

How USS works

Video transcript

Here we'll take a look at how your benefits and savings in USS can build up. There are two main types of pension benefit 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 in USS, the pension you build up depends on the salary that you earn each year up to a certain threshold, the years that you've been working, 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. And the defined benefit (DB) part of USS is called the Retirement Income Builder.

There's also a defined contribution (DC) 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 pot. Then at retirement, your benefits are based on the value of your pot of money, so it's completely dependent on how much has been paid into your pot and how it's grown over the years.

In general, you tend to have more flexibility in how and when you can take defined contribution savings. In the defined contribution part, the Investment Builder in USS, you can choose where your money is invested, if you wish to, from a range of investments that USS offers. Or USS can invest these for you.

But for the defined benefit (DB) part, the Retirement Income Builder, it's USS that makes those investment decisions on behalf of all members so that you receive your specific level of benefit. I'm going to have a look at these in slightly more detail now.

In USS, everyone builds up Retirement Income Builder benefits, or defined benefits, on their salary up to the salary threshold. The salary threshold from 1 April 2025 is £71,484. If you earn above the salary threshold, then you'll also build up Investment Builder savings, or defined contribution savings, on your salary above that threshold.

If your earnings fluctuate around the salary threshold, any contributions to the Investment Builder section stop and restart, as is appropriate, automatically. Just having a closer look at the Retirement Income Builder. In the Retirement Income Builder, you build up a block of pension equal to a 75th of your salary for each year that you're a member of the scheme.

The salary used in this formula, though, is only up to a maximum of the salary threshold, which is currently £71,484. You build up a block of pension for each year, or part year, that you're paying into the scheme. Then annual increases are applied to the block of pension between the time that it's earned and the time

that it's eventually paid, and these increases are currently linked to the Consumer Prices Index, or CPI, measure of inflation, up to certain limits.

If you add all those blocks together with those annual increases, we get your total annual pension. And you'll also get a tax-free cash lump sum of three times your total annual pension, which is a one-off payment paid at the point of retirement paid in addition to your annual pension.

You can exchange some of your pension for a higher tax-free cash lump sum on retirement and vice versa. So you could even take no tax-free cash and take a higher pension for life. But you make that decision when you come to retire. Then once in payment, your pension will increase each year.

Again these increases are currently linked to the Consumer Prices Index, or CPI, measure of inflation, up to certain limits. So that you can keep track of how much you're building up, you'll receive details from USS each year in an Annual Member Statement, which can be accessed on the member portal, My USS.

Having a closer look at the Investment Builder. If you're earning above the salary threshold, then 20% of the value of your salary above this threshold is paid into your Investment Builder. This comes from the contributions that you and your employer are already paying into USS and it's at no further cost to you. The contribution rate you pay is 6.1% of your total salary.