Carlow Street
London NW1 7LH
Telephone 020 7756 2500

Questions & Answers from Conditional Indexation Webinar

27 October 2025

Further to the

- SWG webinar on Conditional Indexation, and the video that can be found at UCU - Webinar on USS and conditional indexation, August 2025, and

- The USS interim report on CI, June 2025, linked from the UCU update here,

We have produced the following written response to questions that were raised with us during the webinar.

We apologise for the delay in getting these issued but there were over 70 questions to consider. As many had common themes, we have grouped these together and have provided a response covering all the points raised. This has made producing this paper easier while ensuring that all matters have been answered. Hopefully you will find this helpful.

Please note that we are working with USS & UCEA on a second CI Report and we will have further engagement sessions with pension officers, reps, members and officials in early 2026.

Yours

Dooley Harte
UCU Pension Official - USS

Q&As from CI Webinar held on 04 August 2025

What is Conditional Indexation?
Every April, member pensions increase in line with the rate of inflation set by Government the previous September.[1] This is a guaranteed increase that is paid regardless of the financial health of the scheme. Conditional Indexation is where this increase is no longer guaranteed but conditional on how well the scheme is performing. This means there are circumstances where it might not be applied. To compensate members for this increase in risk (which is a transferred from the employer to the employee), better member benefits could be introduced to better recompense members when the scheme is in reasonably good financial health. The exact details on all this are currently under investigation and the devil will be in the detail.

Relations to current scheme
The current process of revaluation is the rate of CPI but subject to a soft cap on all accrual built up since October 2011. This means that members get the full CPI increase up to 5%. Anything over 5%, members get half that exceeding 5%. An example would be that if CPI was 9%, members would get 7%; that is 5% plus 2%.

We do not need CI to get better benefits, but we do need employers' agreement to improve benefits through JNC. Modelling shows that we can get better outcomes for members by improving the accrual rate and increasing revaluation above CPI but we may need to compromise on CI to get employer agreement for these changes.

The current benefits, including guaranteed indexation are costed by USS using the current valuation methodology. We have been clear that in order to even consider introducing CI, we need to change the valuation methodology, which has been historically highly unstable. We are currently at an advanced stage in our engagement with Trustee on UCU proposals for an improved valuation methodology and we hope to have a successful outcome to these negotiations by end of 2025.

The current scheme indexation is governed by the Scheme Rules. To make changes to benefits, including introducing CI, the Scheme Rules would need to be changed. The timeline for any consideration of implementing CI is years away and UCU would not support any changes without member consultation and UCU policy.

Conditional Indexation Risk and Benefits
Any new CI proposal will transfer some level of risk from employers to scheme members. However, the plans are to compensate members for this additional risk by increasing member benefits and putting safety nets in place in case things do not go as expected.

Current modelling, linked here, shows that there may be scenarios where members could be worse off, for example by 10%. This does not mean that 10% of members are worse off but rather that in 10% of scenarios, all members were all collectively worse off. This might only be by a small degree. We are currently working to understand ways to reduce the percentage likelihood of being worse off and build in safety nets to recover any losses in future years. If the time comes, then the outcome of this engagement will

[1] USS revaluation is slightly more complex and currently under review. For a UCU update see https://www.ucu.org.uk/article/14142/Active-and-proportionate-revaluation, for a deferred scheme member's account of their challenge to this revaluation see here https://henrytapper.com/2025/08/25/uss-members-may-have-claims-for-the-pension-ombudsman-comments-mike-otsuka/ and for USS information see https://www.uss.co.uk/for-members/your-pension-explained/how-your-pension-works/how-revaluation-works-while-you-are-an-active-member

be put to members to decide whether the increased risk is appropriately offset by the benefits over the longer term.

CI will apply to all scheme members but only for new accrual earned from the point of introduction – but would then apply to that part of the pension through their scheme journey as Active, Deferred and Pensioner members. In other words: if it is introduced, it will not change any pension accrued up to the implementation date of CI and this prior accrual will be protected by the current Scheme Rules. It will not change the rate of any pension in payment or any deferred pension up to that point.

That said, if the CI lever was pulled, meaning that the Trustee decided not to pay the full increase, current legislation requires that all pensioner members must receive at least the lower of CPI or 2.5% revaluation, and this must be paid.

The modelling USS has carried out does include catch-up mechanisms, whereby if full indexation is not awarded in a year, then that missed indexation can 'catch-up' in future years. However, there are many ways to design catch-ups, and we will be seeking to have clear and workable catch-up mechanism as well as other safety nets included in any new scheme to protect members.

There will also need to be consideration of how CI deals with surplus. For example, USS currently has a large notional surplus and we will be engaging with UCEA & Trustee to decide how this is used. It could be used to improve member benefits, lower contribution rates or be retained to protect against future fluctuations in the market – all this has still to be agreed for the current DB scheme and will also need to be agreed for any potential CI.

A critical decision will be on when conditional indexation would apply and members would receive no or partial inflationary increases. We have still to discuss and consider appropriate governance and decision-making processes.

Modelling
Stochastic modelling provides an opportunity for all parties to compare what might happen to the scheme under different improved benefit designs and when certain assumptions are applied. This means that patterns can be analysed statistically when applied to future events, but it is not a means of predicting the future and should never be taken as such. It is a means of informing negotiations, comparing different assumptions, and seeing what might happen if certain factors played out in real life scenarios, which may be different to the actual scenarios we encounter

As the Interim Report highlights, limited modelling with a large number of assumptions has taken place. The results of this modelling have been reasonable positive with the vast majority of scenarios showing a CI model could improve outcomes for scheme members. However, there are scenarios where members could be worse off.

We are working with USS to get more details on the modelling process and there will be more detail in future reports. However, given the high number of assumptions currently in-play, we see no benefit to delaying the issuing of this report at this time.

There is considerably more work to do on the modelling with different assumptions on growth, inflation, etc needing to be used on the different groups of scheme members – active, deferred and pensioner as well as looking at equality impact analysis. What is clear is that if CI were to be implemented, there will be a date in the future where the current benefit structure ends, and the new structure begins. At this point, member pensions already accrued will be protected under the current rules and it will only be future pensions that would fall under new scheme rules relating to CI.

This means there would be no impact to pensions for deferred or pensioner members at this date and it would only be active members and new members impacted by CI going forward, and when they then become deferred or retired. This being the case, modelling, while necessary and helpful, only has a limited benefit and must be considered in context.

Comparator schemes
As the Interim Report outlines, there are no comparable CI schemes in the UK. We are aware of CI schemes in Canada, The Netherlands and in Japan. All these schemes are very different and will be different from any USS CI scheme if agreed.

We have engaged with some of the Canadian trade unions who negotiated and agreed to introduce CI and are now part of their governance arrangements. The experience of Canadian trade unions we engaged has been broadly positive and they view CI as another option to manage volatility and protect pensions. However, they also accept their schemes are very different such as a final salary scheme with higher accruals, different regulations and 50/50 governance and consensual decision-making processes, and employer contributions agreed for situations where revaluation is not awarded in full for scheme members.

These are useful comparators and have provided information on ways of working for us to consider but they are not proof of concept given the differences.

Governance and Trust
As stated above, governance is one area still to be considered in any detail. The SWG believes that the current governance arrangements would not be appropriate for any CI model and changes would be needed. We are seeking greater transparency and information sharing on decision-making with greater input from stakeholders. This is essential to build trust and ensure that scheme members have a say in the decisions that impact them. However, detailed discussions on governance have still to begin.

UCU's role
Transparency and engagement will be critical to ensuring that there is a better understanding of decisions and this could avoid future industrial action. However, as a trade union, we will be led by the decisions of our members and reserve the right to protect past, current and future pensions through the use of industrial action. To avoid such action in the future, effective and transparent decision making, employer support and catch-up mechanisms that can be readily implemented, after any CI lever is pulled and increased member benefits when the scheme is in surplus will build trust and reduce the likelihood of industrial action.

The SWG wants to continue engaging with members going forward and there will be further engagement events in the future. These will likely not take the same format and may involve longer or more interactive formats with other SWG members.