

USS 31 March 2026 valuation

Q&A for employers

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

During UCEA's recent engagement sessions on the 31 March 2026 valuation, employers raised a number of follow-up questions.

This note brings together Aon's responses to four of the most common questions. Specifically, we consider: (i) how funding levels and contribution rates have varied historically; (ii) the likelihood that contributions may need to increase in future; (iii) the relationship between contribution levels and the viability of a Conditional Indexation framework; and (iv) the role that the Covenant Support Measures play within USS's current funding and investment strategy.

The additional numerical analysis in this note has been provided by USS.

1. How volatile have the funding position and contribution rate been historically?

What employers asked

Employers have asked how volatile USS's funding position and contribution rates have been in practice, and whether the current strong funding position and relatively low contribution rate are consistent with long-term experience.

Additional information from USS

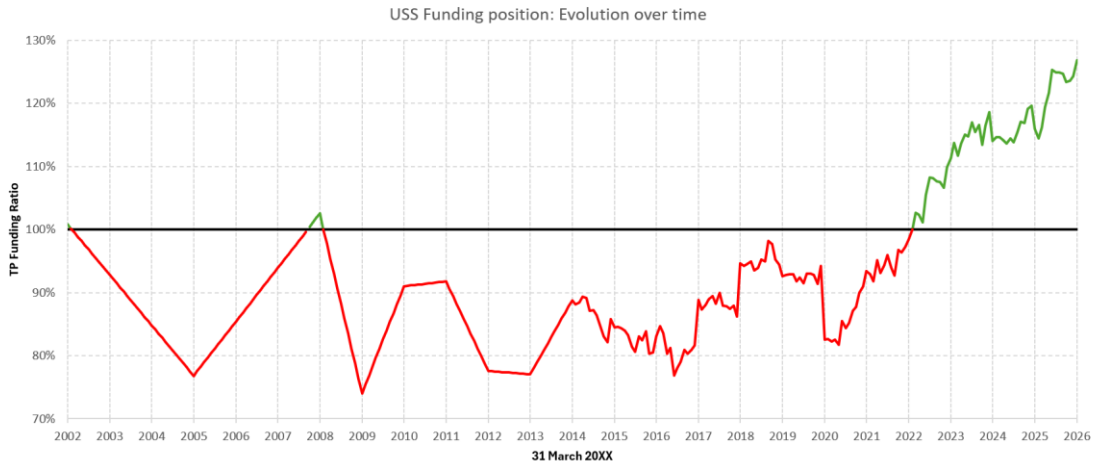
The funding position and contribution requirements have changed materially over time. The valuation history published by USS shows the following technical provisions funding levels and contribution rates:

Valuation	Funding level	Total contribution rate (% of pensionable salary)
2011	92%	23.5%
2014	89%	26.0%
2017	89%	28.3%
2018	95%	30.7%
2020	83%	31.2% (subsequently 31.4%)
2023	111%	20.6%
2026 (consultation)	127%	To be determined

Since 2011, USS has moved from a position of persistent deficits to a substantial surplus. The technical provisions funding level fell as low as around 83% at the 2020 valuation before recovering to 111% in 2023 and an estimated 127% at the 2026 valuation.

Contribution rates have shown a similar pattern. Total contributions increased from around 23% following the 2011 valuation to more than 31% at the 2020 valuation, before falling sharply to 20.6% following the 2023 valuation. It is worth highlighting that at times when the Scheme has been in deficit, the contribution rate generally included an element towards making good the deficit. In addition, benefits have changed over the period, so the contribution rates are not directly comparable across all valuations. The actual contributions paid were 24.9% between 1983 and 1996 and at 20.35% between 1997 and 2009. USS contribution rates therefore remained within a relatively narrow range for much of the period before 2011.

As additional context, the following chart shows the funding level of the USS at successive valuations from 2002 onwards. This is the earliest period for which a consistent series of valuation reports is readily available.



Data points are triennial valuations until 31 March 2008, annual until 31 March 2014 and monthly thereafter. 31 March 2026 shows TP consultation result. Results are as per the valuation basis in force at the time, which varies during the period.

Some care is needed when comparing results across such a long period. Both the regulatory environment and USS's valuation methodology have evolved significantly over time, and there have also been material changes to Scheme benefits. As a result, valuation outcomes are not directly comparable across all periods, although the chart remains useful in illustrating the scale of historic variation in the Scheme's assessed funding position.

Wider comments

The historical experience demonstrates that both funding levels and contribution requirements can be highly sensitive to changes in market conditions, economic assumptions, regulatory requirements, and the valuation methodology adopted by the Trustee.

The underlying reason is straightforward: USS runs a long-term, growth-oriented investment strategy backed by a long-term covenant. This helps keep the long-term costs more affordable. However, the Trustee must “mark to market” through a regulated valuation every three years. It is largely a matter of timing whether the funding level at any given valuation date happens to line up with the long-term “expected” path.

For employers, this history can be read in two ways. On one reading, it shows that contribution rates can move significantly and that it would be unwise to assume the current rate can be held indefinitely. On another, the marked improvement in funding means the 2026 valuation starts from a much stronger position than at any point in the last 20 or more years, creating genuine choices at this valuation rather than simply managing the consequences of bad news.

2. What is the likelihood that contributions will need to rise in future?

What employers asked

Employers have queried the likelihood of contributions needing to increase at future actuarial valuations.

Additional information from USS

USS has clarified that the probabilities quoted in the main consultation (for example 4% or 10% over 30 years, for contributions of 20.6% and 16.4% respectively) are point-in-time measures. They show the probability that, at the valuation at the end of that period, the contribution rate required would exceed the current rate.

They do not show the probability that contributions will remain unchanged throughout the period; the chance of at least one increase at some point is higher. In short, this is because the Trustees operate in a regulated environment and, even if taking no action might turn out to be right in many scenarios, doing nothing at the time of a poor valuation result could fall outside the bounds of what is considered reasonable.

As a broad rule of thumb, USS indicated that:

- over a 6-year period, the cumulative probability of at least one increase is around twice the end-of-period probability;
- over a 12-year period, it is around 2.5 to 3 times the end-of-period probability;
- over a 30-year period, an end-of-period probability of 4% could correspond to a cumulative probability of around 18% of at least one increase, while an end-of-period probability of 10% could correspond to a cumulative probability of around 33%.

Wider comments

The analysis reinforces that contribution levels and contribution stability are closely linked.

A key insight is that the cumulative probability of at least one increase over a long period is significantly higher than the headline point in time figures. Employers should therefore avoid reading the quoted 4% or 10% as "the chance contributions ever go up" over 30 years.

It is also important to recognise that the probabilities presented by USS are model outputs, not forecasts. USS has acknowledged that uncertainty in long-term economic conditions may be at least as important as the volatility captured in the stochastic modelling itself. For that reason, relative comparisons between scenarios are likely to be more informative than the absolute numbers.

Employers may therefore place more weight on the clear direction of travel – that a 20.6% contribution rate produces materially lower risk than a 16.4% rate – rather than from the precise values attached to either scenario. As a balancing point, a cumulative probability of around one third for at least one increase over 30 years at a 16.4% rate is still low by historic standards, although it is not a negligible risk. It is also worth recognising that a future contribution increase would not necessarily leave employers worse off overall. An employer that has benefited from lower contributions for a number of years may already have realised savings before any increase occurs.

It is also worth noting that contribution reductions and surplus retention are not necessarily inconsistent objectives. Contributions paid broadly in line with the future service cost are expected to cover the cost of new benefit accrual and therefore do not, in themselves, consume the existing surplus. It is generally only where contributions fall materially below the future service cost that surplus would be expected to be used to support ongoing benefit provision.

Employers should also recognise that contribution reductions below around 20% may create practical implementation considerations. In particular, the current contribution structure is linked to the operation of the DC section above the salary threshold. Material contribution changes could therefore require further design decisions, member consultation and implementation planning, potentially affecting the timing of any reduction.

3. How does the overall contribution rate affect the viability of Conditional Indexation (CI)?

What employers asked

Employers have asked how far contributions could fall below around 20% while still supporting a viable CI design, including scenarios such as 18% or 16.4%.

Further information from USS

The headline message from the Conditional Indexation reports published by USS (links: report 1 and report 2) is that CI works most comfortably at contribution rates close to 20%.

In USS's illustrative modelling, the second CI report (December 2025) showed expected benefits using a 20% contribution rate would be around 119% of the current benefits level.

USS has indicated in the same report that, for a given level of investment risk, reducing contributions by 5% of pay (for example from 20% to 15%):

- reduces long-term target indexation by around 1% p.a. (e.g. a target increase of CPI+1% would fall to CPI+0%); and
- significantly increases the likelihood of benefits falling below target.

So, as contributions move towards the Future Service Cost of 16.4%, the expected benefit paid under CI would fall towards 100% of the current benefit level. This would mean there is less scope for CI to deliver attractive and stable benefits without members bearing more risk.

USS has also noted that CI uses an aggregate funding approach, taking account of both accrued liabilities and future contributions. As a result, even relatively modest changes in the long-term contribution rate can have a significant impact on projected outcomes over time.

Wider comments

The broad conclusion is that contribution levels and CI viability are closely linked. Large permanent reductions in the long-term contribution rate would significantly constrain the range of CI designs that could be supported.

USS's modelling to date broadly supports a long-term contribution rate of around 20%. This is not surprising, as the future service cost of current benefits is around 16%, meaning a 20% contribution rate provides approximately 20% additional funding headroom on a prudent technical provisions basis that can be used to support additional indexation under a CI design.

A more modest reduction in long-term contributions is likely to be more feasible than a larger reduction. However, lower contributions would generally mean a reduced level of target benefits and a greater transfer of risk to members.

It may also be possible to use part of the current surplus to support a CI framework. For example, the illustrative USS modelling assumed that around £1.5 billion of surplus could be earmarked to help CI become established in its early years. In principle, a larger amount of surplus could be used to bridge the gap between a lower contribution rate and the c.20% contribution rate assumed in much of the CI modelling. However, this approach raises an important question of principle. The more the viability of CI depends on an upfront allocation of past surplus, the more it relies on a transfer of value from the existing funding position rather than being supported by future contributions and investment returns. While this could make CI viable at lower contribution rates, we would caution against a design that requires a material subsidy from existing surplus, particularly given competing calls on that surplus and the role it plays in supporting long-term contribution stability and protecting accrued benefits.

Another option would be to introduce a temporary contribution reduction – for example for a fixed period – with the contribution rate subsequently returning to a level closer to 20% if CI were to be implemented. This could provide short term contribution relief while preserving the longer-term viability of a CI framework. However, there is a risk that reducing contribution rates even for a period of time could make future increases more difficult to implement for members (and potentially some employers). This is ultimately a judgement for the sector to make.

In responding to UCEA's questionnaire, it would be useful for employers to consider the balance of advantage between two broad approaches (assuming CI is explored):

- **Continuing to pay around 20.6% (perhaps 20%) while CI is explored.** A long-term contribution of around 20% would give USS and the JNC the best chance to test whether CI is genuinely viable. It would also avoid immediate practical questions about reducing DC contributions above the salary threshold (where members currently receive 20% into DC), and the need to consult on raising contributions back to c.20% if CI is introduced after a contribution reduction. Any additional reserve built up by paying more than 16.4% would not be lost: it would help absorb future volatility, support the CI framework if it proceeds, or support a contribution reduction at the next (and future) valuations if CI does not go ahead.
- **Reducing contributions now (for example to 16.4% or 18%) as a temporary measure while CI is explored.** This would provide near-term budget relief that may be more attractive to some employers, notwithstanding the practical issues to work through mentioned above. If CI is ultimately implemented at a higher long-term rate, then this would likely require a subsequent reversal of the contribution reduction. Employers may wish to budget on the basis that the contribution reduction only lasts for a temporary period, say 3 years.

4. What is the role of the Covenant Support Measures (CSMs), and why does removing them increase risk measures so sharply?

What employers asked

Employers have asked why the removal of the Covenant Support Measures (CSMs), particularly the exit moratorium, debt-monitoring framework and *pari passu* requirements on new secured debt, more than doubles some of the modelled risks of needing deficit contributions.

Additional information from USS

USS has explained that the CSMs influence the valuation in two principal ways.

First, they support the length of the covenant reliability period. The Trustee currently places reliance on the strength and breadth of the employer covenant over a relatively long time horizon when setting the funding and investment strategy. USS has indicated that the current framework has been calibrated using a 30-year covenant reliability period. In USS's view, removing the CSMs would likely shorten the period over which it could confidently rely on the covenant.

Second, the CSMs support the level of Affordable Risk Capacity (AffRC) that the Trustee is willing to recognise. USS regards the CSM package as an important underpin of the mutual, "last man standing" covenant structure. If the CSMs were removed, the Trustee would expect to reduce the amount of risk capacity it is prepared to rely upon when determining funding and investment risk.

USS has indicated that, at this valuation, the reduction in AffRC is the principal reason why the modelled risks increase significantly when the CSMs are removed.

USS has tested a range of plausible calibrations for the impact of removing the CSMs, including different assumptions about the pace and extent of any reduction in covenant reliability period and AffRC. Across those scenarios, the probability of a return to deficit, and the likelihood of requiring future deficit recovery contributions, generally increases by more than double.

Wider comments

The covenant support measures were introduced during the 2020 valuation to address specific long-term covenant risks – including employer exits, rising indebtedness and secured borrowing. While the Scheme's funding position has improved materially since then, these risks remain relevant and the measures continue to support the Trustee's confidence in the long-term covenant.

The significant increase in modelled risks highlights the importance USS places on the CSM package within its overall funding framework. This is particularly relevant given the relatively long 30-year covenant reliability period currently recognised by the Trustee. The current funding and investment strategy reflects the Trustee's ability to place reliance on employer support over that horizon. A reduction in covenant support measures could therefore have implications not only for recognised risk capacity but also for the period over which the Trustee is willing to place reliance on the covenant. It is also noteworthy that the regulatory backdrop for DB funding has generally become more demanding since the CSMs were first introduced.

At the same time, the magnitude of the impact is clearly sensitive to modelling assumptions. The consultation material indicates that the results depend heavily on judgements around the covenant reliability period and the amount of AffRC that can be recognised. Employers may therefore reasonably seek greater transparency on the assumptions adopted and whether alternative calibrations could lead to a more gradual change in risk measures. However, USS's analysis indicates that the increase in risk measures reflects a reduction in recognised covenant strength and Affordable Risk Capacity, rather than being solely a result of modelling choices.

Some employers may also question whether the current CSM framework remains fully proportionate given the material improvement in the Scheme's funding position since the measures were introduced. From that perspective, there may be interest in understanding whether elements of the package could evolve over time whilst retaining the core principle of mutual support.

Breaking the CSM package down, there are three main components:

- Debt monitoring.
- *Pari passu* requirements on new secured debt.
- The rolling 20-year exit moratorium.

The debt-monitoring framework provides important visibility of covenant developments and forms part of the wider covenant support package. While some information may be available through other regulatory channels, the framework remains an established component of the Trustee's covenant monitoring approach.

The more substantive components are the *pari passu* requirements on new secured debt, and the moratorium. These are the elements that most directly reinforce the mutual covenant and underpin USS's assessment of covenant strength.

Importantly, employers may reasonably differ in how they view these measures. Stronger employers may favour the *pari passu* requirements because they reduce the possibility of weaker institutions increasing secured debt and thereby weakening covenant support available to the Scheme. Conversely, weaker employers may place greater value on the moratorium because it reinforces the "last man standing" structure and enables them to benefit from a funding and investment strategy that is supported by the collective strength of the sector. The CSM package seeks to strike a careful balance between these competing considerations.

Overall, USS's position is clear that the CSMs are a central part of the current funding and investment framework and that removing them would materially increase modelled risks. However, the precise scale of that increase depends on a number of modelling judgements.

If employers choose to revisit the CSM package, this would inevitably take time to work through and different institutions are likely to have different perspectives. Our view is that the CSM package may be even more important in a CI world than under the current benefit design. CI relies on USS maintaining a strong collective covenant and sufficient long-term risk capacity to support additional indexation over time. To the extent that the CSMs underpin the Trustee's confidence in the covenant and Affordable Risk Capacity, there is a strong argument that they become more valuable, rather than less valuable, if USS moves towards a CI structure. Our suggestion would be to “park” any review of the CSMs until there is clearer direction on CI, recognising that employers are the ones who must comply with these measures and may have different views and priorities.

Ultimately, the value of the CSMs is not solely quantitative. They also provide the Trustee, employers and regulator with confidence in the continuity and durability of employer support, reducing uncertainty around future covenant strength and supporting longer-term funding and investment decisions.

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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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