



Understanding DC — Saving in the Investment Builder

Video transcript

Hello and welcome to this Understanding defined contribution (DC) webinar. This one focuses on saving in the Investment Builder. My name is Rebecca Dodd and I'm a pensions consultant from Mercer.

The main aim of today is to help give you a better understanding about saving in the defined contribution (DC) part of USS which is known as the Investment Builder. We'll briefly mention how USS works before moving on to the main focus of the presentation which is looking at paying into the Investment Builder and then savings once they're in the Investment Builder. We'll then finish off with a very quick look at taking your savings out of the Investment Builder. But for more information on this do have a look at our webinar which focuses fully on **Taking savings from the Investment Builder**.

Here we'll take a look at how your benefits and savings build up in USS. There's two main types of pension in the UK, defined benefit (DB) and defined contribution (DC), and USS has got both these types of benefits. Defined benefit (DB) means that your benefits on retirement are based on a predetermined formula.

In USS, the pension that 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 is not directly connected to how much you or your employer's paid in, what matters is your formula. 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 (DC) 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 that 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 (DC) savings. In the defined contribution (DC) part, the Investment Builder, you can choose where your money's invested if you wish from the range of investments that USS offers, or USS can invest these for you. Now



for the defined benefit 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.

In USS, everyone builds up Retirement Income Builder (or defined benefit) benefits on their salary up to the salary threshold and the salary threshold from 1 April 2026 is £74,208. 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 will stop and restart as appropriate automatically.

The Investment Builder is the defined contribution part of USS and the retirement benefits you're able to get from your Investment Builder savings will depend on how much has been paid in and how your investments have performed. Unlike the Retirement Income Builder, which is the defined benefit part, not every member will have savings in the Investment Builder.

There's three ways to build an Investment Builder pot. Firstly, if you earn above the salary threshold then you will automatically build up savings in the Investment Builder, as well as in the Retirement Income Builder. You can choose to make additional contributions if you want to and they will go into the Investment Builder whatever you're earning.

If you want to consolidate your pensions, you can also transfer a pension from another scheme into the Investment Builder and that includes switching any Prudential Money Purchase AVCs that you have if you want to. We're going to look at each of these ways to save into the Investment Builder now.

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

So if you earn more than the salary threshold, which for the 2026/2027 tax year is £74,208, you'll start saving into the Investment Builder. Say for example, we've got a member whose salary was £79,208 over the 2026/2027 year. USS would only use the salary threshold in the formula for the Retirement Income Builder calculation for that year.

But there's also £5,000 of salary that the member's paid contributions on in excess of the salary threshold so a total of 20% of this element of the member's salary goes into the Investment Builder. So £1,000 has been paid into their Investment Builder pot over the year because the member exceeded the salary threshold.

Some members may not currently be earning over the salary threshold but have investment savings from these types of contributions; these automatic contributions from the past. This is because the salary threshold was around £40,000 in 2022 and 2023, and then it increased to just over £70,000 in 2024. So if you were a contributing member of the scheme and earned above the threshold during 2022 and 2023, you'll have been saving automatically into the Investment Builder as well as the Retirement Income Builder.



But you do not need to earn over the salary threshold to pay into the Investment Builder. If you decide you want to save a bit more into your pension you can choose to make additional contributions, and if you do so, your additional contributions will go into the Investment Builder. Now, as long as you're building up a pension with USS, you can choose to build up an Investment Builder pot to save that bit extra.

Additional contributions can be made as lump sums or regular payments from your salary which can be a monetary amount or a percentage of your salary. As with your normal monthly pension contributions, any additional contributions will be taken from your pay before you're taxed, so you'll only pay income tax on the remainder of your wage. There are some limits to this but for most people tax relief is available on contributions at their marginal tax rate, which can make contributions to a pension a tax efficient way of saving.

If you do want to start paying additional contributions or change the amount that you're already paying, you can do this in My USS. My USS is your USS online portal for managing your USS retirement benefits. You'll find My USS on the USS website at uss.co.uk and this is what it looks like when you log in to My USS.

We're just going to go into the **calculators and tools** menu first though to see what paying additional contributions might cost you. If we go in here now. In this Contributions & Tax Calculator, you can estimate what difference it will make to your take home pay by making those additional contributions because you do not pay income tax on pension contributions.

We'll just use an example of someone with an annual salary of £25,000 and they want to pay a 1% additional contribution a month. So if we click here, you'll get your results. So we go in there.

Here you can see for this example member earning £25,000 a year and paying additional contributions of 1% on top of their usual 6.1% contribution, their total monthly contribution of 7.1% is £148, but the actual cost to them is just £118.

Then if you do decide that you want to save more in USS by paying additional contributions, you'll need to set these up in My USS as well. To set up additional contributions, you go into the Investment Builder menu here because additional contributions go into the Investment Builder.

So if we go in here, then you can go to **view or manage savings**, here you'll see any Investment Builder savings that you already have. To set up paying additional contributions, you scroll down to this **Manage your additional contributions** button here.

Once we go in there, you've got three options when it comes to making additional contributions. You can make a monthly additional contribution by paying a percentage or an amount of your salary every month. You can make a one-off lump sum payment or you can choose to pay an additional 1% of your salary every month by taking The Match.

The Match is just one way to make additional contributions to save more. You can choose to pay an additional 1% of your salary every month to the Investment Builder. Now, if you paid The Match between October 2016 and March 2019, you would have received an extra 1% contribution from your employer as well.



But from the 1 April 2019, the employer element of The Match was removed. You can still choose or may still have The Match, but your employer will no longer match that 1% contribution.

As an example, we'll show a member making a monthly additional contribution. To make a monthly additional contribution, click **update your monthly contribution** here and then choose whether you'd like to pay a percentage of your salary or a specific amount every month. You'll then need to enter the percentage or amount that you'd like to make into the box.

You can tick here if you want to make your additional contributions via salary sacrifice if your employer offers this. More information about salary sacrifice can be found on the USS website. If you're already paying additional contributions and want to change the amount you can do so in here as well. This confirmation will replace your previous request and a new instruction will go to your employer to start deducting the new amount from your monthly salary.

If you'll leave your current employer and start a new role with a new employer that's eligible for a USS pension, you will need to resubmit these forms if you want to continue paying additional contributions into the Investment Builder because they will not automatically continue when you change employer.

Another way to save into the Investment Builder is by transferring pension benefits you've built up in another scheme in to USS. You might choose to do this to consolidate your pension benefits and savings all in one place. If you do decide to transfer any pension benefits you have from another scheme, they will go into the Investment Builder.

A transfer might be from a pension you have from a previous job role, or you might switch funds you have with the arrangement USS used to have with Prudential for Money Purchase AVCs or MPACs as they're commonly called. But before you decide to transfer any pensions, you should consider your options, and in some cases you're only able to transfer if you've had financial advice.

Transfers in to USS can only be made from an HMRC registered pension scheme or a Recognised Overseas Pension Scheme (ROPS), and only if you're still a contributing member of USS. Before you do transfer in to USS though, it's worth considering what you'll be transferring out and whether it's right for you and this is just a few things that you might want to bear in mind.

If you're thinking of transferring from a defined contribution (DC) scheme, you could compare what you'll get with your previous scheme and what you'll get with USS, including the flexibilities available when it comes to taking your savings. You could consider the costs in both schemes. USS do not charge to transfer into the Investment Builder, but there are investment management fees you should be aware of for pension savings that are transferred in to USS.

Investment management fees in the Investment Builder are currently subsidised by employers for any contributions going in because you earn above the salary threshold or any additional contributions that you choose to make, and any Money Purchase AVCs with Prudential that are switched into the Investment Builder. However, any pension savings transferred in from other schemes do not benefit from that fee subsidy. Cost information about annual management charges can be found on My USS. You'll also need to consider the investment options available in both schemes.



If you are thinking of transferring from a defined benefit (DB) scheme, as mentioned, any transfers again will go into the Investment Builder, the defined contribution (DC) part of USS. So that means that they'll be separate from your Retirement Income Builder benefits and what you build up will be different to the scheme that you're transferring from because they'll be coming from a defined benefit (DB) scheme into a defined contribution (DC) arrangement in the Investment Builder.

Again, you'll need to consider the costs in both schemes. And as mentioned, USS do not charge to transfer into the Investment Builder, but there are investment management fees you should be aware of for pension savings that you have transferred in as just mentioned. Also, you're legally required to get independent financial advice if you're transferring more than £30,000 worth of defined benefits (DB).

If you are thinking about transferring in a pension from a previous employer, if you go to the Transfer in option under Investment Builder in My USS, you can complete the form to start the transferring process. And just to note, this form is the information gathering stage to make sure that you've got everything from USS and your other scheme before making a decision; it's not the form that actually means that you're definitely going ahead with the transfer.

If you would like to switch your Money Purchase AVCs with Prudential into the Investment Builder there's a separate form on the main USS website for this.

In the section we'll focus on what happens to your contributions once they're in the Investment Builder. In terms of where your money in your Investment Builder pot is invested, you have a choice.

There are two investment routes to choose from, the **Do It For Me** option and the **Let Me Do It** option; you can see these investment options in My USS. Both these options include an option for you to invest in ethical options that are designed to reflect USS members ethical preferences and that's in line with the Investment Builder Ethical Guidelines and these can be found on the USS website.

The first of these two investment routes, the **Do It For Me** option, is where USS manages the investments for you. Or there's the **Let Me Do It** option and that's where you make your own investment choices. And we're going to have a look at these two options now.

First of all, in the Do It For Me options. If you choose this option, it's where USS manage your investments for you so you do not have to. Within the Do It For Me option, you can decide whether you want to invest in the Default Lifestyle Option or the Ethical Lifestyle Option, depending on your investment objectives and beliefs.

The Default Lifestyle Option is where USS will automatically invest your money for you if you do not make a choice at all. The Ethical Lifestyle Option works in the same way as the Default Lifestyle Option, but the investments within it meet these Investment Builder Ethical Investment Guidelines and there's more information about these guidelines in My USS.

But what do I actually mean by lifestyle options? The way that lifestyle options work is that USS gradually move your investments over time from generally higher risk funds to generally lower risk funds over the 10 years prior to your Target Retirement Age (TRA).



As you approach your Target Retirement Age, USS will automatically start to move your investments into these lower risk funds and the aim of this is to reduce the possibility of large changes in the value of your Investment Builder savings pot. Higher risk funds mean that there's generally more chance of higher returns, but there is a risk that your investments will fall as well. Lower risk funds mean there's generally less chance of higher returns, but less risk that your investments will go down.

Just to note, your investments can go down as well as up and therefore the value of your pot is not guaranteed. But within lifestyle, this movement from higher to lower risk investments is called. USS will write to you to let you know what these lifestyling investment switches are about to start when you're 10 years away from your Target Retirement Age.

Both the Default Lifestyle Option and the Ethical Lifestyle Option follow this pattern. As a reminder, the Default Lifestyle Option is where USS will automatically invest your money if you do not make a choice, and the Ethical Lifestyle Option works in the same way but specific investments are slightly different and are in line with the Investment Builder Ethical Investment Guidelines.

What do I mean by Target Retirement Age? Your Target Retirement Age is the age that you might want to start taking your Investment Builder savings and it tells USS when to start moving your Investment Builder savings into these lower risk investments. It also tells USS when they should contact you about accessing your savings and this could be at the same time or a different time from taking your Retirement Income Builder benefits.

Your Target Retirement Age does not mean you have to retire at this age or even take your benefits at this age, and it does not indicate to your employer when you are planning on retiring from your employment. Your Target Retirement Age is purely there in relation to your Investment Builder savings.

Your Target Retirement Age is not the same as your Normal Pension Age, which is the age at which you can start taking your Retirement Income Builder benefits in full, unreduced. To set your Target Retirement Age, just go in to My USS and you can go into the main Investment Builder page and then scroll down to change your Target Retirement Age.

If you do not set your Target Retirement Age, it will automatically be set to age 66 for most people, which is the current Normal Pension Age in the Retirement Income Builder. Your Target Retirement Age though may have been set to age 65 if you've been saving in the investment Builder for a while and have not set one yourself.

It is possible to change your Target Retirement Age at any point, but for members invested in a lifestyle option, it does let USS know when to move your investments to those lower risk funds as you get closer to taking them. So it is important that your Target Retirement Age matches your plans.

If your Target Retirement Age is earlier or later than you plan to take your savings, your investments might not move at the appropriate time and then we'll be in higher or lower risk investments for longer. That could result in them not being worth what you expect when you come to take them due to market fluctuation.



For example, if your Target Retirement Age is set to age 65, you've set it perhaps, but you take your Investment Builder the savings at age 67 your savings would have been in the lower risk investments for an additional two years, which might be depriving you of investment growth.

So planning ahead can also help prevent unnecessary disinvestments and reinvestments because USS look to match your investments to the stage that you're in the investment lifestyle. But sometimes circumstances change.

We've so far just talked about the Do It For Me option where USS invests your money in the Investment Builder for you in one of the lifestyle options. But if you'd prefer to make your own investment decisions and manage your investments yourself, you can choose the Let Me Do It option.

In the Let Me Do It option, you choose which funds you would like to invest in and manage any changes yourself. There's a range of funds for you to choose from and you can invest in those funds that have a level of risk and return that you're comfortable with. And the funds range from lower risk funds with possible lower returns, to higher risk funds with potentially higher returns. But it's your responsibility to understand those funds strategies and to monitor how the funds are performing and make any necessary adjustments yourself.

Unlike with the Do It for Me option, your investments will not automatically move over time to a more cautious approach. The USS website has a range of resources to help you manage your investments if you're in the Let Me Do It option.

However, it's still important if you're in the Let Me Do It option to complete your Target Retirement Age in My USS so it matches your plans. USS will get in touch with you about your Investment Builder options when you're approaching your Target Retirement Age.

You can log in to My USS to see where your savings are invested and those options that are available to you. When it comes to defined contribution schemes like the Investment Builder, investment management fees applies to the funds that you have invested.

However, in USS, your employer currently subsidises the investment management fees that you would otherwise pay in most cases. If your Investment Builder savings are from earning above the salary threshold, if they're from making additional contributions or because you switched your Money Purchase AVC arrangement with Prudential into the Investment Builder, you will not pay investment management fees on those savings because they're currently subsidised.

However, when you transfer in savings from another pension scheme in to USS and into the Investment Builder, your employer does not subsidise the fees on this portion. This subsidised and not subsidised fees applies to all the funds under the Do It For Me and the Let Me Do It options.

In My USS, you can see what the investment management fees are for the transfers in from other schemes by looking at transfer in charges. This shows the fees both pre subsidy and post subsidy and it shows the pre and post subsidised fees for both the Do It For Me and the Let Me Do It funds.



Here we look at a brief summary of managing your Investment Builder savings in My USS. You can manage your savings in the Investment Builder in the member portal, My USS.

First of all, you can choose to make additional contributions to save more for your future, either as one-off or regular payments and the Contributions & Tax Calculator in My USS can give you an idea of cost. My USS is also where you set up your additional contributions.

If you decide to transfer in another pension you have to USS you can complete the **Transfer in request form** within My USS to start the process. You can decide where your Investment Builder savings are invested and if you do not choose, USS will invest your savings in the Default Lifestyle Option.

Further information about each of these funds and the lifestyle strategies and any applicable costs can be found on My USS. And finally, you can set your Target Retirement Age or TRA, which is the age you expect to start taking your Investment Builder savings.

Here we'll take a brief look at your options for taking your Investment Builder savings. You can start to draw savings from your Investment Builder from the minimum pension age, which is set by the government.

The minimum pension age is currently aged 55, but it is rising to age 57 from April 2028. You might be some years off this however, in brief, there are currently four ways to access your Investment Builder savings.

The first is that you can take your savings at the same time as your Retirement Income Builder benefits, either partly or fully as a lump sum, and that lump sum might be tax-free up to certain limits.

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

You can take some or all of your Investment Builder savings pot as a cash lump sum and a quarter of it can generally be paid tax-free. Or you might want to leave some or all of your Investment Builder savings invested with USS until you're ready to use them.

And if you do not take all your Investment Builder savings, they would pass to your beneficiaries after your death. Or you could transfer them to another provider outside of USS to access other ways of using your pot of money such as drawdown. Drawdown is where you draw out an income until the pot runs out.

Or you might want to buy an annuity which is securing a guaranteed income for life. Using the Benefit Calculator can help give you an idea of what benefits might be provided from your Investment Builder savings and the impact of paying in more contributions or transferring in other in other pension benefits, as well as giving an indication of the Investment Builder options available.

And this is covered in more detail in the **Understanding DC — Taking savings from the Investment Builder webinar**.

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