Managing tax

Video transcript

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're still building up benefits in the Retirement Income Builder up to the salary threshold, and you're still getting a contribution from your employer into your Investment Builder pot on your own earnings above the salary threshold.

But if you're concerned about pension tax charges, you may want to stop or limit the amount that you're building up. However, in general, the value of benefits that you're 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. And 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. There's no financial advice given in this webinar, and it should not be taken as such.

You're 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. And crucially, your beneficiaries will not receive the death in service lump sum of three times your salary nor an enhanced pension.

And 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're building up in USS, given the contribution from your employer, is greater than the additional pensions tax you may have to pay.

But let's go through an overview of an 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's 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 1st of the month following your election. Enhanced Opt Out must last at least one year and you can only make this election once. So if you cancel it in the future and go back in to USS, you cannot opt for Enhanced Opt Out again.

There's 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's 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%.

And 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'll also build up a bigger Investment Builder pot. And 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 though, it may be worth considering still contributing even if you incur a tax charge. And if you're not sure, do speak with an adviser before taking action.