Conditional Indexation glossary

Accrual rate

The annual rate at which your pension benefits accrue, or build up. An accrual rate of $1/85^{th}$ means that you build up a pension of $1/85^{th}$ of your salary each year (in USS, this is up to the salary threshold – read more here).

Aggregate valuation

A way of valuing a pension scheme that allows for benefits accrued to date and those expected to accrue to current members in the future, the Assets, expected future contributions, inflation and future investment returns.

Assets

The cash and investments the scheme owns – like shares, property and government bonds – in order to pay benefits and expenses now and in the future. *Assets* can also mean the total value of our investments as a figure in pound sterling.

Auto-enrolment/automatic enrolment

Requirements on every employer in the UK to put certain staff into a pension scheme, and pay into it. The pension scheme used by employers to comply with their auto-enrolment duties must meet certain criteria. Under current legislation, where pre-retirement increases of career revalued benefits (such as those in USS) are discretionary, a scheme will only be auto-enrolment compliant if the funding of the scheme assumes revaluation of the lesser of 2.5%, RPI and CPI each year.

Cashflow

The income into the Scheme minus the outgoings.

Catch up

Where affordable, "catch up" increases can be applied to bring benefits which did not receive full target increases in previous years up to the level they would have been had all target increases been granted. At the time of writing, the modelling does not consider the concept of back payments for periods where pensions in payment were increased by less than the target increase (CPI). This would be a design feature to be considered in any solution and would require additional sophistication in the modelling to produce.

CI funding test

A test to determine whether the assets held by the Scheme are sufficient to cover the accrued guaranteed benefits following the granting of a CI increase.

Conditional Indexation (CI)

A defined benefit pension scheme design where the future increases (also known as indexation) applied to benefits built up are conditional on the funding position of the scheme[1].

[1] Under Section 51 of The Pensions Act 1995, pensions in payment must be increased by a minimum of CPI up to 2.5%.

Cost sharing

The sharing of any required increase or decrease in the overall contribution rate between employers and members. In USS, cost sharing of a change in overall contributions applies to employers and members in the proportion 65/35 respectively, unless the JNC decides on a different split and/or changes in the benefits to be offered in future.

CPI

Consumer Prices Index, a measure of inflation which is used a as basis for providing increases to pensions. USS Retirement Income Builder benefits you've built up are increased in line with official pensions, which are currently increase in line with CPI, subject to certain caps (which you can read about here).

Discount rate

A number that is applied to all the benefits that members have already been promised to calculate their present-day value. We work out this rate using a forecast of investment returns and a margin for prudence.

Funding test

A test to determine whether, broadly speaking, the level of assets held by the Scheme is sufficient to meet the benefits accrued to date. It is a requirement under the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

Guaranteed benefits

Benefits built up which are guaranteed and will not be changed, as they are protected by law and under the Scheme Rules.

Indexation

Annual increases applied after retirement to pensions in payment.

Inflation

A rate to measure the change in prices for goods and services over time.

Inflation protection

A level of increase applied to benefits to protect against the impact of inflation. In the context of USS, the Retirement Income Builder benefits you've built up are increased in line with official pensions, which are currently increased in line with CPI, subject to certain caps (which you can read about here).

Liabilities

An estimate of the money that the Scheme will have to pay out in benefits that members have built up so far. When talking about Scheme funding, we express liabilities as the present value of the money we will have to pay out from the valuation date onwards.

Post-retirement increase

Also known as 'indexation', this refers to the increases applied after retirement to pensions in payment.

Pre-retirement increase

Also known as 'revaluation', this refers to the annual increases applied to benefits built up before they come into payment.

Prudence

An allowance for prudence increases the probability of the Scheme having enough money to pay the pensions being promised. Prudence in the context of the proposed Technical Provisions is achieved by an adjustment to our best-estimate funding assumptions. We are required to choose individual assumptions, the prudence of which is consistent with the level of prudence appropriate for the Technical Provisions as a whole.

Recovery Plan

A plan to repair any funding shortfall ('Technical Provisions deficit') at the valuation date in a set amount of time through the payment of deficit recovery contributions (DRCs).

Revaluation

The annual increases applied to benefits built up before they come into payment.

RPI

Retail Prices Index, a measure of inflation which is older than CPI and takes account of mortgage interest payments. Currently, RPI is not used in the context of USS – please see the definition of 'Inflation protection' for a summary of benefit increases in USS.

Salary Threshold

The salary threshold for 2022/2023 is £40,000. If you earn over this amount, you'll automatically start paying into the Investment Builder, the defined contribution (DC) part of USS. The benefits you build in the Retirement Income Builder, the defined benefit (DB) part of USS, are based on your salary up to this threshold.

Schedule of Contributions

A schedule setting out the rates of contributions we need for the Recovery Plan (if applicable) in respect of the benefits promised up to the valuation date, plus the contributions we need to fund new benefits that will be promised *after* the valuation date. The schedule must also set out the dates by which the contributions should be paid.

Self sufficiency

The assets and low-risk investment strategy that provide a 95% chance of paying all built up benefits without the need for additional contributions, while maintaining a high funding ratio.

Technical provisions

An estimate of the Scheme's liabilities – i.e., the benefits promised up to the valuation date. The liabilities are calculated on a prudent basis, as is required by law. They are driven by the benefits members have already earned and the actuarial assumptions we make about what will happen in the future.

Valuation

An assessment of the scheme's financial position. It is carried out by the trustee, who must take advice from the Scheme Actuary, an appointed independent specialist who reports to the USS Board, as required by law and under the Scheme Rules. A valuation is a budgeting exercise that establishes a plan for how, at the valuation date, the scheme will generate enough money to be able to pay the pensions that members are expecting, now and long into the future. The trustee must carry out formal valuations at least every three years.

Valuation Investment Strategy ("VIS")

A theoretical, but investible, asset allocation developed for the 2020 valuation. While the VIS is expected to deliver the required level of long-term returns at a level of investment risk consistent with the Trustee's investment risk appetite, it does not define the actual assets in which USSIM may invest.