

Understanding DC — Saving in the Investment Builder

Video transcript

Hello and welcome to this Understanding defined contribution 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 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**.

Let's take a look at how your benefits and savings build up in USS. There are two main types of pension in the UK; defined benefit and defined contribution, and USS has got both these types of benefit.

Defined benefit (DB) means that your benefits on retirement are based on a predetermined formula. And 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 that you build up is not directly connected to how much you or your employers paid in, what matters is your formula.

The defined benefit (DB) part of USS is called the Retirement Income Builder. But 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 savings 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 (DC) part, the Investment Builder, 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 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.

The way it works is that in USS everyone builds up a Retirement Income Builder, or defined benefit, 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, but only on your salary above that threshold. If your earnings fluctuate around that salary threshold, any contributions to the Investment Builder section will stop and restart as appropriate automatically.

The Investment Builder is the defined contribution (DC) 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, the defined benefit part, not every member will have savings in the Investment Builder.

There are three ways to build an Investment Builder pot. If you earn above the salary threshold, then you'll automatically be building up savings in the Investment Builder, as well as in the Retirement Income Builder. You can choose to make additional contributions into the Investment Builder whatever you're earning. And 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 you have, if you want to. We're going to look at each of these ways of saving 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 your Investment Builder. This comes from the contributions you and your employer are already paying in to USS, so it's at no further cost to you. The contribution rate you pay is 6.1% of your total salary.

So if you earn more than the salary threshold, which for the 2025/26 tax year is £71,484, you'll start saving into the Investment Builder automatically. Say for example we've got a member whose salary was £76,484 over the 2025/26 tax year. USS will only use the salary threshold in the formula for the Retirement Income Builder calculation for the year. 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 their Investment Builder pot. So £1,000 has been paid into their Investment Builder savings pot over the year because that member exceeded the salary threshold.

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

your additional contributions will go into the Investment Builder. As long as you're building 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 monetary amounts or a percentage of your salary. As with your normal monthly pension contributions, any additional contributions will be taken from your pay packet 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 the contributions at their marginal tax rate, which can make contributions to a pension scheme a tax-efficient way of saving.

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

When you log in to My USS, you can go into the **calculators and tools** menu first to see what paying additional contributions might cost you. In the **Contributions & Tax Calculator**, you can estimate what difference it will make to your take-home pay by making additional contributions, because you do not pay income tax on pension contributions.

For example, someone with an annual salary of £25,000 who wants to pay an additional 1% contribution a month can see their results. For this member, earning £25,000 and paying additional contributions of 1% on top of their usual 6.1% contribution, their total monthly contribution is 7.1%, amounting to £148. But the actual cost to them, their take-home pay, goes down to £118.

If you decide that you want to save more in to USS by paying additional contributions, you'll need to set these up in My USS as well. To do this, go into the **Investment Builder** menu, because additional contributions go into the Investment Builder. Then go into **view or manage savings**. First of all, you'll see any Investment Builder savings that you have, and to set up paying additional contributions, scroll down to **manage your additional contributions**.

There are three options when it comes to making additional contributions. Firstly, you can make a monthly additional contribution by paying a percentage or amount of your salary every month. Or 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 under The Match. 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 1 April 2019, the employer element of The Match was removed. You can still choose, or you might still have, The Match, but your employer will no longer match that additional 1%. It's just your 1% contribution.

As an example, a member making a monthly additional contribution would click **update your monthly contribution**, then choose whether to pay a percentage of their salary or a specific monetary amount every

month. You'll then need to enter the percentage or amount you'd like to make. You can also tick if you want to make your additional contributions via salary sacrifice, if your employer offers this.

There's more information about salary sacrifice on the USS website. If you're already paying additional contributions and want to change the amount, you can do so in My USS. If you change the amount, this confirmation will replace your previous request and a new instruction will go to your employer, who will start deducting the new amount from your monthly salary.

If you 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. They will not automatically continue if you change employer, even though you'd still be in the USS pension scheme.

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've had from a previous job role, or you might switch funds you have with the arrangement USS had with Prudential for Money Purchase AVCs (MPAVCs). Before you decide to transfer in any pensions, you should consider your options, and in some cases you can only transfer if you've had financial advice. Transfers in to USS can only be from an HMRC registered pension scheme, or a Recognised Overseas Scheme (ROPS), and only if you're still a contributing member of USS.

Before you transfer in to USS, it's worth considering what you'll be transferring out and whether it's right for you. If you're thinking of transferring from a defined contribution arrangement (DC scheme), you should compare what you'll get with your previous scheme and what you'd get with USS, including the flexibilities available when it comes to taking your savings. You should also consider the costs in both schemes.

USS do not charge to transfer into the Investment Builder, but there are investment management fees you need to be aware of for pension savings transferred in. Investment management fees in the Investment Builder are currently subsidised by employers for contributions going in because you earn above the salary threshold, for any additional contributions you've chosen to make, and for 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 this fee subsidy. Cost information can be found on My USS.

You should also consider the investment options available to you in both schemes. If you're thinking of transferring from a defined benefit (DB) scheme, any transfers in will go into the Investment Builder, the defined contribution part of USS. That means they'll be separate from your Retirement Income Builder benefits and what you build up will be different to the scheme you're transferring from.

Again, you need to 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

transferred in. You're also legally required to get independent financial advice if you're transferring more than £30,000 worth of benefits from a defined benefit scheme.

If you're thinking about transferring in a pension from a previous employer, you can go into the **transfer in** option under **Investment Builder** in My USS and complete the form to start the process. This form is the information-gathering stage to make sure you've got everything from USS and from your other scheme before making a decision. It's not the form that says you are definitely going ahead with the transfer.

If you'd 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 this 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 options include the ability to invest in ethical funds designed to reflect USS members' ethical preferences, in line with the Investment Builder Ethical Guidelines, which can be found on the USS website.

The **Do It For Me** option is where USS manages the investments for you. Within this 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 if you do not make a choice. The Ethical Lifestyle Option works in the same way, but the investments within it meet the Ethical Investment Guidelines.

Lifestyle options work by gradually moving 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 TRA, USS will automatically start to move your investments into lower-risk funds. The aim is to reduce the possibility of large changes in the value of your Investment Builder savings pot.

Higher-risk funds mean there's generally more chance of higher returns, but also a risk that your investments will fall. Lower-risk funds mean there's less chance of higher returns, but less risk of losses. Your investments can go down as well as up, so the value of your pot is not guaranteed. This gradual shift is called **Lifestyling**. USS will write to you when you're 10 years away from your TRA to let you know that these switches are about to start. Both the Default Lifestyle and Ethical Lifestyle options follow this pattern.

Your Target Retirement Age (TRA) is the age at which you might want to start taking your Investment Builder savings. It tells USS when to start moving your savings into lower-risk investments and when to contact you about accessing them. This could be at the same time or a different time from taking your Retirement Income Builder benefits.

TRA does not mean you have to retire at that age or even take your benefits then, and it does not indicate to your employer when you plan to retire. It is purely related to your Investment Builder savings. TRA 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.

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

It's possible to change your TRA at any point. For members invested in a Lifestyle option, it lets USS know when to move your investments to low-risk funds as you get closer to taking them. It's important that your TRA matches your plans. If your TRA is earlier or later than when you actually take your savings, your investments might not move at the right time, leaving them in higher or lower-risk funds for longer.

For example, if your TRA is set to 65 but you take your savings at 67, your savings would have been in lower-risk investments for an extra two years, potentially depriving you of growth. Planning ahead can help prevent unnecessary disinvestments and reinvestments, as USS aims to match your investments to your stage in the lifestyle process.

If you'd prefer to make your own investment decisions, you can choose the **Let Me Do It** option. In this option, you select which funds to invest in and manage any changes yourself. There's a range of funds to choose from, covering different levels of risk and return, from lower-risk funds with possible lower returns to higher-risk funds with potentially higher returns.

It's your responsibility to understand fund strategies, 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.

Even if you're in the **Let Me Do It** option, it's important to complete your Target Retirement Age (TRA) 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 TRA. You can log on to My USS to see where your savings are invested and the options available to you.

In defined contribution (DC) schemes like the Investment Builder, investment management fees apply to the funds you have invested. However, in USS, your employer currently subsidises the investment management fees you would otherwise pay in most cases. If your Investment Builder savings are from earning above the salary threshold, from making additional contributions, or from switching your Money Purchase AVC arrangement with Prudential into the Investment Builder, you will not pay investment management fees on those savings because they're subsidised.

When you transfer in savings from another pension scheme in to USS and then into the Investment Builder, your employer does not subsidise the fees on this portion. This distinction between subsidised and non-subsidised fees applies to all funds under both the **Do It For Me** and **Let Me Do It** options. In My USS you can see what the investment management fees are for transfers in from other schemes by looking at **transfer in charges**, which shows the fees both pre- and post-subsidy for both options.

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

these contributions. If you decide to transfer in another pension 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. If you do not choose, USS will invest your savings in the Default Lifestyle Option. Further information about each of these funds, lifestyle strategies, and any applicable costs can be found on My USS. You can also set your Target Retirement Age (TRA), which is the age you expect to start 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 55, but it will rise to 57 from April 2028.

There are currently four ways to access your Investment Builder savings. The first is to take your savings at the same time as your Retirement Income Builder benefits, either partly or fully as a lump sum, which may be tax-free up to certain limits. You do not have to take all your Investment Builder pot at the same time as your Retirement Income Builder benefits. You might want to access your Investment Builder savings before you retire, or you might not take some or all of them when you take your Retirement Income Builder benefits.

You can take some or all of your Investment Builder savings pot as a cash lump sum, with a quarter generally tax-free. You might also leave some or all of your savings invested with USS until you're ready to use them. If you do not take all your Investment Builder savings, they would pass to your beneficiaries after your death.

Alternatively, you could transfer them to another provider outside USS to access other ways of using your pot, such as drawdown. Drawdown allows you to draw out an income until the pot runs out. Or you might want to buy an annuity, which secures 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, the impact of paying in more contributions or transferring in other pension benefits, and the Investment Builder options available. This is covered in more detail in the **Understanding defined contribution** webinar, **Taking savings from the Investment Builder**.