

USS briefing: Early Retirement Factors

Brief high-level summary

- The trustee has legislative and fiduciary duties to ensure the scheme is being administered in accordance with legislation and the Scheme Rules, and that includes ensuring that the actuarial factors used in the calculation of Scheme benefits are suitable in the prevailing circumstances.
- The trustee regularly reviews the factors and they are, as a result, subject to change from time to time. Benefits will always be based on the factors in force at the date of retirement.
- The trustee sets these factors based on actuarial advice from the Scheme Actuary. Changes to the factors are not related to the Scheme's funding position, but rather the expected future outlook of investment returns and inflation.
- Early retirement factors are currently set on a "cost-neutral" basis. That is, the benefits are adjusted such that the overall expected cost to the Scheme of paying the benefits remains the same as if the member retired at Normal Pension Age, allowing for the earlier commencement date and the longer period of payment due to retiring early.
- See the [USS website](#) for more information on the factors used.

Background

The USS Retirement Income Builder promises a defined benefit pension and associated lump sum payable unreduced from Normal Pension Age (NPA).

However, we don't all want to retire at NPA, and some might want to exchange part of their tax-free lump sum for a higher annual pension income - or vice versa. So, if you plan to retire earlier or later than your NPA, and/or if you want to exchange some of your lump sum to increase your pension income (or vice versa), this will result in changes to the standard benefits you would otherwise have received at NPA. In order to modify your benefits, the trustee uses factors in the calculation of these benefits.

Under the Rules of the Scheme, the trustee has sole discretion, on the Scheme Actuary's advice, to set these factors and must ensure they are suitable in the prevailing circumstances and satisfy any legislative requirements. Examples of the most common factors – early retirement, late retirement, commutation (converting pension to cash), reverse commutation, and converting Prudential Money Purchase Additional Voluntary Contributions into extra pension – are on our website but these will change from time to time. The factors may go up or down.

Early retirement factors are currently set on a "cost-neutral" basis. That is, the benefits are adjusted such that the overall expected cost to the Scheme at commencement of paying the benefits remains the same as if the member had waited to retire at NPA. The factor allows for both the fact that payment commences earlier and that it is expected to be paid for longer than if it was paid from NPA.

Changes to the factors are not related to the Scheme's funding position, but rather the expected future outlook of investment returns and inflation, so that they reflect the expected cost of providing the benefits.

By their very nature, changing factors at any time could have an influence on members' plans.

We make it clear – on our [website](#), in formal retirement letters, and with employers – that factors are subject to change from time to time and that a member’s actual benefits will be based on the factors in force at the date of retirement. However, there is no legislative requirement on trustees to notify members of a change to actuarial factors and we cannot provide financial advice.

The trustee keeps the actuarial factors used in the calculation of Scheme benefits under regular review. In practice, as you would expect, the trustee takes a consistent approach to setting factors and their implementation. The trustee’s approach has been to review factors during the last quarter of each calendar year for introduction at the end of the first quarter of the following year. The same approach was adopted in 2023.

The 2023 review

The trustee last reviewed the factors in November 2023 and intended to introduce these from 1 April 2024.

The Scheme Actuary’s advice to the trustee for the 2023 review reflected significant changes in financial conditions since they were last reviewed in 2022 (and changed with effect from April 2023) – most notably, a decade of declining interest rates reversing in 18 months.

As a result, the trustee made the decision towards the end of last year to change the factors. These changes were communicated to stakeholder representatives (union and employer) via the Joint Negotiating Committee (JNC) last year.

Consistent with how previous factor changes have been communicated, the USS website was subsequently updated, and employers were asked to take steps to raise awareness of the changes with any USS members working at their institutions planning to retire in the near future.

We appreciate that the benefit changes and benefit uplift confirmed in late December 2023 will have introduced additional considerations for members planning to retire on 1 April 2024. In light of these exceptional circumstances, correspondence received from stakeholders, and having further considered the advice of the Scheme Actuary, the trustee agreed on this occasion to delay the implementation of the new early retirement factors until 1 October 2024.

Changes to other factors (late Retirement Factors, commutation, and reverse commutation) did come into effect on 1 April 2024.

We will consider the current process that applies to factor changes and if we can make any refinements in advance of the next review. That said, the USS trustee (as with all trustees) does need to be able to change factors with reasonable speed to reflect real-world timings in order to act in accordance with its fiduciary duties and to satisfy any applicable legislative requirements.