

Retirement options.

What your benefits might look like.

Video transcript

Here we're going to look at your options in terms of pension and cash amounts. This is important because in order to be able to prepare for your retirement, you need to understand how you can take your Retirement Income Builder and Investment Builder benefits, so what your benefits might look like.

There are a few different ways you can access your USS benefits, with more options if you also have Investment Builder savings. We'll look at taking the maximum tax-free cash from USS and taking the maximum pension from USS. And both these are options whether you have Investment Builder savings or not. Having Investment Builder savings mean that you can access these either at the same time as taking your Retirement Income Builder benefits, or earlier, or later. And we'll look at the different options available for accessing these benefits. But we'll start with taking your Retirement Income Builder benefits and your Investment Builder savings at the same time.

To show you how things work, here's an example of someone who's been a member of USS for some years and has Retirement Income Builder benefits and Investment Builder savings at retirement. Our example member here has a Retirement Income Builder annual pension of £15,000 a year, and under the USS rules they get a tax-free cash lump sum of £45,000, which is three times the annual pension. Our example member also has an Investment Builder pot of £20,000.

Now based on your own benefits, there's a maximum level of tax-free cash that you can take. Under the HMRC tax rules, you can take 1/4 of the overall HMRC value of the benefits as tax-free cash. For those of you that want to know how to work out the overall HMRC value of your benefits, it's just 20 times pension plus any cash that you're entitled to. The amount therefore depends on your Retirement Income Builder benefits and your Investment Builder pot. USS will work out what the maximum tax-free cash amount is for you though at your retirement date.

The maximum tax-free cash will generally be some amount higher than the standard tax-free cash amount of three times the pension from the Retirement Income Builder. In this particular example, looking at the

member's Retirement Income Builder and Investment Builder benefits, the maximum tax-free cash amount for this member, given their overall benefits, will be just over £90,000.

If you fully retire and take all of your benefits from your Retirement Income Builder and Investment Builder at the same time, USS allows you to combine your Retirement Income Builder and Investment Builder benefits together, where possible, to be able to use your Investment Builder pot as tax-free cash, up to the maximum tax-free amount allowed under HMRC rules, given your benefits.

For our example, we'll move the Investment Builder savings across to be combined with the Retirement Income Builder tax-free cash. Our member would be able to use their entire £20,000 Investment Builder pot as tax-free cash here. This is because when combining with the standard amount of tax-free cash from the Retirement Income Builder, plus the Investment Builder pot, it's still within that maximum tax-free cash amount available for this member.

However, combining your Investment Builder pot and your Retirement Income Builder cash might not always be within the maximum tax-free cash allowed by HMRC. So you might not be able to take all of your Investment Builder tax-free; it depends on the overall level of your benefits.

But for this example though, they've decided to combine their Investment Builder pot with their Retirement Income Builder benefits, so now they're up to £65,000 in tax-free cash. There's still room to take even more tax-free cash though, because the member is still below that maximum amount in this case. If they did want to take more tax-free cash though, they'd have to give up some annual pension in exchange. It's also possible instead to exchange some or all of your Retirement Income Builder tax-free cash for extra annual pension.

And just to note, in most circumstances though, it's not possible to buy extra pension in the Retirement Income Builder with your Investment Builder pot.

Buying additional pension from Investment Builder is only available if you have Money Purchase AVCs (MPAVCs) with Prudential, including any that you had already switched into the Investment Builder.

Just going back to those standard benefits again here. Just to note that when taking your Retirement Income Builder benefits, you cannot take your pension and one-off tax-free lump sum at different times. However, if you do not want to, you do not have to take all of your Investment Builder pot at the same time as you take your Retirement Income Builder benefits.

So when you choose to take your Investment Builder savings, there's four main ways to do this. You can of course take your savings at the same time as your Retirement Income Builder benefits as a tax-free lump sum, up to certain limits, as we've just described.

If you do not want to though, you do not have to take all of your Investment Builder pot at the same time as you take your Retirement Income Builder benefits. And that might be because you want to access your Investment Builder savings before you retire. Or it might be because you did not take some of your Investment Builder savings when you took your Retirement Income Builder benefits.

So if you want to take your Investment Builder benefits separately, you could take some or all of your Investment Builder pot as a cash lump sum. Or you might want to leave your Investment Builder savings invested until you're ready to use them. And if you do not take all of your Investment Builder savings, they would pass on 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.

We're going to have a look at taking your Investment Builder pot separately from your Retirement Income Builder benefits now in a bit more detail. If you've got an Investment Builder savings pot, one option available to you is to draw it out as a one-off cash sum, or make a series of withdrawals of cash. These cash sums are known as Uncrystallised Funds Pension Lump Sums, or UFPLS for short.

To take cash payments from your Investment Builder separately from your Retirement Income Builder benefits, you just need to be at or above the minimum retirement age, which is currently age 55 but rising to age 57 from April 2028.

If you're taking cash payments from your Investment Builder pot separately from your Retirement Income Builder benefits in this way, you would only be able to take up to 1/4, or 25%, of each cash payment tax-free, subject to HMRC limits. The remainder would be taxed as income.

And just to note that your Retirement Income Builder pension, or any other pension is classed as income.

Now it's really important to note though, if you take your Investment Builder pot as cash at the same time as your Retirement Income Builder benefits though, you might be able to take more than 1/4 of your Investment Builder pot as tax-free. Whether you'd be able to do that or not will depend on the level of your Retirement Income Builder benefits compared to the value of your pot at retirement and your individual circumstances.

With USS, if you're going to take these individual cash payments, you can take up to four cash payments each year from your Investment Builder pot. And each payment though must be a minimum of £2,000 each, unless you're taking your entire pot to finish off your cash payments. Also, there's no charge for taking these cash payments with USS.

You do need to be aware though that taking cash from your Investment Builder in this way that's not tax-free might push you into a higher tax band. So it's especially important to consider if you take the whole pot as cash in one go separately from your Retirement Income Builder benefits.

Also, taking any cash payments from a defined Contribution (DC) arrangement, such as the Investment Builder, before you retire can restrict the amount you can pay into a defined contribution arrangement going forward. This is known as the Money Purchase Annual Allowance (MPAA) and more detail can be found on this on the USS website.

There's some other things that you can do with your Investment Builder savings, but you'd need to transfer your Investment Builder savings out of USS to another provider in order to access them.

And you can transfer your Investment Builder savings at any time, even if you're still building up benefits with USS. So you might want to do something such as providing a flexible retirement income, which is also known as flexi access drawdown, or just drawdown.

Drawdown is a way of leaving your savings invested and building up investment returns, but taking money out to provide an income for you to live on until the pot runs out. Or you might want to buy an annuity, which gives you a regular guaranteed retirement income for the rest of your life. Or you just might want to be moving your Investment Builder savings to a different provider to USS.

It's your choice if you want to transfer out your Investment Builder savings. Alternatively, you could choose to leave some or all of your Investment Builder pot invested in USS.

You can take cash payments at a later date, you can choose to transfer all of your Investment Builder pot to another pension arrangement at a later date, or you can leave some or all of it to be paid to your loved ones when you die.

And I'll just mention here though, that in the Autumn 2024 Budget, the government announced that from 6 April 2027, most unused pension funds and death benefits will form part of a person's estate for inheritance tax purposes. So if you're considering leaving some of your benefits to your loved ones or think you might be impacted by the changes announced, we do recommend that you seek independent financial advice.

Finally, in this section, a word of caution. We've discussed that you can take your Investment Builder savings earlier, with, or after your Retirement Income Builder benefits. So before, at the same time, or after you fully retire.

If you take any cash payments from your Investment Builder savings before you fully retire, or transfer your savings out to another provider, it might result in a reduction to your life cover and ill health benefits. It would only affect these if any of your Investment Builder benefits were built up from your earnings though above the salary threshold.

And if you take a cash payment from a defined contribution scheme like the Investment Builder, and that might be as a cash lump sum or a drawdown payment, it will trigger the Money Purchase Annual Allowance (MPAA). This is the total limit you and your employer can pay into defined contribution (DC) schemes each year on your behalf and still get tax relief. It applies to all defined contribution schemes of which you are a member, including the Investment Builder, and any that you join in the future. For more information about this, please do visit the USS website.

USS recommends that you seek guidance and/or take financial advice to work out what's best for you. And if you are aged 50 or over, you might be eligible for a free Pension Wise call to discuss the options that you have with any defined contribution (DC) savings.

Pension Wise is a government service from MoneyHelper that offers free, impartial pensions guidance about your defined contribution options, not specifically about USS benefits.

And of course, there's lots of information on the USS website about how you can start taking your savings in the Investment Builder, and you'll find this on the **using your Investment Builder pot** page.

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