Decisions after leaving

Video transcript

Hello and welcome to this webinar for members who have stopped paying in to USS but have not yet retired. My name is Rebecca Dodd and I'm a pensions consultant from Mercer. The main aim of this presentation is to help give you a better understanding of what happens to your benefits if you've left USS before you've reached retirement.

So, firstly, I'll give an overview of the benefits in USS, looking at what you may have built up when you were contributing towards USS, and then go on to show you how USS works if you've stopped paying in to USS but have not yet retired. Then we'll look at choosing your retirement date, so thinking about when you'll take your benefits, and briefly cover what impact going overseas might have on your benefits.

We'll look at what benefits your loved ones may receive when you die, and then we'll finish off with a checklist for leavers that might be useful for you. Here we'll go through an overview of how you may have built up your USS pension when you were contributing to USS.

Firstly, we'll verify the language that we're using in terms of an active member and a leaver. An active member is someone who is currently employed as USS institution and the employer and the member are actively contributing to USS and building up new benefits. A leaver is someone who's been a member of USS and is no longer contributing to USS or has left the scheme, either by leaving USS through their own personal choice or having left their employer.

Now, as a leaver, you may have benefits with USS that you've built up in the past that are still with USS and they're called deferred benefits. Now if you've been a member of USS and then left and then either taken a refund of contributions or already transferred out all of your benefits out of USS to another pension arrangement, you would not have any benefits remaining with USS. Now just to note that this webinar is aimed at those who are no longer contributing to USS but have deferred benefits with USS.

In terms of the pension benefits in USS. There're two main types of pension benefits in the UK. Defined benefit (DB) and defined contribution (DC). And USS has both these types of benefits. Defined benefit means that your benefits on retirement are based on a predetermined formula. And that's based on a combination of earnings, the time that you're in a scheme and a pension build up rate. The pension you build up is not directly connected to how much you or your employer’s paid in, what matters is your formula.

The defined benefit part of USS is now called the Retirement Income Builder. But before April 2016, your defined benefits would have either been in the final salary section or the Career Revalued Benefits (CRB) section of USS. There's also a defined contribution part of USS, which is called the Investment Builder. In a defined contribution arrangement, any money paid in by you or your employer goes into your savings pot. Then at retirement your benefit is based on the value of your pot of money, which can go up or down, and is completely dependent on how much has been paid into your pot, and how it's grown over the years.

The Investment Builder was introduced into USS from October 2016. Before this, defined contribution benefits were only available if you paid additional voluntary contributions to Prudential. The way it works at the moment is in USS, everyone builds up Retirement Income Builder benefits, or defined benefits, on their salary up to the salary threshold. And this provides a guaranteed income for life on retirement. Now, in addition, USS also provides a one-off tax-free lump sum on retirement of 3 times the pension, up to certain limits. And the salary threshold from 1 April 2025 is £71,484. The rate at which pension builds up in USS has changed over the years but is currently 1/75th of your salary each year.

Now depending on when you joined USS and when you ceased paying contributions towards USS, there can be some differences in both how your benefits built up and also what your Normal Pension Age is. And the Normal Pension Age is the age that you can take your benefits unreduced. The difference in how you built up your benefits includes the salary used to calculate these as well as the build-up rate.

In addition to your Retirement Income Builder benefits, members can build up savings in the Investment Builder, which is the defined contribution part of USS, and that's if you earned above the salary threshold, if you chose to make additional contributions or transferred in a pension from elsewhere. On leaving USS, your deferred benefits will have been calculated in accordance with the rules in force at the time.

The Retirement Income Builder was introduced from 1 April 2016, and members who were paying in to USS before 1 April 2016 built up defined benefits under a different name. And under those benefits, there was no salary threshold. Now the members who joined prior to 1 April 2011, starting with those members, you would have been in the final salary section which meant that your benefits on leaving were based on your final pensionable salary at leaving or at 31 March 2016 if earlier. Confirmation of your final pensionable salary will be shown on your final salary statement in My USS in the My documents area.

The build-up rate in the final salary section was 1/80th of your final pensionable salary. For members who joined on or after 1 April 2011, you would have been in the Career Revalued Benefits or CRB section of USS, which meant your benefits on leaving were based on the salaries that you earned each year or your career average salary, which is similar to how the Retirement Income Builder works now. The build-up in the Career Revalued Benefits, or CRB section, was also an 80th of your salary each year.

Some members may have also paid additional contributions to buy additional year's service in the final salary section or to buy additional pension in the CRB section. Also, prior to the introduction of the Investment Builder in October 2016, you may have built up defined contribution savings with Prudential through paying additional contributions. These are referred to as Money Purchase AVCs or MPAVCs.

You'll need to check if you have savings still with Prudential if you left USS after October 2016, as most Money Purchase AVC pots from Prudential's unit-linked funds were switched into the Investment Builder, but not with-profits funds or deposit funds. Now, if this applies to you, USS will provide details of these savings and the options that you have to take them as part of your retirement quote. And further detail regarding the Prudential savings can be found on the USS website.

And with USS, you'll be able to view your Retirement Income Builder benefits and any Investment Builder savings, as well as any benefits you may have built up before April 2016, in My USS, which is your secure online portal. You can access My USS from the USS website, uss.co.uk, on any device. So your laptop, your tablet or your smartphone. And just to note if you have final salary or CRB benefits from before April 2016, and any added years or added pension AVCs, My USS will include all your defined benefits altogether under the heading of Retirement Income Builder benefits, and that will be found in the summary on My USS.

Now if you select Retirement Income Builder on the left here, you can see how your pension is split between final salary or CRB and the Retirement Income Builder.

In this section, we'll look at how USS works if you're no longer contributing to USS but you have deferred benefits. If you've been a member of USS, then left and then either taken a refund of contributions or already transferred all your benefits out of USS to another pension arrangement, you would not have any benefits remaining with USS.

So firstly, in this section, we'll cover your leaver statement and then we'll have a look at what happens to your deferred benefits between leaving and retirement. We'll cover managing your membership online in My USS, and we'll also look at the Benefit Calculator tool in My USS that will allow you to model what your benefits might look like in the future to help with your retirement plans. And then finally, as a member of USS with deferred benefits, you'll retain the option to transfer your benefits to another pension provider.

So when you left USS, you would have received a leaver statement setting out what benefits you built up in USS at the date you left, both your pension and lump sum entitlement from your defined benefits (DB) and any defined contributions (DC) from your Investment Builder or Money Purchase AVCs (MPAVCs) with Prudential. It will include your Normal Pension Age (NPA), which is the age you must take your Retirement Income Builder defined benefits by, and it will also set out your leaver options. So for example, if you'd been paying in to USS for less than two years, you may be eligible for a refund. And it will also set out that you can take a transfer to another registered pension arrangement.

Just so you know, refunds are just refunds of your own contributions. You will not be able to get a refund of your employer's contributions. If you're entitled to a refund on leaving but did not take it and you have not transferred your benefits to another arrangement or started drawing your benefits, you would still be able to ask USS to take your refund. Now, if you've lost your statement and want another copy, do get in touch with USS.

Even though you're no longer paying in to USS, unless you've taken your benefits out of the scheme or retired, your benefits will remain with USS. For your defined benefits, annual increases are applied to your deferred benefits between your leaving date and your eventual date of retirement. These increases are currently linked to the Consumer Prices Index or CPI measure of inflation up to certain limits.

Any defined contribution savings you hold in the Investment Builder or Money Purchase AVCs (MPAVCs) with Prudential will remain invested, and USS may write to you periodically with scheme updates. But you can also receive useful information for leavers if you provide an email address to USS. If your benefits are still with USS, as you approach your Normal Pension Age USS will write to you to outline your retirement options.

You can also keep an eye on your deferred benefits in My USS by going into the website and clicking the My USS button here. Then, once you're in My USS as a deferred member, you can view your deferred pension from your defined benefits, and you can also review or manage any investments that you have in the Investment Builder.

You can also keep your address up to date and update the nomination forms for your loved ones for any benefits or lump sums that might be payable when you die. Now to do this, just go into the My details section of My USS. And it really is important to keep your contact details up to date so USS can contact you when it's time to take your benefits or any savings that you have.

In My USS there's also the Benefit Calculator. The Benefit Calculator can be used to get an instant estimate of what you could get in the future. And it can be helpful at various stages throughout your journey with USS. And it will be already populated with your information.

And we'll just go into the projection tool here to have a look. In here it'll show you what your Normal Pension Age is, which is the age that you must take your defined benefits by.

You've also got the option of transferring out your USS pension benefits to another arrangement, but you can only transfer to another registered pension scheme such as a personal arrangement or, if you've got a new employer, the workplace scheme that they provide, or it could be a Recognised Overseas Pension Scheme (ROPS). And if it is, USS will check that it is a Recognised Overseas Pension Scheme for you if you want to go ahead with the transfer. A transfer value will be available on request and you can, if you want to, transfer out just your Retirement Income Builder benefits, your defined benefits, as long as you do so before your Normal Pension Age. Or you can just transfer your Investment Builder rather than transferring your entire benefits.

Before you transfer out, though, it's worth considering what you'll be transferring out and whether it is right for you. And here's a few things that you could bear in mind. So if you're thinking of transferring your Retirement Income Builder benefits, which is the defined benefit part, you should consider what benefits you will be giving up, and what benefits you'll receive in your other scheme. So remember that defined benefits (DB) in USS provide you with a guaranteed income for life, plus a one-off cash lump sum at retirement, and the scheme you're transferring to may be defined contribution (DC) in nature instead.

Also consider the costs of the scheme that you're transferring to. You do not pay any fees for running costs with USS, but other schemes may have charges. They may have administration costs or investment fees to be aware of. If you are thinking of transferring your Investment Builder savings or any Money Purchase AVCs (MPAVCs) with Prudential, which are the defined contribution parts, some other things to think about. So compare what you get with USS and what you'll get in the scheme you transfer to, including the flexibilities that might be available when it comes to taking your savings. And again, consider those costs of the scheme that you're transferring to. And as mentioned, you do not pay fees for running costs with USS, but other schemes may have charges, administration costs or investment fees to be aware of. Also consider those investment options that will be available to you in both of the schemes.

Before you decide to transfer any pensions, you should consider your options on thinking about that transfer, and in some cases, you could only transfer if you've had financial advice. By law, if you're transferring £30,000 or more of defined benefits (DB) like the Retirement Income Builder, if you're transferring them to a defined contribution (DC) scheme and check with the receiving scheme if you're unsure, you'll need to get independent financial advice first. USS are unable to give you financial advice.

There's no similar requirement to get independent financial advice if you're only transferring your defined contribution savings, like the Investment Builder. But you might want to get that advice if you're not sure what's in your best interests. You can also visit the MoneyHelper website, and there you can find impartial guidance that's backed by the government and is free to use. The USS website has information on how to find an independent financial adviser if you need one, as well as a range of other resources, including the link to the MoneyHelper website to help you make the right decision for you.

Here we'll have a look at when you might take your benefits. You can start to draw your benefits from USS from the minimum pension age, which is set by the government. And the minimum pension age is currently age 55, but it is rising to age 57 from April 2028. And when you retire, you might have both defined benefits and defined contribution savings. Now, your defined benefits are your Retirement Income Builder benefits, which will include any final salary, Career Revalued Benefits (CRB), and any added years or added pension AVCs.

Your defined contribution savings are your Investment Builder or Money Purchase AVCs (MPAVCs) with Prudential. You do not have to take your defined contribution savings at the same time as your defined benefits. You can take your defined contribution savings earlier, as long as you've reached UK’s minimum pension age. Or you might take your Retirement Income Builder defined benefits, but leave your defined contribution savings invested, and then you can choose what to do with them later.

But focusing first on the Retirement Income Builder benefits, the defined benefits. So the various types of retirement available for members in USS with deferred benefits who are no longer paying in to USS are normal, early and ill health retirement. And it's important to consider the age at which you take your benefits as this will impact what level of benefits you receive.

Normal retirement is when you take your benefits at your Normal Pension Age (NPA), but some members with deferred benefits prefer to take them at an earlier age and take early retirement. Also, whilst it's not something any of us can plan for, you might be able to take your USS benefits earlier under ill health if this applies to you and you meet the criteria.

So normal retirement is where benefits are taken at your Normal Pension Age and the Normal Pension Age is currently age 66 for those still contributing to USS. But depending on when you stopped contributing to USS you might have a different Normal Pension Age. So it's the age at which your Retirement Income Builder, defined benefits, become payable in full. Your leaver statement will confirm your Normal Pension Age.

And just to note the Normal Pension Age for USS changed in October 2020 from age 65 to age 66, in line with the government's increase in State Pension age. But this applies only to benefits building up after October 2020. So if you stopped contributing on or after October 2020 and were to take your benefits at Normal Pension Age of age 66, you might receive an increase on some elements of your pension benefits to reflect the Normal Pension Age that was in place when you built up those benefits.

Now, although some of your benefits may have been built up when the Normal Pension Age was lower than age 66, you cannot take those benefits early and leave your age 66 benefits until a later date. But you might not have to wait until your Normal Pension Age to take your benefits. So if you left the scheme on or after April 2022, or if you left the scheme before this date but were contributing for two or more years, you may be able to retire earlier.

The earliest age HMRC usually lets people take their pension benefits is from the minimum pension age, and this is currently age 55, but it is changing to age 57 from April 2028. And if you do start taking your pension early, then your defined benefits may be reduced for early payment as it's expected that they'll be paid for a longer period.

And as we covered with normal retirement, before the Normal Pension Age changed to age 66 in October 2020, you may have built up some benefits that have a Normal Pension Age of 65, and some people might have even built up benefits with a retirement age that's even lower than this. On early retirement, the calculation takes all these different Normal Pension Ages that applied to your benefits into account along with the age that you're actually taking your benefits. So different reductions will apply to the Normal Pension Ages applying to the different parts of your benefits. And the factors used in the calculations are reviewed and updated as appropriate by the trustee, that's based on scheme actuary advice, so they are subject to a change from time to time.

Now, having to stop work completely because of an illness or an injury is not a nice thought, but unfortunately it could happen. And in this case you might be eligible to retire early on an ill health basis with USS. So if you have an illness or a condition that stops you from working or reduces your capacity to work, you might qualify for ill health early retirement if you meet that criteria. But you must have been building up a pension with USS for at least two years. With ill health retirement, you'll get the benefits that you've built up to date and they will not be reduced due to early payment.

There's also serious ill health, which is if you're suffering from a serious ill health condition and only have a limited time to live. And then in that case, USS may be able to convert, or commute, your pension and pay all your benefits as a lump sum.

But we've only talked here about taking your Retirement Income Builder, defined benefits (DB), so far. You may have also got some defined contribution savings, i.e. Investment Builder savings or Money Purchase AVCs with Prudential. And if you do have defined contribution savings, there's some more options available to you.

So when you choose to take your defined contribution savings, first of all, you might choose to take them at the same time as your Retirement Income Builder, defined benefits, either partly or fully as a lump sum, and the lump sum might be tax-free, up to certain limits. Or you might take some or all of your defined contribution savings separately from taking your defined benefits, and that's known as a cash payment, and that's known as an Uncrystallised Funds Pension Lump Sum, or UFPLS, and a quarter of it, or 25%, can be generally paid tax-free.

Or you might want to leave some or all of your Investment Builder savings invested with USS until you're ready to use them. If you do not take all of your Investment Builder savings, they would pass to your beneficiaries after your death. Or you could transfer your Investment Builder savings to another provider outside of USS, to access other ways of using your pot of money, such as drawdown – which is where you draw out an income until the pot runs out – or buying an annuity – which is securing a guaranteed income for life.

Now before making any decisions about what to do with your pension savings, USS do recommend that you seek guidance on the options and/or take independent financial advice to understand which options might be right for you.

So when thinking about when you'll take your benefits and what you might get on retirement, if it's more than six months before your planned retirement date, you can use the Benefit Calculator projection tool in My USS to provide an estimate of the Retirement Income Builder, defined benefits, you'll receive and any defined contribution savings you could access in retirement. And you can also look at the choices that you can make if you have defined contribution savings.

But if you're within six months of your planned retirement date, you can request a quote from USS to understand what your benefits might be, and this, of course, can also help you plan further. Now, your retirement quote will outline your benefits and any savings as well as your options. And then you can use the information that you received from USS in that retirement quote within the Benefit Calculator in My USS to explore options like how much cash and pension to take.

Then, at around six months before your Normal Pension Age, USS will contact you to discuss putting your benefits into payment by your Normal Pension Age, if you have any Retirement Income Builder (defined benefits), and if you have not contacted them already. If USS do not have your up to date details though, they will not be able to contact you, and the easiest way to ensure USS know where you are is to register for My USS and to keep your details up to date on there.

In this section, we'll have a look at what happens if you move overseas, either to work or retire.

So if you're going overseas, you might be able to transfer your USS benefits to your new pension scheme. Now, USS is required to check that your new scheme is a Recognised Overseas Pension Scheme (ROPS) before paying the transfer. And there might be other restrictions and implications on the transfer, for example any tax charges.

You do not have to take a transfer to another arrangement though. You can just leave the benefits in USS as a deferred member and then draw your benefits when you take retirement. Then, if you're overseas when you retire, for most countries your pension can still be paid to you via a UK bank account or by an overseas payment service to your overseas bank account.

And just to know, if you retire from USS and are resident outside of the UK, any benefits you receive might be taxed in your country of residence, or domicile, according to rules of that country rather than the UK rules. And this might apply to both the pension and lump sum elements. But it is your responsibility to understand the tax rules of the country where you're resident domiciled and seek local tax advice if required.

Here we're going to look at the benefits that might be payable when you die. Now just to note, for members that have taken a refund of contributions or transferred all of their benefits out of USS, then there are no benefits payable on death from USS.

There are survivors pensions payable in the event of your death. So a pension might be payable to a spouse, civil partner or to eligible financial dependents. The pension payable is typically half your standard pension entitlement. And there's also children's pensions payable in addition, if you have eligible children when you die.

Now if you have any financial dependents, it's really important to complete the **Registration of potential dependent form** on My USS and keep it up to date. Now on here, you do not need to register a child, spouse or civil partner as they may be eligible to receive a pension in their own right under the Scheme Rules.

There might also be a lump sum payable, depending on whether you died before or after you've started drawing your benefits from USS. Now, if you were to die after you've stopped contributing to USS, but you have deferred benefits and have not yet started to draw them, a lump sum would be payable. That's typically three times your annual pension, and it's three times that pension you'd built up on leaving, plus increases to protect against inflation to your date of death. Plus any defined contribution savings that you have remaining either from your Investment Builder pot or Money Purchase AVCs (MPAVCs) with Prudential.

Now if you were to die after your pension started, a lump sum is only payable if you were to die within the first five years of your USS pension starting. And it will generally be an amount equal to the balance of pension payments due between the date of death and the five years after you retired. And any defined contribution savings that remain with USS would also be paid to your beneficiaries.

Now, payment of a lump sum is made at the discretion of USS, but your wishes are taken into consideration. And this allows the trustee to consider who the recipients of any lump sum payable should be. But so that USS can take your wishes into account, it's important to fill out your **Expression of wish form** to let the trustee know who you would want to receive any lump sum that might be payable when you die.

And it does not always have to be a person. It could even be a charity or any other organisation capable of receiving the money. And you can nominate your beneficiaries on My USS. And USS do recommend that you keep that **Expression of wish form** updated every three years, even if your wishes have not changed, because it does let USS know that your wishes are still current.

You can find the **Registration of potential dependent form** and the **Expression of wish forms** on My USS, and you can find those by going into the **Keep your beneficiaries up to date** tab in My USS and then clicking on **Update loved ones**.

If you've left USS and not taken a refund or transferred out, but you have benefits remaining in USS, then this action list might be useful to you. So first of all, register for My USS if you have not already, and this will allow you to take control of your USS benefits, giving easy access to supporting tools.

So once you're in My USS, you can keep track of what you've built up and see what you could get in retirement using the Benefit Calculator. And you can complete or update forms to let USS know who you'd like to receive your benefits when you die. You can update your details in My USS so that USS can contact you when it's time to take your benefits and any savings that you have.

And you should keep both your postal and email address up to date so that USS can share useful information with you from time to time. And USS do recommend using a personal email address for both registering for My USS and for keeping in touch.

And finally, you can view and manage any Investment Builder savings that you have in USS through My USS. Although you cannot add to your Investment Builder if you're no longer contributing to USS, you can change where your money's invested if you want to.