

Tax relief on your contributions

Video transcript

In this section we'll look at your contributions and tax relief. You'll get tax relief on the contributions you pay in to USS, meaning your contributions are tax-free. This means that some of the money that would normally go to the government in tax goes towards funding your pension instead.

For example, if you're a basic rate taxpayer and you had £100 that was paid to you a salary, then 20% of this would be paid as tax and you will be left with £80 in your take home pay. However, if you put £100 of your monthly wage into your pension, then the 20% of this 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'll only pay income tax on the remainder of your wage, so you've saved £20 in income tax.

There are some limits to tax relief set by HMRC that you'll need to be aware of while you're contributing to your pension, and these are particularly relevant if you're a higher earner. For example whilst you're paying in to USS, you could be affected by the Annual Allowance, particularly if you're a higher earner. The Annual Allowance is the maximum amount of pension savings that you can build up each year before you get a tax charge. The Annual Allowance for the 2025/26 tax year is £60,000.

You can find more detail on the Annual Allowance on the [pensions 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 mentioned that you get tax relief on your contributions, but what are you and your employer actually paying in to USS? You as a member are paying 6.1% of your total salary. So regardless of whether you're earning above or below the salary threshold to USS. Your employer pays 14.5% of your salary to USS and this goes towards paying for all of your benefits from the scheme. So not just your pension benefits, but also 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 and your take home pay is less than 6.1% of your salary.

Here we're going to look at an example of someone who earns £25,000 a year and so pays income tax at a rate of 20%. Their 6.1% contribution to USS amounts to £1,525 over a full year, but the impact on take home pay is £1,220. This means there's an annual tax saving of £305.

Now, using the Retirement Income Builder formula of building up a block of annual pension of a 75th of yearly earnings, this member will have built up a pension block of £333 a year. This is the amount that would 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 £1,000.

At first glance you might think £333 a year 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 the member's life, in addition to any valuable benefits payable after they've died.

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

And finally we've got an example of someone who earns £55,000 a year and is paying income tax at the 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 £2,013. In this case that will provide a pension block of £733 a year and a tax-free cash lump sum of three times the pension payable at retirement of £2,200.

Also, you may be able to pay your contributions through 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 also save on National Insurance contributions because your salary is reduced before National Insurance is worked out. So the impact on your take home pay might be even less than what we've shown on this slide.

As salary sacrifice would be operated through your employment contract, you will need to check with your employer whether salary sacrifice is available for you and if your contributions are being paid in this way. To see an estimate of the actual cost of your contributions, 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. In our example, our member has a salary of £25,000 a year and they're going to use salary sacrifice. The first thing we need to do is click the button to say contributions are being paid by a via salary sacrifice, and then we can use the calculator to show the actual cost to the member and also the employer contribution that's paid on their behalf.

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