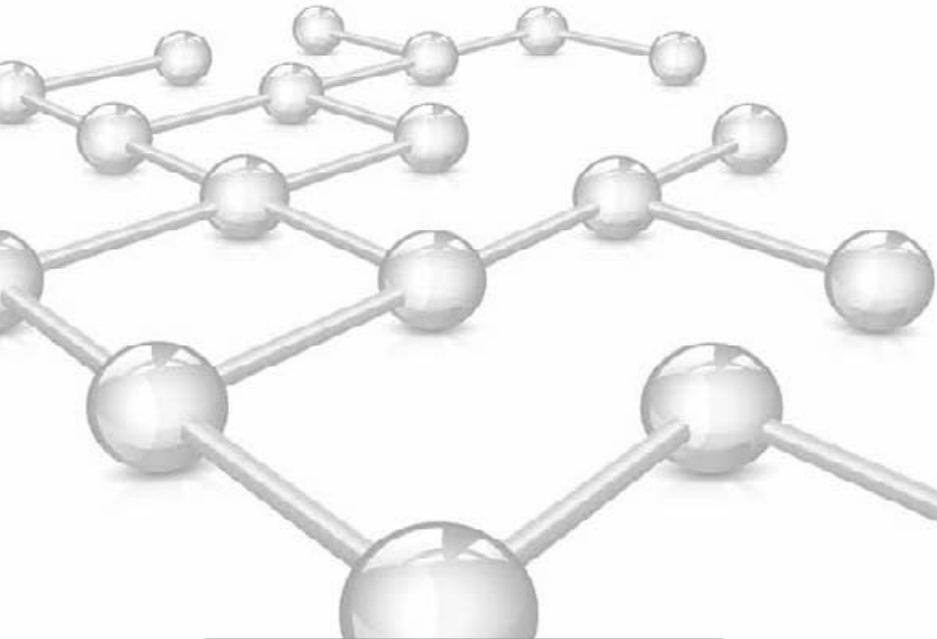


USS

UNIVERSITIES SUPERANNUATION SCHEME



Members' Annual Report

Members' Annual Report 2010

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Statement from the Chairman of USS

Sir Martin Harris



Members will know that stock markets made a strong recovery in the year which followed the global financial crisis in 2008. This was reflected in strong returns for USS and for many pension funds invested in equity markets. The fund returned 20.7% against its benchmark of 20.8% in the year to 31 December 2009, reversing much of the fall in value experienced in the previous year. Over the past five years the fund has returned 5.2% per annum.

The improvement in stock markets during the year helped to improve the scheme's funding level. As at 31 March 2010, the actuary estimated that the funding level, on the same basis used at the last valuation, was 91%, i.e. the assets in the fund amounted to 91% of the estimated liabilities. This was not as good as at the time of the last valuation in 2008 but it is clearly a significant improvement on the funding level of 74% reported last year.

This volatility in the stock markets is one of the risks to the future sustainability of USS, identified during the discussions

over the future of the scheme between the employer and member representatives that I wrote about last year. These discussions took place in a joint review group that was chaired by the independent chairman of the Joint Negotiating Committee (JNC), Sir Andrew Cubie. This group was not able to achieve an agreed outcome in the timescale it had set itself, but on 7 July 2010 the JNC, after detailed consideration, voted to accept a package of proposals that had been put forward by the employers. The board subsequently endorsed the JNC decision subject to the completion by the employers of the statutory information and consultation requirements, which apply to all affected active members and their representatives. The proposed changes are planned to be implemented from 1 April 2011.

The changes do not affect members who are already receiving a pension from USS or those entitled to deferred benefits. Active members can find more information about the changes on the USS website.

Sir Martin Harris
Chairman



Potential changes to tax relief from April 2011

The Government has proposed changes to the way in which tax relief is granted on contributions made by individuals to pension schemes in the UK.

The proposed change is that full tax relief will only be granted where the growth in value of pension benefits over a year is less than an 'annual allowance'. The annual allowance could be in the region of £30,000 to £45,000 initially. There are various ways in which the growth in value of pension benefits could be calculated, it isn't simply what you have paid in as a contribution.

This annual allowance system is already in place, but it is very generous, standing at £255,000 a year. This therefore only affects the very highest earners in the UK and to date has affected no USS members.

However, it is likely that the new proposals will affect many USS members, not just those who might consider themselves to be 'high earners'. The government is currently consulting with the pensions industry on these changes and we will provide more details when available.

Please remember that until April 2011 the current, more generous, tax relief system still applies so you might want to consider making best use of these reliefs whilst available. You could do this through either the USS added years AVC facility provided by USS, or by making extra contributions to the USS money purchase AVC, administered by Prudential. More information about AVCs can be found on page 7. Please note there are currently some limitations for those earning more than £100,000 a year.



USSonline

Last year we announced the launch of our new website at www.uss.co.uk. We're pleased to report a year of positive feedback from our members. The website is a useful resource for members with lots of information about USS with modellers, Pensions TV programmes and general pensions news. There is useful background information and links relating to the proposed changes to the scheme. The new website recently won the 'Website Design Award - Private' at the Professional Pensions Scheme of the year awards

We launched the website last year and since then have been working behind the scenes on USSonline – the second phase of the ePensions project. USSonline is almost ready to go live and will improve the way in which we interact with our institutions by enabling online processing for institution administrators and ultimately result in a faster and better service from USS.

We're always looking for ways to improve the service we offer our members and we hope that USSonline will make a big difference. We operate to strict service standards and ensure that our teams are well trained. Please let us know if you have any comments about the service you receive from us.





Stay in touch with USS

If you are a deferred or pensioner member of the scheme you will find a form (enclosed with this report) that you can use to tell us about any changes to your personal details. It's important that this information is kept up to date. If your surname has changed please also send us a certified copy of an official document supporting the change.

The image shows a form from USS (Universities Superannuation Scheme) for updating personal details. The form has a red header with the USS logo and a red button that says 'Update your details'. Below the button, there are several sections for providing information, including a section for 'If you have any other contact details for us' and a section for 'Name' with fields for 'First name', 'Middle name', and 'Surname'. There are also fields for 'Date of birth', 'Gender', and 'Address'.

If you are still paying into the scheme and you received this report from your institution then don't worry, you don't need to tell us directly about this type of change because your employer looks after that for you.

Want to know more?

This Members' Annual Report is intended to provide you with general information about the scheme and about the fund and investment performance. Further information is available from the full Report and Accounts which includes the Statement of Investment Principles, Board and Committee Reports and the report by the Auditors who have approved the financial summary of the scheme. The full Report and Accounts is available from our website at www.uss.co.uk or on request from Universities Superannuation Scheme Ltd.

State Pension Age changes

In the recent June 2010 budget, the government announced plans to accelerate the increase in State Pension Age for men and women and to scrap the default retirement age which gives employers the right to require employees to stop work at age 65. More information on the pension implications of the budget can be found at www.direct.gov.uk by searching Budget 2010.



Membership of USS

20,865 new members joined USS in the year to 31 March 2010.

In the same period, the percentage of employees eligible to join the scheme but choosing not to has reduced to 16% from 17%.

There were 391 institutions participating in the scheme.



Active
137,932



Deferred
83,201



Pensioner
46,268



Beneficiaries
9,594

Audit Commission exercise

In accordance with the Data Protection Act 1998, Universities Superannuation Scheme Ltd is required to inform you that, along with other organisations, it is taking part in the Audit Commission's National Fraud Initiative 2010/2011.

This initiative checks the data we hold against registered deaths to identify cases where pensions are still being paid despite the pensioner's death. This data matching exercise meets the requirements of the data protection law. The Audit Commission will be processing the data for this purpose only, and will comply with the data protection principles.

The main purpose for our participation is to ensure that USS benefits are paid to the correct beneficiaries. It will also assist in the identification of potential beneficiaries following the death of a deferred member. This will not affect members who are currently contributing to the scheme and is for information purposes only. You do not need to take any action.



Want to increase your **benefits**?

With restrictions to tax relief proposed by the Government from April 2011 (see page 3 for more information), you might want to consider taking advantage of the current, far more generous tax relief system, before it's too late.

If you are currently contributing to the scheme then you can, within tax limits, pay Additional Voluntary Contributions (AVCs) to increase your benefits using either the USS added years AVC or the USS money purchase AVC. There is more information and Pensions TV programmes about your AVC options on the USS website.

USS Added Years

The USS added years AVC enables you to buy additional service in USS to increase your benefits on retirement. You can get a quote of how much service you can purchase by using the added years AVC modeller on the USS website or by talking to your institution's USS pensions contact.

USS Money Purchase

The USS money purchase AVC, which is administered by Prudential, allows you to build up a fund which you could take as a tax-free cash lump sum on retirement or use either to

buy an additional annuity or additional service in USS. If you are interested in the USS money purchase AVC then you can learn more by visiting the Prudential website at www.pru.co.uk/uss or by calling their USS team on 0800 515 914 where you can speak to trained staff who will explain your AVC options. You can even join over the phone.

If you are already contributing to the Prudential AVC then you can access your account online at www.pru.co.uk/uss and follow the links to your online account where you can find information on:

- Fund values
- Viewing individual contribution/plan records
- Switching funds
- Redirecting contributions
- Changing Personal details

The first time you log in your user name and password will be the plan number U291 and your national insurance number, for example:

Username: U291TN010760F **Password:** TN010760F



Pensions increases

USS pensions in payment, deferred pensions and deferred lump sums payable from the main section are reviewed annually each April, and are increased in line with the rise in price inflation over the 12 months to the previous September.

Pensions payable from the supplementary section, which provides pensions paid following a service enhancement in the case of incapacity or death in service (this will be indicated on payslips) are increased to the extent that the Trustee Company, acting on actuarial advice, decides. Pensions from the supplementary section have been increased in the past at the same rates as those that applied to the main section.

Under the scheme's rules USS pensions are increased in the same way as 'official pensions' which includes pensions for the

NHS, Teachers and Civil Service. State retirement benefits are increased in the same manner as official pensions. Since the scheme's inception the measure of inflation has been based on the change in the Retail Prices Index (RPI) over a fixed period (currently September to September and applied the following April). The Chancellor announced in the Emergency Budget that with effect from April 2011 official pensions will be increased in line with the Consumer Prices Index (CPI), which means that the basis on which USS pensions are increased will also change. CPI is a different measure of UK price inflation which measures a slightly different spread of goods and services to RPI; for example it excludes mortgage interest and council tax. It has become the main measure of price inflation used by the Government.



Therefore, subject to confirmation by the Secretary of State for Work and Pensions when he approves the changes in October 2010, the USS pensions increase due in April 2011 to all USS pensions, including those already in payment and deferred benefits, will continue to increase in line with official pensions, but of course now reflecting the change in CPI, rather than RPI.

Additionally, as part of the proposals for change accepted by the Trustee Company, it is proposed that with effect from 1 April 2011, any pension built up in respect of service after 31 March 2011, will increase in line with CPI, but will be limited to a maximum increase of 5%. This cap will not apply to current pensions in payment and existing deferred benefits.

In periods of negative inflation (deflation) such as we experienced during 2009, pensions are not decreased, instead they remain static and no increase is applied. Members who have a Guaranteed Minimum Pension (GMP) element to their pension will have that part of their pension increased differently. More information on the way in which increases are

applied is given in the USS booklet *Payment of Retirement Benefits*, which is issued to all USS pensioners on retirement and is available from the USS website.

Pension increases are applied with effect from 21 April each year; the last five years' increases are shown below.

Year	% increase
2010	0.0*
2009	5.0
2008	3.9
2007	3.6
2006	2.7

*In periods of negative inflation pensions are not reduced but no increase is applied.



Financial Summary

Roger Gray



Following Peter Moon's retirement after 17 years at USS, I took over as Chief Investment Officer in September 2009. I was Chief Investment Officer at Hermes Fund Managers from 2006 and previously I have worked as an independent consultant, as head of asset allocation at UBS and as Chief Investment Officer at Rothschild Asset Management.

Since my appointment, we have recruited a Global Emerging Markets equities team investing across Asia, Latin America, Central and Eastern Europe, the Middle East and Africa. We are strengthening the investment risk, performance and quantitative analysis team, as well as deepening the investment strategy capability. We have also recruited additional staff to both our compliance and legal departments to reflect the growth of our London Investment Office and its range of activities, as well as the increased regulatory scrutiny over all financial services firms.

We continue to build towards the fund's 20% target allocation to alternative assets such as private equities and infrastructure. At the end of 2009, alternatives accounted for almost 10% of the

fund. Absolute return (hedge funds) was a key area of team building during 2009, with the first allocations to individual funds being made from September. This will remain an area of focus during 2010. Selecting the alternative asset managers internally offers USS a number of advantages over using third party fund of funds providers – including lower costs, greater transparency and tailoring to USS's specific and evolving requirements.

From the end of 2009, a dynamic element was introduced into the fund's Strategic Asset Allocation (SAA) policy, linking the funding ratio to its allocation to risk reducing assets. The Investment Committee's full SAA recommendations were approved by the Board in March 2010. As a result of these, the fund's actual and prospective allocation to fixed income and emerging market equities have been somewhat increased. The SAA seeks an appropriate balance between achieving targeted long-term returns and the management of risk. This involves diversification of specific asset risks. Additionally, the SAA is expected to evolve over time with a gradual increase in the proportion of risk-reducing assets.

Roger Gray
Chief Investment Officer



Responsible Investment

It has been ten years since USS allocated specific resources to Responsible Investment (RI). Over that period we have witnessed an increase in the recognition that environmental, social and governance issues (ESG) can have a material effect – either positive or negative – on the performance of investments in public equities and other asset classes.

From the collapse of Enron to the BP oil spill in the Gulf of Mexico, and from the financial crisis to a changing climate, extra financial issues are increasingly relevant to pension funds and their investments.

In recognition of this fact USS has, over the years, developed an approach to RI that fits with the fiduciary responsibilities and the unique structure of USS as an in-house fund manager. This approach has three strands:

- Integration of ESG factors into investment decision-making processes, where the issues can impact the value of assets over an investment period.
- Engagement with companies and other asset classes where the issues concerned may not be necessarily deemed as material by the market but USS considers relevant over the medium to long-term.



- Engagement with policy makers at a global level and other market participants, as they impact how the markets perceive ESG issues.

Regulatory developments

This year, we have seen an attempt by the UK regulators and government to introduce measures, following the financial crisis, that are designed to encourage shareholders to both be more active owners of companies in which they invest and to improve the effectiveness of shareholder engagement. USS has and continues to play an active role in the various consultation exercises that are being undertaken. USS was one of a very few pension funds to participate in the consultation processes



Responsible Investment continued

where we sought to leverage our unique position as a long-term and universal investor that is unconflicted with no links to financial institutions.

We have been broadly supportive of most of the reviews and believe that we are currently well positioned to meet the new requirements if and when they are implemented. Our key messages to the Government and regulators on engagement have focused on the need to strike a delicate balance between being overly prescriptive and allowing for appropriate flexibility which should encourage best practice and avoid box-ticking conformity.

Corporate engagements

The fund continues to undertake integrated engagements with companies, where the RI team works in conjunction with the internal portfolio managers to address material strategic, operational, financial and governance issues in our investments. This approach has been successful at both changing corporate practices and structures, and in ensuring that the fund's managers have the best possible information on which to base their investment decisions.

Alternative Investments

USS continues to play a leading role in addressing RI issues in alternative assets. As the fund's allocation moves towards its target of 20%, it has been essential to set in place the appropriate processes to integrate RI into manager selection and oversight. Building on the successful approach USS has adopted to address these issues in Private Equity, the fund has also established a groundbreaking approach to focus on governance structures of potential hedge fund managers and to assess their approach towards ESG related issues in their investments, when material.

Oil Sands

Given the broad nature of USS's investments, USS inevitably has investments in oil companies operating in many parts of the world. This includes exposure to the vast oil sand deposits in Alberta, Canada, where many oil companies have reserves. Given the high profile nature of oil sands, and their considerable environmental impacts, USS has spent some time looking at the implications of oil sand operations, and their implications for our investments.



These activities have included engaging with companies, non-governmental organisations and policy makers regarding the implications of oil sand projects and how they are managed. This included a site visit to Royal Dutch Shell's oil sand mining operation in Alberta in November 2009, a trip which included meetings with a range of other oil companies and stakeholders in the resource. USS believes there are two linked but separate issues at play: management of the actual 'on the ground' oil sand operations by oil companies, and the issue of climate change (as oil sands are more carbon intensive and therefore have a higher climate change related impact than traditional oil). As a fund, USS therefore runs parallel strategies, both engaging with companies to ensure that they manage their assets well, and also engaging with policy makers (including the premier of Alberta) to ensure that appropriate global climate change policies are developed.

Other areas of activity and points of note in 2009/10 include:

- The launch of a series of sector reports looking at how companies and investors should deal with the need to adapt to a changing climate.
- A USS director, Howard Jacobs was re-elected to the board of the UN backed Principles for Responsible Investment by other pension funds.



- USS, in collaboration with APG and PGGM, the two large Dutch pension fund managers, undertook a global survey of property companies and funds to assess and benchmark how well they were incorporating environmental issues into their management of property assets.
- USS joined with RailPen to develop a voting and engagement platform to improve the efficiency and effectiveness of the fund's UK voting activities.

Pension Fund of the Year Award

The fund was also awarded the Pension Fund of the Year – Best Use of RI in 2009 by Professional Pensions. This is the third year in a row that USS has been awarded this accolade.



Income and expenditure

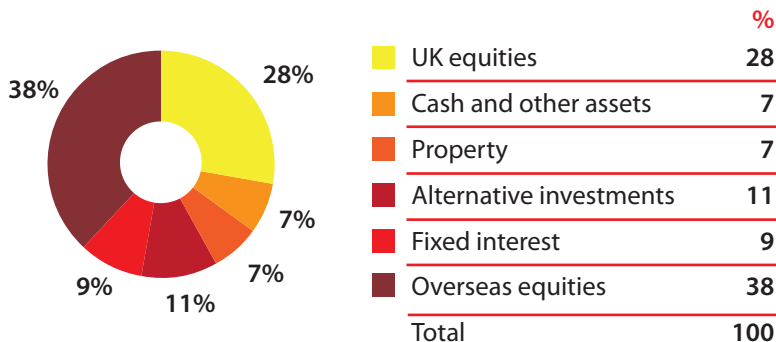
USS fund account for year ended 31 March 2010

	2010 £m		£m
Fund at start of year	21,693.4	Returns on investments	
Contributions and Benefits		Investment income	767.8
Contributions from members and institutions	1,338.5	Change in market value of investments	7,546.7
Premature retirement scheme receipts	24.3	Investment management expenses	(35.0)
Transfers-in from other schemes	156.1	Net returns on investments	8,279.5
Total member income	1,518.9	Net increase in the fund during the year	8,504.5
		Fund at the end of the year	30,197.9
Expenditure for the year			
Benefits paid	1,209.3		
Refunds	67.7		
Administration costs	16.9		
Total	1,293.9		
Member income less expenditure	225.0		

$$\begin{array}{r}
 \text{Fund at} \\
 \text{start of year} \\
 \text{£21,693.4m}
 \end{array}
 +
 \begin{array}{r}
 \text{Income} \\
 \text{£1,518.9m}
 \end{array}
 -
 \begin{array}{r}
 \text{Expenditure} \\
 \text{£1,293.9m}
 \end{array}
 +
 \begin{array}{r}
 \text{Investment} \\
 \text{return} \\
 \text{£8,279.5m}
 \end{array}
 =
 \begin{array}{r}
 \text{Fund at} \\
 \text{end of year} \\
 \text{£30,197.9m}
 \end{array}$$



Distribution of assets



The value of the fund increased from £21.4 billion at 31 March 2009 to £29.8 billion at 31 March 2010 (excluding money purchase Additional Voluntary Contribution investments held with the Prudential). The distribution of assets at that date is shown above. Included within these figures is £3,331 million of alternative assets.

The fund's investments are divided between those under the direct control of Universities Superannuation Scheme Limited and those managed externally. The majority of the assets are currently managed by the in-house investment team at the London Investment Office (LIO). In alternative assets USS employs a number of external

managers that are selected and monitored by the LIO. A separate fund designed to match the performance of the FTSE All Share Index is run in-house on advice provided by HSBC Quantitative Techniques. The balance of the fund is managed by Capital International under a specialist global equity mandate.

The fund's property portfolio investments are managed using three specialist property advisors: Jones Lang LaSalle, DTZ and King Sturge. Each advisor covers a different part of the portfolio and they are remunerated primarily through a management fee and, in some cases, they may benefit from transaction fees.

The fund continues to diversify into alternative assets. The alternative assets portfolio now accounts for 11% of the fund. The aim over the medium term is to hold 20% in this asset class, embracing a wide spectrum of alternative assets including private equity, absolute returns and commodities.

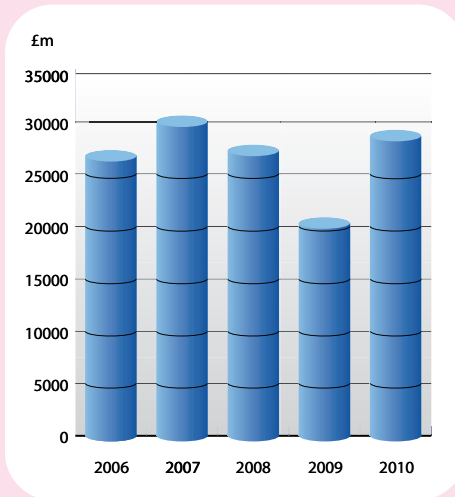


Investment performance

Strong investment returns in 2009 have seen the fund's position recover from the adverse market conditions experienced in 2008.

As a result, the five-year returns now exceed both the Retail Prices Index (RPI) and average earnings, although the 10-year returns are slightly below both

measures. In the calendar year 2009 the value of the fund increased by 20.7% to £28.2 billion against a benchmark (target) of 20.8%. Over the last five years the fund has returned 5.2% a year, underperforming the benchmark by 0.4%.



Largest listed and bond equity holdings

	£m	Value %
Royal Dutch Shell	630.5	2.1
HSBC Holdings	597.2	2.0
BP*	587.4	1.9
Vodafone Group	442.6	1.5
BHP Billiton	374.7	1.2
Glaxosmithkline	356.0	1.2
Rio Tinto	329.1	1.1
UK Treasury 5% 07/03/2025	278.1	0.9
Barclays	237.6	0.8
Astrazeneca	213.9	0.7

*The valuation of BP is at 31 March 2010. The shares fell by 49% in the second calendar quarter, during which period the fund managers increased the number of shares held – giving an end June exposure of £340m (1.2% of the fund).

A full list of all the fund's holdings along with corporate governance issues is available from the USS website.



Further information

Active members should contact their employing institution with any enquiries relating to their benefits.

Deferred members, pensioners and beneficiaries should contact us directly:

Universities Superannuation Scheme Ltd,
Royal Liver Building, Liverpool L3 1PY
t: 0151 227 4711 (Local rate 0845 068 1110)
f: 0151 236 3173
w: www.uss.co.uk

The Pensions Advisory Service (TPAS) and the Pensions Ombudsman can be contacted at:
11 Belgrave Road, London, SW1V 1RB

TPAS:

t: 0845 601 2923
e: enquiries@pensionsadvisoryservice.org.uk
w: www.pensionsadvisoryservice.org.uk

The Pensions Ombudsman:

t: 020 7630 2200
e: enquiries@pensions-ombudsman.org.uk
w: www.pensions-ombudsman.org.uk





Management of the scheme

The directors of the company during the year were as follows:

Sir Martin Harris (chairman), Professor John Bull (deputy chairman), Professor Glynis Breakwell (from 1 September 2009), Michael G Butcher, Joseph Devlin, Professor David Eastwood, Steve Egan (from 1 October 2009), David Guppy, Virginia Holmes, Howard Jacobs, David McDonnell, Lady Merrison (to 30 September 2009), Sir Muir Russell (to 31 August 2009), JWD Trythall (from 1 October 2009), Baroness Warwick of Undercliffe (to 31 August 2009).

The Principal Officers and Advisors of Universities Superannuation Scheme Ltd at 1 August 2010:

Officers

Chief Executive

T H Merchant

Chief Investment Officer

R Gray

Chief Financial Officer

C S Hunter

Pensions Policy Manager

B Mulkern

Pensions Operations Manager

B Steventon

Company Secretary

I M Sherlock

Communications Manager

C G Busby

Head of IT

S Grady

Chief Administrative Officer

A R Little

Advisors

Actuary

E S Topper of Mercer, Clarence House,
Clarence Street, Manchester, M2 4DW

Solicitors

DLA Piper, India Buildings, Liverpool,
L2 0NH

Auditors

KPMG LLP, 1 The Embankment, Leeds,
LS1 4DW

Bankers

Barclays Bank Plc, 7th Floor, 1 Marsden
Street, Manchester, M2 1HW

Investment Consultants

Mercer

Custodians

JP Morgan PLC, Bank of New York Mellon

Investment Performance Measurement

Investment Property Databank Limited,
HSBC

Property Advisors

Jones Lang La Salle, DTZ, King Sturge

Summary Funding Statement



I am pleased to provide you with the year's Summary Funding Statement, which is designed to let you know about the current financial position of USS. It is a snapshot of the funding of the scheme using information from the last triennial valuation, which looked at the scheme's assets and liabilities at 31 March 2008, updated to take into account the changes that have taken place since then. The statement contains some key questions and answers, which I hope you will find useful.

Tom Merchant

Chief Executive

Universities Superannuation Scheme Ltd

How does USS work?

USS aims to deliver a defined set of benefits, based on service and salary, as set out in the scheme rules. The financing of these benefits is provided by the sponsoring institutions and the scheme members. Contributions are collected from active members (6.35% of salary) and participating employers (14% of salary increased to 16% from 1 October 2009). These contributions are paid into the USS fund, and these contributions, together with the investment returns achieved on the fund's assets, are used to finance the payment of scheme benefits.

How do we measure the financial position of the scheme?

There are always uncertainties inherent in the funding of a final salary scheme. In view of this the finances of the scheme are

checked regularly to see how well the fund is shaping up. The key driver is how well the investments have performed relative to the growth of the liabilities (ie the benefits payable). The scheme actuary carries out a valuation every three years. He compares the value of the scheme's assets to its liabilities using several approaches, as required by regulations. The latest valuation, as at 31 March 2008, was the first completed on a new basis introduced by the Government in the Pensions Act 2004. The Act requires schemes to 'have sufficient and appropriate assets to cover its technical provisions'. The term "technical provisions" is another name for the scheme's liabilities (ie the promised benefits that have been earned by members in the scheme), calculated on a "scheme-specific" basis. It is for the board of the Trustee Company, in consultation with the participating employers, to decide how to calculate the technical provisions of USS.

What was the position of the scheme on the technical provisions basis after the latest valuation as at 31 March 2008?

Assets	£28.8 billion
Amount needed to pay benefits	£28.1 billion
Excess	£0.7 billion
Funding level	103%



Summary Funding Statement continued



The actuary also has to calculate the scheme's funding position as if the scheme had to be wound up with all the liabilities secured by purchasing pensions from an insurance company.

This is called the "buy-out" basis and is, as you might expect, a very expensive way to provide your pensions. The funding level on this basis was 79%. The fact that we have shown the position if the scheme were wound up does not mean that consideration is being given to winding up the scheme. It is just another piece of information that we hope will help you understand the financial security of your benefits.

There are various ways to approach the calculation of scheme liabilities, and historically the board has applied a further (somewhat tougher) standard for measuring the financial position of USS compared to the standard required under the technical provisions. In calculating the value of the scheme's liabilities, the scheme actuary must make a number of assumptions about the financial and demographic factors that have an effect on USS. These assumptions, which are explained in greater detail in the valuation report, are critical to the valuation process.

As you might imagine one of the most important factors is the estimate of future investment returns for the fund. In calculating the scheme's technical provisions the scheme

actuary has assumed that the long-term investment returns, for the fund overall, will be 2% above the return that could be achieved on Government fixed income loans (commonly known as gilts).

If, instead of assuming a 2% return above gilts, we apply the tougher standard that we have historically used, and assume that we will achieve investment returns equivalent to the whole of the fund being invested in gilts, the funding level of USS was 71% as at 31 March 2008.

For the sake of completeness, the scheme actuary also calculated USS's funding position at 31 March 2008 using the accounting standard FRS17, which is typically used by companies to express their pension liabilities on the accounting balance sheet, and the funding level used by the Pension Protection Fund (PPF) in calculating the scheme's liabilities on its prescribed basis. The figures were 104% (FRS 17) and 107% (PPF).

What is the trustee board's funding plan?

Based on the valuation results the board is confident that its long-term funding plan remains appropriate, and following the valuation did not require the participating employers to pay any extra contributions to meet the past service liabilities of the scheme. USS has a diversified portfolio of investments and has continued its move into alternative assets including private

equity, absolute return and commodities. Also the fund continues to have a positive cash flow (because the fund receives more in contributions in a year than it pays out in benefits), which leaves it in a much stronger position relative to many other schemes in the UK.

However, the cost of providing pensions continues to rise, partly because members are living longer. Consequently the employers' contribution rate was increased from 14% to 16% effective from 1 October 2009, to provide for the increased cost of providing future benefits.

A Joint Review Group (JRG) was established in 2009 to look at whether USS continues to offer benefits that – whilst being attractive to members – are affordable. The JRG was made up of representatives of employers within the sector, and of scheme members (the latter represented by the University and College Union) and an independent chairman, Sir Andrew Cubie. Disappointingly the JRG reported in April 2010 that it could not reach any agreement on changes to USS.

The employers and UCU then submitted separate proposals to the Joint Negotiating Committee, which is similarly set-up with equal representation from employers and members and is also chaired by Sir Andrew, who has a casting vote. The trustee board continues to support the review and wishes to see a satisfactory outcome.

More information about the policies of the trustee board can be found in the Statement of Funding Principles and the Statement of Investment Principles, available from the USS website.

What has happened since the valuation results?

World stock markets fell dramatically shortly before the publication of last year's Summary Funding Statement reaching the lowest point in March 2009. The markets made a steady recovery up to 31 March 2010 and consequently the value of the scheme's assets at 31 March 2010, at £29.8 billion, is much higher than last year (£21.4 billion) although the funding level is still lower than at the time of the valuation because the liabilities have increased, in part due to low interest rates. The comparable funding levels are set out in the following table:

Funding basis	31 March 2008	31 March 2009	31 March 2010
Scheme-specific basis	103%	75%	91%
Historic gilts basis	71%	52%	63%
FRS 17	104%	87%	80%
PPF	107%	70%	112%
Buy-out basis	79%	47%	57%



Summary Funding Statement continued

The volatility in the value of the scheme's assets is of course a matter of concern for the board but USS is a long-term investor and is able to look ahead 15, or 20 years, because of its strong employer covenant and positive cash flow. The board carried out a review of its investment strategy following the completion of the actuarial valuation and has decided to reduce the percentage of the fund held in return seeking assets such as company shares and increase its holding of risk reducing assets such as gilts. However, this change can only take place when market conditions allow, and can only be undertaken over a period of many years, given the size of USS and the implications for the funding of the scheme of such a shift. This is a long-term objective and is explained further in the Statement of Investment Principles.

What happens if the scheme is wound-up and there is not enough money to pay for all my benefits?

The Government has set up the Pension Protection Fund (PPF) to pay benefits to members in the event that employers are unable to meet their pension commitments and they become insolvent. USS is a last-man standing scheme for PPF purposes, which means that it would only become eligible for the PPF if all (or in practice, the vast majority) of employers within the higher education sector were to become insolvent. Clearly, this is a highly unlikely scenario.

However, if such circumstances were ever to occur, the pension you would receive from the PPF may be less than the full benefit you have earned in the scheme, depending on your age and when your benefits are earned.

Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.



Where can I get more information?

If you have any other questions, or would like any more information, please contact the person at your employing institution who deals with USS matters. A list of documents, which provide further information, is opposite. If you would like a copy of any of these documents please refer to the USS website (www.uss.co.uk) or contact our Liverpool office. If you require advice about any aspect of USS you should consult a professional adviser.

Additional documents available on request

Statement of Investment Principles

This explains how we invest the money paid into the scheme.

Statement of Funding Principles

This sets out the policies of the trustee board for securing that the funding objectives are met and was first published as part of the Actuarial Valuation Report as at 31 March 2008.

Investment Policy Implementation Document

This is a working document that contains detailed operational information about the investment policy. As it is frequently changed, this document is not available on the USS website but can be provided on request.

Schedule of Contributions

This shows how much money is being paid into the scheme by the institutions and the contributing members, and includes a certificate from the actuary showing that it is sufficient.

Report and Accounts for year ended 31 March 2010

This shows the scheme's income and expenditure in 2009/10.

Actuarial Valuation Report as at 31 March 2008

This contains the details of the actuary's check of the scheme's financial position as at 31 March 2008.

Guide for USS members

This is the members' handbook for the scheme. You should have been given a copy when you joined the scheme, but you can get another copy from your employer.

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

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