Update on the exploration of Conditional Indexation (CI), 25 June 2025

Initial Questions and Answers

1. **What is CI?**
   Conditional indexation (CI) is a form of pension scheme design where members build-up defined benefits but increases for inflation are dependent on the scheme maintaining a positive funding position. This approach is designed to allow schemes to invest more broadly in growth assets and thereby, over the long term, deliver a higher targeted level of benefits for a given level of contributions. The CI design is not common, but it does exist in a number of large pension schemes mainly in Canada (and also in the Netherlands). The USS trustee, UCU and UCEA (UUK at the time) have all agreed to explore the long-term viability of conditional indexation in relation to USS.

2. **Why is CI being considered?**
   The funding levels of defined benefit pension schemes can be volatile, as seen in USS and in many other UK schemes in recent years. In turn, this can result in fluctuations in members' and employers' contribution rates from one valuation to the next, ultimately resulting in changes to future pension benefits and creating uncertainty for both members and employers. The CI design is a way to smooth these fluctuations.

3. **What could CI deliver?**
   This depends on the particular CI design that is chosen, but CI could deliver higher benefits in the vast majority of circumstances for members, and/or lower costs for members and employers – and is a fairer treatment between those who have reached retirement and those who are yet to do so. It can also help large schemes like USS to maximise the large scale of the money they have invested.

4. **What are the risks/challenges?**
   CI can be complex to understand. It could also offer less certainty for members over inflation protection in particular. Our task is to examine carefully whether the potential for better benefits overall for members and employers outweighs any risks, challenges or trade-offs.

5. **Who is leading/working on this?**
   A joint working group of UCU and UCEA representatives – joined by colleagues from the USS trustee – has been exploring the benefits, risks and trade-offs associated with CI compared to the current structure, with a view to assess if CI can deliver better outcomes.

6. **How are UCEA, UCU and USS working together?**
   The working group has been considering whether, by making annual increases to benefits conditional, there is the ability to smooth some of the usual volatility, and target better overall outcomes. As part of this, they have also been considering the risks associated with such a structure and the extent to which these would be fair, understandable and acceptable to all involved.

7. **How did we get here and what are the next steps?**
   CI consideration began as part of the package of reforms in relation to the 2020 USS valuation. Following consultation in 2022-23, USS employers collectively supported exploring whether conditional benefit designs could make the scheme more sustainable in the longer-term and provide better value for the contributions being paid.

   Universities UK (representing USS employers at the time), its advisers Aon, and the USS Trustee first worked collaboratively on exploring possible approaches to greater sustainability in the pension scheme – with CI being one of the leading considerations. Since then, a working group of the Joint Negotiating Committee (JNC - with UCU and UCEA members) have carried out further exploratory work, and an interim update report was published on 25 June 2025. As part of this, a recommendation to explore further areas was approved, with a new report expected in the autumn of 2025. This second report will be more detailed and allow for a much deeper discussion with members and employers.

8. **Where can I find more information?**
   Please see the link to the latest report on the UCEA website. You can also find further information on the USS and UCU websites.