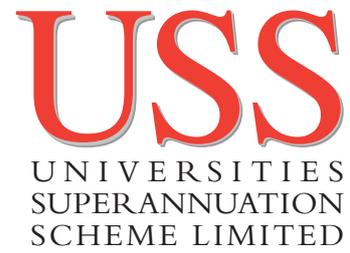


SUMMARY FUNDING STATEMENT 2007



We sent you a statement last year, for the first time, summarising the financial health of USS. We have updated this information to reflect the changes during the 12 months up to 31 March 2007. You will see that the funding position has improved because of the rising stock markets coupled with an increase in the interest on Government fixed interest loans. Of course these figures are just a snapshot on one date, as were last year's figures. We are not due to carry out a full valuation of the scheme until 31 March 2008 but we have included again the results of the last valuation as at 31 March 2005.

We received a number of comments on the statement we issued last year. Some members felt the statement was too detailed but a few wanted more detail. A frequent comment was that the statement was based on the valuation results as at 31 March 2005. Unfortunately the content of the statement is largely determined by regulations that USS must follow. We hope you find the information in this statement useful but a more detailed statement can be found in the Report & Accounts for the year ended 31 March 2007, which is available on the USS website or on request.

Current financial situation

As at 31 March 2007 the scheme actuary has calculated that the assets of the scheme were sufficient to cover 91% of the liabilities. The equivalent figure last year was 89% and the figure at the last full valuation in 2005 was 77%.

These figures are arrived at by adding up estimates of the value of all of the scheme's assets ie stock market value of its company shares, market value of its property, value of any fixed interest government or corporate loans (known as bonds) and any cash in the bank. We then add up the estimated cost of providing, now and in the future, all of the scheme's liabilities, which include all the pensions currently in payment, the value of deferred benefits and the benefits built up by current members that will be payable in the future.

If the assets exceed the liabilities then the scheme is fully funded or in surplus but if the liabilities are greater the scheme has a shortfall.

Valuation of the scheme as at 31 March 2005

The latest actuarial valuation of the scheme showed that on 31 March 2005:

The value of the liabilities were £28,308.1 million

The scheme's assets were valued at £21,739.7 million

This means that there was a shortfall of £6,568.4 million

This represented a funding level (assets ÷ liabilities) of 77%.

The actuary has advised the trustee company that, in determining the scheme funding basis used in the actuarial valuation at 31 March 2005, a cautious approach had been adopted. If the investment return assumption used in the valuation had been increased by 2% to 6% (a relatively mainstream actuarial assumption and one which would still contain an element of prudence) the fund would have been in surplus at that date.

Long term funding strategy

Acting on actuarial advice, the trustee company agreed to leave the shortfall at the last valuation to be addressed by investment performance rather than increasing contributions, but undertook a review, in consultation with the participating employers, of the funding of the scheme to determine whether an increase in contributions should be made in advance of the next valuation at 31 March 2008.

As a result of the review of the funding of the scheme, the trustee company introduced a charge, payable by the employers, to cover the cost of providing unreduced benefits on early retirements below the age of 60. The actuary has estimated that this charge should have the effect of improving the scheme funding level by approximately 3% and will be broadly equivalent to an increase in the contribution rate of just under 2%. Acting on actuarial advice, the trustee company decided not to increase contributions in advance of the 2008 valuation but will review the contribution rate again following consideration of the results of the valuation.

In addition to the scheme funding basis, the actuary also calculates the USS funding position on a number of other methods, including the PPF (Pension Protection Fund) basis and the FRS17 basis. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was 109%.

Shown below is a summary of the scheme funding level under the various different valuation bases at 31 March 2005 and 2007:

Funding basis	31 March 2005	31 March 2007
	%	%
Ongoing basis	77*	91
FRS 17	90	109
PPF	110*	137
MFR	126*	N/A
Solvency	74*	84

*Funding levels marked with an * have been certified by the scheme actuary. All other figures have been provided by the scheme actuary on an estimated basis. The MFR basis will no longer be applicable after 31 March 2008 and has not been recalculated as at 31 March 2007.*

The valuation shortfall was estimated using relatively pessimistic assumptions about the investment returns we could expect to receive in the future. We have assumed that the investment returns will be in line with the income from Government fixed interest loans, known as gilts. In reality, USS invests largely in equities, which are expected to deliver superior returns over the long term. If we assumed that we would achieve just 2% above the return on gilts the fund would be in surplus.

How much money is paid into the scheme each year?

USS is a final salary arrangement. Under this type of arrangement benefits are payable on the death, early leaving or retirement of a member and are generally dependent upon how long the member has been in the scheme at the time the benefit becomes due and what the member's salary is at that time. The institutions currently pay contributions to the scheme of 14% of pensionable salaries. Members pay contributions of 6.35% of pensionable salaries. So, a total of 20.35% of the pay of all contributing members is being paid into the scheme each year.

How do you know what contributions should be paid into the scheme?

Following each actuarial valuation, the actuary advises us what contributions should be paid into the scheme so that we can expect to be able to continue to pay people's pensions. We then set a level of contribution for the scheme and record this in a document called the Schedule of Contributions.

We review and update the Schedule of Contributions at least each time the scheme has an actuarial valuation.

Is my pension guaranteed?

Our aim is for there to be enough money in the scheme to pay pensions now and in the future, but this depends on the institutions carrying on in business and continuing to pay for the scheme.

If an institution goes out of business or decides to stop paying for the scheme, it must pay the scheme enough money to buy all the benefits built up by members from an insurance company. This means that individual institutions cannot just walk away from their pension responsibilities to USS. In any event, USS operates as a ‘last man standing’ scheme. This means that if one institution becomes insolvent and cannot meet its share of any shortfall in the scheme’s finances, the remaining institutions would accept responsibility for that amount. If this happens for all institutions, this is known as the scheme being “wound-up”.

Is there enough money in the Scheme to provide my full benefits if the Scheme were wound-up?

The actuarial valuation at 31 March 2005 showed that the Scheme’s assets could not have paid for the full benefits of all members to be provided by an insurance company, if the Scheme had wound-up at that date.

The liabilities if the Scheme were to be wound-up were £29,546.9 million

The Scheme’s assets were £21,739.7 million

This means that there was a shortfall of £7,807.2 million

The fact that we have shown the position if the scheme were wound up (known as the “solvency position”) does not mean that consideration is being given to winding up the Scheme. It is just another piece of information that we hope will help you understand the financial security of your benefits.

What happens if the scheme is wound-up and there is not enough money to pay for all my benefits?

The Government has set up the Pension Protection Fund (PPF) to pay benefits to members if the scheme is wound-up when the scheme and the institutions do not have enough money to cover the cost of buying members’ benefits with an insurer.

The pension you would receive from the PPF may be less than the full benefit you have earned in the scheme, depending on your age and when your benefits are earned.

Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Where can I get more information?

If you have any other questions, or would like any more information, please contact the person at your employer who deals with USS matters. A list of documents, which provide further information, is attached. If you would like a copy of any of these documents please refer to the USS website (www.ussHQ.co.uk) or contact our Liverpool office. If you require advice about any aspect of USS you should consult a professional adviser.

Yours sincerely

Tom Merchant

Chief Executive
Universities Superannuation Scheme Ltd

ADDITIONAL DOCUMENTS AVAILABLE ON REQUEST

Statement of Investment Principles

This explains how we invest the money paid into the scheme.

Investment Policy Implementation Document

This is a working document that contains detailed operational information about the investment policy. As it is liable to frequent change it is not available on the USS website but can be provided on request.

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 2007

This shows the scheme's income and expenditure in 2006/07.

Actuarial Valuation Report as at 31 March 2005

This contains the details of the actuary's check of the scheme's financial position as at 31 March 2005.

Guide for USS members

This is the members' handbook for the scheme. You should have been given a copy when you joined the scheme, but you can get another copy from your employer.