valuation and have consulted employers on a new Statement of Investment Principles (SIP). The latest version of the SIP is always available at uss.co.uk/fundprinciples-sfs. Similarly, Our Statement of Funding Principles is available at uss.co.uk/principles-sfs.

Future contributions

The contributions that employers pay go mainly towards the cost of funding new pensions that members are building up. We calculate the cost of these using the same assumptions as we do for the liabilities.

In the 2020 actuarial valuation, we determined that employers also need to make annual deficit recovery contributions equivalent to 6.2% until 31 March 2024 and then 6.3% until 30 April 2038, in order to recover the Retirement Income Builder deficit. This is in addition to the contributions they need to pay towards building future Retirement Income Builder benefits and 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 Retirement Income Builder deficit to be repaired by 30 April 2038. You can find more detail in the valuation report on our website uss.co.uk/2020val-report-sfs as well as the Schedule of Contributions and Recovery Plan [uss.co.uk/schedule-sfs].

	Percentage of pensionable salaries (%)		
	1 October 2021 to 31 March 2022	**1 April 2022 to 31 March 2024**	**1 April 2024 onwards**
Total employer	21.4	21.6	21.4
Total member contributions	9.8	9.8	9.8
Total contributions	31.2	31.4	31.2

The total employer contributions cover:

- the cost of building future Retirement Income Builder benefits (net of member contributions)
- contributions towards the recovery of the 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 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 2020 to March 2021 to the scheme's sponsoring employers pursuant to section 37 of the Pensions Act 1995, nor has this happened previously.

There has been no intervention from The Pensions Regulator to use its powers to modify the scheme as regards the future accrual of benefits or to impose a direction as to the manner in which the scheme's technical provisions, including the methods and assumptions to be used in calculating the schemes' technical provisions or the period and manner in which any failure to meet the statutory funding objective is to be remedied or to impose a schedule of contributions.

Contribution rates are subject to review following the next actuarial valuation.

More information on our identification, assessment and management of climate change risk will be contained in our TCFD (Task Force on Climate-related Financial Disclosures) report, a copy of which will be published on the Responsible Investment page of our website no later than 31 October 2022 at uss.co.uk/RI-TCFD. Once published, a hard copy of the TCFD report will be available on request.

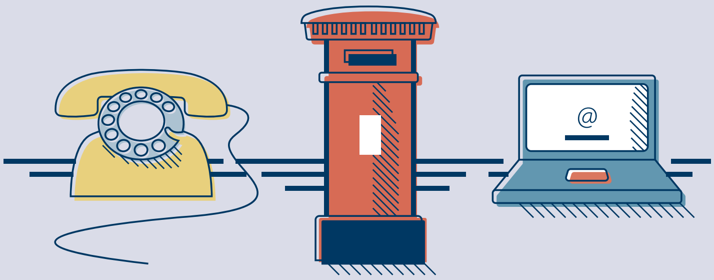
Pension Protection Fund

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 that the scheme 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, the total value of benefits and the application of any PPF compensation cap in force at the relevant time.

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 Limited, Royal Liver Building, Liverpool, L3 1PY.