



How USS works

Video transcript

In this section, we're going to go through an example of how benefits build up in USS. For this example, we've got a member who's working for three years before retiring. Our member has a salary of £45,000 in year 1, £60,000 in year 2, and £80,000 in year 3. The salaries chosen for this example over this three-year period are not meant to be representative of a typical member. They're completely made-up for the purposes of showing you how things work only.

We wanted to show you how the build up of benefits in USS works and what happens when someone's salary goes over the salary threshold using a wide range of salaries so you can see what's going on. So in this example, looking at year one first, At the end of year one, our members earned £45,000. So they've built up a 75th of £45,000 as a pension block. This gives a block of annual pension from year 1 of £600 which will be payable every year in retirement.

Moving on to the end of year 2. First of all, the block of annual pension from year 1 was earned a year ago, so it will receive an increase from the end of year one to the end of year 2. At the end of year 2, our members earned £60,000, so they've built up a 75th of £60,000 as a pension block. So we've got another block of pension building up from year 2 of £800.

At the end of year 3, our banked annual pensions from years 1 and 2 will increase in line with USS annual increases, so we'll apply that there. Now at the end of year 3, our members earned £80,000, but this is greater than the salary threshold. The Retirement Income Builder formula only uses salary up to the salary threshold, so we can only use £74,208 (which is the current salary threshold) in the calculation of the annual pension from this year of service. So using a formula of 75ths of the earnings up to the salary threshold, this gives the member a block of pension from year 3 of £989 a year.

Adding all those blocks of pension built up over the three years gives a total pension here of £2,452 a year. So this is the annual pension from the Retirement Income Builder. In addition to the annual pension, the member's also entitled to a tax-free cash lump sum, a one-off payment paid at retirement, of three times the annual pension, which in this case is £7,356.

But we've only used the salary threshold in the formula for the Retirement Income Builder calculation for that third year. There's also £5,792 of salary that the members paid contributions on in excess of the salary



threshold. As mentioned earlier, a total of 20% of this element of the members salary goes into the Investment Builder. So in this case, £1,158 has been paid into the Investment Builder pot in the third year because the member exceeded the salary threshold.

Now there may have been some investment gains or losses on the money in the pot, in addition, but for simplicity, I've ignored that in this example. So putting the investment pot together with the benefits built up from the Retirement Income Builder, we can see that the benefits built up for this member from their 3 years of membership in USS is a pension of £2,452 a year. That will increase in line with a measure currently linked to the Consumer Prices Index or CPI measure of inflation up to certain limits.

Plus a one-off tax-free lump sum of £7,356. Plus an Investment Builder fund of around £1,158 (depending on investment returns). The annual pension and tax-free cash lump sum shown here are the standard benefit package and the member would then be offered options on the combinations of cash and pension by USS when they come to retirement. The member will be able to exchange pension for a larger tax-free cash lump sum or vice versa and take more pension with a reduced or no lump sum.

And the member might be able to take some or even all of their Investment Builder savings as tax-free cash if taken at the same time as the Retirement Income Builder benefits. USS will quote the options available to you when you're approaching your retirement. And you can also use the Benefit Calculator tool in My USS to see what your benefits might look like on retirement.