

Summary Funding Statement as at 31 March 2013

The summary funding statement is issued each year to scheme members to explain the scheme's latest financial position. In this statement you will find an update on how the scheme's assets compare with the value of the scheme's liabilities – the amount needed to pay future pensions and other benefits given prevailing market conditions - as at 31 March 2013.

It also includes an explanation of how the scheme funding ratio has changed since the last full financial assessment (March 2011), and an overview of the trustee's funding plans for the scheme.

USS pensions are backed by the employers of the higher education sector and by the funds invested in the pension scheme. The scheme's investments have performed well since 2011. However, there is continuing uncertainty in the world's economic markets, which influences the financial markets' view on long term investment prospects. These uncertainties have meant that the value currently placed on the liabilities has increased substantially since the last valuation largely due to the fall in gilt yields, driven down by a combination of quantitative easing and the UK's safe haven status in these difficult economic times. Market based valuations – of both assets and liabilities – have experienced significant volatility over the last five years, and this continues; the £2.9 billion deficit reported at the last full financial assessment in 2011 had increased to £11.5 billion as at March 2013, but had reduced to £7.9 billion at the end of June 2013.

The USS scheme has been able to tolerate this level of volatility because of the substance of the employers who underwrite the scheme's liabilities, and their commitment to the scheme. In preparation for the next full financial assessment of the scheme (which takes place every three years and will take place in March of next year) the trustee board is working with the sponsoring employers to confirm that the reliance the trustee board places on this support as part of its funding strategy remains prudent. This is an important part of the trustee board's ongoing governance of the scheme and the effective management of the risk associated with these long term pension commitments.

Members can be reassured that USS is a long term scheme supported by substantial employers that can support their commitment to providing the promised benefits.

The law specifies a number of requirements for the content of this statement and how some of the details should be expressed, and this statement covers those requirements whilst presenting the relevant information in a form designed to be helpful and understandable.

USS

How does USS work?

USS delivers 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 into the future, as well as the operating costs for the scheme.

How is the financial position of the scheme measured?

One 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. There are however uncertainties inherent in estimating the current value of accrued *liabilities*, for example, for how long a 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 the benefits already accrued by scheme members.

A recognised starting point which the trustee company, in common with most UK trustee bodies, uses for determining the assumed rate of return on investments is the yield on UK government bonds, or gilts. This is often referred to as a risk-free rate, and anticipated returns on other assets are often benchmarked to the returns on gilts. The gilts rate is therefore an important component of calculating the current value of the scheme's liabilities. The uncertain economic climate and, amongst other things, the quantitative easing policy undertaken by the Bank of England has resulted in historically low levels of gilt yields in the last few years which in turn has resulted in a higher current value of those liabilities. In simple terms, £100 invested in gilts in March 2013 is expected to produce smaller future returns compared with £100 invested in March 2011 (or indeed March 2012).

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 undertaken in March 2011. This 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 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 assumes 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 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.



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 per cent on a technical provisions basis and 57 per cent 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 per cent due to a large increase in the value of the liabilities, primarily due to the fall in gilt yields. The funding position on a buy-out basis fell to 50 per cent.

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

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

The funding ratio over the period since the last actuarial valuation is summarised in the table below:

	Actuarial valuation as at March 2011	March 2012 actuarial report	March 2013 actuarial report	June 2013 update
Assets	£32.4bn	£33.9bn	£38.6bn	£37.9bn
Value placed on scheme liabilities	£35.3bn	£43.7bn	£50.1bn	£45.8bn
Deficit	£2.9bn	£9.8bn	£11.5bn	£7.9bn
Funding Ratio	92%	77%	77%	83%

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 the employers and members will continue to make contributions.

As can be seen from the table, there has been considerable movement in the funding ratio since the last valuation caused by economic uncertainties which have troubled many UK defined benefit pension schemes. There has been a high level of volatility in the scheme's funding ratio in the months since March 2013; as at the end of June the funding ratio had improved to 83 per cent which reflected a funding deficit of £7.9 billion with considerable fluctuation in the intervening three month period. Such movements put an emphasis on the depth and financial standing of the support provided to USS by its sponsoring employers.



What is the trustee board's funding plan?

In March 2011 the trustee board implemented a deficit recovery plan over a period of ten years in consultation with employers and 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 0.51 per cent 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 per cent of salaries, which is 3.4 per cent above the cost of accrual determined in the valuation. For the remaining four years the employers will make payments at 2 per cent 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 at each actuarial valuation. It continues to monitor the funding position very closely and make preparations for the next formal valuation in 2014.

USS has always taken a long term view in its funding approach to the scheme, supported by the unique and enduring nature of many of the scheme's sponsoring employers. That said, these are undoubtedly challenging times, and the trustee board is working with the employers to review their ongoing flexibility to meet USS commitments in light of wider financial, economic and sectoral changes which might impact them. This review will inform the trustee board's discussions with employer representatives, UCU and other stakeholders, during which the long term funding plan for the scheme will be updated and an appropriate response to the funding position as at March 2014 formulated.

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ADDITIONAL INFORMATION

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) became 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, Knollys House, 17 Addiscombe Road, Croydon, CR0 6SR.

Statutory Statement

There has been no payment out of the fund's assets over the period from April 2012 to March 2013 to the scheme's sponsoring employers, nor has this happened previously. There has been no intervention from the Pensions Regulator to use its powers to modify the scheme nor to impose a direction or schedule of contributions.

Where can you get more information?

If you would like to find out more about USS, please contact the person at your employer who deals with USS matters, or alternatively visit the USS website at www.uss.co.uk or contact USS's Liverpool office at USS Limited, Royal Liver Building, Liverpool, L3 1PY.



ADDITIONAL DOCUMENTS AVAILABLE ON THE USS WEBSITE OR ON REQUEST

Statement of Investment Principles

This explains how we invest the money paid into, and manage the investments held by, the scheme.

Statement of Funding Principles

This sets out the policies of the trustee board for ensuring funding objectives are met.

Schedule of Contributions

This shows how much money is being paid into the scheme by the institutions and the contributing members, and includes a certificate from the actuary showing that it is sufficient.

Report and Accounts for year ended 31 March 2013

This shows the scheme's income and expenditure in 2012/13, and more details regarding the scheme and the trustee company.

Actuarial Valuation report as at 31 March 2011

This contains the details of the trustee board's review of the scheme's financial position as at 31 March 2011.