

USS



Members' Annual Report 2015

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Welcome



Welcome to the 2015 Members' Annual Report, my first as Chairman of the trustee board.

This year's report includes an update of USS's funding position as at 31 March 2015, information about the running of the scheme over the latest reporting year, as well as an overview of scheme developments and relevant pensions news.

During the year, the member and employer representatives decided upon changes to the pension scheme. These changes affect all active members of the scheme, and will be introduced in phases over the course of 2016. You are not affected by the changes if you are retired and receiving a pension from USS, or indeed if you have left the scheme but have yet to draw deferred benefits. For further information, please see our website dedicated to the changes at forthefuture.uss.co.uk

USS will continue to be an extremely valuable way to save for your retirement; the revised scheme will provide a core defined benefit alongside an opportunity for members to accumulate additional flexible pension savings in the form of an individual defined contribution (DC) account.

With decisions on the future changes complete, the trustee has been able to conclude its formal valuation of the scheme's funding position as at 31 March 2014. This has involved a fundamental review of the financial and economic circumstances affecting the fund and its investments, along with updated information around the demographics of our scheme members. The outcome of this formal valuation is recorded on page 10 along with an update of the implied funding position as at 31 March 2015.

Periodically, the trustee surveys employers and members to seek their views on various aspects of our service. The results from the active member survey carried out during the year were encouraging; around 65% of active members said they would speak positively about the service they received from USS.

We will be carrying out a broader survey of our members, seeking your views on a wide range of matters in the first part of 2016. Your feedback is very important as we develop the scheme and our services. It will help us continue to meet the changing needs of our member population.

Elsewhere in this update, Roger Gray, our chief investment officer, provides an analysis of how shifts in global markets have affected the fund and gives an overview of investment performance on page 6. The issue of responsible investment, an important one for the trustee, is covered on page 16 and there are some updates on other matters on page 18.

I hope that you find this year's Members' Annual Report helpful. Further information about scheme funding matters and other scheme-related news are available on our website, www.uss.co.uk

Professor Sir David Eastwood
Chairman of the USS board

Summary of the scheme accounts

The scheme's income is derived from member and employer contributions, along with returns from the scheme's investments and incoming transfer payments. Throughout the year the scheme makes payments to scheme pensioners and their beneficiaries, as well as contribution refunds to members who leave the scheme along with outgoing transfer payments. A summary of the scheme's income and expenditure is shown below.

Income for the year	£m
Contributions from members and institutions	1,759.9
Premature retirement receipts	5.5
Transfers-in from other schemes	66.2
Total income	1,831.6

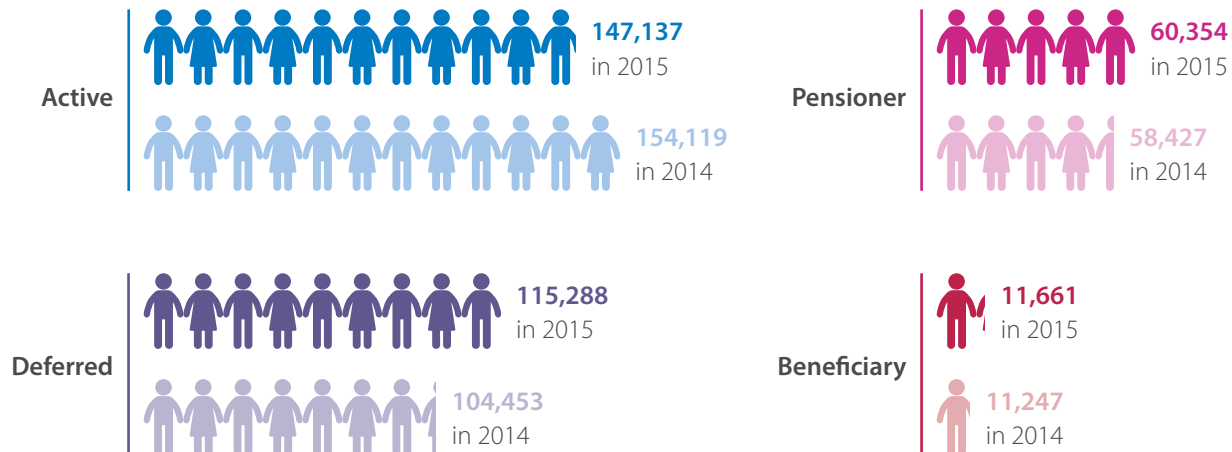
Expenditure for the year	£m
Benefits paid	1,641.7
Refunds	61.2
Administration costs	29.2
Total expenditure	1,732.1

Returns on investments	£m
Investment income	1,116.3
Change in market value of investments	6,384.9
Investment management expenses	(66.9)
Total returns on investment	7,434.3

Fund at 31 March 2014	£42,016.5m	+	Net increase in the fund during the year	£7,533.8m	=	Fund at 31 March 2015	£49,550.3m
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Membership as at 31 March 2015

USS provides benefits to the many thousands of pensioners of the scheme as well as their beneficiaries. Membership of the scheme is always changing as new employees join and become contributing (active) members and members leave the scheme and retire (pensioners), or retain their benefits in the scheme before retirement (deferred members). This section shows a summary of the scheme's membership and how the level has changed over the course of the previous year.



22,594 new members joined USS in the 12 months to 31 March 2015

Investment summary

In this section, Roger Gray, chief investment officer, provides an analysis of how changes in global markets have affected USS and gives an overview of investment performance.



Investment performance

Against a mixed backdrop in the financial and economic markets, the in-house team has delivered strong investment performance during the year to 31 March 2015, with higher than benchmark performance contributing an additional £500 million (approximately) to the value of the fund.

Over the same period, the total value of the fund rose by 18.1% to a new high of £49 billion; this increase included a return of 1.0% in excess of the returns a passive investment strategy would have generated.

Investment performance has also been strong when measured over three and five-year periods. Over the past three years, the total fund achieved above benchmark returns of 0.7% per annum whilst over the last five-years, the total fund achieved above benchmark returns of 0.6% per annum.

However, whilst the scheme's assets have been rising, the scheme's liabilities have also increased. You can read more about how we calculate our liabilities and the scheme's funding position in the Summary Funding Statement on page 10.

Investment strategy

The trustee sets an investment strategy which it believes will deliver the required returns and is appropriate for the level of risk it is able to take.

A number of factors affect the trustee's appetite for risk, including the strength of the financial support available from employers, the scheme's funding position and how its liabilities (that is the pensions due now and in the future) change over time. The trustee monitors these factors regularly and is able to alter its investment objectives, risk tolerance and/or return targets as appropriate.

USS Investment Management Ltd manages the fund on the trustee's behalf. The trustee believes in-house investment management encourages a greater focus on delivering its investment requirements with a strong alignment of interests, as it removes potentially conflicting commercial motivations. The in-house investment team is tasked with delivering greater returns than those specified by the trustee whilst targeting a similar or lower level of risk. The actual allocation of assets is at the discretion of the investment manager.

Market outlook

There was a considerable divergence in economic growth rates amongst the major economies over the 12 months to 31 March 2015. Stronger growth in the UK and US led to speculation about the timing of interest rate rises in these markets whilst slow or slowing growth led to looser monetary policy in Europe, Japan and China. Some emerging market economies, notably Brazil and Russia, have experienced a painful mixture of weakness in key commodity sectors, economic activity and investor confidence, which has limited policy flexibility. The dramatic collapse in oil prices since late 2014 depressed headline inflation rates in many economies and renewed concerns about deflation.

The UK Consumer Price Index (CPI) inflation rate during the year to 31 March 2015 was 0%. This was the lowest figure since the Great Depression of the 1930s and compares with a rate of 1.6% recorded in the previous year.

Markets have been somewhat unsettled since the end of March, with some concern about slowing growth in China and stresses on commodity-sensitive emerging economies. This has raised uncertainty on the timing and extent of interest rate increases in the US, and at the same time as Eurozone and Japanese monetary policies seem committed to unprecedented quantitative easing. With headline inflation remaining low in most developed economies, government bond yields have also remained low which continues to raise the current value placed on the scheme's liabilities, a significant factor affecting the funding levels of many defined benefit pension schemes at this time.

Roger Gray
Chief investment officer

Scheme assets

The trustee sets an investment strategy which is appropriate for the level of risk the employers are able to support. Below you can find information about the scheme's assets and where they are invested.

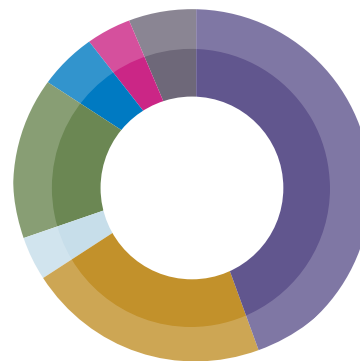
Distribution of assets

The trustee has delegated implementation of its investment strategy to USS Investment Management Ltd which has discretion to invest in a range of assets, provided it remains within acceptable levels of risk and delivers the required returns.

This delegated authority is described as a reference portfolio approach and gives considerable flexibility to the in-house investment team to manage the fund's investments within the risk and return criteria set by the trustee.

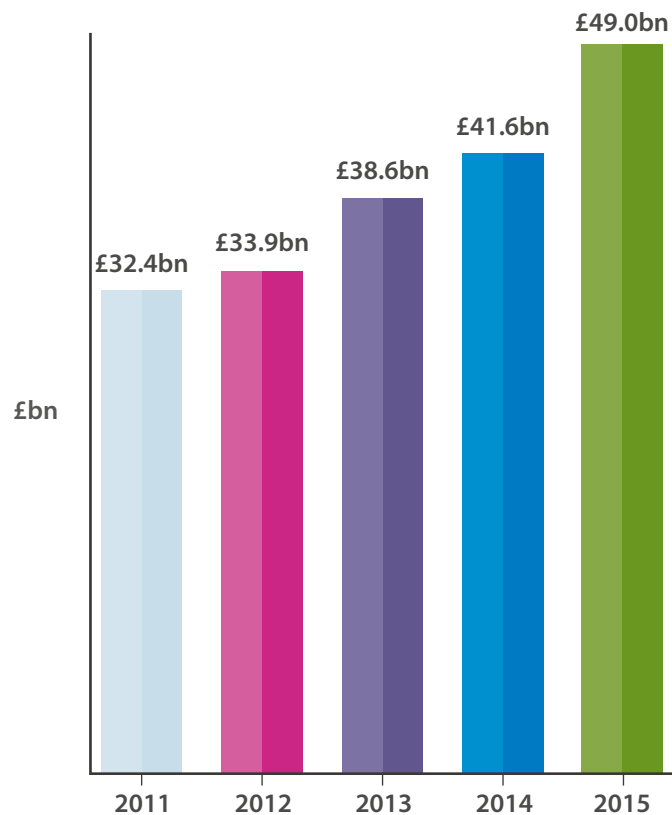
Distribution of assets at 31 March 2015

Equities	44.5%
Private markets	21.4%
Absolute return	3.9%
Fixed Income	14.6%
Public Credit	5.2%
Cash	4.2%
Other	6.2%



The information illustrated in the above chart has been prepared on a different basis to charts presented in previous Members' Annual Reports.

Total scheme assets*



*Excluding Money Purchase AVCs.

Largest listed equities and fixed-interest holdings at 31 March 2015

Largest listed equities holdings	Value £m	%
Royal Dutch Shell	344.4	0.7
HSBC Holdings	299.2	0.6
Vodafone Group	254.3	0.5
Nestlé	227.1	0.5
British American Tobacco	211.2	0.4
Roche Holding AG	205.3	0.4

Largest fixed-interest holdings	Value £m	%
UK Treasury 0.75% IL 22/03/2034	1,614.5	3.3
UK Treasury 4.5% 07/09/2034	1,090.6	2.2
UK Treasury 3.5% 22/07/2068	931.2	1.9
UK Treasury 4.25% 07/12/2040	822.3	1.7
UK Treasury 0.625% IL 22/03/2044	619.0	1.2
UK Treasury 4.25% 07/12/2040	606.5	1.2
UK Treasury 4.75% 07/12/2030	574.3	1.2

Summary Funding Statement as at 31 March 2015

This scheme funding update explains the interim financial position.

Overview

Each year the trustee provides members with a summary of the scheme's funding position through its Summary Funding Statement. In assessing the scheme's funding position, the trustee compares the value of the assets in the scheme with an estimate of the value of the scheme's liabilities (that is the pensions and other benefits already built up by members), at a point in time (normally as at the end of the scheme year, on 31 March).

Earlier this year the scheme's stakeholders, through the Joint Negotiating Committee (JNC) within USS, decided upon a set of proposed changes to the scheme to address some of the recent funding challenges (as set out for members in previous versions of this statement which are available on www.uss.co.uk). Employers undertook a full consultation with affected employees and their representatives on these proposed changes between March and May 2015. The final form of the scheme changes was decided upon in July 2015, and the rule changes were formally implemented in November 2015.

With the final form of the changes decided upon, the trustee has been able to complete its formal actuarial valuation of the scheme as at 31 March 2014, taking into account the changes to future benefits. This process has involved a fundamental review of scheme data including the financial support available from employers, the overall scheme risk and the underlying financial and demographic assumptions which underpin the way that the liabilities are valued. The outcomes of both the 2014 actuarial valuation, and of the update as at 31 March 2015, are set out in this statement.

Some fundamentals regarding the USS benefit structure

At the time of this statement, USS provides a defined set of scheme benefits on either a final salary or a career revalued benefits (CRB) basis. The financing of scheme benefits is through contributions from the sponsoring employers and scheme members. These contributions are paid into the scheme and, together with the investment returns earned on these amounts, are used to pay benefits to members and/or their eligible dependants when they fall due, as well as meeting the costs of operating the scheme.

From 1 April 2016, there will be changes to the benefits provided by USS. From that date the final salary arrangements which currently apply to some members will come to an end and all members will thereafter build up benefits on a CRB basis. From 1 October 2016, CRB benefits will be built up in respect of salary up to a threshold of £55,000 a year. Contributions in respect of salary above £55,000 a year will be paid into a new defined contribution (DC) section of the scheme. This salary threshold will be revalued each year in line with the Consumer Price Index (CPI), (subject to certain restrictions). Both employer and member contribution rates will increase from 1 April 2016 to 18% for employers (from 16%) and to 8% for employees (from 6.5% for current CRB members and 7.5% for final salary members). For more information about changes to the benefits provided please refer to the USS for the future website, at **forthefuture.uss.co.uk**

How is the financial position of the scheme measured?

The scheme's financial position is measured by comparing the current value of its assets with the trustee's estimate of the current value of the scheme's liabilities. The current value of the scheme's assets is relatively easy to determine at a particular point in time, using their market value at that date. There are uncertainties inherent in estimating the current value of the liabilities, for example, the length of time for which a future pension might be paid, the possibility that a survivor's benefit might be paid, and the future rate of return

on investment. Estimates of all these factors are used to determine the amount of assets that would be required today in order to meet, in full, the benefits members have already earned up to the date of the valuation.

The most recent full review of scheme funding, the actuarial valuation, was last undertaken as at 31 March 2014. In any actuarial valuation, the trustee puts a value on the liabilities which assumes that the scheme is ongoing (known formally as the 'technical provisions'). It is this technical provisions basis that is typically used when referring to the value of the scheme's liabilities. However, in addition to this, the trustee is also required by law to value the scheme's liabilities assuming those liabilities had to be bought out by an insurance company. This is known as the 'buy-out' basis and provides a further reference point by which the financial health of the scheme can be assessed, but members should note that neither the trustee board, nor the scheme's stakeholders, have any plans to buy-out the scheme with an insurance company.

The actuarial valuation is the time when the trustee reviews all of the underlying assumptions relating to the scheme. At the 2014 actuarial valuation, and following a consultation with Universities UK (as the representative body for the scheme's sponsoring employers), some assumptions were changed. These included the level of expected investment returns over the long-term, the estimates of members' life expectancy which determines for how long a pension will be paid in retirement, and the allowance made for future inflation.

Summary Funding Statement continued...

Further details of the trustee's approach to scheme funding can be found online in the updated Statement of Funding Principles on www.uss.co.uk. The full actuarial valuation report can also be found online.

What was the position at the last full actuarial valuation?

The latest actuarial valuation calculated that, as at 31 March 2014, the scheme's assets as a percentage of liabilities (i.e. the funding ratio) stood at 89% on a technical provisions basis and 54% on a buy-out basis. These funding ratios reflect the updated assumptions, and the changes to both contribution rates and future benefits as decided by the scheme's stakeholders.

How has the funding position changed since then?

Over the period between 31 March 2014 and 31 March 2015 there has been a great deal of volatility in financial markets, which has been reflected in the volatility of the scheme's deficit and funding ratio. The real yield on government bonds has continued to decline which, combined with persistently low interest rates and the continuation of a more pessimistic

outlook for investors, has resulted in the value placed on the scheme's liabilities increasing by £2.9 billion (on a technical provisions basis).

Against this increasingly volatile investment environment, the trustee has secured strong investment performance. The value of the scheme's assets has risen by 18.1% or £7.5 billion; this includes an additional 1.0% return above the scheme's investment benchmark which has contributed an additional £500 million to the fund.

However, the increase in liabilities has outweighed the growth in the fund's investments, leading to the increased deficit of £8.2 billion, with the funding ratio falling from 89% to 86%. On a buy-out basis the funding ratio similarly weakened from 54% to 47%.

Actuarial report as at 31 March 2015

Assets	£49.1bn
Value placed on scheme liabilities	£57.3bn
Deficit	£8.2bn
Funding ratio	86%

It is important to emphasise that the 31 March 2015 update projects forward the assumptions that were used for the 2014 actuarial valuation; it does not involve the same detailed review of the underlying assumptions (financial, economic, sectoral etc.) that takes place as part of the three-yearly actuarial valuation which will next be completed as at 31 March 2017.

The trustee, of course, continues to regularly monitor the scheme's funding position. It remains of the view that, whilst the current position is undoubtedly difficult with considerable volatility, these circumstances should not, at this time, be considered to provide any definitive perspective on the long-term outcome. The trustee continues to focus on the long-term, a perspective which is backed by the nature of the financial support that is available from the scheme's sponsoring employers. In addition to periodic monitoring, the long-term investment outlook will again be reviewed more fundamentally at the next actuarial valuation.

What is the trustee board's funding plan?

The trustee's overarching funding principle, supported by the employers, is that the amount of pension risk within the scheme should be proportionate to the amount of financial support available from the scheme's sponsoring employers, and specifically that there should be no increase in the reliance placed on that support over time. If no action is taken, pensions risk within the scheme will grow over time, the trustee is therefore of the view that, in order to maintain an appropriate level of risk within the scheme, opportunities

should be taken to reduce the amount of investment risk within the scheme, given the right economic conditions and following appropriate dialogue. At the 2014 actuarial valuation the trustee incorporated this long-term, gradual risk reduction into its funding approach, with the intention of maintaining the overall level of risk borne by the sponsoring employers over a 20-year period.

Following completion of the 2014 actuarial valuation, and further consultation with Universities UK (as the representative body for the scheme's sponsoring employers), the trustee has updated its recovery plan for addressing the scheme's deficit. The updated recovery plan requires employers to contribute 2.1% of salaries towards the deficit over a period of 17 years. The trustee has extended the period of the recovery plan following an extensive piece of work, undertaken independently, on the financial strength of the scheme's sponsoring employers (which is generally referred to as the *employers' covenant*). The conclusions from that work confirmed the trustee has reasonable visibility of the ongoing strength of the covenant over a period of 20 years.

As well as additional contributions, the revised recovery plan allows for additional investment returns, over and above those the trustee allows for in its prudent assessment of the scheme's liabilities. In the first year of the recovery plan this will be 0.5% a year, which will gradually reduce over the period of the recovery plan in line with the trustee's planned reduction of risk within the scheme.

Pension Protection Fund

The government established the Pension Protection Fund (PPF) in 2005 to provide benefits in the event that a scheme's sponsoring employer (or employers) becomes insolvent without there being sufficient funds available in the scheme.

USS is recognised by the PPF as a multi-employer scheme with a joint, or shared liability. This joint liability is based on the 'last man standing' concept, which means that it would only become eligible to enter the PPF in the extremely unlikely event that the vast majority (if not all) of the scheme's employers were to become insolvent.

If such circumstances were ever to occur, the PPF would take over the payment of pension benefits to members, but the benefits received might be less than the full benefits earned within USS. The precise amount that the PPF would pay to each member would depend on the member's age, the period over which the benefits were earned and the total value of benefits.

Further information about the PPF is available on its website at **www.pensionprotectionfund.org.uk** or you can write to **Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA**

Statutory Statement

There has been no payment out of the scheme's assets over the period from April 2014 to March 2015 to the scheme's sponsoring employers, nor has this happened previously. There has been no intervention from the Pensions Regulator to use its powers to modify the scheme or to impose a direction or schedule of contributions.

If you would like to find out more about USS, please get in touch with the person at your employer who deals with USS matters, or alternatively visit the USS website at **www.uss.co.uk** You can also contact USS Liverpool office at **Universities Superannuation Scheme Ltd, Royal Liver Building, Liverpool, L3 1PY**



Pension increases

Pensions in payment and deferred benefits are reviewed annually and increases are applied in line with the rise in 'official pensions', such as those paid to members of public service schemes, including the Civil Service, Teachers and NHS pension schemes. Find out more about recent pension increases below.

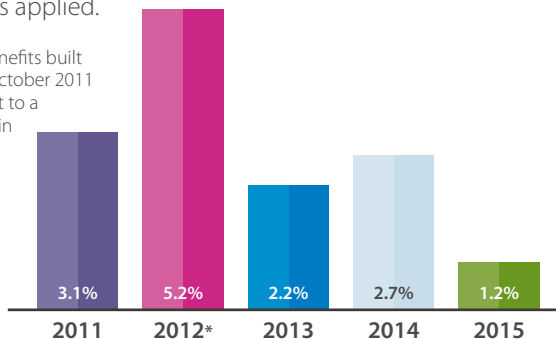
How are pension increases calculated?

Service built up before October 2011 - Increases will reflect the rise in official pensions.

Service built up from 1 October 2011 - Increases will match the rise in official pensions for the first 5%. If, however, official pensions increase by more than 5%, then the increase will be half the difference, up to a maximum total increase of 10%.

In deflationary periods, pensions are not reduced but no increase is applied.

*Pension benefits built up from 1 October 2011 were subject to a cap of 5.1% in this year.



Pension increases in 2016

Increases to official pensions are based upon the Consumer Price Index (CPI) measure for the preceding September. In September 2015, CPI was -0.1%, however, this does not mean pensions will be reduced in April 2016. When CPI is negative no increase is applied. This means there will be no pension increases in April 2016 on USS pensions.

Changes to increases paid on Guaranteed Minimum Pensions (GMPs)

The introduction of the single-tier State Pension from April 2016 will introduce changes to the way that the responsibility for paying pension increases on certain elements of USS pension is shared between USS and the government. This will only affect some members. It will not affect those who have already reached State Pension age and are in receipt of State Pension. Further detail will be made available to members as soon as it is available.

Responsible investment

At the heart of the trustee's investment beliefs is a commitment to active, responsible and long-term investment. The trustee delegates implementation of its investment strategy to USS Investment Management Ltd. This in-house investment team has integrated environmental, social and governance (ESG) issues into the decision-making process for all fund investments. It does this in a manner which is consistent with the trustee's investment objectives, legal duties and other relevant commitments such as the UN-backed Principles for Responsible Investment and the UK Stewardship Code.

This section provides an update on some key areas of engagement over the course of 2014/15. You can read more about our activity in this area on the USS website at www.uss.co.uk

Climate change

The trustee has long recognised the potential impact of climate change on its investments; we are aware that if climate change occurs as predicted in certain models, it will have significant implications for both the fund and its members. USS was one of the first pension funds in the world to recognise this.

Our focus is on encouraging policymakers to develop appropriate long-term policies and regulations to limit the impact of a changing climate. In 2001, USS founded the Institutional Investors' Group on Climate Change and through that group, recently organised and signed an open letter to G7 finance ministers urging for an end to fossil fuel subsidies

and voicing support for the inclusion of a long-term emissions reduction goal in the international climate agreement decided in Paris in December 2015. You can find this letter on the USS website www.uss.co.uk

In addition, the trustee has recently signed the Montreal Carbon Pledge, which is a commitment to measure and publicly disclose the carbon footprint of the trustee's actively managed investments in stocks and shares (equities). The first report of the scheme's exposure to carbon is now available on the USS website. Information about our investments in equities is already available via a searchable list on the USS website.

In numbers

£320 million – value of new commitment to a private debt portfolio which supports a number of windfarms in the UK.

£250 million – value of commitment to timberland which acts as a carbon sink.

£140 million – value of commitment to renewable energy, low carbon and clean tech investments.

Corporate engagement

The trustee remains committed to a programme of engagement and stewardship across all asset classes. During the course of the year, the responsible investment team has continued to apply pressure on boards of directors across its equity holdings to ensure that management is held to account for the delivery of objectives which are in the best long-term interests of the company and its shareholders.

The responsible investment team has also directly engaged with companies on issues ranging from supply chain management in Bangladesh to the potential stranding of coal assets, and from executive remuneration at banks to the regulation of e-cigarettes.

Gathering your views

Periodically, the trustee surveys USS members and employers on various aspects of its approach. Recently, this has included a survey of members' views in relation to the investment choices to be made available within the new defined contribution (DC) section of the scheme. Responses to this survey have contributed to discussions around the design of the new section and, based on the feedback received, we are currently considering ethical fund options within the DC section.

USS also intends to carry out a broad survey of member views in relation to the defined benefit section of the scheme, which will include some questions around non-financial investment factors. This survey will take place in the first part of 2016.



Scheme news

Throughout the year the trustee board considers a wide range of legislative and policy developments which might impact the scheme in the future. In this section we've highlighted a small number of recent issues which are for information purposes only – you do not need to take any action.

Scheme changes

USS is changing for the future. From 1 April 2016, there will be changes to the benefits provided by and contribution rates paid to USS. All active members will be affected by the changes.

USS currently provides two forms of defined benefit pension; final salary and career revalued benefits (CRB). Both provide a pension which is linked to salary, albeit in different ways.

Going forward, USS will provide defined benefit pensions on a CRB basis alongside a new defined contribution (DC) section. It is important to note, however, that the **pension rights that you have already built up with USS are protected in law and in the scheme rules.**

From 1 April 2016, all members will build up a defined benefit pension on a CRB basis.

From 1 October 2016, the new DC section of the scheme will be introduced and the CRB benefits will be available on salary up to a threshold (initially of £55,000 a year), with contributions towards DC saving available on salary above the threshold.

You can find a range of resources and detailed information about how the scheme changes will affect your existing and future benefits on our website **forthefuture.uss.co.uk**

Forthcoming communications for members in 2016

Here is just some of the information we will be making available to members as the changes to the scheme are implemented:

- A leaflet confirming the scheme changes and providing guidance for accessing information online;
- A simple explanation of how DC retirement saving works;
- An update on the research USS has carried out with members around requirements for the DC section;
- A new look website **www.uss.co.uk**;
- Information about the investment choices you can make for your DC account;
- Access to an online member account, where you will be able to log in, view your benefits and make investment choices; and
- A statement for final salary members confirming the value of your benefits built up to 31 March 2016.



Scheme news continued...

New pension freedoms

Earlier this year the government introduced increased freedom and choice for people saving into a defined contribution (DC) pension arrangement.

From 1 October 2016, all USS members will have access to DC pension savings as a result of the overall changes to USS. If you are contributing to the scheme after that date, and you earn more than (initially) £55,000 a year, any contributions made in respect of your salary above that threshold will go into your DC account, including contributions from your employer. All members will have the option to save more by paying additional contributions into their DC account. For more information on these changes visit **forthefuture.uss.co.uk**

The government's changes have increased the choices for people in accessing their pension savings. In addition to using their DC account to purchase a regular income (known as an annuity), people can now also take the value of the DC account as a cash lump sum (which may be subject to tax), or make separate cash withdrawals (known as income drawdown). Not all DC schemes will offer all options; this will depend on the rules of the scheme of which you are, or were,

a member. However, transfers to other schemes in which these flexibilities are available may be possible. Further information about these changes can be found at **www.pensionwise.gov.uk**

The trustee is currently considering how best to adopt the new pension freedoms. Along with the scheme's stakeholders, the trustee wants to extend flexibilities as far as it reasonably can. More information will be provided as soon as it is available.

Beware pension scams

There are concerns that these changes may lead to an increase in attempts to defraud pension scheme members. Please be vigilant, visit the Pensions Regulator's dedicated website at **www.pension-scams.com** for more information.



Existing USS pension arrangements

You should know that a number of the flexibilities made available as part of the government's new pension freedoms are already available within the existing scheme, for example the choice to access cash lump sums up to a specific level. Some of the flexibilities are, however, not yet available, and will – as described opposite – be considered alongside, and also following, the introduction of the new DC section from 1 October 2016.

You should be aware that you can, if you wish, transfer your benefits out of USS into a DC scheme which provides these options. You should only consider such an option after careful thought, and after receipt of appropriate financial advice. If the value of the benefits you wish to transfer is more than £30,000, you are required by law to seek financial advice from an adviser authorised by the Financial Conduct Authority. The trustee strongly urges any member considering transferring out of USS to seek appropriate financial advice in all cases before choosing to transfer benefits.

For members already in receipt of their USS benefits

You cannot transfer your benefits out of USS into a DC scheme if those USS benefits are already in payment. If you have a fund within the Money Purchase AVC facility, which you have not yet drawn, you may still be able to transfer that fund into a DC scheme.



Scheme news continued...

The introduction of a single-tier State Pension and what it means for your National Insurance contributions.

The government is introducing a new single-tier State Pension for people reaching State Pension age from April 2016. If you have already reached State Pension age, or will do so, before 6 April 2016 you will receive your State Pension in line with existing rules.

From 6 April 2016, people with 35 years of National Insurance contributions will receive an anticipated flat-rate, single-tier State Pension of up to £155.65 a week (less if you have under 35 years of National Insurance contributions or if you have been contracted out of the Additional State Pension).

Under the current system, there are two potential pensions from the State. There is the 'Basic State Pension' and also an earnings-based income called the 'Additional State Pension'.

Members of many occupational pension schemes like USS are 'contracted out' of the Additional State Pension scheme. This means you do not pay into the Additional State Pension scheme whilst you are a member of USS, and accordingly pay a lower rate of National Insurance.

From April 2016, 'contracting out' will end and a new single-tier State Pension will replace the existing Basic State Pension and Additional State Pension.



Visit the [gov.uk](https://www.gov.uk) website for more information about the new State Pension:
www.gov.uk/new-state-pension/overview

All other things being equal, members of USS will therefore notice a drop in their net pay from April 2016, as their National Insurance contributions will increase. These changes have been made by the government and affect many occupational pension schemes. They are not specific to USS or to your employer and there will be no changes to USS as a result.

Independent of the changes the government has introduced, there will be some changes to both the contributions made and the pension benefits built up in USS in the future. Further details can be found at **forthefuture.uss.co.uk**

Pensions tax allowances

HM Revenue & Customs sets allowances for the maximum tax advantaged benefits you can earn, namely the annual allowance (AA) and the lifetime allowance (LTA).

Changes to the AA

The current value of the AA is £40,000 a year.

Further changes have been announced, which include reductions in the AA for members above certain income limits. Broadly speaking, if you have taxable income above £110,000 a year you could be affected and have a lower AA.

Reduction to the LTA

With effect from the 2016/17 year, the LTA will reduce from £1.25 million to £1.0 million.

USS will be providing more information to members on the changes and protections available when full details are known. More information on the changes is available at **www.uss.co.uk**

Scheme news continued...

USS's Pension Protection Fund levy reduced

All pension schemes with a defined benefit element, like USS, are required by law to pay an annual levy to the Pension Protection Fund (PPF). The PPF was established to protect members of defined benefit pension schemes in the event that the employer (or employers) backing the scheme become insolvent.

The levy is one of the ways the PPF raises money to fund the compensation payable to members of schemes that have transferred into the PPF. The PPF calculates how much that levy should be with support from a specialist organisation which assesses insolvency risk. Last year, the PPF announced that it was changing the provider of this specialist support to Experian from the 2015/16 levy year onwards. Under the new provider, insolvency risk for USS is calculated based on employers in the not-for-profit sector, which are identified as distinct from the corporate and private business sector.

Over the last year USS has been working directly with staff from both the PPF and Experian, as well as the employers participating in USS, to ensure that the data used to calculate the insolvency risk rating for USS institutions is correct, and also to ensure that the final insolvency scores more

appropriately reflect the strength of our employers. Following this extensive work, and our discussions with the PPF and Experian, we are pleased to announce that the levy payable by USS in 2015/16 was reduced from the previous 2014/15 level. The trustee will continue to work with the PPF going forward to ensure that future levies correctly reflect the strength of the participating employers in USS.

Privacy and data protection

The Data Protection Act exists to protect your personal information. The act places legal obligations on organisations that handle personal data and USS is fully committed to protecting your privacy. You can view more details around the information that USS collects about you and the security of your information in the Privacy Policy on our website

www.uss.co.uk

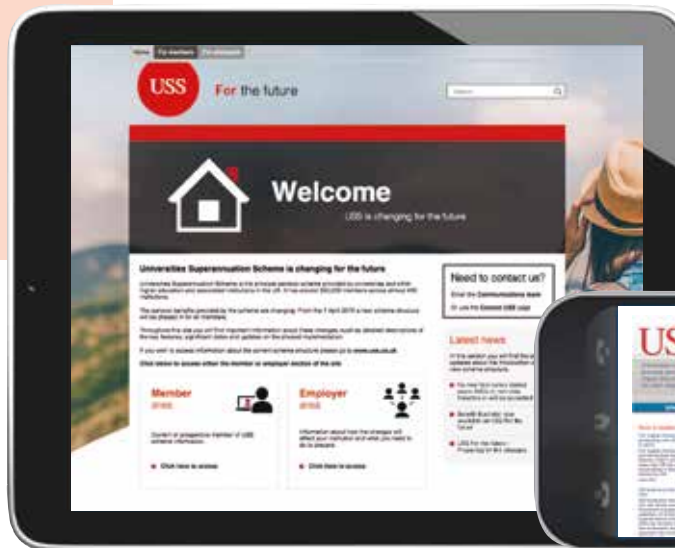
In order to provide an effective service, from time to time USS shares member information with Mercer who are appointed by the trustee to provide USS with actuarial services. More information about Mercer's role and how they use members' personal data, can be found here: **<http://uk.mercer.com/about-mercero-use-personal-data-mercero-scheme-actuaries-providing-actuarial-services.html>**

Further information

There are a number of tools you can use to find out further information about the scheme. Visit www.uss.co.uk for the most up-to-date information about USS. Also, as mentioned in this annual report, the pension benefits for the scheme are changing in 2016 and you can find out more at forthefuture.uss.co.uk

On the forthefuture.uss.co.uk website you will find:

- Change information
- Preparing for the changes
- Benefit illustrator
- Key dates



On the www.uss.co.uk website you will find:

- USS publications
- Pensions TV
- Regular updates
- Detailed scheme information



Your trustee board

The trustee board is responsible for the proper running of the scheme; from the collection of contributions to the investment of assets and payment of benefits. In this section you can see who the trustee board members are and the advisers who help them throughout the year.

Universities Superannuation Scheme Limited (the trustee company)

Universities Superannuation Scheme Limited is the trustee company established in 1974 solely to administer the scheme. Supervised by the Pensions Regulator, it operates the pension scheme from its offices in Liverpool and London.

USS Investment Management Limited

In 2012, the scheme's London investment office was incorporated into a wholly-owned subsidiary of the trustee company called USS Investment Management Limited. Regulated by the Financial Conduct Authority, it delivers investment and related activities for USS.

For more information, see 'How USS is run' on www.uss.co.uk

Four directors are appointed to the trustee board by Universities UK (UUK).

Three directors are appointed by the University and College Union (UCU), one of them a pensioner director.

A minimum of three/maximum of five are independent directors appointed by the board.

Directors of the trustee company as at December 2015

Appointed by UUK

Professor Sir David Eastwood (Chairman)
Professor Dame Glynis Breakwell
David McDonnell CBE
Professor Anton Muscatelli

Appointed by UCU

Professor Jane Hutton
Dr Angela Roger
Bill Trythall (Pensioner director)

Independent

Dr Kevin Carter
Kirsten English
Ian Maybury
Michael Merton
Rene Poisson

Group executive officers and advisers as at December 2015

Group chief executive officer: Bill Galvin

Chief investment officer: Roger Gray

Chief financial and resources officer:

Jennifer Halliday

Chief policy and external affairs officer:

Brendan Mulkern

Chief financial risk officer: Guy Coughlan

Chief service delivery officer: Kevin Smith

Group general counsel: Jeremy Hill

Chief technology and change officer: Howard Brindle

Actuary: Ali Tayyebi of Mercer, Birmingham

Solicitors: DLA Piper LLP, Liverpool

Auditors: Grant Thornton LLP, Liverpool

Bankers: Barclays Bank Plc, Manchester



**A large print version of this Members' Annual Report is available on request from USS.
Telephone 0151 227 4711.**

Contact details

Members currently paying into USS

Contact their employing institution with any enquiries relating to their benefits.

Deferred members and those receiving benefits from the scheme

Contact USS directly at:

Universities Superannuation Scheme Limited

A: Royal Liver Building, Liverpool, L3 1PY
T: 0151 227 4711 (Local rate 0845 068 1110)
F: 0151 236 3173
W: www.uss.co.uk

Other useful contacts

The Pensions Advisory Service (TPAS)

A: 11 Belgrave Road, London, SW1V 1RB
T: 0300 123 1047
W: www.pensionsadvisoryservice.org.uk

The Money Advice Service

T: 0300 500 5000
E: enquiries@moneyadviceservice.org.uk
W: www.moneyadviceservice.org.uk

Pensions Ombudsman

A: 11 Belgrave Road, London, SW1V 1RB
T: 020 7630 2200
E: enquiries@pensions-ombudsman.org.uk
W: www.pensions-ombudsman.org.uk