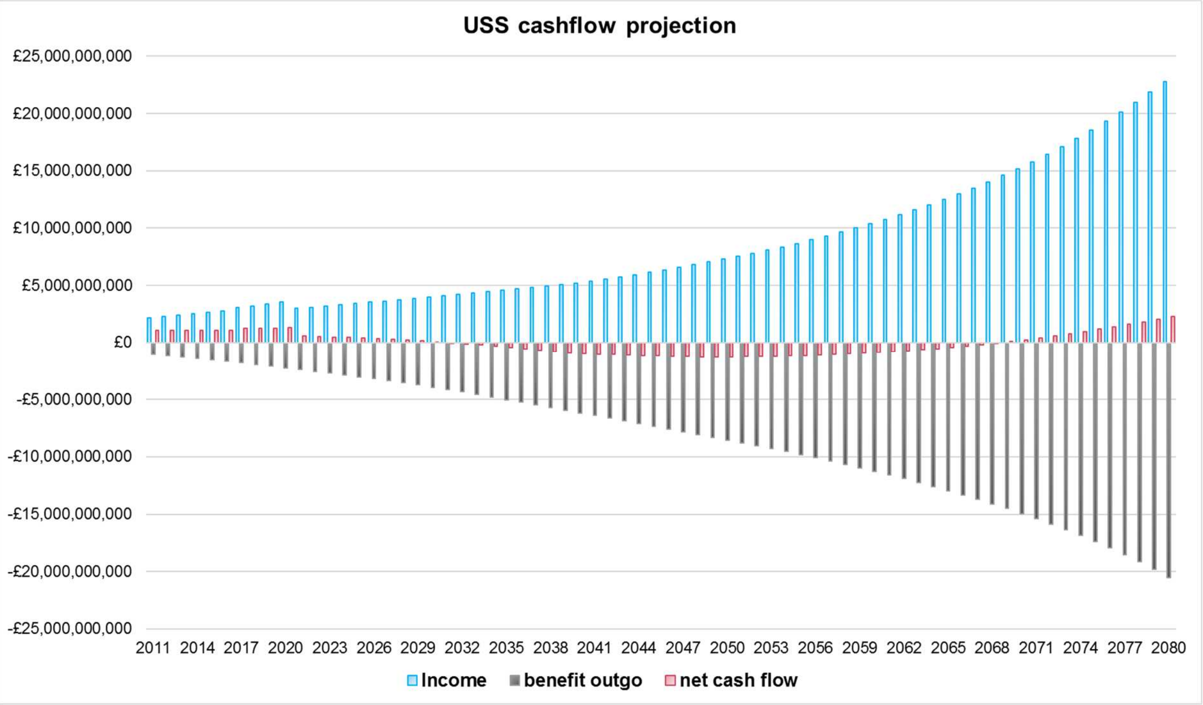
Estimated cash flows of the Universities Superannuation Scheme

At the request of UCU, we have attempted to provide a projection showing the estimated cash flow in (from asset income and contributions) and out (on benefits) of the Universities Superannuation Scheme.

It is important to note that we do not have the membership data of the USS, so our charts cannot show accurate estimates of the cash flows of the USS. What we have done is to create a set of cash flows using membership of a model scheme, which we have tailored to fit the USS valuation assumptions and results. The initial level of asset income assumed equals the rate of income shown in the USS's accounts.

One caveat to these projections is that it is difficult to allow for member options – such as exchanging cash for pension or pension for cash or retiring early. An additional new uncertainty is how members might react to the new options available in the defined contribution (dc) sphere – in particular whether members might transfer out their benefits close to retirement to a dc arrangement. So projections need to be treated with some caution.

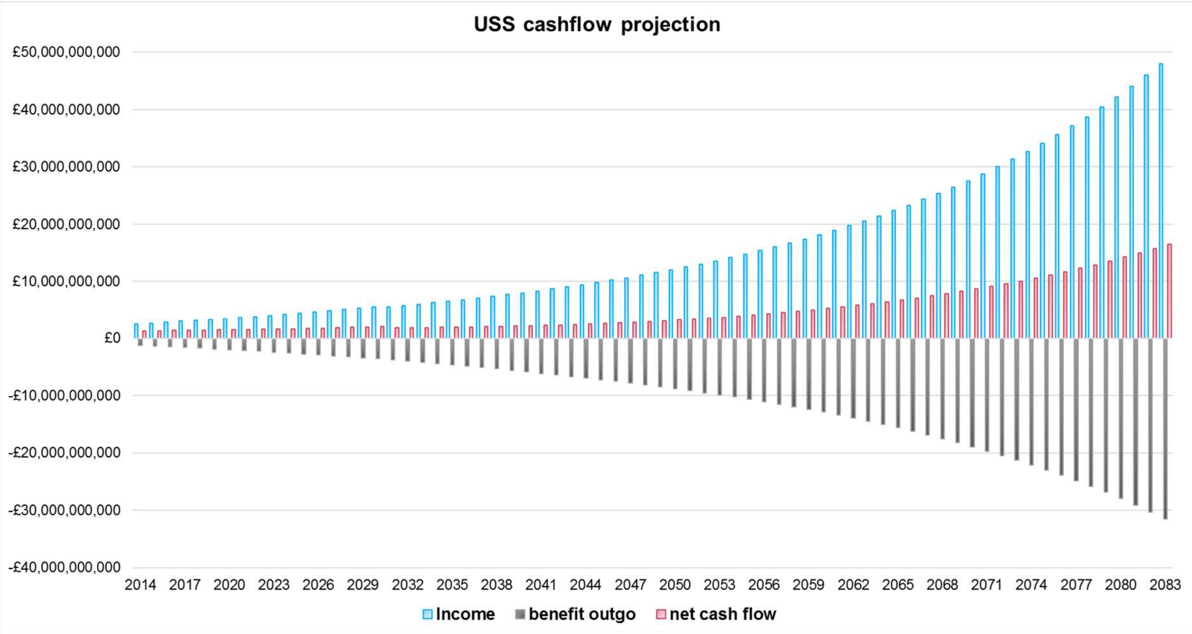
This is the cash flow chart we created in light of the 2011 valuation.



First Actuarial LLP, Trafford House, Chester Road, Manchester, M32 0RS

T: 0161 348 7400   W: www.firstactuarial.co.uk

Following the 2011 valuation, benefits for future service were reduced, but benefits for past service were unaffected. The cash flow chart shows modest negative net cash flow for a period, during which the more valuable historic benefits are being paid out but contributions for less valuable future benefits are being collected. This is the cash flow chart we have created following the results of the 2014 valuation for the db section of the scheme only:



Following the 2014 valuation:

- Benefits for future service were reduced, but the contribution rate for future service went up, and
- Benefits for past service were also reduced by removal of the link to final salary on the final salary benefits, so there are now smaller past benefits to be paid for out of the assets.

Overall then, we now project positive net cash flow at all times. The benefits being provided for by the contributions and asset income are now rather smaller, for both past and future service, than they were 3 years ago.

These charts should not be regarded as anything more than sketches of the position. However, the story which the charts tell does seem reasonable.

The 2014 chart shows a broad balance of cash flows. It does not indicate a need for investment in bonds to generate cash flow with which to pay benefits or to be available to liquidate.

It would be helpful to the forthcoming valuation exercise to include cash flow planning. We would suggest that the valuation working group asks the Trustee to provide cash flow projections as part of the work undertaken for the valuation.

Derek Benstead FIA
27 February 2017