



## Summary Funding Statement 2008

I am pleased to send you this year's Summary Funding Statement, which is designed to let you know about the financial position of USS. It is a snapshot of the funding of the scheme using information from the latest triennial valuation, which looked at the scheme's assets and liabilities as at 31 March 2008. The statement contains some key questions and answers, which I hope you will find useful.

Tom Merchant  
Chief Executive  
Universities Superannuation Scheme Ltd  
February 2009

### How does USS work?

Contributions are collected from active members (6.35% of salary) and participating employers (14% of salary). These contributions are paid into the USS fund, and together with the investment returns achieved on the fund's assets, are used to finance the payment of scheme benefits. Importantly, there is no allocation of separate funds for each individual member of the scheme.

USS is a 'defined benefit' pension scheme which means that the benefits are as set out in the scheme rules. The assets of the fund are used to provide the promised benefits, as opposed to a defined contribution scheme where member benefits are determined by the size of the individual's separately allocated pension fund.

### How do we measure the financial position of the scheme?

The scheme actuary carries out a valuation every three years. He compares the value of the scheme's assets to its liabilities, eg members' pensions, using several approaches, as required by regulations. The latest valuation was the first completed on a new basis introduced by the Government in the Pensions Act 2004. The Act requires schemes to 'have sufficient and appropriate assets to cover its technical provisions'. The term 'technical provisions' is another name for the scheme's liabilities (ie the promised benefits that have been earned by members in the scheme), calculated on a 'scheme-specific' basis. It is for the trustee board, in consultation with the participating employers, to decide how to calculate the technical provisions of USS.



## What was the position of the scheme on the technical provisions basis after the latest valuation?

<b>Assets</b>	<b>£28.8 billion</b>
<b>Amount needed to pay benefits</b>	<b>£28.1 billion</b>
<b>Excess</b>	<b>£0.7 billion</b>
<b>Funding level</b>	<b>103%</b>

The actuary also has to calculate the scheme's funding position as if the scheme had to be wound-up, with all the liabilities secured by purchasing pensions from an insurance company. This is called the 'buy-out' basis and is, as you might expect, a very expensive way to provide your pensions.

The funding level on this basis was 80%. The fact that we have shown the position if the scheme were wound up 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.

There are various ways to approach the calculation of scheme liabilities, and historically the trustee board has applied a further (somewhat tougher) standard for measuring the financial position of USS compared to the standard required under the technical provisions. In calculating the value of the scheme's liabilities, the scheme actuary must make a number of assumptions about the financial and demographic factors that have an effect on USS. These assumptions, which are explained in greater detail in the valuation report, are critical to the valuation process.

As you might imagine, one of the most important factors is the estimate of future investment returns for the fund. In calculating the scheme's technical provisions, the scheme actuary has assumed that the long-term investment returns, for the fund overall, will be 2% above the return that could be achieved on Government fixed income loans (commonly known as gilts).

If, instead of assuming a 2% return above gilts, we apply the tougher standard that we have used in the past and assume that we will achieve investment returns equivalent to the whole of the fund being invested in gilts, the funding level of USS was 71%. The corresponding figure for the last valuation as at 31 March 2005 was 77%.

For the sake of completeness, the scheme actuary also calculated USS's funding position at 31 March 2008 using the accounting standard FRS17. This measure is typically used by companies to express their pension liabilities on the accounting balance sheet and the funding level used by the Pension Protection Fund (PPF) in calculating the scheme's liabilities on its prescribed basis. The figures were 104% (FRS 17) and 107% (PPF).

## What is the trustee board's funding plan?

Based on the valuation results, the trustee board is confident that its long-term funding plan remains appropriate and does not intend to ask the participating employers for any extra contributions to meet the past service liabilities of the scheme. USS has a diversified portfolio of investments and a positive cash flow (because the fund receives more in contributions in a year than it pays out in benefits). This leaves the scheme in a much stronger position relative to many other schemes in the UK.

However, the cost of providing pensions is rising, partly because members are living longer. Consequently the trustee board has advised the employers that it requires an increase of 2% in the contribution rate from Autumn 2009, to provide for the increased cost of providing future benefits. The employers have commenced discussions with representatives of the University and College Union to explore ways in which this increase can be met.



## What has happened since the valuation results?

You will no doubt be aware that the global economy has been severely affected by the credit crisis and world stock markets have fallen considerably. Consequently, the value of the scheme's assets is now lower than at the time of the valuation. However, the trustee board continues to have confidence in its current funding plan, although it is carrying out a review of its investment strategy following completion of the actuarial valuation (as it does after each valuation).

## 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 in the event that employers are unable to meet their pension commitments and they become insolvent. USS is a last-man standing scheme for PPF purposes, which means that it would only become eligible for the PPF if all (or in practice, the vast majority) of the employers within the higher education sector were to become insolvent. Clearly, this is a highly unlikely scenario.

However, if such a circumstances were ever to occur, 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](http://www.pensionprotectionfund.org.uk) Alternatively, 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.

### Additional documents available on request

These documents are also available from [www.uss.co.uk](http://www.uss.co.uk)

#### **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 2008**

This shows the scheme's income and expenditure in 2007/08.

#### **Actuarial Valuation Report as at 31 March 2008**

This contains the details of the actuary's check of the scheme's financial position as at 31 March 2008.

#### **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.

**If you require advice about any aspect of USS you should consult a professional adviser.**



[www.uss.co.uk](http://www.uss.co.uk)



## Data Protection Notice

Universities Superannuation Scheme Limited (USS) will soon be launching its impressive new website which will improve the way in which we communicate with institutions and members. The new website includes a secure section, called *USS online*, for participating employers and members that will facilitate the online processing of members' information. *USS online* will not only speed up processes and improve efficiency but will also make communications between USS and institution/members more environmentally friendly by cutting down paper communications.

USS obtains a variety of personal information about its members from institutions, which it relies on and holds for the purpose of:

- administering USS pensions; and
- calculating benefits due to members from USS.

*USS online* will have a number of features, which will evolve and be developed over time. USS will provide you with information on the new features of *USS online* as and when they are available. Some of the initial features of *USS online* will include:

- allowing institutions and members to view personal data online; and
- allowing institutions to produce pension benefits calculations online; and
- enabling USS and institutions to communicate with each other online, in a secure environment.

USS takes considerable care to ensure that it complies with the Data Protection Act 1998 (Act) in respect of the personal information it holds. As part of the activities USS may carry out in relation to its members' pensions, USS may need to disclose the information it holds about you to:

- its advisers (for example, legal advisers); and
- institutions who are part of the scheme (including any one or more institutions that you are currently employed by and any institution where you may be starting employment).

As part of administering the scheme, USS may also permit your former USS employers to access certain information that USS holds about you for a reasonable period of time after you have left employment with them, to allow information to be reconciled and any queries to be dealt with.

USS takes great care to ensure that the information it holds about you is held securely and requires that this is also the case if USS needs to pass any information about you to a third party engaged by USS to assist in the activities outlined above.

If you have any queries in relation to the above or about how USS handle or use your information please contact USS' data protection officer on 0151 227 4711 or email USS at [postbox@uss.co.uk](mailto:postbox@uss.co.uk)