# Managing tax

## Video transcript

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

Paying pension tax, though, does not mean you lose your benefits. You're still building up benefits in the Retirement Income Builder (DB) up to the salary threshold, and you're still getting a contribution from your employer into the Investment Builder (DC) pot on your 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.

In general, though, the value of your 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, so how you view cash now versus in the future and how long you might live. And you do need to weigh up the pros and cons or consider taking financial advice before making a decision.

You are not forced though to stay in USS, and you could opt out completely of contributing further to USS if you want to. If you opt out of USS though, your employer might not be allowed to contribute on your behalf to any other pension arrangement. If you do opt out though, you will not pay contributions to USS 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 the enhanced ill health benefits if you were to qualify for total ill health.

USS offers 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 the Voluntary Salary Cap (VSC). Remember though 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 looking at these in more detail now. And first looking at the Enhanced Opt Out. In USS it's possible to stop building up further pension benefits but keep the death in service ill health enhanced benefits, as if you were still an active member, if you pay a contribution of 2.5% of your salary.

In Enhanced Opt Out as there's no build up of future benefits, this helps to protect against incurring a pension tax charge. Now there are some rules around this option though. You do need to give your employer at least 28 days' notice, and then it will start from the 1st of the month following your election.

The Enhanced Opt Out must last at least one year and you can only make the election once. So if you cancel Enhanced Opt Out in the future, you can not opt for it again in the future.

Now looking at the Voluntary Salary Cap. This is another option that can be beneficial for members with pension tax issues who are looking to limit the amount of benefit that they build up year on year. Under a Voluntary Salary Cap, you would set your own level of salary on which to pay contributions.

So your Voluntary Salary Cap can be set anywhere at or above the salary threshold, as long as it's a minimum of the salary threshold, which since April 2025 is £71,484. So this is effectively opting out of some or all of the Investment Builder section, because the minimum value of the Voluntary Salary Cap is the salary threshold.

When considering what level you want to set your Voluntary Salary Cap at, remember that your employer contributes to your Investment Builder pot over that salary threshold too. But if you decide to go for the Voluntary Salary Cap, you'll still pay your standard contributions below the Voluntary 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 can still choose to be covered for death in service and ill health benefits based on your full salary. And to do this, you 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 the 3 March each year to make this election. Then it will start from the 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 it might be worth still contributing even though you incur a tax charge. And if you're not sure, speak with an adviser before taking action.