

USS – 31 March 2026 actuarial valuation

Employer consultation briefing

Prepared for: UCEA
Prepared by: John Coulthard FIA and William Engelhardt FIA

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Private and Confidential



Executive Summary

On 15 July, the Trustee of the USS launched a consultation with UCEA on the proposed methodology and assumptions to be used in calculating the Technical Provisions and draft Statement of Funding Principles for the 31 March 2026 valuation of the Scheme. **In short, the funding level is excellent, and higher yields have reduced the current assessed cost of future service benefits, creating a genuinely favourable valuation outcome.**

This note is intended to help UCEA and individual institutions respond to the full set of USS consultation questions, with a particular focus on what employers want the 2026 valuation to achieve and how they want the improved position to be used. The advice set out in this paper should be read alongside the USS's Consultation and Supporting Information documents dated 15 July, and UCEA's questionnaire.

In this note we briefly set out what each group of questions is asking, and the key choices they raise:

- **Questions 1–3** cover the valuation framework. These have already been debated through the Valuation Technical Forum and appear broadly reasonable and compliant with the new funding regime.
- **Questions 4–6** focus on stability, surplus and contribution levels, and are arguably the heart of the consultation. Keeping contributions at or around 20.6% could build resilience, reduce the risk of future increases and support making Conditional Indexation a realistic goal. Moving towards the new Future Service Cost of 16.4% would ease budget pressures but increase the chance of future contributions increases, give less flexibility for future benefit development, and raise questions about whether DC contributions above the threshold should remain at 20%. USS's risk analysis suggests both paths are credible.
- **Question 7** tests appetite for investment risk, recognising the current strategy is relatively growth-oriented, and noting that a fuller consultation will follow later. **Question 8** asks whether Affordable Risk Capacity should remain the main risk measure, **Question 9** checks support for “run on as an open scheme”, and **Question 10** invites wider comments, including on Covenant Support Measures.

We have provided draft UCEA responses for the more technical questions (Q1-3, Q8-9) to validate with employers, and try to ensure the main focus is on the trade-offs involved. The other more strategic questions require further employer engagement before UCEA can form a considered view for the USS consultation, and the UCEA questionnaire is designed to capture that input.



Next steps

Employers should complete the UCEA questionnaire.

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Key results at a glance

Here are the key valuation results from the Trustee for each of the three legs proposed under the new funding framework. All figures in this report are based on the USS consultation.

Leg 1 – Best Estimate Results

Shows the funding position and contribution rate on central assumptions with prudence margins removed. It provides a benchmark for understanding prudence and can help avoid reacting to short-term market volatility. “Best estimate” does not mean “most likely outcome”; it means that, on these assumptions, outcomes are expected to be better about half the time and worse about half the time.

Amounts in £bn	2026 Valuation	2023 Valuation
Assets	79.8	73.1
Best Estimate Liabilities	54.3	57.5
Surplus/(Deficit)	25.5 (147% funded)	15.6 (127% funded)
Best Estimate Future Service Cost	12.9%	15.2%

Leg 2 – Technical Provisions (TP) Results

Sets the formal, legally compliant prudent funding basis, with explicit prudence in the discount rate and mortality assumptions. The discount rate follows a term-structure built from a prudent view of returns on the current investment strategy at the outset, gradually transitioning to an assumed low-dependency investment allocation over time. It is linked to covenant strength and the journey plan under the new funding regime.

Amounts in £bn	2026 Valuation	2023 Valuation
Assets	79.8	73.1
Technical Provisions	62.9	65.7
Surplus/(Deficit)	16.9 (127% funded)	7.4 (111% funded)
Future Service Cost	16.4%*	20.6%

*16.4% is the future service cost from 2028 assuming normal pension age (NPA) of 67, which is a reasonable figure for planning given any rate change would take time to implement. The strict TP cost on the NPA 66 basis is 16.9% of pensionable salary.

Leg 3 – Self-Sufficiency Results

Looks at downside and closure-type scenarios, including self-sufficiency, the closure metric and the escape-route metric. This tests how resilient the strategy is and how the Scheme could move back to a low-risk position if conditions deteriorate.

Amounts in £bn	2026 Valuation	2023 Valuation
Assets	79.8	73.1
Self-Sufficiency Liabilities	70.7	78.2
Surplus/(Deficit)	9.1 (113% funded)	(5.1) (93% funded)

Questions 1-3: Proposed methodology and Statement of Funding Principles

The proposed valuation methodology has been developed and debated with USS through the Valuation Technical Forum, with representation from UCEA, UCU and their advisers. At this valuation it produces results that are broadly similar to the previous approach – albeit with a slightly higher surplus together with a slightly higher cost of benefits.

The main changes reflect two drivers. First, the UK funding regulations have changed since the last valuation, requiring USS to update how it sets and documents its funding and investment strategy. Second, USS has introduced a three-leg framework (Best Estimate, Technical Provisions and Contingency Measures) to present results more clearly and to show prudence “in the round”.

Overall, we consider the new method and associated assumption changes to be reasonable. We set out more detail below, together with proposed UCEA responses for employers to consider as they respond to the consultation.

Question 1: Please provide your views on the following: Proposed discount rates, both for the purposes of valuing Technical Provisions and for determining the Future Service Cost.

Briefing

An actuarial valuation is a legal requirement and must be carried out at least once every three years. In simple terms, the actuary estimates the future cashflows the scheme is expected to pay, then places a value on those cashflows using a discount rate so they can be compared with the current value of the assets. This must be considered on a prudent basis and shows whether there is a surplus or a deficit.

A similar calculation is used to assess the cost of new benefits as a percentage of pensionable salaries, which then informs future contribution rates.

The majority of the proposed actuarial assumptions are set as a best estimate (in line with Leg 1), with explicit prudence in the USS valuation then introduced in two areas:

- in the discount rate, via explicit margins relative to best estimate investment returns; and
- in longevity, via a modest margin in the initial mortality rates.

Given the allowance for prudence is mainly in the discount rate, this is where most judgement is exercised and therefore this is the single most critical assumption in the valuation.

For the 2026 valuation, the new UK funding regulatory regime changes both how the discount rate is set and how the results are framed. The Trustee must now define and document a Funding and Investment Strategy which targets full funding on a Low Dependency Funding Basis by the time USS is “significantly mature”, with this journey explicitly linked to the strength and duration of the employer covenant. The discount rate has to be consistent with:

- the current investment strategy (VIS) today;
- a notional Low Dependency Investment Allocation (LDIA) in the long term; and
- a defined investment journey plan between the two.

While this approach may be considered peculiar for an open scheme, the reality is that no covenant can reasonably be assumed to be infinite. The Regulator does, however, recognise the specific circumstances of open schemes and allows them to factor in new entrants and future benefit accrual, which facilitates a longer timeframe over which assumed de-risking occurs.

The new discount rate approach replaces the previous dual rate “pre/post-retirement” structure with a term structure discount rate that reflects how the strategy is assumed to evolve over time and provides a more explicit link between funding, investment and covenant.

Two parameters underpin this term structure. First, there is a 30-year covenant reliability period, over which the Trustee (advised by PwC) judges there is reasonable certainty about employers’ capacity to support USS. Within this period, the TP discount rate is built from a prudent view of returns on the current VIS.

Second, from year 30 to year 40, the model assumes a 10-year de-risking path from the VIS to an LDIA. From year 40 onwards (roughly when USS is significantly mature, after allowing for open scheme flexibilities), liabilities are discounted using a long-term Technical Provisions (TP) rate based on LDIA returns, with a 0.7% p.a. prudence margin.

Bringing this together, the Trustee has proposed the discount rates that meet these requirements are as follows:

- **Initial TP discount rate:** best estimate VIS returns minus 1.1% p.a. (about gilts + 1.1% p.a.), set so the investment strategy is expected to beat this level roughly 73% of the time.
- **Long-term TP discount rate:** best estimate LDIA returns minus 0.7% p.a. (about gilts + 0.6% p.a.), corresponding to around an 89% confidence level.

The precise choice of confidence levels and deductions from best estimate returns is, to some extent, arbitrary: different combinations could have been justified. In practice, the Trustee seems to have aimed for an overall outcome broadly similar to the previous approach. Because the shape of the new discount rate (term structure aligned to the funding code) is very different from the old pre/post-retirement split, it is not possible to match the previous basis exactly for both the surplus and the FSC.

The change in methodology and assumptions reduces Technical Provisions by about £1.6bn, thereby increasing the TP surplus by the same amount. At the same time, the Future Service Cost for new benefits increases by around 0.8% of payroll, even though overall FSC in 2026 remains below the 2023 level.

Intuitively, the explicit journey plan gives more “expensive” discounting for very long dated future accrual, while accrued liabilities benefit from higher assumed returns earlier in the journey. This is a consequence of the new regime’s focus on moving towards a low-dependency position in the longer term, and the resulting change in the profile of the funding assumptions over time.

The discount rate now sits within a three-leg presentation:

- Leg 1: a Best Estimate leg, which removes prudence margins (mainly in the discount rate) but keeps the same journey plan;
- Leg 2: a Technical Provisions leg, which introduces explicit prudence and determines surplus and FSC; and
- Leg 3: a Contingency Measures leg, which tests resilience under stress and closure type scenarios.

Prudence is therefore assessed “in the round” across these three legs, rather than being reduced to a single confidence level in the discount rate.

Together, these elements deliver a discount rate structure clearly aligned with the new regime and provide a transparent view of prudence.

Here is the proposed response on this more technical question:

Q1 – UCEA’s proposed response for employer comments

We broadly agree with the proposed discount rate framework and its alignment with the new funding regime.

We support replacing the dual pre/post-retirement rate with a term structure linked to the current investment strategy, the long-term allocation and the journey plan. For an open scheme, we consider the 30-year covenant reliability period and 40-year horizon to significant maturity reasonable.

We recognise that setting prudence (for example, the 73% confidence level and 1.1%/0.7% margins) involves judgement, and we support the transparent three-leg structure (Best Estimate, Technical Provisions, contingency). Overall, we are content with the proposed discount rate approach and its consistency with running on as an open scheme.

Question 2 – Please provide your views on the following: Remaining proposed assumptions and any other matter set out in the Statement of Funding Principles

As set out in Q1, USS proposes that all assumptions other than the discount rate and initial mortality are set on a best estimate basis. Prudence is introduced only by:

- explicit margins in the discount rate, and
- a small margin in initial mortality rates (adding c.0.5% to liabilities).

All other key assumptions are set as best estimate.

Mortality and other demographic assumptions

The consultation proposes:

- **Base mortality:** move to S4PMA_L (males) / S4NFA (females), fitted to 2011–2024 USS pensioner experience, with a 2% prudence margin applied to initial mortality rates.

In practice, this means decreasing the best estimate mortality rate by 2%; for example, a best estimate one-year mortality rate of 1.00% would become 0.98%, reducing the corresponding one-year survival probability from 99.00% to 99.02%. This adds around 0.5% to liabilities.

- **Future longevity improvements:** adopt CMI 2025 in place of CMI 2021, with parameters on a best estimate basis, reducing liabilities by <0.5%.
- **Other demographic assumptions:** all on a best estimate basis.

The net effect of all changes to demographic assumptions is to increase liabilities by about £0.3bn.

The funding regulations require the demographic assumptions to be set using prudent principles and we see best estimate assumptions with a small clear margin for prudence within the mortality assumption as being in line with both past practice for the USS, and wider best practice.

Inflation assumptions

For inflation, USS proposes:

- a yield-curve-based approach to RPI and CPI using nominal and index-linked gilts; and
- an RPI–CPI wedge of 1.0% p.a. to 2030 and 0.2% p.a. thereafter, reflecting upcoming RPI reform.

These are essentially best estimate assumptions, in line with market pricing and the new funding regime's focus on market-consistent, term-dependent measures. They are very close to Aon's best estimate assumptions at the valuation date (around 0.1% p.a. less prudent), but still within a range that could reasonably be regarded as prudent. We understand the net effect of changing this assumption is zero.

Conclusion

Overall, we are comfortable that:

- prudence is reflected in the discount rate and mortality assumptions, with all other assumptions on a best estimate basis;
- the specific changes to the discount rate, mortality, inflation and other demographic assumptions are reasonable;
- the package of assumptions in the SFP is coherent in the context of the Scheme's covenant, risk appetite and regulatory environment.

Here is the proposed response on this more technical question:

Q2 – UCEA’s proposed response for employer comments

We have reviewed and are content with the remaining proposed assumptions and the draft Statement of Funding Principles. In particular, we support prudence being applied only to the discount rate and a small amount of prudence (broadly 0.5% in liability terms) applying to the mortality assumption.

Question 3 – Please provide your views on the following: Any other aspect of the proposed assumptions and methodology

Briefing

USS is proposing to treat the Scheme as a long-term arrangement supported by a long-term (but finite) covenant. We support this treatment.

Taken together, the three funding legs as part of the new valuation framework are intended to support:

- stability, by looking beyond a single valuation snapshot;
- transparency on prudence, by showing the distance from Best Estimate and from low-dependency/self-sufficiency; and
- “in-the-round” judgements, using multiple metrics rather than a single headline number.

Our overall view is that this framework is helpful. It is clearer and more informative to present valuation assumptions explicitly relative to a best estimate position, and to show how the prudent TP basis and downside measures relate back to that.

The real test, however, will come in a stressed environment. The benefits of the three-leg approach will only fully show if we face a valuation in much tougher market conditions, where greater emphasis on Legs 1 and 3 may help avoid knee-jerk reactions to short-term shocks.

We note that the framework has not yet been through a stressed valuation cycle. In more adverse conditions, questions could arise about:

- how the three legs are combined in practice to reach decisions on prudence, reliance on covenant and contribution levels; and
- whether different stakeholders, in effect, place different weights on the legs and metrics.

We see those as matters of Trustee judgement. From our perspective, the stakeholders need clarity and consistency over time on how the Trustee is using each leg, especially under stress. Our main asks are that the Trustee:

- continues to explain clearly how Legs 1-3 are used together in reaching key funding decisions (including any changes in contributions or prudence); and
- illustrates, where possible, how the framework would operate under plausible stress scenarios (for example, large falls in interest rates or growth assets), so stakeholders can see how it behaves in different conditions.

Subject to that ongoing transparency, we are broadly supportive of the proposed three-leg methodology as an appropriate way to frame funding decisions for USS within the new regulatory environment.

Here is the proposed response on this more technical question:

Q3 – UCEA's proposed response for employer comments

We agree with the Trustee's characterisation of USS as a long-term scheme supported by a long-term (but finite) covenant and support the proposed three-leg framework.

- Leg 1 (Best Estimate) gives a clear central benchmark and helpful counterweight to short-term market volatility.
- Leg 2 (Technical Provisions) provides a clearly articulated prudent basis that blends into low dependency over time and so is compliant with the new funding regime.
- Leg 3 (Contingency Measures) offers structured visibility of downside and closure-type scenarios and routes back to low-risk or self-sufficiency outcomes.

We recognise the framework has not yet been tested through a stressed valuation cycle, so Trustee judgement and clear communication on how the three legs are used, especially under stress, will be important. Subject to that ongoing transparency, we are broadly supportive of the three-leg methodology.

Questions 4-6: Validation of employer feedback on objectives

Who ultimately decides, and why your input still matters

It is important to remember that the outcome of the valuation is not determined by UCEA or individual employers alone. Under the USS rules, the Trustee sets the funding assumptions, after consulting UCEA.

Decisions on benefit design and on the split of contributions between employers and members are made by the Joint Negotiating Committee (JNC), which has equal employer (UCEA) and member (UCU) representation and an independent Chair.

The JNC must consider the Trustee's Contribution Determination and then decide whether any changes to contributions and/or benefits are needed, and how any such changes are shared between employers and members. The Trustee then implements the outcome.

Within that framework, employer views matter a great deal:

- UCEA's response to this consultation will inform the Trustee's judgements on prudence, surplus use and contribution levels.
- The JNC will consider employer and member perspectives when deciding how to use any headroom (for example, whether to adjust contributions, benefits, or both).

Question 4 – Do you agree or disagree with the following? Please provide any supporting comments. Employers' preference continues to be for 'stability'. We interpret this to mean an aversion to the emergence of future funding deficits and a desire to maintain contribution rates and benefits at stable, predictable levels.

To help answer question 4, UCEA has designed some additional questions (Q4.1–4.3) that aim to capture a clear, evidence-based picture of employers' objectives on stability, so that UCEA can represent those views credibly to both the Trustee and the JNC.

Why is USS asking these questions?

The earlier questions (Q1–Q3) focus on the valuation methodology and assumptions. Q4 moves up a level and asks what employers want the 2026 valuation to achieve and how your institution wants the improved funding position to be used.

- **4.1** tests whether stability should still be the *primary* objective.
- **4.2** then unpacks what "stability" means to institutions in practice.
- **4.3** invites you to explain your institution's stability priorities in your own words.

USS and UCEA need this insight to judge whether the current balance between prudence, stability and affordability is still right, now that the Scheme is in a much stronger position than at recent valuations.

Q4.1 What is meant by “stability”?

Employer feedback at the 2023 valuation, and again through UCEA’s early-2026 consultation and USS’s own engagement, has emphasised a strong preference for stability.

At the 2023 valuation in particular, employers expressed a clear wish to secure a “two-valuation cycle” deal. This meant:

- keeping benefits and contributions unchanged at the 2026 valuation, and
- avoiding a return to the pattern of frequent changes seen over the previous decade.

In that context, stability has generally meant:

- avoiding significant or frequent changes to contribution rates;
- maintaining broadly stable benefit provision for members; and
- minimising the risk of a return to deficit and the need for deficit recovery contributions.

If the 2026 valuation had pointed towards higher contribution requirements, employers would likely have referred back to this 2023 objective when asking the Trustee and JNC to resist increases. It is therefore important to consider how much weight that original “two-cycle stability” aim should still carry now, given that the Scheme’s funding position has improved materially since 2023, and many institutions face ongoing financial pressures that may lead some to place greater emphasis on near-term affordability.

By way of context, the difference between a 16.4% and 20.6% contribution rate, assuming the current pensionable salary roll remains stable, would equate to around £1.5bn over three years. While this is modest relative to potential market-driven swings over the same period, it is still a meaningful amount in terms of building additional resilience and headroom against future adverse experience. It also represents a material extra cost for employers and employees, and highlights the need to balance the value of additional stability – along with wider factors such as maintaining scope to explore Conditional Indexation without needing future contribution increases – against the consequences of paying more than would be acceptable to the Trustee for this valuation. (i.e. more than 16.4%).

The investment strategy is also closely linked to the Scheme’s future stability and Question 7 gives employers an opportunity to comment specifically on the level of investment risk they consider appropriate.

In addition, while the definition of stability above refers to stable benefit design, this should be understood in the context of avoiding the type of benefit changes that resulted from previous adverse funding positions. The Conditional Indexation workstream is intended to improve the future stability of both contributions and benefits by providing a “valve” to share surplus and manage deficits while keeping contributions broadly steady. This will be considered outside this actuarial valuation.

How has the risk of future deficits changed?

Since UCEA's January advice note, USS has updated its projections using the proposed 31 March 2026 valuation assumptions. The table below compares the 6-year probability of falling into deficit on the Technical Provisions basis at different contribution rates (20.6% and an illustrative lower rate), showing the figures used in the January consultation alongside the new proposed TP figures.

Probability of falling into deficit on TP basis

Contribution rate	Source/date of analysis	Time horizon	Assessed probability of falling into deficit on TP basis
20.6%	January consultation	6 years (short term)	8%
20.6%	2026 valuation	6 years	5%
15.0% *	January consultation	6 years (short term)	12%
16.4%	2026 valuation	6 years	7%

* Indicative lower rate used before the valuation date for preliminary employer views.

From this:

- Continuing to pay 20.6% offers an improvement in stability (lower risk of future deficits) compared with moving down towards 16.4%.
- However, the chance of a deficit arising is now materially lower than indicated in the earlier, illustrative analysis. Some employers may therefore feel this increases the case for some near-term cost reductions. Please also see question 6 where we look specifically at the likelihood of contributions needing to increase.

This updated picture is the backdrop to **4.1**: is stability still the primary goal given the improved odds?

"Stability" is multi-dimensional, and different institutions may prioritise different aspects. **4.2** asks you to rate the importance of specific dimensions of stability. Your ratings help clarify which outcome should take precedence if everything cannot be protected at once.

4.3 invites you to explain any institution-specific considerations or nuances that the tick-box ratings cannot capture. These comments will help UCEA present a rounded picture of institutions' priorities to USS and to the JNC.

Question 5 – Do you agree or disagree with the following?

Please provide any supporting comments. Employers' preference is to retain the surplus expected at this valuation as a buffer against future adverse experience.

To help inform Q5, UCEA has designed additional questions (5.1–5.3) that explore how employers would like the current surplus to be used and, in particular, how much of it should be treated as a buffer versus released through contributions or benefit changes.

How might the surplus develop in future?

Taken together, the valuation results (as summarised on page 4) show that the Scheme is in surplus on all the key bases. However, there is still risk. Modelling in the Consultation document shows that:

- Even with contributions at 20.6% and the current investment strategy, it is still possible for the funding ratio on a TP basis to fall sharply in adverse scenarios.
- For example, under the current investment strategy and 20.6% contributions, the projected TP surplus in 6 years' time has a very wide range:
 - At the 1st percentile (roughly a 1-in-100 very bad outcome), the TP position could move from a surplus of £16.9bn to a deficit of around £10bn.
 - At the 5th percentile, the TP surplus might fall to around zero (versus £16.9bn at the valuation date).
- There are poor scenarios under which deficits could be material when the time horizon increases. For example, on the current VIS and 20.6% contributions
 - At 12 years, the 1st percentile outcome shows a deficit of around £15bn.
 - At 30 years, the 1st percentile outcome shows a deficit of around £26bn.

These figures are illustrative and depend on the precise investment strategy and contribution level assumed, but they show the scale of downside that remains possible. In our view, they suggest caution should be applied before “spending” surplus.

So, while the current surplus is large and the Scheme is in a strong position, there is still material exposure to market and economic shocks. And we have of course lived through such peaks and troughs in prior decades with the USS.

Conversely, the modelling also shows **significant upside potential**. Under the current VIS, the 95th percentile outcome indicates a surplus of around £106bn after 12 years, rising to around £373bn after 30 years. While long term projections are highly sensitive to assumptions (and to the actions stakeholders would take along the way), this highlights that there are significant upside scenarios which could allow current or future contribution reductions and/or benefit improvements. As surplus grows, the marginal additional stability benefits may diminish, with its use becoming more a question of how far it should support future contribution reductions and benefit improvements.

We also note that the modelling on Conditional Indexation (CI) to date, as referenced in the Consultation document, has suggested an initial surplus of £1.5bn might be needed to support the initial implementation of a new benefit design. This happens to be a similar figure to the increase in surplus arising from the update to the funding methodology (of £1.6bn).

Our view is that it is reasonable to maintain a surplus at this valuation to support the CI discussions. However, if there is still a material surplus at the 31 March 2029 valuation, then the stakeholders should put in place a “use-of-surplus strategy” (whether or not the stakeholders decide to implement CI). This would cover how surplus is measured, the size of any preferred buffer, and how surplus above the buffer would be used.

The UCEA questions seek to explore your institution's views in more detail now that this additional information is available.

- **5.1** tests whether retaining surplus as a buffer against future adverse experience should be an explicit objective for this valuation.
- **5.2** explores whether your institution supports retaining the bulk of the current surplus as a buffer against future risks, with decisions on its use deferred to the 2029 valuation when the position on Conditional Indexation (as a potential scheme design for future benefits) is better defined, or whether your institution would prefer some or all of it to be used sooner (for example, for benefit improvements, near-term contribution reductions, or both).
- **5.3** invites you to explain any preferences or nuances in your own words. These comments will help present a rounded picture of employer priorities to USS and to the JNC.

Question 6 – Do you agree or disagree with the following? Please provide any supporting comments. Employers’ preference at this valuation is to maintain overall contribution rates at their existing levels.

At this valuation, the proposed Future Service Cost (FSC) is 16.4% of pay, compared with the current overall contribution rate of 20.6%.

This creates a choice between:

- Keeping contributions at 20.6% (i.e. 14.5% for employers, 6.1% for members), which would build funding resilience more quickly and reduce the likelihood of future contribution increases, or
- Reducing contributions towards 16.4% (i.e. 11.8% for employers, 4.6% for members under the default 65:35 cost-sharing mechanism in the JNC), which would ease short-term cost pressures but leave less buffer against adverse experience.

The modelling set out in the Consultation document shows that, even with a contribution rate of 16.4%, the risk of needing increases is low by historic standards, though still higher than at 20.6%. Any such reduction would not be immediate: historically, changes to contribution rates have taken around 18–24 months to implement after a valuation, although the 2023 outcome was implemented in about 9 months where there was clear alignment between the stakeholders (including UCU):

Contribution rate	Horizon	Probability contributions need to rise at end of time horizon	Expected future surplus (median outcome)
20.6%	6 yrs	3%	c.£30bn
16.4%	6 yrs	8%	c.£27bn
20.6%	30 yrs	4%	c.£120bn
16.4%	30 yrs	10%	c.£90bn

Note: For each row, the stated probability is the chance that, at the valuation at the end of the period shown, the overall contribution rate would need to be higher than the rate in the first column. It is based on adding together the future service contribution required at that point and any deficit then (spread over 10 years). It does not represent the probability that contributions would never need to rise above that level at any time during the period; the cumulative chance of an increase at some point over the horizon would be much higher.

It is important to consider that reducing the contributions rate also benefits the employees, who would expect their contributions to reduce by 35% of the reduction in the overall rate. This assumes the default cost-share mechanism is invoked by the JNC. If the headline contribution rate falls below 20%, then further thought would be needed for the DC rate applicable to members with earnings above the salary threshold.

A further consideration is Conditional Indexation (CI) which is being developed as a potential alternative design to improve the long-term stability of both contributions and benefits. The proof of concept has so far been modelled on a long-term contribution rate of around 20%, and CI is sensitive to this baseline.

A materially lower rate (e.g. 16.4%) might look workable today, but it would be unwise in our view to assume this will remain true as conditions change. CI also uses a total-service view of benefits (past and future), which is intended to support stability, and which means that a change in contribution rate would be allowed for across long periods when it comes to assessing what benefits are achievable.

Over the last 51 years, the lowest overall contribution rate paid was 18% (1975–1982) and the historical average is around 23%, albeit benefits have changed over the period. While the past is not necessarily a guide to the future, and the Scheme now has a material surplus, this history points to some caution about reducing contributions (in the context of setting a contribution rate that it is intended to be stable over the longer term). CI is being developed outside this valuation, but decisions now on contribution levels and use of surplus could in our view both affect how feasible CI is, and how it might be designed.

Questions 6.1–6.5 therefore ask you to:

- Indicate how strongly your institution supports keeping contributions at or around their existing levels (20.6%) as an objective for this valuation **(6.1)**.
- Choose your institution's preferred contribution level (maintain at or around 20.6%, modest reduction e.g. 18%, or reduce to 16.4%) **(6.2)**.
- Indicate how comfortable your institution would be if overall contributions were reduced to 16.4% **(6.3)**.
- Indicate whether, if contributions remain at or around 20.6%, your institution would be comfortable with some benefit enhancements **(6.4)**.
- Provide any further comments on your institution's position on overall contribution levels **(6.5)**.

The aim is to understand how employers want to balance near-term affordability against longer-term contribution stability, how much “headroom” your institution wishes to keep above the FSC, and how that should interact with any benefit decisions.

Questions 7-10: Additional elements

USS poses four further questions. Question 7, on investment strategy, is more of a broader strategic issue than an additional technical point. USS emphasises that they are only seeking initial views on this now, with a fuller consultation to follow. The remaining questions are more technical, ending with a catch-all question that UCEA is using to test views on the proposed covenant support measures.

Question 7 – Please provide your views on the following: A range of views have been expressed by employers on the appropriate investment strategy that best supports their objectives. Is the prevailing view amongst employers to reduce risk in order to reduce volatility, maintain the existing strategy or take increased risk in order to seek greater returns?

Why is USS asking these questions?

Investment strategy is one of the main levers for delivering employers' objectives on stability, affordability and use of surplus. The current Valuation Investment Strategy (VIS) is growth-oriented, with around 60% in growth assets, 20% in credit, and 20% in liability-hedging assets (which aim to protect the Scheme against changes in interest rates and inflation by hedging 50% of interest rate and inflation risk relative to a self-sufficiency basis). The improved funding position means a wider range of risk levels is now supportable, but different choices have different implications for future contribution volatility and surplus growth.

The Consultation document shows that:

- Lower-risk strategies (less growth, more hedging) reduce the chance of future deficits and contribution increases at both 20.6% and 16.4%, but also reduce the potential for surplus growth.
- Higher-risk strategies increase the probability and scale of adverse outcomes, but deliver higher expected returns and much larger surpluses in central and good scenarios.
- Maintaining the current VIS at 20.6% contributions produces a risk profile that is broadly similar, in *bad* outcomes, to a lower-risk strategy funded at 16.4%, but with stronger median and upside outcomes.

How does risk level affect the likelihood of contribution increases?

We understand that moving to a lower-risk investment strategy would not, in itself, change the reported funding position at this valuation. In broad terms, the impact of lower expected returns is offset by the ability to apply a smaller prudence margin when the underlying strategy is less volatile in the short term.

We have summarised below illustrative probabilities of contributions needing to rise on the Technical Provisions basis at 6 years and 30 years:

Contribution rate	Investment strategy	Assessed probability that contributions need to rise (6-year horizons)	Assessed probability that contributions need to rise (30-year horizons)
20.6%	Lower risk	1%	3%
	Current VIS	3%	4%
	Higher risk	6%	6%
16.4%	Lower risk	3%	8%
	Current VIS	8%	10%
	Higher risk	12%	12%

(Exact figures vary by horizon and metric, but the pattern is consistent: lower risk and/or higher contributions reduce the likelihood of needing to raise rates; higher risk and/or lower contributions increase it.)

What is given up when de-risking – especially at the 50th percentile and above?

The same modelling shows what is sacrificed in median and good outcomes if risk is reduced, looking across 6, 12 and 30 years.

At 20.6% contributions, modelled 50th-percentile TP surpluses are approximately (range showing 6- and 30-year time horizon):

- Lower-risk strategy: c.£25–95bn
- Current VIS: c.£27–120bn
- Higher-risk strategy: c.£29–150bn

So, at the median level, moving from the current VIS to a lower-risk strategy typically “costs” around £1–5bn of surplus over shorter horizons (6–12 years), and around £25–30bn by 30 years. The effect is more pronounced in good outcomes.

In practical terms: de-risking tightens the distribution – fewer and smaller bad outcomes – but it also materially reduces the central and good-case surpluses. This in turn reduces headroom to absorb shocks, support contribution stability over the long-term or fund benefit / design changes (including potential Conditional Indexation) if things go well.

This raises a broader question: what is the purpose of continuing to generate surplus? For a large, open scheme with substantial future benefits still to be earned, surplus can play an important role in supporting long-term stability and flexibility.

A useful way to think about this is perhaps that:

- “20.6% + current VIS” has a chance of contributions needing to rise that is similar to “16.4% + lower risk strategy”, but with much stronger 50th-percentile and upside outcomes.
- De-risking and reducing contributions in combination (for example 16.4% with lower risk) pull in the same direction twice: less downside, but also less upside and future flexibility for what is a long-term open scheme.

- Other combinations (such as maintaining 20.6% with lower risk, or 16.4% with the current VIS) would strike different balances between risk, upside potential and flexibility.

How Questions 7.1–7.5 are intended to be used

To help UCEA form an evidence-based view to feed into the Trustee's later decisions (and the future Statement of Investment Principles consultation), Questions 7.1–7.5 ask you to:

- **7.1** rate your institution's comfort with a somewhat lower-risk strategy (less growth, more hedging), which would tend to reduce funding and contribution volatility but also lower expected surplus growth and upside potential.
- **7.2** rate your institution's comfort with broadly maintaining the current DB investment risk profile, given objectives of stability and long-term affordability.
- **7.3** rate your institution's comfort with a somewhat higher-risk strategy (more growth, less hedging), which could raise expected surplus and/or reduce long-run contribution needs but would increase the chance and severity of adverse outcomes.
- **7.4** indicate how your institution feels about different combinations of contribution level (20.6% vs 16.4%) and investment risk (lower / same / higher), recognising that some contribution-related decisions are within the remit of the JNC and investment strategy is the responsibility of the USS Trustee, but the two interact.
- **7.5** provide any further comments, including what additional information or formal investment advice your institution would need before taking a firmer position.

The aim is not to make investment decisions now or to give investment advice – UCEA intends to take its own formal investment advice that will be shared with employers once specific proposals are brought forward later in the process. Rather, these questions are intended to test the prevailing employer appetite for investment risk. As a reminder, whilst the Trustee consults with UCEA on the valuation, it will consult with employers individually on the investment strategy.

Question 8 – Please provide your views on the following: The proposed retention of Affordable Risk Capacity (as currently specified) as the primary measure of employer risk appetite.

What is Affordable Risk Capacity and how is it used?

Affordable Risk Capacity (AffRC) is the Trustee's main quantitative measure of how much funding and investment risk employers, in aggregate, are judged to be willing and able to support over the long term, without compromising their financial sustainability.

In technical terms, AffRC is the present value of 10% of Scheme-eligible payroll over 30 years, discounted at gilts + 0.7% p.a., with assumed payroll growth of CPI + 0.2% p.a. For the 2026 valuation this gives an AffRC of around £24bn.

Within the Integrated Risk Management Framework:

- Reliance is measured as the gap between assets (or Technical Provisions, for target reliance) and the self-sufficiency benchmark (plus an allowance for transition risk).

- These reliance measures are then compared with AffRC. Target Reliance must sit comfortably below AffRC; there is also a “limit of reliance” set at 150% of AffRC.

This allows the Trustee to check that the level of risk being run – via investment strategy and funding assumptions – remains within a quantified, sector-wide risk capacity that employers have previously regarded as tolerable.

Why AffRC rather than other measures?

The new funding regime also introduces Supportable Risk, a more mechanical measure of maximum affordable support across the sector (based on 10% of total expenditure, rather than payroll, and allowing for other DB schemes). On a present value basis, Supportable Risk for USS employers is estimated at about £51bn, more than twice AffRC.

The Trustee proposes to retain AffRC as the primary measure of employer risk appetite because:

- AffRC is explicitly framed as what employers are willing and able to provide on a sustainable basis in downside scenarios, not a theoretical maximum.
- It is naturally expressed in terms of a single common contribution rate (10% of payroll), which aligns with the mutual “single rate” structure of USS and the way contribution changes have actually been implemented historically.
- It has now been used consistently over several valuations and has been interpreted and discussed extensively with employers and advisers.
- Supportable Risk, while useful for demonstrating that the covenant is “adequate” under the new Code, is deliberately more aggressive (a “maximum strain” construct) and could over-state realistic employer risk appetite for USS’s purposes.

Why is AffRC not unreasonable – and what are its limits?

On the positive side:

- PwC’s sector work suggests most USS employers could, in a severe but manageable downside, sustain total employer contributions of around 25% of payroll (15% for ongoing pensions, 10% for deficit repair), funded by reducing non-pension expenditure by roughly 4% or less on average. (This is a hypothetical stress test to gauge the overall depth of support behind the Scheme, not a proposal for action. In practice, such an outcome would have very severe consequences for a minority of employers, and we would expect the Trustee to take this into account when judging how much contributions to request of employers in a last-man-standing arrangement.)
- That is consistent with the AffRC assumption (10% “extra” capacity) and provides a reasonable buffer between actual contributions (14.5% employer today) and the stress capacity implied by AffRC.
- At this valuation, Target Reliance is only around 74% of AffRC, and Actual Reliance is very low given the current surplus. In other words, the Scheme is not “pushing up against” the AffRC limit in 2026.

However, it is also important to recognise that:

- AffRC is sensitive to its parameters (10% of payroll, 30-year horizon, gilts+0.7% discount rate, CPI+0.2% payroll growth). Small changes in any of these can move the £24bn figure materially.

- It uses a hypothetical, long-term view of sector behaviour in a downside scenario. Actual employer responses in a real stress event could be more complex: some institutions may face tighter constraints, and it could take time to free up expenditure.

Given the Scheme's much-improved funding position, the current surplus and the relatively modest level of reliance being taken, we consider it reasonable to retain AffRC, as the primary risk-capacity measure for this valuation.

Here is the proposed response on this more technical question:

Q8 – UCEA's proposed response for employer comments

We have considered the Trustee's proposal to retain Affordable Risk Capacity (AffRC), as currently specified, as the primary measure of employer risk appetite.

We are content with this proposal for the purposes of the 2026 valuation.

We do, however, recognise that AffRC is sensitive to the parameters chosen (10% of payroll, 30-year horizon, discount rate and payroll growth assumptions), and that it is ultimately a model-based construct. We therefore support:

- Periodic review of the underlying assumptions, particularly if the financial outlook for the sector or the Scheme's risk profile were to change materially.
- Continued use of additional covenant metrics, including Supportable Risk and qualitative covenant analysis, alongside AffRC in assessing the adequacy of the covenant and the appropriateness of funding and investment risk.
- An expectation that, if very adverse conditions were to arise in practice, the Trustee would take account of differences in employers' relative affordability when deciding what actions to take, rather than treating the AffRC stress as a mechanical roadmap.

Subject to those points, employers are comfortable with AffRC remaining within the Integrated Risk Management Framework at this valuation.

Question 9 – Please provide your views on the following: The assumed Long-Term Objective (LTO) to “run on as an open scheme”. (Note the LTO forms part of the Statement of Strategy, which will be consulted on later in the valuation process.)

For this question, we move straight to the proposed response:

Q9 – UCEA's proposed response for employer comments

We have considered and agree with the Trustee's proposal for the Long-Term Objective, defined for the purposes of setting the Technical Provisions under the new funding regime, to be “run on as an open scheme”.

Question 10 – Please provide your views on the following: Any other aspect of this consultation.

Why is USS asking this question?

Question 10 provides space to comment on anything important that may not be fully captured elsewhere. From UCEA's perspective, this includes commenting on the **Covenant Support Measures** agreed at the 2020 valuation – i.e. the moratorium on employer exits without the Trustee's consent, the debt monitoring framework, and pari passu requirements on new secured debt – which are not otherwise addressed in USS's questions.

These measures underpin the Trustee's assessment of a 30-year covenant reliability period and substantial Affordable Risk Capacity, both of which allow USS to run a materially higher-risk, growth-oriented strategy than would otherwise be appropriate.

At this valuation, the Scheme now appears close to being fully funded even on very cautious measures (e.g. self-sufficiency and, by implication, something close to buy-out). Absent the moratorium, the Section 75 debt may no longer be a significant barrier to exiting the Scheme given the very strong funding level. The Covenant Support Measures deliberately limit that option and so preserve the mutuality and depth of the covenant that the Trustee relies on when taking long-term funding and investment risk.

From the Trustee's perspective, this makes the measures a critical foundation for the long-term "run on" strategy: they help ensure that:

- the joint and several covenant remains broad and durable, rather than eroding gradually if better-funded employers were to withdraw; and
- risk capacity is assessed over decades, not just a few years, supporting the term-structure discount rates and the higher initial investment risk in the VIS.

At the same time, the measures are not cost-free for employers. The moratorium and debt monitoring framework can constrain future flexibility (for example around debt funding), and the fact that USS may be close to fully funded on a solvency-type basis raises natural questions about whether the current package remains proportionate in all circumstances.

Questions 10.1–10.3 are therefore intended to draw out your institution's strategic views on this wider covenant "architecture":

- **10.1** asks whether, in principle, your institution sees the Covenant Support Measures as an appropriate and proportionate foundation for the Scheme's long-term "run on" strategy – recognising the trade-off between individual employer flexibility and collective stability.
- **10.2** then asks you to highlight any specific aspects that your institution would like to see reviewed, refined or clarified – for example:
 - the length and operation of the exit moratorium,
 - how the debt monitoring thresholds work in practice,
 - the approach to pari passu security and what counts as "covenant-enhancing" activity.

- **10.3** is an open question for any other comments on the consultation: for example, on the three-leg framework, the presentation of prudence, the interaction with Conditional Indexation work, communication and transparency, or how the Trustee and UCEA should approach future surplus/deficit situations.

Your responses will help UCEA explain to the Trustee how employers view the current covenant framework now that the Scheme is much better funded – including whether your institution sees the Covenant Support Measures as a fair and sustainable basis for continuing to run USS on as an open, mutual scheme; and identify any areas where further clarification, simplification or adjustment of the covenant arrangements would make the overall strategy more acceptable or better aligned with institutional realities.

UCEA also welcomes comments on any other aspect of the valuation.

Compliance

This document, and the work relating to it, complies with 'Technical Actuarial Standard 100: General Actuarial Standards' ('TAS 100') and 'Technical Actuarial Standard 300: Pensions' ('TAS 300').

The compliance is on the basis that UCEA are the addressees and the only users and that the document is only to be used for initial discussions in relation to the 2026 valuation. If you intend to make any other decisions after reviewing this document, please let me know and I will consider what further information I need to provide to help you make those decisions.

The document has been prepared under the terms of the Agreement covering Scheme Actuarial services between UCEA and Aon Solutions UK Limited on the understanding that it is solely for the benefit of the addressees. We have given permission for the document to be shared with the participating employers in the USS on a non-reliance basis.

To support your understanding, some of the technical terms referred to in this note are explained in the Glossary in Appendix 6 of the Consultation document.

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