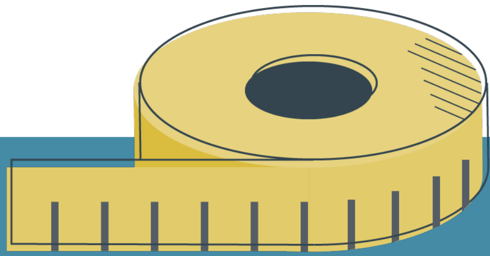
Summary Funding Statement

This Summary Funding Statement outlines the Universities Superannuation Scheme's ("USS"/"the scheme") funding position and how the scheme's assets compare with its liabilities.

It's a regulatory requirement and shows you the funding that supports your defined benefits in the scheme and how it compares with previous years.

Background

At least every three years, we carry out an actuarial valuation – an in-depth analysis of the scheme's funding position and the factors that influence it. In the years where we do not carry out a full actuarial valuation, we produce a funding update called an actuarial report. The results of the 2022 actuarial report inform the detail in this Summary Funding Statement, which is based on the figures as at 31 March 2022.



How do we measure the funding position of USS?

We invest the contributions that you – our members – and your employers pay into the scheme's assets. To measure the scheme's funding position, we look at how much money has been built up from all the contributions, and at the investment returns that the scheme's assets have achieved. Then, we look at all the benefits that have been built up in Retirement Income Builder, which are known as the scheme's 'liabilities'.

Calculating the scheme's assets is fairly simple – it's just the actual value of all the investments at a set point in time, in this case, 31 March 2022.

It differs slightly for the liabilities, which we value in a number of ways. The main 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. The way we value the liabilities for the benefits already built up on this approach is called a 'technical provisions basis'.

Using this, we can make an allowance in the funding assumptions for the investment returns we reasonably expect to achieve over time. Once we've put values on everything, we compare the assets with the liabilities which gives us a reasonable outline of the scheme's funding position.

Assumptions

When we calculate the liabilities, we have to consider a number of factors, which can't be measured with absolute certainty. We make informed assumptions on these, considering the state of the economy, 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 talk about death, we have to think about this too, as life expectancies play a part in how long we assume pensions will be in payment. When making assumptions, we also include the possibility of paying pensions to members' beneficiaries and paying ill health benefits to members who have to leave work early.

While the evaluation we've carried out has been independently assessed, ultimately these are assumptions about how the future might unfold and we can't take them for granted. By law, we must apply some prudence when we estimate the scheme's liabilities and the assets we need to fund them.

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

Last year, we provided the 2021 Summary Funding Statement which showed the position based on the actuarial report as at 31 March 2021. The value of the scheme's assets was £80.6bn and the value of the liabilities was £86.2bn after benefit changes and covenant support measures, which were agreed and applied from April 2022.

As such, the value of the scheme's assets was 94% of the value of the liabilities, leading to a Retirement Income Builder deficit of £5.6bn.

How has the funding position changed since the 2020 valuation?

The results of the actuarial report, as at 31 March 2022, showed that on a technical provisions basis the scheme's assets have increased faster than the liabilities, resulting in the Retirement Income Builder deficit decreasing to £2.1bn and the funding level increasing to 98%.

Year ended 31 March figures in £billions	**Valuation 2020**	**Actuarial report 2021**	**Actuarial report 2022**
Value of assets	66.5	80.6	88.9
Value placed on liabilities (on a technical provisions basis)	80.6	86.2	91.0
Deficit	14.1	5.6	2.1
Funding ratio	83%	94%	98%

Financial conditions improved over the 2021/22 year, leading to a 10% (£8.3bn) increase in assets, partly offset by a rise in liabilities. The liability change mainly resulted from high inflation (both currently and expected in the future), which feeds through to higher expected pension increases, partly mitigated by higher expected future investment returns at 31 March 2022.

The 2022 actuarial report is based on projecting forward the assumptions used for the 2021 actuarial report (updated for market conditions). It doesn't involve the same detailed review of the underlying assumptions that we do for a full actuarial valuation.

As well as calculating the liabilities on a technical provisions basis, we also have to do it on a "buy-out" basis. That means we need to estimate their value based on what it would cost if they were bought-out by an insurance company. This is a legal requirement but 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.

The scheme's funding plan

We aim to provide secure pensions for all our members. This is at the heart of everything we do, and it's built into the scheme's investment approach.

We have an active investment strategy and advanced approach to portfolio management, with an inhouse investment management team.

We believe it's crucial that the investment portfolio is managed in a way that the risk in the funding of the scheme is supportable by the scheme's sponsoring employers.

The latest version of the Statement of Investment Principles (SIP) is available at uss.co.uk/how-we-invest/our-principles-and-approach.
Similarly, Our Statement of Funding Principles is available at uss.co.uk/fundprinciples-sfs

Future contributions

The contributions that employers pay mainly go 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.

As part of the 2020 actuarial valuation, we had to put a recovery plan in place for the Retirement Income Builder deficit, which meant 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. This is on top of the contributions they need to pay towards building future Retirement Income Builder benefits and Investment Builder savings for members earning above the salary threshold, plus the costs of running the scheme.

Based on this approach and our assumptions, we expected the Retirement Income Builder deficit to be repaired by 30 April 2038. However, given the recent changes in the funding position, we would now expect it to be repaired sooner than this.

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 1 April 2021 to 31 March 2022 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.

More information on our identification, assessment and management of climate change risk is contained in our TCFD (Task Force on Climate-related Financial Disclosures) report, a copy of which is published on the Responsible Investment page of our website at uss.co.uk/RI-TCFD.
A hard copy of the TCFD report is 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, meaning 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 at ppf.co.uk or by writing to The Pension Protection Fund, PO Box 254, Wymondham NR18 8DN.

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
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