Preparing for the 2026 USS valuation – analysis of the initial employer consultation January to March 2026

UCEA asked to hear any reactions from USS employers to a short series of statements.

59 employers responded, representing over 86% of the active membership of USS.

(1) Stability

We believe that employers want to increase stability within the scheme. Improved stability could be achieved in different ways and at this stage employers don't want to rule-out any approaches which might achieve this objective.

When employers say stability, they mean measures which achieve one or more of the following:

- *Keeping future benefits the same or similar, and/or*
- *Avoiding unexpected increases in contributions (for employers and/or members), or increases required at short notice, and/or*
- *Reducing the likelihood of a future scheme deficit (and thereby having to pay deficit recovery contributions)*

All respondents either supported the overall statement, or specifically noted or prioritised the stability of one or two of the elements listed.

The responses indicate that there is support for a cautious and stability-focussed approach to the 2026 valuation. The scheme is currently in a strong position, but the risks of volatility remain significant. In the current financial context for the sector, predictability and resilience are more important than ever. There is a strong emphasis on ensuring that decisions taken at the 2026 valuation are robust to adverse market conditions and aligned with the new statutory funding regime.

It is clear that the USS remains an important component of the sector's overall employment offer. Respondents consider it important that the valuation outcome reduces the risk of future disruptive valuation cycles and provides a stable platform for long-term financial planning for both employers and members. The current surplus is seen primarily as a buffer against future volatility rather than a "surplus" to be distributed.

(2) Contribution levels

The improved funding position could facilitate a reduction in contribution levels for employers and members, below the present 14.5% of salary payable by employers and 6.1% of salary from members.

There are no fixed views at this stage from employers on the desirability of a reduction in employer contributions from their present level, but employers do wish to see further

analysis showing the impact on future scheme stability of reducing contributions – compared to using other measures which would have similar or greater effect.

The majority of respondents either stated a preference for maintaining contributions at the current level or around a total of 20% of pay, or stated a preference for stability over a reduction in contributions with most asking for analysis showing the impact of keeping contributions the same or a modest and sustainable reduction. There are similarities across these answers, but these can broadly be attributed as follows:

- Some respondents stated a preference for maintaining contributions at either the current level or around a total of 20% of pay, to support the long-term stability of the scheme and reduce the volatility of future contribution rates. Some of these noted that the Conditional Indexation modelling, carried out as part of the recent exploratory work, had been based on a stable total contribution rate of 20% of pay.
- A higher number of respondents stated a preference for stability over a reduction in contributions with most asking for analysis showing the impact of keeping contributions the same or a modest and sustainable reduction. Some of these noted the long-term benefit of a predictable and sustainable level of contributions, for both employers and members; with some believing intergenerational fairness (of cohorts of employers and members) should be a consideration.

Over a third of respondents, representing around a quarter of the active membership, either stated a preference for contributions to reduce (from the current rate) or supported asking for analysis showing the impact on future stability of reducing contributions – compared to using other measures. Some of these stated concerns over employers and/or members potentially paying more than is deemed necessary to maintain benefits.

Of these, there were some that specifically stated the contribution rate should be set in line with the required Future Service Contribution rate - with the reduction in cost shared between employers and members in accordance with the default position in the Scheme Rules (65:35). There were no specific requests, at this early point in the valuation, for the ongoing contribution rate to be set at an amount lower than the required Future Service Contribution rate. However, this may have been based on consideration of an indicative overall contribution requirement for future benefits of 16% of pay*.

Many of the respondents to this consultation noted the recent volatility in the financial markets and expressed concerned over the impact on the scheme's funding, so any question over the ongoing contribution rate would need to be considered at the appropriate time.

Of the small number of views expressed on any potential for a time-limited contribution reduction, there was a mixture of some firmly against and some potentially open to considering a short-term adjustment, dependent upon modelling to demonstrate any potential impact upon scheme stability. The opportunity for short-term relief, for both employers and members, was noted.

Throughout the responses to this consultation, there is a clear concern over the stability of contributions, and a desire not to return to the volatility of recent years or for the scheme to return to a deficit position. There are also many references to financial pressures across the sector, including cost-of-living pressures for members. There is acknowledgement of the need to find an appropriate balance.

It is worth highlighting two further specific points of detail. Some respondents raised questions around the implications of reducing total contributions below the 20% Defined Contribution allocation to the USS Investment Builder section, applicable to members with earnings over the Defined Benefit Salary Threshold. Some made a comparison of the current USS contribution rates for employers and members to other sector pension schemes, or to other pension arrangements for non-USS eligible staff.

* The USS briefing paper contained information from the Trustee's monitoring of the financial position of the scheme, for the quarter ending September 2025. This gave an indicative overall contribution requirement for future benefits of 16% of pay (based on the 2023 valuation methodology).

For completeness, 2 respondents, representing 0.1% of the active membership, did not provide comment.

(3) Benefits

The improved funding position would allow the USS Joint Negotiating Committee to decide upon improvements to benefits, either in one-off form or through ongoing improvements to future benefits.

At this stage the signal from employers is that the current level of benefits for the long-term is broadly appropriate, whilst the case for giving consideration to any request for a one-off improvement has not been made nor any view been formed at this point.

Respondents are not supportive of changes to the ongoing benefit structure. All respondents stated that they consider the current level of scheme benefits to be appropriate or competitive, or said they supported the statement, or prioritised stability of the scheme/benefits.

There are strong concerns that any improvements to benefits would increase funding risk in future valuations and create future affordability challenges, with some noting there are much higher priorities for use of surplus than increasing benefits.

Some noted that a Conditional Indexation scheme design could deliver higher overall benefits for members, whilst improving the stability and sustainability of the scheme.

Of the views expressed on any potential for a one-off improvement, the majority were firmly against but some could be open to considering a proposal that had a thorough justification and clear modelling to demonstrate that it was low-risk and sustainable. Some respondents raised concerns over intergenerational fairness of any proposal - between different cohorts of members, particularly those who may have paid different rates of contributions; and between active/future members and past members.

There are continued concerns over member opt-rates, particularly amongst early-career staff including researchers. Whilst some have noted an improvement in opt-out rates, there is still an ask for a flexible, low-cost option for members to help address this issue.

(4) Conditional Indexation (CI)

Conditional Indexation (CI) is a potential new benefit structure, where annual indexation of benefits (both before and after retirement) would become conditional on the funding level of the scheme rather than guaranteed. CI remains a Defined Benefit arrangement but introduces more flexibility.

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 trade-offs include greater complexity and reduced certainty regarding inflation protection for members.

Employers wish to now push ahead with the development of CI as a future design of benefits in USS, as it carries the potential to deliver greater longer-term stability, and greater value for money from the contributions being paid-in by employers and members.

The majority of respondents support continuing the joint work on Conditional Indexation as a potential future benefit design*.

Many respondents specifically noted the importance of either some or all of the key criteria defined in the recent reports on the exploratory work, with one respondent suggesting a fifth criteria: 'reducing the likelihood of a future scheme deficit'.

Most respondents acknowledged the key challenges of greater complexity in the scheme and less certainty for members over inflation protection, with many commenting that clear communications would be important.

There is strong support for ringfencing surplus to mitigate risk in the early years.

A small number of respondents commented on the timeline, noting that this was first raised in response to the 2020 valuation, and urged for the work to move ahead in a timely manner, with some suggesting an earlier implementation than 2029. Others commented on the interaction with the governance review of USS, noting the importance of governance within a Conditional Indexation design.

* 2 respondents, representing 1% of the active membership, stated that they did not support progressing Conditional Indexation at this point. 4 respondents, representing over 3% of the active membership, did not state whether they supported Conditional Indexation or not, but expressed views or concerns on different aspects. For completeness, 1 respondent, representing less than 1% of the active membership, did not provide comment.

(5) Any other views?

Do you have any other views on the 2026 valuation that you would like UCEA to be aware of?

Well over a third of respondents also commented on the other mechanism by which the Trustee can ensure stability of the scheme, through the adoption of an appropriate Investment Strategy. Employers would welcome more information on alternative investment strategies and early consultation through the valuation process, with clear explanation of the link between investment risk and contribution stability. Given the surplus position and the changed sector financial context, there is support for an appropriate strategy to safeguard the resilience of the scheme and reduce the chance that the cost of benefits increases at a future valuation through market volatility. There are also concerns at the consequences of a deficit position under the new funding regime, with more restrictive deficit recovery requirements and constrained risk-taking whilst in deficit. There are still some mixed views on investment strategy, a smaller number of the respondents that specifically mentioned investment strategy believe it is sensible to maintain a growth-oriented investment strategy, given the open nature of the scheme. Others note that Conditional Indexation is a potential means by which the Scheme's investments may be able to remain oriented to growth investments whilst also maintaining a Defined Benefit element to the benefit structure.

A small number of respondents commented on the additional covenant supporting measures that were introduced as part of the 2020 valuation. There is an acknowledgement by some of the continued importance of the moratorium on employer exits, but there are questions related to the debt monitoring framework and pari passu security requirements. Given the improved funding position, there is a request for these measures to be reconsidered. A specific concern noted is the change in UK GAAP is due to result in changes in income levels and secured borrowing, impacting Balance Sheets and Statements of Comprehensive Income and Expenditure, with a request for USS to continue working collaboratively with HEI representatives to ensure that the impacts are reflected appropriately.

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