

# Understanding DC

## — Taking savings from the Investment Builder

### Video transcript

Hello and welcome to this Understanding defined contribution webinar focusing on taking savings from the Investment Builder. My name's Rebecca Dodd and I'm a pensions consultant from Mercer.

The main aim of this presentation is to help give you a better understanding about the options that you have for taking benefits from the defined contribution or DC part of USS which is known as the Investment Builder. First we'll look at what defined contribution savings you might have, then focus on the options that you have for taking benefits from the Investment Builder.

We'll look at what you can do with any USS savings you currently have invested or previously invested with Prudential which is known as Money Purchase Additional Voluntary Contributions or MPAVCs. Then we'll look at taking any defined contribution savings you have at the same time as your Retirement Income Builder benefits. And then we'll finish off with a look at the Benefit Calculator in **My USS** so you can see what you might get from USS by using your defined contribution savings.

Information on how your savings in the Investment Builder work, paying more and transferring in are covered in another webinar **Understanding DC — Savings in the Investment Builder**.

Here we're going to have a look at how you can find what defined contribution or DC savings you might have with USS. Before getting into the options for taking your defined contribution savings, we'll recap a few things.

There are two main types of pension in the UK, defined benefit and defined contribution, 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 defined benefit part is called the Retirement Income Builder.

There's also a defined contribution part of USS. In a defined contribution arrangement, any money paid in by you or your employer goes into your pot. And 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 USS, the defined contribution part is called the Investment Builder.

But prior to the introduction of the Investment Builder in October 2016, you might have built up defined contribution savings with Prudential. These are referred to as Money Purchase Additional Voluntary Contributions or MPAVCs, and since 1 October 2019, it's not been possible to pay any new Money Purchase AVCs into any Prudential funds since the Investment Builder was introduced.

So how do you check what defined contribution savings you have in USS? The place to check what benefits and savings you have with USS is the online portal **My USS** and you'll find My USS on the USS website at [uss.co.uk](https://uss.co.uk).

Your summary page in My USS will show you what you've built up to the previous 31 March in the Retirement Income Builder, but it will show you a current value of any Investment Builder savings that you have. However, this summary page will not show you if you've got any Money Purchase AVCs with Prudential.

To check whether you have these you need to look in your Annual Member Statement. If you go into **My documents** in My USS, you'll be able to see your Annual Member Statements. If you look in the snapshot of your benefits and savings on your latest statement, it will tell you if you have any Prudential Money Purchase AVCs.

You'll also receive an annual statement from Prudential which will show you their value if you have AVCs with Prudential. Most Money Purchase AVC pots from Prudential's Unit-Linked Funds have already been switched into the Investment Builder.

If you have a With-Profits or Deposit Fund pot with Prudential that you've not yet switched, your money will remain invested with Prudential unless you decide to move it.

Here we'll have a look at when you can take your defined contribution 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 age 55 but it is rising to age 57 from April 2028.

For your Investment Builder savings, you will have a Target Retirement Age (TRA) in My USS. 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. Your Target Retirement Age tells USS when to start moving your Investment Builder savings into lower risk investments, if you're invested in one of the lifestyle funds, and also when USS should contact you about accessing your savings. It does not mean you have to retire at this age.

For more information about saving in the Investment Builder there's more information on the USS website or you might want to have a look at our webinar on **Saving in the Investment Builder**.

When you choose to take your Investment Builder savings, there's four main ways to do this. You can take your savings at the same time as your Retirement Income Builder benefits as a lump sum, and that might be tax-free up to certain limits. Or you could take some or all of your Investment Builder pot separately

from your Retirement Income Builder benefits as a cash lump sum. Or you might want to leave your Investment Builder 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. Or you could transfer your Investment Builder savings to another provider outside of USS to access other ways of using your pot of money.

We'll look at these in more detail now starting with taking your Investment Builder pot only. If you do not want to, you do not have to take all of your Investment Builder pot at the same time as you take your Retirement Income Builder benefits. 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 of your Investment Builder savings when you took your Retirement Income Builder benefits.

If you have an Investment Builder savings pot, one option available to you is to draw it out as a one-off cash lump sum or make a series of withdrawals of cash. These cash sums are known as Uncrystallised Funds Pension Lump Sums or UFPLS for short.

To take cash payments from your Investment Builder separately from your Retirement Income Builder benefits, you need to be at or above the minimum retirement age which is currently age 55 but it is rising to age 57 from April 2028. If you're taking cash payments from your Investment Builder pot separately from your Retirement Income Builder benefits in this way, you would only be able to take a quarter, or 25%, of each payment tax-free subject to HMRC limits; the remainder would be taxed as income.

Just to note that your Retirement Income Builder pension or any other pension is classed as income. It's really important to note though if you take your Investment Builder pot as cash at the same time as your Retirement Income Builder benefits, you might be able to take more than a quarter of your Investment Builder pot as tax-free. Whether you would be able to do this will depend on the level of your Retirement Income Builder benefits compared to the value of your pot at retirement and your individual circumstances.

With USS, you can take up to four cash payments each year from your Investment Builder pot and each payment must be a minimum of £2,000 each, unless you're taking your entire pot. Just to note though, there's no administration charge for taking cash payments from USS. There's more information about taking cash payments including eligibility requirements and a form to complete to access the payments on the USS website. But if you have a With-Profits or Deposit Fund pot with Prudential that you've not yet switched, your money will remain invested with Prudential unless you decide to move it.

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Your Target Retirement Age tells USS when to start moving your Investment Builder savings into lower risk investments, if you're invested in one of the lifestyle funds, and also when USS should contact you about accessing your savings. It does not mean you have to retire at this age.

For more information about saving in the Investment Builder there's more information on the USS website or you might want to have a look at our webinar on [Saving in the Investment Builder](#).

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Or, you could take some or all of your Investment Builder pot separately from your Retirement Income Builder benefits as a cash lump sum. Or you might want to leave your Investment Builder 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.

Or you could transfer your Investment Builder savings to another provider outside of USS to access other ways of using your pot of money. We'll look at these in more detail now starting with taking your Investment Builder pot only.

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With USS, you can take up to four cash payments each year from your Investment Builder pot and each payment must be a minimum of £2,000 each, unless you're taking your entire pot. Just to note though, there's no administration charge for taking cash payments from USS.

There's more information about taking cash payments including eligibility requirements and a form to complete to access the payments on the USS website. You need to be aware though that taking cash from your Investment Builder that's not tax-free might push you into a higher tax band, so it's especially important to consider if you're taking the whole pot as cash in one go.

Also, taking any cash payments from a defined contribution arrangement, such as the Investment Builder before you retire, can restrict the amount that you pay into a defined contribution arrangement going forward and this is known as the Money Purchase Annual Allowance.

There are some other things that you can do with your Investment Builder savings, but you would need to transfer your Investment Builder savings out of USS to another provider to access them. You can transfer your Investment Builder savings at any time even if you're still building up benefits with USS.

You might want to do something such as providing a flexible retirement income, which is also known as a flexi-access drawdown or just drawdown. Drawdown is a way of leaving your savings invested and building up investment returns but taking money out to provide an income for you to live on until the pot runs out. As a member of USS you've got access to a drawdown arrangement that's not on the open market with a provider called LifeSight.

Or you might prefer an annuity which gives you a regular guaranteed retirement income for the rest of your life. With an annuity, you can usually decide on things like whether your income will increase in payment or whether it will provide a survivor's pension after your death. How you tailor your annuity will impact what level of income you might receive and these levels can also vary between the different annuity providers.

As a member of USS, you'll have access to the guided annuity service provided by Hub Financial Solutions Limited, and they can support you if you want to buy an annuity. Or, you might just want to have your Investment Builder savings invested with a different provider to USS; it's your choice. If you want to transfer out your Investment Builder savings you can and which provider you choose to transfer to.

Alternatively, you could choose to leave some or all of your Investment Builder pot invested in USS. At a later date, you can take cash payments or you can choose to transfer all of your Investment Builder pot to another arrangement even if you're still contributing to USS. Or, leave some of it or all of it to be paid to your loved ones when you die.

I'll just mention here that in the Autumn 2024 budget the government announced that from **6 April 2027**, most unused pension funds and death benefits will form part of a person's estate for inheritance tax purposes. So, if you are considering leaving some of your benefits to your loved ones or you think you might be impacted by the changes announced, we do recommend that you seek independent financial advice.

Now when it comes to taking your Investment Builder savings before retirement, a word of caution. I've mentioned that you can take your Investment Builder savings earlier with or after your Retirement Income Builder benefits, i.e. before, at the same time or after you fully retire.

But if you take any cash payments from your Investment Builder savings before you fully retire or transfer your savings out to another provider, it might result in a reduction to your life cover and ill health benefits if any of your Investment Builder benefits were built up from you earning above the salary threshold.

And if you take cash payments from a defined contribution scheme like the Investment Builder, now that might be as a cash lump sum or a drawdown payment, it will trigger what's known as the Money Purchase Annual Allowance.

The Money Purchase Annual Allowance is the maximum amount that can be paid by you and your employer, in total, in the future to any defined contribution arrangement, like the Investment Builder, before getting a tax charge if you've already taken some of your defined contribution savings in certain ways. And the allowance is currently £10,000 a year.

If you've taken some savings from the Investment Builder, from Prudential or any other defined contribution arrangement as an UFPLS cash payment, or a drawdown payment, the Money Purchase Annual Allowance will be triggered.

For these UFPLS cash payments, 25% is tax free and the 75% or the remaining three-quarters of the payment is taxed. It will also apply if you transfer your Investment Builder savings to an alternative arrangement and start drawdown income payments or take cash payments from there.

This is the same for any defined contribution savings, whether it's from Prudential or outside of USS; if you take UFPLS cash payments or drawdown income payments, the Money Purchase Annual Allowance will apply to you.

Now where the Money Purchase Annual Allowance does not apply though is if you use your Investment Builder to provide your tax-free cash when taking your Retirement Income Builder benefits. If you and/or your employer make contributions to a defined contribution arrangement like the Investment Builder that go over the limit if you triggered the Money Purchase Annual Allowance which is currently £10,000, you'll need to pay additional income tax on the amount that you've gone over by. This could cancel out the tax relief which you receive automatically on defined contribution contributions. USS do recommend that you seek guidance and/or take financial advice to work out what's best for you.

If you were over age 50, you might be eligible for a free Pension Wise call to discuss the options you have with any defined contribution savings. Pension Wise is a government service from MoneyHelper that offers free impartial pensions guidance about your defined contribution options.

There's lots of information on the USS website itself about how you can start taking your savings in the Investment Builder, and that's in the **using your Investment Builder pot** page.

Bringing this all together, you'll be able to have a look at what your Investment Builder savings might look like if you take them separately from your Retirement Income Builder benefits by using the Benefit Calculator in My USS. In here you'll be able to see all the options that we've talked about in this section.

In this section, we'll look at when it comes to taking your Money Purchase Additional Voluntary Contributions or MPAVCs with Prudential. If you have a Prudential Money Purchase AVC pot, you have three options for these savings.

First of all, you can leave your money invested with Prudential and if you choose to do this, you do not have to take any action. Secondly, you could switch your Prudential pot into the Investment Builder by requesting a voluntary switch. To do this, you'll have to complete a form that's available on the USS website. Or you can transfer your Prudential pot to another arrangement. For more information on this you'll need to contact Prudential directly.

Note that if you do decide to move your pot out of Prudential's With-Profits Fund, it might be subject to a Market Value Reduction. This would reduce the value of your pot to reflect market conditions at the time you withdraw, so the value of the cash you're taking out of the With-Profits Fund does not adversely impact the value of investments made by members who remain in the fund. To find out whether a Market Value Reduction will apply to you, you would need to contact Prudential. You should speak to Prudential about any charges that might apply and any guarantees that you might lose by moving your investments out of Prudential.

Also, if you want to move your savings out of Prudential, then you must move the full amount; it's not possible to just move an element and leave some with Prudential. USS does recommend seeking financial advice before you take any action regarding your investments, and to note, your investments can go down as well as up and therefore the value of your pot is not guaranteed. You can visit the guidance and financial advice page on the USS website for a range of resources to support you along with information on sources for free, impartial guidance, and how to find a regulated financial adviser.

When you come to take your savings from Prudential, if you've still got savings with Prudential, you must take 100% of them or leave them invested. The first option is to take your Money Purchase AVCs from Prudential alongside your Retirement Income Builder benefits. But as well as using your savings as an additional lump sum, you've also got the option to buy extra pension in the Retirement Income Builder. Now this is not something that you can do with your Investment Builder savings.

Just to note though, any Money Purchase AVCs with Prudential that are switched into the Investment Builder are identified separately so the option to buy extra pension with the savings remains available, whether you leave the money in Prudential until the retirement date or switch them into the Investment Builder prior to your retirement date.

If you want to have a bit more flexibility, like taking some of your savings as cash sums, you will need to switch all your Money Purchase AVCs into the Investment Builder. Or you could transfer your savings to another provider outside of USS to access other ways of using your savings. Finally, you could leave your Prudential Money Purchase AVCs with Prudential until you're ready to take them. But if you do leave them with Prudential, if at the point you want to take your savings and you've already taken your Retirement Understanding DC — Taking savings from the Investment Builder — September 2025

Income Builder benefits, you would need to switch all of your Prudential savings to the Investment Builder or transfer to another provider to access them. Or you could just leave your savings in Prudential to pass to your beneficiaries after your death.

Here we'll look at taking your defined contribution savings from the Investment Builder or Money Purchase AVCs with Prudential at the same time as your Retirement Income Builder benefits.

If you take your defined contribution or DC savings at the same time as your Retirement Income Builder benefits, then you might be able to take more than a quarter or 25% of your defined contribution savings as tax-free cash.

To show you how things work, here is an example of someone who has been a member of USS for some years and has Retirement Income Builder benefits and defined contribution savings at retirement. The defined contribution savings could be from the Investment Builder or they could be from Money Purchase AVCs with Prudential.

Our example member here has a Retirement Income Builder annual pension of £15,000 a year. Under the USS rules they get a tax-free cash lump sum of £45,000, which is three times the annual pension. And our example member here also has defined contribution, or DC savings, of £20,000.

Based on your own benefits, there is a maximum level of tax-free cash that you can take and under the HMRC tax rules, you can take a quarter of the overall HMRC value of your benefits as tax-free cash up to a certain limit. For those of you that want to know how to work out the overall HMRC value of your benefits, it is just 20 times pension plus any cash that you are entitled to.

The amount of maximum tax-free cash therefore depends on your Retirement Income Builder benefits and your defined contribution savings at retirement. USS will work out what the maximum tax-free cash amount is for you though at your retirement date.

The maximum tax-free cash will generally be some amount higher than the standard tax-free cash amount of three times the pension from the Retirement Income Builder. In this particular example, looking at the member's Retirement Income Builder and defined contribution savings, the maximum tax-free cash amount for this member given their overall benefits will be just over £90,000.

If you fully retire and take all your benefits from the Retirement Income Builder and DC savings at the same time, USS allows you to combine your Retirement Income Builder and defined contribution savings together, where possible, to be able to use your defined contribution savings as tax-free cash up to the maximum tax-free cash amount allowed under HMRC rules, given your benefits.

For our example member, we will move the defined contribution savings or DC savings across to be combined with the Retirement Income Builder tax-free cash. Now, our member would be able to use their entire £20,000 defined contribution savings as tax-free cash.

This is because when combining with the standard amount of tax-free cash from the Retirement Income Builder plus the defined contribution savings, it is still within the maximum tax-free cash amount available overall for this member.

However, combining your DC savings and your Retirement Income Builder cash might not always be within the maximum tax-free cash allowed by HMRC, so you might not be able to take all of your DC savings tax-free; it depends on the overall level of your benefits. But for this example member though, they have decided to combine their defined contribution savings with their Retirement Income Builder benefits and now they are up to £65,000 in tax-free cash.

But there is still room to take even more tax-free cash though as the member is still below their maximum amount in this case. If they did want to take more tax-free cash though, they would have to give up some annual pension in exchange.

Just going back to your standard benefits again though, just to note that when taking your Retirement Income Builder benefits, you cannot take your pension and your one-off tax-free lump sum at different times.

In this section, we will have a look at what you might get from your defined contribution or DC savings with USS when it comes to taking your benefits by using the Benefit Calculator.

Using the Benefit Calculator in My USS can help give you an idea of what benefits might be provided from your defined contribution or DC savings, whether you access them at the same time or separately to your Retirement Income Builder benefits. So we'll just go into the projection tool here to have a look.

This example member has an Investment Builder pot of £37,914 and they've also got Money Purchase AVCs with Prudential of £20,000, so their total defined contribution savings are £57,914.

If we scroll down and then click **Continue to step 2**, you'll be able to look at your options. In here, you can look at just taking your Retirement Income Builder benefits, all of your benefits and savings, or just your defined contribution/DC savings. But we'll just click the **Take only My DC Savings** here and then **Continue on to step 3** to have a look.

Here you can explore further options with your DC savings. For this member, the calculator estimates that if they access their entire £57,914 defined contribution, or DC fund, they could potentially take a cash payment, or UFPLS, of that full £57,914. Now if they took that as a cash payment, up to £14,479 of it would be tax-free. The remaining amount would be subject to income tax.

The calculator also estimates what you could get if you choose other options, such as taking drawdown or buying an annuity. But whilst a member could access a cash lump sum directly from USS, taking drawdown or buying an annuity would require a member to transfer their DC savings to an alternative provider first, so transferring out.

It's important to note that the Benefit Calculator is an estimation tool only to give a broad idea of the benefits that could be provided from different products. You would need to get illustrations or quotes from the relevant providers if you wanted to transfer your defined contribution savings out to another provider and access other ways of using those savings.

But we will have a look at an illustration of what the tool will show. So here we'll have a look at an illustration of drawdown through the Benefit Calculator. As a reminder, drawdown is a way of leaving your

savings invested and building up investment returns but taking money out to provide an income for you to live on until your pot runs out.

The default view on the Benefit Calculator here shows our example member could get an annual income from drawdown of £4,040 and this would be payable until they reached age 99. If we click here to show the values if the member took the maximum tax-free cash instead, the annual figure of £4,040 will now be payable until the member reaches age 82 and 11 months, but our example member would receive a tax-free lump sum of £14,479 as well.

The calculator allows you to choose between picking a certain amount of income and estimating what age that will be paid to, or choosing a date that you'd like to receive an income until and it will estimate the income that you could access each year. But any income as well might be subject to income tax in payment.

Another option shown is to estimate what level of guaranteed income you could receive in the form of an annuity and the Benefit Calculator shows a simple estimate of what an annuity could look like. And finally, you could leave your savings invested until you're ready to use them.

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Another option shown is to estimate what level of guaranteed income you could receive in the form of an annuity and the Benefit Calculator shows a simple estimate of what an annuity could look like. And finally, you could leave your savings invested until you're ready to use them.

Now, it's important to note that the Benefit Calculator is an estimation tool only to give a broad idea of the benefits that could be provided via the different products.

There are lots of assumptions used to calculate the benefits, so decisions should be based on illustrations or quotations received from the relevant providers which will also take into consideration your personal circumstances.

More information about using the Benefit Calculator, including a summary of what it can do with an explanation of each step, can be found in the Benefit Calculator section in My USS itself.

Finally, just to mention, on the USS website in the **For members** tab, there's a section all about the Investment Builder and in here there's information about all the things we've talked about today. And, if you're aged 50 or over, you may also be eligible for a free Pension Wise call to discuss the options that you have from any defined contribution savings.

Pension Wise is a government service through MoneyHelper that offers free impartial pensions guidance about your defined contribution options.