

Retirement

General

If you cease employment in a post which makes you eligible to be a member of USS on or after reaching age 50 (55 from 6 April 2010) whether you resigned, were dismissed or employment ended due to the passing of time and you do not take up another post which would allow you to remain in USS you may be entitled to receive a pension and lump sum subject to the further conditions set out below. In addition, if you cease employment due to an incapacity at any age before age 65, you may be entitled to a pension and lump sum. Factsheet ten explains this benefit in detail.

When can I receive my retirement benefits from USS?

The normal retirement age in USS is 65. In practice very few members retire on their 65th birthday. There are three circumstances, in addition to incapacity retirement, in which you may be eligible to receive your retirement benefits. These are:

Normal retirement

This is the situation when, being over age 60, you retire in accordance with the terms of your contract of employment (Contractual Pension Age) or, if earlier, at age 65.

You do not need the consent of your employer or of Universities Superannuation Scheme Ltd (the Trustee Company) to retire and receive your benefits. You will receive a pension of 1/80th of your pensionable salary (calculated at the date of your retirement) for each year of pensionable service. In addition you will receive a tax-free lump sum equal to three times your annual pension.

You also have the option to take more or less tax-free cash (subject to an upper limit) and a correspondingly lower or higher annual pension.

Early retirement

If you are age 50 (55 from 6 April 2010) or over and have pensionable service (at its calendar length) of at least five years in aggregate and:

- are made redundant, or
- your employment is terminated in the interests of the efficient exercise of the institution's functions.

You can receive an immediate unreduced pension and lump sum, based on your pensionable service, calculated in the same way as for normal retirement.

Note: This provision would not apply if your employer had good cause to dismiss you.

Your employer must pay the cost of USS paying these retirement benefits early, this is called the 'Early Retirement Funding Charge'. This charge represents the cost of enhancing your pension to its full value.

In addition, even if your contractual retirement age is greater than age 60, your employer can give its consent for you to retire at any time from age 60. Your employer must not unreasonably withhold its consent in these circumstances.

Exceptionally, where your employer does not consent to your early retirement, if you have been in active membership for at least five years in aggregate and are age 60 or over you can receive an immediate pension but if you retire before age 63 years and 6 months (subject to actuarial advice) part of your pension may be reduced by an early retirement factor determined on actuarial advice. Further details of this calculation can be obtained from the Trustee Company.

If your benefits are in deferred status, you may also ask for them to be paid from age 50 (55 for retirements after April 2010). Payment is at the discretion of the Trustee Company and all benefits would be subject to reduction for early payment. See factsheet eight.

New minimum retirement age of 55

From April 2010, unless you are retiring due to incapacity, the earliest age you will be able to access your pension will be 55. This affects most pension schemes in the UK, including USS.

There are exceptions to this.

- If you are aged 50 or more with 5 or more years' service and are made redundant AND you have been paying into USS continuously since 5 April 2006, you will still be entitled to access your pension from age 50 and that pension will be calculated using your service and your pensionable salary at that point.
- If you left the scheme on or before 5 April 2006 aged 50 or more with five or more years' service, and either left at the request of the employer or were made redundant you can still receive your pension from age 50.
- If you left the scheme on or after 6 April 2006 aged 50 or more with five or more years' service, and were made redundant you can still receive your pension from age 50.

Please note these exceptions only apply if you have been made redundant as defined in the rules of USS.

Late retirement

You may, with the agreement of your employer, remain in service after age 65.

If you cease contributions at age 65 you will receive on your retirement a pension and lump sum equal to the benefits you would have received at age 65 but increased by 1/2% for each complete month from 65 to your actual retirement date.

Differences for members aged 65 or over before 1 December 2006

If you were in active membership and over age 65 before 1 December 2006 the calculation of your benefits is slightly different, as follows:

1. In respect of service up to age 65

Benefits are based upon pensionable salary as at age 65 plus the rise in Retail Price Inflation (RPI) from age 65 until date of retirement. In addition, the benefits accrued up to age 65 are then also increased by 1/2% for each complete month that retirement is later than age 65.

2. In respect of service since age 65 until 1 December 2006

Benefits are based upon pensionable salary as at age 65, plus the rise in RPI from age 65 to actual retirement.

3. In respect of service after 1 December 2006

The last tranche of benefit is based upon pensionable salary as at the actual retirement date.

If you and your employer continued to contribute after age 65 (called continuation contributions) you would continue to build up pensionable service. When you retire your pension is calculated based on your total pensionable service and using your pensionable salary calculated to your actual retirement date. In addition, benefits built up until age 65 are increased by 1/2% for each month later than age 65.

If you contribute when you are 65 or over, but your employer does not, the pensionable service built up from your 65th birthday will be reduced to 25% of what it would otherwise have been.

Compensation for early retirement

Your employer has the option to purchase additional years of pensionable service in order to compensate you for the loss of some or all of the pension benefits you would suffer if you were to retire early.

Your employer must decide whether you should receive compensation and, if so, how much. You should contact your employer if you require further information as to whether you would be eligible.

Pensionable service bought by AVCs

If you retire before you have completed the term of your monthly AVC contract, ie up to your proposed retirement date (normally age 65), you will be credited with a proportion of the service which you contracted to buy, as follows:

$$\left(\frac{\text{period for which AVCs were actually paid}}{\text{period for which AVCs would have been payable until proposed retirement date}} \right) \times \text{pensionable service that would have been bought by proposed retirement date}$$

If you bought additional pensionable service by lump sum AVC and retire before the proposed retirement date you will be credited with the full amount of pensionable service, unless the lump sum AVC was paid less than 12 months before retirement.

Additionally, the benefits will be reduced by an early retirement factor (whether or not the principal scheme benefits are reduced). This early retirement reduction does not apply to monthly added years AVC contracts that started before April 2006.

Money Purchase AVCs

If you have contributed to the money purchase AVC, invested with Prudential, you will have a number of options when you retire.

You can use the fund to buy a pension (annuity) from Prudential or you could buy an annuity from another provider under the 'open market' option.

Additionally, you may be able to convert your money purchase AVC fund to USS service, at the point of retirement. This service would provide you with additional USS pension and lump sum. The additional USS pension would be payable for your life, would continue to your spouse/civil partner/dependant on your death at the rate of 50% and would increase in payment in line with the increase in the Retail Prices Index. You can obtain more details on this option from the pensions administrator at your institution, also use the 'Prudential Conversion Tool' at the USS website (www.uss.co.uk) to obtain a quotation.

Importantly, since 6 April 2006, your money purchase AVC fund can be taken as tax-free cash. You are allowed to take up to 25% of the capital value of your benefits (including the USS money purchase AVC) as tax-free cash. You could opt to take your entire USS money purchase AVC fund as cash, take less cash from the main scheme and receive a higher USS pension. Tax regulations may change; you cannot therefore altogether guarantee that you will be able to take all or part of your money purchase AVC fund as tax-free cash when you retire. Full details will be provided on retirement.

You should consider all your options and take advice as necessary as to which is the best option for your own circumstances.



Early payment of benefits transferred to USS

Transfer values agreed before 1 April 2009

Benefit for any service transferred to USS may be actuarially reduced, in certain circumstances, in the event of your early retirement before age 60, other than on grounds of ill-health.

This reduction applies:

- If the transfer payment is received by USS within one year of you joining the scheme then the transferred in service will be reduced if you retire with less than seven years active membership since joining.
OR
- If the payment is received by USS more than one year after joining then the transferred in service will be reduced if you retire with less than seven years active membership since the payment had been received (although a period of six months is discounted for administrative time taken to complete the transfer).

This condition applies to all transfer quotations. The reduction would be applied only to the benefit for the service transferred in, irrespective of whether or not the remainder of your USS pension has been reduced for early payment.

If you leave the scheme and choose the option of deferred benefits you have a right to have your deferred benefits brought into payment from age 60.

Your pension, including any attributable to service transferred-in, may be reduced. Please refer to factsheet eight for more details.

Transfer values agreed on or after 1 April 2009

If you agreed a transfer-in to USS on or after 1 April 2009, the benefits granted will be payable in full from age 65. If you draw these benefits early, except in the case of incapacity retirement, the benefits in respect of the transfer-in will be reduced for the years and days earlier than age 65. This also applies if you leave the scheme early and then decide to draw your benefits before age 65.

The exception for transfers held by the scheme for more than seven years applying to transfers agreed before 1 April 2009 does not apply to transfers agreed after 1 April 2009.

Pension increases

Your pension will be increased annually in the same way as official pensions in the public sector schemes. Increases are the same as the rise in Retail Price Index over the year. To be eligible for the increase you normally have to be 55 years of age on or before the 21st of the month in which the increase is effective (usually April). If you are under age 55 your pension will be increased from the first pension payment following your 55th birthday. Your first increase will be based on the aggregate of those annual increases awarded since your retirement. Details of the exceptions and more information about pension increases are contained in a separate booklet entitled 'Payment of retirement benefits'.

Limits to tax-privileged pensions and lump sums

HM Revenue & Customs (HMRC) limit the amount of tax-privileged benefits you can receive from a UK pension scheme. They do this by imposing a maximum allowance on the maximum amount of pension savings called the Lifetime Allowance (LTA) and also an allowance for the maximum you are allowed to take as a tax-free lump sum on retirement.

You will be advised of the maximum tax-free cash at retirement and more details are given in this factsheet.

Since April 2006 it has been the responsibility of each individual member to check whether their 'total' retirement savings (i.e. USS plus any other retirement benefits) exceed this LTA. To calculate the LTA value of your potential USS pension on the statutory basis multiply your expected pension by 20 and add on 3 times the value of your pension as tax-free cash (assuming you opt for the standard retirement package). So, if you're expecting a pension of £10,000 pa plus £30,000 as tax-free cash the LTA value would be £230,000. Alternatively you can use the benefit modeller on the USS website (www.uss.co.uk) to obtain this figure or Factsheet twenty-four, available from the website or your employer.

However, the value of most members' retirement benefits will be nowhere near the maximum possible as the LTA allowance is substantial (£1.75 million at time of printing). If you do exceed the LTA value applicable when you retire, then the value of your pension can be reduced in order to meet tax at 25% on the excess over the LTA of your pension's capital value (as determined on the statutory basis). Periodic payments of the remaining pension will of course be subject to PAYE: see below. Alternatively, the excess may be taken as a lump sum and taxed at 55%. You will have a responsibility to report the value of your benefits on retirement to HM Revenue & Customs and the LTA value of your USS benefits will be advised to you at the point of your retirement.

Accurate retirement benefit calculations cannot be done until shortly before you retire but you can obtain a quotation of your retirement benefits from USS that will indicate the lifetime allowance value of your benefits.

Working after retirement

In order to qualify for a pension you must terminate your current pensionable employment. Reaching age 65, or achieving 40 years' service, does not automatically make you eligible for a pension if you haven't stopped working.

You would not be deemed to have retired if you intend to commence another job with your current employer, or with any other employer that participates in USS, that is pensionable in USS. If however, after you have retired you are subsequently offered new employment that is pensionable in USS you can accept that job but you cannot rejoin the scheme, unless you are in receipt of a non-enhanced partial incapacity pension; in this situation contact USS for further information.

You should note that your total income, including your pension, will be assessed for income tax.

If you have retired on the grounds of incapacity please note that the rules of USS provide that USS may either:

(i) withdraw or suspend that pension for periods up to normal retirement age if USS determines that you are no longer suffering from incapacity; or

(ii) withdraw an enhanced incapacity pension and grant a non-enhanced incapacity pension if USS determines that you are suffering from partial incapacity and not total incapacity.

If at any time you consider the above applies to you please inform USS in writing.

Lump sum and pension options

The 'standard' package of benefits from USS is a pension of 1/80th of your pensionable salary for each year of service plus a lump sum of three times that pension.

All members can take less, or in fact no cash, and receive a higher pension. Additionally, from April 2006 HM Revenue & Customs increased the limit on the amount of tax-free cash that can be drawn from an approved pension scheme like USS.

This new tax-free cash limit is 25% of the lifetime allowance (LTA) value of your pension. This lifetime allowance includes the value of all your pension benefits being drawn on the same day, not just USS. As an estimate this new tax-free cash limit will, on average, be in the region of 5.75 times (varying with age and gender) the standard 1/80ths USS pension for most members.

All members may, if they wish, receive a tax-free lump sum of up to this new limit and the maximum amount will be provided in your retirement quotation, or please refer to the benefit modeller on the USS website (www.uss.co.uk) or Factsheet twenty-four, available from the website or your employer.

Deductions from benefits

If you have been credited with pensionable service in USS in respect of service either before joining USS (other than as a result of a transfer payment) or in respect of an earlier period of membership of USS, for which you received a refund of contributions, any amounts still due to USS at the date of your retirement will be deducted with interest from your retirement lump sum or, where appropriate, from your pension. This excludes benefits from overseas schemes and surrendered FSSU policies.

It may be possible to pay some or all of this amount to USS shortly before you retire and claim tax relief up to the maximum allowed. If you wish to investigate this option you should ask for a quotation of the cost shortly before you are due to retire.

If you contributed to the State Earnings Related Pension Scheme (SERPS) during a period of service with which you have been credited in USS (eg whilst a member of FSSU during any time from 6 April 1978 to 5 April 1980), a deduction will be made from your USS pension commencing from the date of your retirement or, if later, the date you reach state pension age. The amount of the deduction will be equivalent to the amount of additional pension which you earned in SERPS during the period of service for which you were given credit in USS and which you will be paid directly by the Department of Work and Pensions. The exact amount of this deduction cannot be calculated until the beginning of the tax year in which you reach state pension age because the amount is revalued each year. The Trustee Company can, however, calculate the current value on request.

Small 'Trivial' pensions

Where your pension from USS is very small, it may be possible in some circumstances to 'fully commute' this benefit. In other words you could receive a one-off lump sum payment rather than the small pension income. You will be advised if this is an option for you.

Payment of Benefits

Retirement lump sums

Your retirement lump sum is due on the first day following your date of retirement.

You may choose either to receive a cheque posted to your home address, which will be posted in time for you to receive it on the due day, or to have the amount transferred by bank giro to a nominated bank or building society account. Please note that it will take several working days for a payment to be cleared through your account.

Pension payments

USS pensions are paid monthly to either a bank or a building society account through the Bankers Automated Clearing Service (BACS) which is a computerised money transfer system. Each instalment will be equal to 1/12th of your annual rate of gross pension unless you retire on a date other than the last day of a month when the first instalment of pension will be calculated proportionately.

Your first pension payment will be paid on the 21st of the month following retirement. It will include a proportionate payment covering the period from the first day of retirement to the last day of the month of retirement.

Example

If you retire on 30 September, your first pension payment would normally be paid on 21 October, and would be for the full amount, representing the entire month of October.

If you were to retire on 10 October, you would receive a proportionate pension payment representing the period from 11 – 31 October, which would be paid on 21 November, along with the full pension in respect of November.

Thereafter payments will continue to be made on 21st of each month, or the last working day preceding this if this date falls on a weekend or bank holiday.

Income tax will be deducted from your gross monthly pension under PAYE. If you intend to live abroad you must apply to HM Revenue & Customs for exemption from UK income tax in order to be recognised as non-resident in the UK. Exemption can be considered only after you have established permanent residence abroad. If you require further information please contact the Trustee Company.

Note: These arrangements assume the Trustee Company will be given at least five working days' notice of your retirement by your employer. If we are unable to pay your lump sum within one month of its becoming due or if an instalment of pension is a month or more overdue we will pay interest to compensate you, irrespective of who is to blame for the delay.