USS employer considerations

31 March 2026 valuation and Conditional Indexation

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Introduction

UCEA (and formerly UUK) have been working with the USS and UCU for several years investigating approaches to ensure ongoing stability for the USS. While stability can be taken to mean different things in the context of the USS, we have primarily considered this as avoiding significant changes to contribution rates and future benefits. This work has taken place through various forums including the Stability Working Group and a Conditional Indexation Sub Group.

Recent work supported by these forums includes work on proposed changes to valuation methodology and exploring a Conditional Indexation (CI) design. Following the publication of documents related to this work and in the run up to the 31 March 2026 valuation UCEA is seeking the views of employers on various issues relevant to the future stability of USS including funding and contribution levels, and future scheme design.

The USS is at an important point in its development. The scheme's funding position has improved significantly since the 2023 valuation and is expected to show a substantial surplus and a lower cost of future benefits at 31 March 2026, creating real flexibility over contributions and benefit design. However, the position remains volatile and there is a non-trivial risk the position deteriorates in the coming years, which could result in contribution increases or potential further discussions on benefit reform. Joint work by USS, UCEA and UCU has developed a "proof of concept" CI design to support mitigating these risks, which keeps a defined benefit core but makes future indexation more flexible. Early analysis suggests CI could support higher expected benefits and more stable contributions at similar overall cost, while making the scheme more resilient to future shocks. UCEA is now seeking employers' initial views on these options and trade-offs.

31 March 2026 valuation

Background

The next three-yearly actuarial valuation of the USS scheme is approaching, with an effective date of 31 March 2026. The Trustee will have up to 15 months from this date to complete the valuation.

This is the first valuation following significant reforms to the statutory funding regime and comes after a further material improvement to the financial position of the USS.

Recap of the 2023 valuation

At the previous 31 March 2023 valuation, the USS Scheme Actuary reported a Technical Provisions Surplus of £7.4Bn (based on assets of £73.1Bn and Liabilities of £65.7Bn).

The total cost of future benefits (the "Future Service Contribution Requirement"), after allowing for the pre 1 April 2022 benefit structure to be reinstated, was 20.6% of salary.

The total contribution rate was set as 20.6% of salary (split 14.5% for employers, and 6.1% for members) i.e. the contribution rate aligned with the calculated cost of future benefits, with no adjustment for the surplus.

Part of the surplus (around £1.2Bn at March 2024) was used to grant a one-off benefit improvement in respect of the 2022-24 period when accruing benefits had been lowered.

The 31 March 2023 valuation was the first valuation in over ten years to show a surplus. The previous recent valuations had all required contributions rates above the Future Service Contribution Requirement to clear deficits, and upward pressure on contribution rates had often led to changes to rates being phased in and **changes to future benefits** to keep contributions affordable.

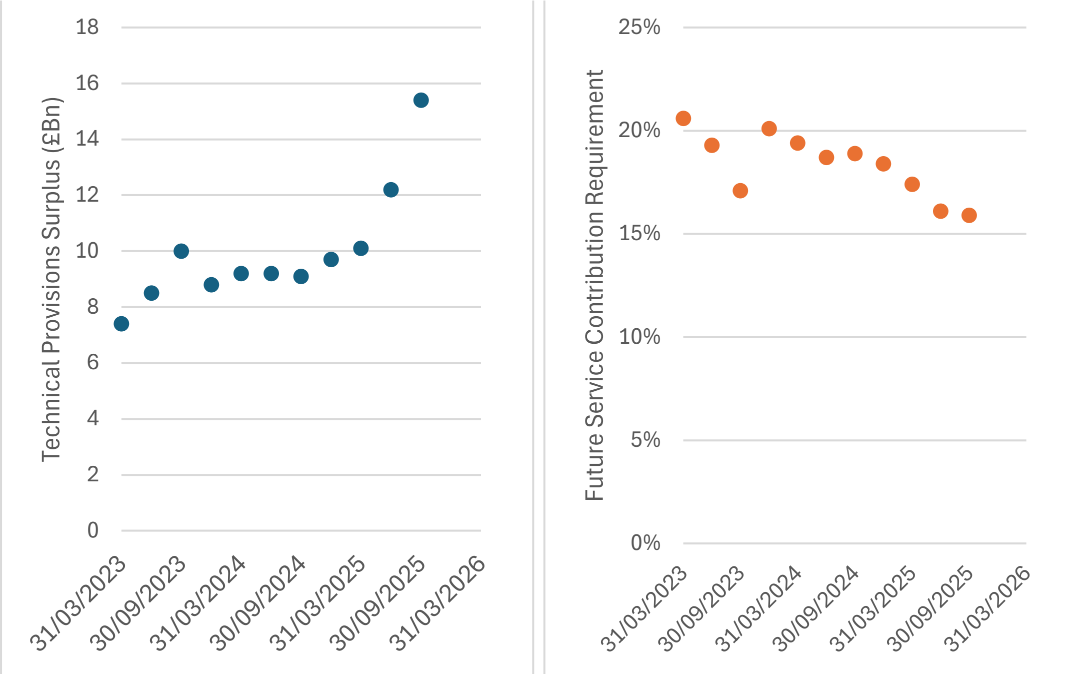
Developments since the 31 March 2023 valuation

There are two main developments: the scheme's financial position has improved further, and a new funding regime now applies.

a) Improved financial position

Since the 31 March 2023 valuation the position has further improved. Using a comparable valuation methodology as for 2023 the Technical Provisions, the estimated surplus has grown to £15.4Bn and the total cost of future benefits has fallen to 15.9% (figures at 30 September 2025, source: USS Financial Management Plan Our valuations).

Figures showing how the Technical Provisions Surplus and Future Service Contribution requirement have developed over time are shown overleaf (source: USS Financial Management Plan Our valuations). The tracking information shows that the financial position is volatile over time.



b) New funding regime

The Trustee will adjust the 2026 valuation methodology to meet the new regime's requirements and to help support increased stability, following extensive engagement with UCU and UCEA. These changes are expected to have only a modest impact at the valuation date: they will slightly increase the Future Service Contribution Requirement, but it should still be below 20.6%. Market movements before 31 March 2026 could reduce the surplus or increase the cost of future benefits, but a significant surplus is still expected.

Taken together, the strong position and the new methodology mean there is real flexibility over contribution rates and how, if at all, surplus is used. The chosen contribution rate will influence whether the surplus is expected to grow, stay broadly stable or decline, although in the short term investment performance will dominate. This flexibility also depends on the Trustee's assessment of covenant, and current analysis assumes covenant strength is similar to that at the 2023 valuation.

Trustee's approach to setting the contribution rate

The approach to setting the contribution rate at the previous valuations has been to take the Future Service Contribution Requirement calculated by the Trustee and, where needed, adding deficit recovery contributions. This approach inherently leads to volatile contribution rates.

In the absence of a specific JNC decision, the default valuation outcome would be to implement new levels of contribution in line with the Trustee's calculated Future Service Contribution Requirement, which is expected to be lower than the rate currently paid. This reduction in contribution levels would mean lower pension contributions in the short-term for members and employers. The default approach is to implement any change to the contribution rate by sharing the change 65:35 between employers and members, e.g.

a reduction to the contribution rate by 5% of pensionable salary would be a 3.25% reduction for employers and 1.75% reduction for members.

However, reducing contributions in this way raises the risk of a future deficit compared with maintaining contributions above the Future Service Contribution Requirement and so increases the chance that contributions would need to rise again later (absent other steps being taken to stabilise the contribution rate). The key trade-off is between **lower contributions now** and **lower risk of future increases.**

The USS have prepared analysis which indicates that reducing the contribution rate from 20.6% (the current contribution rate) to 15% (which is below the Future Service Contribution Requirement) would increase the likelihood of the USS falling into deficit within the next 6 years (from 18% to 23%). The analysis from the USS paper *'Charting a course for the USS 2026 valuation'* that considers the probability there is a deficit on the Technical Provisions basis (assuming contribution rate, investment strategy and benefit structure maintained) is summarised in the table below. This is just one example, but it illustrates that, even from a strong position, there remains a **meaningful risk** of falling back into deficit.

		Short-term (6 years)		**Longer-term (15 years)**	
	Employer rate	At 31 March 2032	Any point before 31 March 2032	At 31 March 2041	Any point before 31 March 2041
Current contributions – 20.6%	14.5%	8%	18%	9%	30%
Reduced contributions – 15%	10.9%	12%	23%	17%	40%

There are other ways to set the contribution rate that still use the Future Service Contribution Requirement, but do not rely on it as the main driver. For example, the valuation could be used to test whether a desired rate (such as the current rate) is supportable, treating that rate as an input rather than an output. This could give more stable contributions but may mean employers and current members sometimes pay more than is strictly necessary at a particular point in time – creating another trade-off.

Use of Surplus

When the USS is in surplus there is more flexibility to set contributions below the Future Service Contribution Requirement (effectively using the surplus to help pay for future benefits). However, depending on the level at which this is done this may mean the surplus is expected to reduce over time. By contrast, if a contribution of 20.6% were maintained, the surplus would be expected to grow further (all else being equal).

Surplus can also be used in other ways, for example:

- **Temporary contribution reduction –** The USS discussion document considers various scenarios including a temporary cessation of contributions and the contribution reduction to 15% (which is expected to be below the Future Service Contribution Requirement) that is illustrated above. There are different ways in which a contribution reduction could be structured – for example there could be a deeper reduction but for a shorter period. This would release surplus more quickly (it would be less prudent and raise intergenerational fairness questions). However, it could provide meaningful additional cashflow to the sector and to members.

- **Changes to the investment strategy** – Reducing growth assets would make the surplus calculated by the Trustee more stable but **increase** the Future Service Contribution Requirement; surplus could be used to cover this higher cost for a time. We note the Trustee plans to investigate investment options alongside the valuation process.
- **Changes to accrued benefits –** Surplus could be used to improve benefits already earned, for example awarding discretionary increases. While there may not be any areas requiring immediate action in this area maintaining a surplus provides flexibility in future. All else being equal, improving benefits increases the chances that a contribution increase will be needed in future (requiring higher contributions or further benefit changes).
- **Changes to future benefits** – Improvements to newly accrued benefits (e.g. improved accrual rates, increases to indexation etc.) result in increases to the Future Service Contribution Requirement. Surplus can be used to support contribution rates below the Future Service Contribution Requirement enabling such changes to take place without increases in contributions. As above, all else being equal, improving benefits increases the chances that a contribution increase will be needed in future (requiring higher contributions or further benefit changes).
- **Other improvements to member experience** – Surplus can be used to finance other improvements to benefits that might be valuable for example paying for financial advice for retirees. These changes would typically be lower cost than changes to accrued benefits or future benefits.

It is important to note that these options could be used in combination. Another option for use of surplus would be to support a move to a Conditional Indexation benefit design and this is discussed in more detail below.

Possible legislative changes that might one day allow surplus to be paid directly to employers or members are not yet in force and are therefore not considered here.

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Conditional Indexation

Conditional Indexation (CI) is a possible new benefit design where **core benefits stay defined benefit**, but future indexation on **new accrual only** would no longer be fully guaranteed. Instead, indexation would be **targeted within set limits** and granted depending on funding and agreed rules, while all past benefits and their indexation **remain guaranteed**. Because future indexation is not guaranteed, the Trustee can hold **smaller prudence margins** for it in valuations.

In stressed conditions, a CI scheme could reduce indexation temporarily rather than only having the current options of **raising contributions** or **cutting future core benefits**.

Analysis to date suggests CI may deliver improvements according to four key criteria:

- Retention of Defined Benefit structure
- More stable contributions for members and employers
- Expected higher overall benefits for members
- Stability of core benefits

The analysis carried out for CI assumes that contribution rates are kept stable at 20% over time. At this contribution rate, modelling indicates CI could support benefits around 20% higher in aggregate than now with high confidence.

A CI design could be developed with lower (or higher) contribution rates and some initial investigations have been carried out into the impact of a different contribution rate on the probability of awarding target benefits under various designs.

There are scenarios (mainly in the **early years**, when legacy non-CI benefits dominate) where CI could deliver less than current benefits, but these are also scenarios where the current design would be under strain. Initial analysis shows this risk can be **substantially reduced** by ring-fencing surplus to support CI in the early years: setting aside about **£1.5bn** of surplus could reduce the chance of CI paying less than current benefits from **4% to under 0.5%**.

Conclusion

The 31 March 2026 valuation is expected to show a significant surplus and a lower Future Service Contribution Rate.

At the same time, the Conditional Indexation Working Group has produced a second report with a proof of concept for a new structure that could increase expected benefits without increasing expected costs. The analysis also demonstrates that Conditional Indexation may offer a more stable long-term framework for contributions and benefits, provided the design and funding target are appropriate. Conditional Indexation would be a significant change, with the balance of risk between employers and members changing and further consideration would need to be given to this area should a Conditional Indexation design be developed further.

Together, these developments suggest a potential path to a more sustainable USS and a less disruptive three-year valuation cycle, noting however that any changes would take time to implement (in particular it is not envisaged that a CI structure would be implemented before 2029 if stakeholders chose to pursue this route).

UCEA is seeking the initial views of employers on these areas and to build knowledge and understanding of the possible alternative outcomes. UCEA will also engage further with employers in 2026 to seek a firmer steer on your preferences and priorities once the Technical Provisions Consultation is available.

We look forward to having the opportunity to discuss this further with you at the upcoming webinars.

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