



Focus on pension tax

Video transcript

Hello and welcome to this Focus on pension tax webinar.

My name is Rebecca Dodd, and I am a pension consultant from Marsh, which is the new name for Mercer. Although the Mercer name has changed to Marsh as part of the expanded Marsh brand, the webinars that we provide are unchanged. This is purely a name change.

The aim of this webinar is to help give you a better understanding of pension tax and the different allowances and limits that might affect you, and how you can manage and mitigate any tax charges that you might face. This session does not cover tax relief on contributions or how your pension is taxed as income in retirement.

For more information on tax relief on contributions or how pensions are taxed in payment, do have a look at our webinar **Tax and your pension**.

In this presentation, we are going to look at the different tax allowances that could affect you whilst you are paying in to USS and when you start to receive your benefits and savings. Whilst USS will help you with the calculations for USS benefits and savings, it is important that you understand how they are calculated so you are clear on the possible impact of, say, making additional contributions to either USS or any other pension arrangement. It is also important to note that this is an exceptionally complicated area and we cannot cover absolutely every detail.

Here we'll look at the Annual Allowance.

Pensions can be a tax-efficient way of saving – you get tax relief on pension contributions and then, at retirement, you can take a quarter of the value of your benefits tax-free. You can pay in as much as you want into a pension scheme, but tax relief is only available if your personal contributions do not exceed 100% of your taxable income. In addition, certain tax charges might arise if the total payment is not within certain allowances, as I will explain.

It is your responsibility to manage your tax situation, and USS provides information and some options to consider, but it is you that decides what to do.



The first of the limits is the Annual Allowance. The Annual Allowance is the maximum amount of pension savings you can build up each year before you incur a tax charge.

There are three types of Annual Allowance. There is the standard Annual Allowance (AA), which applies to all members. There is the Tapered Annual Allowance (TAA), which applies if you earn over a certain amount. And the Money Purchase Annual Allowance (MPAA) applies if you have got any defined contribution (DC) savings, including the Investment Builder savings, and you take some or all of them in certain ways.

If you exceed one of the allowances, you may have to pay some pensions tax, but there is support available to help you do this, and it does not mean you lose your benefits if you go over your allowance.

Before I go on to explain about the Annual Allowance, just a quick reminder of how benefits build up in USS. You build up defined benefits (DB) in the Retirement Income Builder on salary up to the salary threshold, and the salary threshold is currently £74,208.

Your benefits at retirement from the Retirement Income Builder are based on a build-up rate, the salaries that you earn each year and the length of time that you are in the scheme. You build up a block of pension each year equal to a 75th of your salary up to the salary threshold. Then when you retire, all the blocks of pension are added together (with increases) to give your annual pension. You will also be entitled to a tax-free cash lump sum of three times your pension.

If you earn above the salary threshold, then you will also build up defined contribution (DC) savings in the Investment Builder. The equivalent of 20% of your earnings above the salary threshold will be put into your Investment Builder savings pot. Any additional contributions that you make will also be put into the Investment Builder.

The salary threshold was previously around £40,000, and the build-up rate was 85ths from April 2022 to April 2024. But the salary threshold of just over £70,000 and a build-up rate of 75ths came in from 1 April 2024.

Going back to the Annual Allowance and we'll start with the standard Annual Allowance.

The standard Annual Allowance for the 2026/27 tax year is £60,000, and it applies to the annual build-up of your pension benefits over each year across all your pension savings. For the previous three tax years, the standard Annual Allowance was also £60,000. But in 2022/23, it was £40,000.

The way that it works is, if the build-up of your benefits over a tax year is below this Annual Allowance, you are not affected, unless you are affected by the Tapered Annual Allowance, which we will come on to. As we are still in the 2026/27 tax year, we are actually interested in working out whether the Annual Allowance has been exceeded over the 2025/26 tax year.

Your Annual Member Statement that you receive from USS each year will set out how much of your Annual Allowance you have used up from your USS benefits over the tax year, so you do not have to worry about working it out yourself. However, if you also paid into any other pension arrangements during the year, these will not be included in this calculated figure, and you will need to add these onto your USS figures. The Annual Allowance does not need to take account of any State Pension benefits.



The Annual Member Statement showing benefits built up to 31 March 2026 and therefore the Annual Allowance used up over the 2025/26 tax year will be available on My USS in the autumn. Just as a reminder, My USS is your online portal for your USS benefits.

To work out the amount of Annual Allowance that you have used up, you need to consider any defined benefits (DB) and any defined contribution (DC) savings you have separately – or, in other words, the Retirement Income Builder (DB) benefits and Investment Builder (DC) savings when we are talking about USS.

For the Retirement Income Builder benefits, defined benefits (DB) for USS, the measure is based on the pension block that you have built up over the year, times by 16, plus any lump sum that you have built up over the year.

For the Investment Builder, the measure is based on the amounts that you and your employer have actually paid into your pot, but it does not include any investment returns. If you have paid additional contributions into your Investment Builder or contribute to any other defined contribution (DC) with another pension provider, these are measured in the same way. Just to note that if you transfer a pension in to USS, this does not need to be taken into account in the calculation of Annual Allowance.

Adding together all of your savings across the tax year, across all your pension arrangements, these elements give you your pension value for the year, so your Annual Allowance used. The amount of Annual Allowance you have used up is then compared to the standard Annual Allowance for the relevant tax year.

At the moment we are interested in working out whether the Annual Allowance has been exceeded in the 2025/26 tax year (which is the last full tax year), and we are going to have a look at an example of how this works.

Here I have someone who has a salary of £125,000 and they paid £37,000 in additional contributions to the Investment Builder over the 2025/26 tax year. For the purpose of the example, I am assuming this member only has benefits in USS and no other benefits or earnings from elsewhere.

To work out how much of the Annual Allowance they have used up, we have to look at the Retirement Income Builder and the Investment Builder separately.

Starting with the Retirement Income Builder, the defined benefit (DB) part. All members build up a 75th of their salary up to the salary threshold as an annual pension block during the last scheme year, and the salary threshold for 2025/26 was £71,484.

Just to note the salary threshold changed in April 2026 and the salary threshold is now £74,208. That will be used to calculate the pension built up over this tax year to the end of March 2027, so will be used for the 2026/27 tax year figures.

Going back to this example. We multiply the pension built up over the year by 16 – so that is a 75th of the salary threshold times by 16. A lump sum of three times this pension amount is also built up, so we add on a 75th of the salary threshold times by three to get the total Annual Allowance built up from the Retirement Income Builder, and that amounts to £18,109 for this member.



Then we look at the Investment Builder contributions paid in from normal contributions going into the Investment Builder from earning above the salary threshold and also any additional contributions. In this case, we have 20% of earnings above the salary threshold going into the Investment Builder. There are also the £37,000 additional contributions. For this member, that gives total contributions into the Investment Builder of £47,703. Add these together, the Investment Builder and the Retirement Income Builder allowance used up, and this member has used a total of £65,812 of their Annual Allowance. As the standard Annual Allowance for the 2025/26 tax year was £60,000, this person has exceeded the Annual Allowance.

If your pension value has exceeded the Annual Allowance, it does not automatically mean there is a problem. If you did not exceed the Annual Allowance in the previous three tax years, you can use any unused Annual Allowance to offset any excess over the Annual Allowance in the year that you are looking at. This is called carry forward.

USS provides details of how much of the Annual Allowance you have used for the previous three tax years on your Annual Member Statement, if you have gone over the standard Annual Allowance in a particular year.

For our example member, let us have a look at what they could carry forward from unused allowances. We are going to look back over the last three tax years and say they have used up an Annual Allowance of £21,800 in the 2022/23 tax year, £22,500 in the 2023/24 tax year and £24,000 in the 2024/25 tax year.

They were under the standard Annual Allowance which was £60,000 in the 2023/24 and 2024/25 tax years, but it was £40,000 in the earliest year. They have got some unused allowances from all of the three previous tax years. Therefore, this member can carry forward these unused allowances to the 2025/26 tax year.

Any unused allowance is carried forward and utilised from the earliest year forward. The Annual Allowance for the 2022/23 tax year was £40,000, so this member has an unused allowance of £18,200 from that year. We can use this to increase the standard £60,000 Annual Allowance by a further £18,200.

That means that can be carried forward to add on to the standard Annual Allowance and that makes the overall Annual Allowance that can be used here £78,200.

As the member's pension value for the year was £65,812, the carry forward allowance covers that pension value over the standard Annual Allowance, and there is no tax charge and no further action for this member.

You can only look back over the last three tax years for unused allowances. In this case, even though there is still around £12,000 of unused allowance from the 2022/23 tax year, that will be lost going forward. But the member will still be able to use those unused allowances from the 2023/24 and 2024/25 tax years in the Annual Allowance calculation for next year.



Let us assume that this member had been paying additional contributions over the last three years and actually they used up all their Annual Allowances in the previous three tax years. That means there are no unused allowances to take into account and means this member has exceeded the Annual Allowance for this tax year and there will be a tax charge to pay.

This member has exceeded the Annual Allowance by £5,812 above the £60,000 standard Annual Allowance and there will be a tax charge and that will be at the member's marginal rate of tax. Assuming this member is paying tax at the 40% rate, there will be a tax charge of £2,325.

They will be able to meet this cost directly through their Self Assessment tax return or may be able to ask the scheme, USS, to pay this cost for them directly from their benefits. This is called Scheme Pays.

Here we are going to have a look at Scheme Pays. If you go over your Annual Allowance and incur a tax charge, Scheme Pays allows you to use what you have built up in your pension savings to pay the tax charge.

If your tax charge relating to your USS benefits is more than £1,000, you can ask USS to pay the tax bill on your behalf and have your benefits reduced accordingly and this is known as Scheme Pays.

The Scheme Pays process is quite straightforward and for most members is fully payable from your Investment Builder (DC) pot, so your Retirement Income Builder (DB) benefits are unaffected. For those members who have insufficient Investment Builder (DC) savings to cover the charge in full, the charge can be taken from your Retirement Income Builder (DB) benefits. USS has a tool called the **Scheme Pays Modeller** on the **Calculate your benefits** page on the USS website. The Scheme Pays Modeller will estimate how much of your Retirement Income Builder (DB) benefits may be reduced should you choose for USS to pay your tax charge.

However, there are deadlines that you need to be aware of.

If you want to use Scheme Pays, the first thing you will need to do is let USS know. But the deadline is 15 December following the tax year you went over the Annual Allowance and have a tax bill to pay. For the 2025/26 tax year that means completing your Scheme Pays election form by 15 December 2026.

If you have a tax charge for the 2025/26 tax year and want to use Scheme Pays but miss the 15 December deadline, you can still ask USS to pay but they cannot guarantee payment will be made for 31 January which is the HMRC deadline for most Scheme Pays payments, so if you were to incur any late fees or interest you would be liable for those payments.

If you do ask USS to do Scheme Pays, then you need to let HMRC know. You do this by confirming in your Self Assessment tax return that you have used Scheme Pays and the deadline for submitting your online tax return for the 2025/26 tax year is 31 January 2027 (or 31 October 2026 if the return is filed on paper).

For more information on Scheme Pays and to get the form that you will need to fill in, go to the USS website.

It is really important to note that it is your responsibility to meet the deadlines and make the confirmations required to HMRC.



Here we will look at the Tapered Annual Allowance.

If you earn over a certain amount, the standard Annual Allowance of £60,000 will be reduced for you, lowering the amount of pension benefits that you can build up over the year that benefits from tax relief. This is called the Tapered Annual Allowance (TAA).

You will have a Tapered Annual Allowance in the 2025/26 tax year if both your threshold income is over £200,000 and your adjusted income is over £260,000. Your threshold income is broadly your taxable income from all sources, excluding any of your pension contributions and excluding any additional contributions that you are paying. Your adjusted income is your taxable income, excluding any of your pension contributions, plus the amount of your Annual Allowance that you have used up over the tax year – that is the amount that is shown on your Annual Member Statement.

If the answer is no to one or both of these, you are not affected by the taper, and your Annual Allowance stays at the standard amount of £60,000 for the 2025/26 tax year. However, if in the 2025/26 tax year you exceed both the threshold income and adjusted income limits, you will be affected by the Tapered Annual Allowance, and you will need to work out what your Tapered Annual Allowance is. The way that it works is for every £2 your adjusted income goes over £260,000, your Annual Allowance for the 2025/26 tax year reduces by £1 and the minimum Tapered Annual Allowance that you can have in that tax year is £10,000.

As an example, if your adjusted income is £280,000, your Tapered Annual Allowance will be £50,000 instead of £60,000. For anyone with an adjusted income of £360,000 or more each year, your Tapered Annual Allowance will be £10,000.

I have simplified the explanations here, and the calculation is slightly different if you pay your contributions by a salary sacrifice with your employer.

USS does provide support in calculating your Tapered Annual Allowance on their website. You can use the Contributions & Tax Calculator on My USS, and there is also a worksheet to help you with these calculations. But it is your responsibility to do this, and you might want to take some financial or tax advice to help you.

Here is an example of how the Contributions & Tax Calculator can help you understand if you are impacted by the Tapered Annual Allowance.

In this example here, we have got a member who has a salary of £125,000 and pays £3,083 per month (or £37,000 a year) in additional contributions. We can press **Calculate** here to see what that is costing the member first. Whilst the gross member contribution is £3,718 per month, the actual cost to the member with tax relief is only £1,814 per month.

Then if we click the start button here, we can go into the **Tax modelling** section. We are assuming that our example member is also earning £150,000 additional income so we can type that in here. Then we click calculate here. The calculator provides an estimate of how much Annual Allowance the member has used and if they might be impacted by the Tapered Annual Allowance.



Here you can see the member has a Tapered Annual Allowance of £41,834, but they have used £65,953 of their Tapered Annual Allowance. This member has exceeded their Tapered Annual Allowance and may have a tax charge to pay, unless they have got some unused allowance from the three previous tax years. As with the standard Annual Allowance, if you do not have enough carry forward and you find you have got a tax charge to pay, if you have exceeded your Tapered Annual Allowance and it is over £1,000, you can ask USS to pay it for you and reduce your benefits accordingly through Scheme Pays.

If you are affected by the Tapered Annual Allowance, it will not be set out in your Annual Member Statement because USS does not hold all the information available to work this out. Also, your previous used Annual Allowances will not be automatically given in your statement unless your benefits exceed the standard Annual Allowance of £60,000 for the 2025/26 tax year.

If you are affected by the taper but have not got your previous years allowances shown on your statement, go into your previous statements on My USS to view the allowances from those statements. Or you can contact USS and they will be able to give you the information.

Here we are going to have a look at the Money Purchase Annual Allowance (MPAA).

The Money Purchase Annual Allowance is the maximum amount that can be paid by you and your employer in total to any defined contribution (DC) arrangement, like the Investment Builder, before getting a tax charge if you have already taken some of your defined contribution (DC) savings in certain ways. The allowance is currently £10,000 a year.

If you have taken some savings from the Investment Builder, from Prudential or any other defined contribution (DC) arrangement as cash payments or as drawdown payments, the Money Purchase Annual Allowance will be triggered.

What do we mean by accessing certain defined contribution (DC) savings? Or in other words, when will the Money Purchase Annual Allowance start to apply and when will it not?

It will apply if you take one or more cash payments known as Uncrystallised Funds Pension Lump Sum (UFPLS) from your Investment Builder savings. UFPLS cash payments mean the cash payments where 25% is tax-free and 75% of the payment is taxed.

It will also apply if you transfer your Investment Builder savings to an alternative arrangement and start drawdown income payments. It is the same for any defined contribution (DC) savings, whether that is from Prudential or outside of USS.

If you take UFPLS cash payments or drawdown income payments, the Money Purchase Annual Allowance will apply for you.

Where the Money Purchase Annual Allowance does not apply is if you use your Investment Builder to provide your tax-free cash when taking your Retirement Income Builder benefits.



If you and/or your employer make contributions to a defined contribution (DC) arrangement like the Investment Builder that go over the limit, which is currently £10,000, you will need to pay additional income tax on the amount that you have gone over by. This cancels out the tax relief that you would have received automatically.

The Money Purchase Annual Allowance will not restrict what you can pay into a defined benefit (DB) arrangement, like the Retirement Income Builder – this will still be subject to the usual Annual Allowance (AA).

Unlike the Annual Allowance, you cannot carry forward any unused Money Purchase Annual Allowance from previous years.

Here we are going to look at a summary of the Annual Allowance.

The Annual Allowance looks at the benefits that you have built up each tax year, and if you exceed the Annual Allowance you may have to pay a tax charge. The standard Annual Allowance was £60,000 for the 2025/26 tax year, and it is £60,000 again for this current 2026/27 tax year.

The Tapered Annual Allowance applies if you earn over a certain amount and so your Annual Allowance will be less. You can use carry forward of unused Annual Allowances from the previous three tax years to offset any potential tax charges resulting from exceeding either the standard Annual Allowance or the Tapered Annual Allowance.

If your tax bill from USS benefit build-up is over £1,000, you can ask USS to pay the bill for you and reduce your benefits accordingly through Scheme Pays. If you do not use Scheme Pays, you will need to pay the tax bill yourself through your Self Assessment tax return. If you do use Scheme Pays, you will still need to let HMRC know and it is your responsibility to meet any deadlines and inform HMRC.

Finally, the Money Purchase Annual Allowance applies if you have accessed your defined contribution savings by taking an UFPLS cash payment or a drawdown payment.

We are going to move on to the lump sum allowances, which are the maximum levels of tax-free cash lump sum that can be payable either when you take your pension savings or in the event of your death. Starting with the Lump Sum Allowance (LSA).

The Lump Sum Allowance was introduced with effect from 6 April 2024 and is the maximum tax-free lump sum that you can take from your pension savings.

The former Lifetime Allowance (LTA), which was the maximum value of benefits that could be taken from a registered pension scheme without being subject to the Lifetime Allowance charge, was removed from 6 April 2024.

Before 6 April 2023 the Lifetime Allowance was £1,073,100. Of this Lifetime Allowance a quarter of it, or 25%, could be taken as tax-free cash. That meant that if you had benefits valued at £1,073,100 or more, then up to £268,275 could be taken as tax-free cash.



In practice most members have benefits valued below that £1,073,100 mark, so the maximum tax-free cash that you could take would actually be below the £268,275 and based on 25% of your overall benefit value.

But if you had benefits with a value of more than the Lifetime Allowance, there was an additional tax charge of 25% in addition to income tax if these benefits were taken as income. Or a 55% charge if the excess was taken as cash.

From 6 April 2023 though, the Lifetime Allowance was still in place and you could still take up to £268,275 tax-free cash depending on the level of your benefits. But the additional tax charge if the value of your benefits was more than the Lifetime Allowance was removed.

Then from 6 April 2024, the Lifetime Allowance was removed altogether, but the maximum tax-free cash amount has been kept in place at £268,275 and is now called the Lump Sum Allowance (LSA).

Where the Lifetime Allowance used to look at the total value of all benefits, the Lump Sum Allowance is the limit on the total amount of certain tax-free lump sums that you will be able to receive before tax at your marginal rate applies.

The calculation for the maximum lump sum that you can take depends on the value of your benefits that you are taking from any of the pension schemes that you have. If you are taking all of your benefits from USS, for example, it will be calculated using the value of your Retirement Income Builder (DB) benefits plus any Investment Builder (DC) savings that you have.

You can use the Benefit Calculator on My USS to estimate what the maximum lump sum will be for you based on the value of your benefits. But that is from USS only. The Benefit Calculator does not take into account benefits you may have with other schemes.

Each time you take a lump sum from a pension scheme, you may be able to take up to 25% of the value of your benefits as a tax-free lump sum, as long as the value of all tax-free lump sums you have taken does not exceed the Lump Sum Allowance in total.

The limit is £268,275 which is 25% of the Lifetime Allowance of £1,073,100 when it was in place at 5 April 2024. But that limit might be higher if you have a former Lifetime Allowance protection.

There are no longer any specific Lifetime Allowance checks; just consideration of how tax-free lump sum amounts add up. The Lump Sum Allowance for the current tax year is still £268,275.

Each time you take a tax-free lump sum from your benefits or savings, you will use up some of your Lump Sum Allowance. If you have not yet taken any benefits from any pension schemes yet, then the limit for you will be £268,275.

However, if you have already accessed benefits, then depending on whether that was before or after April 2024, there is different information that you need to gather to work out how close to the Lump Sum Allowance you are. We are going to have a look at an example of how to work out how close you are to the Lump Sum Allowance.



First, you need to look at if you have taken any benefits prior to 6 April 2024. And if you have, take 25% of the amount of the Lifetime Allowance that you used up for any benefits taken prior to 6 April 2024, as noted in the relevant paperwork of the scheme where you took those benefits from.

Then work out 25% of the amount of any benefits transferred overseas to a Qualifying Recognised Overseas Pension Scheme (QROPS) before 6 April 2024, if applicable.

Also, if you turned 75 before 6 April 2024, even if you did not access any benefits at that time, you need to include any Lump Sum Allowance calculation, so 25% of the value of any unclaimed pension benefits at your 75th birthday.

You then need to look at the value of any benefits paid as a tax-free cash sum from 6 April 2024. For example, Pension Commencement Lump Sum (PCLS). This is the one-off tax-free lump sum that you may have opted for when you retired or flexibly retired or when buying an annuity. Or the tax-free element of an Uncrystallised Funds Pension Lump Sum (UFPLS). An UFPLS is where you have taken a cash sum from your Investment Builder savings or any other defined contribution (DC) savings.

Also, the tax-free element of any drawdown payments, including flexi-access drawdown.

If all these figures come to a total higher than the Lump Sum Allowance of £268,275, you may be subject to a tax charge on any lump sum benefits in excess of your available allowance. This will be taxed at your marginal rate and deducted at source from any taxable lump sum benefits USS pay to you.

For example, if you are a 40% taxpayer and your lump sum exceeds your available Lump Sum Allowance, you will pay 40% tax on the amount in excess of this limit.

Let us take a look at a member who is taking benefits in a few different ways. A member had a pension that they started taking before April 2024 and they used 40% of the Lifetime Allowance (LTA) at that time.

Assuming that a quarter of their Lifetime Allowance usage was taken as tax-free cash, that means they took 10% of their Lifetime Allowance as tax-free cash. The Lifetime Allowance at 5 April 2024 was £1,073,100 meaning that the member has used up £107,310 of the Lump Sum Allowance, which is 10% of that £1,073,100.

Then they took a cash lump sum known as a UFPLS in May 2024. The UFPLS was £60,000 and a quarter of this was tax-free, so £15,000. So they have used up another £15,000 of the Lump Sum Allowance.

That leaves our member with a remaining £145,965 of available Lump Sum Allowance. Whilst they have this amount remaining, it will depend on the value of their remaining benefits as to how much they can actually take.

We are going to move on to the Lump Sum and Death Benefit Allowance (LSDBA).

The Lump Sum and Death Benefit Allowance is the limit on the total amount of tax-free lump sum that can be paid in the event of an individual's death before marginal rate taxation arises.



The allowance includes any tax-free lump sums used up under the Lump Sum Allowance (LSA) and any benefits paid to you as a serious ill health lump sum before age 75, or any other tax-free lump sum death benefits payable in the event of your death before age 75 (for example, if a death benefit is paid from another pension arrangement that you have).

The limit for the current tax year continues to be £1,073,100 but maybe higher if you have Lifetime Allowance protection.

Each time you take a tax-free lump sum from your benefits or savings, or if a serious ill health benefit or tax-free death benefit lump sum is paid before age 75, you use up some of your Lump Sum and Death Benefit Allowance.

In the event of your death, any lump sum death benefit paid in excess of your remaining allowance will be taxed at your beneficiary's marginal rate.

Your legal personal representative will be responsible for reporting this information to HMRC who will then calculate the tax to be deducted and collect this directly from your beneficiaries.

If you have taken benefits from a registered pension arrangement prior to 6 April 2024, but taken less than 25% of those benefits as a tax-free cash sum, you might benefit from applying for a Transitional Tax-Free Amount Certificate (TTFAC) from USS.

The certificate will detail the amount of Lump Sum Allowance (LSA) and Lump Sum and Death Benefit Allowance (LSDBA) that you had remaining at 6 April 2024.

You will need to apply for this before the first time you take your benefits after 6 April 2024 and there is more information available about the certification on the HMRC and USS websites.

If you do exceed one of the allowances, you may have to pay some pensions tax but there is support available to help you do this. Carrying forward unused allowance from previous tax years is one option, but there are other options too.

Paying pension tax does not mean you lose your benefits. You are still building up benefits in the Retirement Income Builder up to the salary threshold, and you are still getting a contribution from your employer into your Investment Builder pot on your earnings above the salary threshold.

If you are concerned about pension tax charges, you may want to stop or limit the amount that you are building up. However, in general, the value of benefits that you are building up in USS, given the contribution from your employer, is greater than the additional pension tax you may have to pay.

But that of course depends on your own personal circumstances and how you view cash now versus in the future, and how long you may live. You may need to weigh up these pros and cons or consider taking financial advice before making any decision.

This webinar is for information only. No financial advice is given in this webinar, and it should not be taken as such.



You are not forced to stay in USS, and you could opt out completely of contributing further to USS if you want to. If you do opt out of USS, your employer might not be able to contribute on your behalf to any other pension arrangement.

If you opt out you will not pay contributions anymore, but you also will not build up any more benefits going forwards. Crucially, your beneficiaries will not receive the death-in-service lump sum of three times your salary nor an enhanced pension. You will not be entitled to enhanced ill health benefits if you were to qualify for total ill health.

USS does actually offer two alternative ways of limiting how your benefits build up to reduce the impact of pension taxes, and these are called Enhanced Opt Out (EOO) and Voluntary Salary Cap (VSC).

Remember that in general the value of your benefits you are building up in USS, given the contribution from your employer, is greater than the additional pensions tax you may have to pay.

Let us go through an overview of Enhanced Opt Out. In USS, it is possible to stop building up further pension benefits but keep the death-in-service and ill health enhanced benefits as if you were still an active member, if you pay a contribution of 2.5% of your salary.

As there is no build-up of future pension benefits, this helps protect against incurring pension tax charges. But there are some rules around this option.

You need to give your employer at least 28 days' notice and it will start from the first of the month following your election. Enhanced Opt Out must last at least one year and you can only make this election once.

If you cancel it in the future and go back in to USS, you cannot opt for Enhanced Opt Out again.

There is also the Voluntary Salary Cap. This is another option which can be beneficial for members with pension tax issues who are looking to limit the amount of benefit they build up year on year.

Under a Voluntary Salary Cap, you would set your own level of salary on which to pay pension contributions. Your Voluntary Salary Cap can be set anywhere at or above the salary threshold as long as it is at a minimum of the salary threshold, which since April 2026 is £74,208. This is effectively opting out of some or all of the Investment Builder section due to the minimum value of the Voluntary Salary Cap being the salary threshold.

When considering what level you wish to set your Voluntary Salary Cap at, remember that your employer contributes to your Investment Builder pot over the salary threshold too.

You will still pay your standard contributions below the salary cap, which are currently 6.1%. If you choose to limit the benefits that you build up using your Voluntary Salary Cap, you could still choose to be covered for death-in-service and ill health benefits based on your full salary. To do this, you would continue to pay contributions of 2.5% above your Voluntary Salary Cap.



You can only elect for the Voluntary Salary Cap once a year, and you have until 3 March each year to make this election and then it will start from 1 April. Setting a higher Voluntary Salary Cap will use up more of your Annual Allowance, but you will also build up a bigger Investment Builder pot. If you breach the Annual Allowance, you do have the option of using your Investment Builder pot to pay some or all of your tax to HMRC via Scheme Pays.

These are the options available to you, other than opting out of the scheme completely. Remember, it may be worth considering still contributing even if you incur a tax charge. If you are not sure, speak with an adviser before taking action.