



# Tax relief on your contributions

## Video transcript

We'll now have a look at your contributions and tax relief. You'll get tax relief on the contributions that you pay in to USS, meaning that your contributions are tax-free. That means that some of the money that would normally go to the government in tax goes towards funding your pension instead.

So for example, if you're a basic rate taxpayer and you had £100 that was paid to you as salary, then 20% of this would be paid as tax and then you'd be left with £80 in your take home pay. However, if you put that £100 of your monthly wage into your pension, then that 20% that would usually be taken as tax is put into your pension instead.

As your contributions are taken from your pay packet before you're taxed, you only pay income tax on the remainder of your wage. There are some limits to tax relief set by HMRC that you will need to be aware of while you're contributing to your pension, and these are particularly relevant if you're a high earner.

For example, whilst you're paying in to USS, you could be affected by what's known as the Annual Allowance, particularly if you are a high earner. The Annual Allowance is the maximum amount of pension savings you can build up each year before you get a tax charge, and the Annual Allowance for the current tax year is £60,000.

You can find more detail on the Annual Allowance on the **Pension tax** pages of the USS website, or you could register for our **Focus on pension tax webinar**, where we cover the Annual Allowance in more detail. I've mentioned that you get tax relief on your contributions, but what are you and your employer actually paying in to USS?

Now you as a member pay 6.1% of your total salary (so regardless of whether you're earning above or below the salary threshold) in to USS. And your employer pays 14.5%. This goes towards paying all of your benefits from the scheme. So not just your pension benefits but also the life cover and the running costs of the scheme.

Saving into a pension scheme like USS can be tax efficient. You do not pay income tax on your pension contributions, so that means the impact of your pension contributions on your take home pay is actually less than 6.1% of your salary.



I've got some examples here to show you. And first let's look at the example of someone who earns £25,000 a year and so pays income tax at the rate of 20%.

Now their 6.1% contribution to USS amounts to £1,525 over a full year. But the impact on take home pay is just £1,220. That means there's an annual tax saving of £305. Using the Retirement Income Builder formula that we've been through before of building up a block of annual pension of the 75th of yearly earnings, this member will have built up a pension block of £333 a year. This is the amount that will be payable to the member in retirement (plus any annual increases) for the rest of their life. And the member is also entitled to a tax-free cash lump sum of three times their pension at retirement. So for this member it's an additional cash sum of £1,000.

Now at first glance you might think of £333 does not look much compared to the contributions that have been paid in over the year. However, that £333 is an annual amount payable for the rest of that person's life, in addition to any valuable benefits payable after they've died as well.

Then, we have an example of someone who earns £40,000 so is also paying income tax at the rate of 20%. Their 6.1% contribution to USS amounts to £2,440 over a full year, but the impact on take home pay in this case is £1,952. Now using the formula again, this provides a pension block of £533 a year and a tax-free cash lump sum of three times the pension of £1,600.

Finally we have an example who earns £55,000 a year and is paying income tax at a rate of 40%, assuming they're not in Scotland. Their 6.1% contribution to USS amounts to £3,355 over a full year, but the impact on take home pay is just £2,013. This will provide a pension block of £733 and a tax-free cash lump sum of three times the annual pension at retirement of £2,200.

Also, you might be able to pay your contributions through what's known as salary sacrifice if your employer offers it. It does go by some other names, but salary sacrifice means that your employer pays your contributions on your behalf and reduces your salary accordingly.

So as well as not paying income tax on your pension contributions, you'll also save on National Insurance contributions because your salary is reduced before National Insurance is worked out. The impact on your take home pay, if you're paying by salary sacrifice, might be even less than what I've shown on the screen here.

As this salary sacrifice is operated through your employment contract, you would need to check with your employer whether salary sacrifice is available to you and if your contributions are being paid in this way.

To see an estimate of what the actual cost of your contributions might be, you can use the Contributions & Tax Calculator tool in My USS. Once you're in My USS, you can click on the Contributions & Tax Calculator tool here.

Our example number has a salary of £25,000 and they are using salary sacrifice. So the first thing we need to do is click the button here that says contributions are being paid by salary sacrifice and then we can use the calculator to show the actual cost to the member and also the employer contribution that's being paid on their behalf.



So if we click here, we'll get your results. So you can see for this member earning £25,000 a year and paying contributions via salary sacrifice, their 6.1% monthly contribution is £127, but the actual cost to them is just £92.