

Your USS pension basics

Video transcript

Hello and welcome to this webinar covering Your USS pension basics. My name's Rebecca Dodd and I'm a pensions consultant from Mercer.

The main aim of today's presentation is to help give you a better understanding of USS and the benefits of being a member. This will cover what you pay and what you get for your membership, so how benefits and savings build up and the options that you have.

Firstly, we'll go through an overview of USS and then explain how USS works, so how your benefits build up. We'll look at what you pay and the tax relief you get on your contributions and what happens if you leave USS, and then also if you rejoin. We'll cover the benefits your loved ones may receive when you die and also look at some of the events that might occur in your life and what impact that might have on your benefits, including going overseas. We'll finish off with a look at the calculators and tools that can help you understand your pension and your options.

Here we'll go through an overview of your USS pension. A pension is a simple way for you to save for your future, and USS is your workplace pension, which means that you and your employer can pay in.

When you pay in to USS, you'll build up benefits in the Retirement Income Builder. That's the defined benefit (DB) part of USS and that'll provide you with a guaranteed income for life when you retire. And USS will also provide you with a one-off tax-free cash lump sum up to certain limits on retirement of three times your pension.

In addition to your Retirement Income Builder benefits, you'll build up savings in the Investment Builder, which is a defined contribution (DC) scheme, if you earn above a certain level known as the salary threshold. You'll also build up benefits in the Investment Builder if you choose to make additional contributions or if you transfer in a pension from elsewhere.

There is some flexibility with your benefits and savings, both in terms of when they can be taken and also in what form. If you become ill and are no longer able to work, you may be eligible for early retirement where your USS pension might start earlier.

USS also provides benefits when you die, whether that's before or after retirement. And if you die whilst paying in to USS, these benefits are known as life cover.

Your contributions to USS are generally paid tax free, which means you do not pay income tax on your pension contributions. You can, if you want to, top up your savings in USS by paying additional contributions, which could also benefit from tax relief. Any additional contributions that you pay will go into the Investment Builder, the defined contribution part of USS.

And finally, all the benefits that you receive from USS are paid in addition to any benefits you might receive from your State Pension.

With USS, you'll be able to view your Retirement Income Builder benefits and any Investment Builder savings that you have in My USS, which is your secure online portal. You can access My USS from the USS website at uss.co.uk on any device — your laptop, your tablet or your smartphone.

Here we'll take a look at how your benefits and savings in USS can build up. There are two main types of pension benefit 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. In USS, the pension 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 you build up is not directly connected to how much you or your employer has paid in; what matters is your formula. The defined benefit part of USS is called the Retirement Income Builder.

There's also a defined contribution 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 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 part, the Investment Builder in USS, 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. I'm going to have a look at these in slightly more detail now.

In USS, everyone builds up Retirement Income Builder benefits, or defined 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, on your

salary above that threshold. If your earnings fluctuate around the salary threshold, any contributions to the Investment Builder section stop and restart as is appropriate automatically.

Just having a closer look at the Retirement Income Builder: in the Retirement Income Builder, you build up a block of pension equal to a 75th of your salary for each year that you're a member of the scheme. The salary used in this formula is only up to a maximum of the salary threshold, which is currently £71,484. So you build up a block of pension for each year or part year that you're paying into the scheme.

Then annual increases are applied to the block of pension between the time that it's earned and the time that it's eventually paid, and these increases are currently linked to the Consumer Prices Index, or CPI, measure of inflation up to certain limits. If you add all those blocks together with those annual increases, we get your total annual pension. You'll also get a tax-free cash lump sum of three times your total annual pension, which is a one-off payment paid at the point of retirement, in addition to your annual pension.

You can exchange some of your pension for a higher tax-free cash lump sum on retirement and vice versa, so you could even take no tax-free cash and take a higher pension for life. But you make that decision when you come to retire. Once in payment, your pension will increase each year. Again, these increases are currently linked to the Consumer Prices Index, or CPI, measure of inflation up to certain limits.

So that you can keep track of how much you're building up, you'll receive details from USS each year in an Annual Member Statement, which can be accessed on the member portal, My USS.

Now having a closer look at the Investment Builder: 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 that you and your employer are already paying in to USS and it's at no further cost to you.

The contribution rate you pay is 6.1% of your total salary. If you earn above the salary threshold, you'll automatically build up savings in the Investment Builder as well as defined benefits in the Retirement Income Builder. But you can also choose to make additional contributions to USS if you want to, whether you're earning above or below the salary threshold.

If you do choose to make additional contributions, these will go into the Investment Builder. Additional contributions can be made as one-off lump sums or as regular payments from your pay. To pay additional contributions, you will need to set these up via My USS and then your employer will be asked to make the changes to their payroll so that you can make the additional contributions.

You might also be able to transfer a pension from another scheme in to USS, and if you do it will go into the Investment Builder. Deciding to transfer your pension might be a big decision, so do make sure you take a look at the USS website for more information on some items to think about. For example, how did the benefits that you have in the other scheme compare with what you would get in USS should you transfer?

Paying additional contributions and transferring in are covered in more detail in the [Understanding DC — Saving in the Investment Builder](#) webinar.

And if you do want to make additional contributions, you will need to set these up via My USS. You log in to My USS and then go to **view or manage savings** in the Investment Builder section on the drop-down menus.

When you go into **view or manage savings**, you'll see any Investment Builder savings you already have. To set up paying additional contributions, scroll down the page to **manage additional contributions**. If you scroll down, you'll see your additional contribution options.

You can pay monthly contributions or you can pay a one-off payment, and in both cases it can be monetary amounts or a percentage of your pay.

You will also see in here the option of **The Match**. The Match is just one way to make additional contributions to save more, so you can choose to pay an additional 1% of your salary every month into the Investment Builder.

If you paid into The Match between October 2016 and March 2019, you would have received an extra 1% 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%.

If you are looking to transfer in, you'll find the form to start this off and more information in the Investment Builder section in My USS as well.

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 as salary, then 20% of this would be paid as tax and you would 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, and 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, regardless of whether you're earning above or below the salary threshold. Your employer pays 14.5% of your salary to USS, and this goes towards paying for all of your benefits from the scheme — 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 the impact of your pension contributions on 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.

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. 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 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.

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.

I'm going to go through an example of how benefits build up in USS.

For this example, I have 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 £75,000 in year 3.

Now, 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. I wanted to show you how the build-up of benefits in USS works and when someone's salary goes over the salary threshold, using a wide range of salaries so you can see what's going on.

For our example member, let's look at year 1 first. At the end of year 1, our member earned £45,000, so they'll have built up a 75th of £45,000 as a pension block. This gives a block of annual pension from year 1 of £600, and that would be payable every year in retirement.

Looking at the end of year 2, the block of annual pension from year 1 was earned a year ago, so we will receive an increase from the end of year 1 to the end of year 2.

And I'm just going to apply an illustrative example of an increase to that pension built up in year 1 (£600 to £620).

At the end of year 2, our member earned £60,000 over the year, so they will have built up a 75th of £60,000 as a pension block, so we have another block of pension built up from year 2 at £800.

Then moving on to 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 in an illustrative increase there (£639 a year for year 1 and £824 for year 2).

At the end of year 3, our member earned £75,000 over the year, but that amount earned over the year is greater than the salary threshold. The Retirement Income Builder formula only uses salary up to the salary threshold, so we can only use £71,484, the current salary threshold, in the calculation of the annual pension for this year of service.

Using the formula of a 75th of earnings up to the salary threshold, this gives the member a block of pension from year 3 of £953 a year.

Adding all these blocks of pension built up over that three year period, for this member, gives a total pension of £2,416.00 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 the point of retirement of three times the annual pension, which in this case amounts to £7,248.

But we've only used the salary threshold in the formula for the Retirement Income Builder calculation for that third year of service. There's also £3,516 worth of salary that the member's paid contributions on in excess of the salary threshold.

Now a total of 20% of this element of the member's salary will go into the member's Investment Builder. In this case £703, 20% of the salary above the salary threshold, has been paid into the Investment Builder pot in the third year because the member exceeded the salary threshold.

There may have been some investment gains or losses on the money in the pot as well, but for simplicity I've ignored that for this example.

Putting the Investment Builder part together with the benefits built up from the Retirement Income Builder, we can see the benefits built up for this member for the three years of membership in USS.

Overall, the member has a pension of £2,416 a year and that will increase every year in line with the 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 £7,248, plus an Investment Builder pot of around £703 depending on investment returns.

The annual pension and the tax-free cash lump sum shown here is 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, or even take more pension with a reduced or no lump sum.

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 use USS' **Benefit Calculator** tool in My USS to see what your benefits might look like at retirement.

Here we'll talk about when a member is leaving USS. You could leave the scheme and continue working, or you could be leaving employment entirely and therefore leaving USS.

There are some additional options that allow members to build up benefits on a lower salary, or perhaps stop building up benefits altogether but still maintain life and ill health cover, and there's more information on the USS website about these.

When leaving USS, the benefit choice depends on how long you've been in the scheme, so it's important to note that for members who may have been in the scheme previously and then rejoined due to starting a new job perhaps, that you consider the total service from each of these periods to determine which options you have on leaving.

If you leave USS within three months of joining, depending on your circumstances, the options available to you may include a refund of your own contributions paid from your employer through your pay, less any tax savings that you've had. You may also be able to choose to leave your benefits with the scheme or transfer them to another scheme.

The options if you've been in USS for between three months and two years are the same as for the under three months' service. However, in this case there are some scenarios where you might not be eligible for a refund — for example, you've contributed via salary sacrifice, you've transferred in benefits, or you're over the Normal Pension Age of age 66. You'll be able to choose to leave your benefits with the scheme or transfer your benefits out to another pension provider.

Now, if you leave USS after two years of service, there's no option for a refund of your contributions. But with more than two years' service, you'll be entitled to a deferred pension from the Retirement Income Builder, and any contributions to the Investment Builder part will remain invested.

You can continue to manage these via your My USS account. You'll also have the option of transferring out your benefits to another pension provider. If you leave USS but are still in the same employment, please note that under pensions legislation, your employer will automatically enrol you in to USS or another scheme at their next auto-enrolment date if you meet the criteria set out under those rules.

And then finally, in this section, I'm just going to cover rejoining USS. You may have previously left USS but are now rejoining. The benefits that you had with USS from your previous service in the Retirement Income Builder will have been increasing each year in line with annual increases. And your Investment Builder part, if you had one, will have been going up or down in line with investment performance on your funds.

Then when you rejoin, you'll be able to start building up benefits again in the Retirement Income Builder, and you'll be able to add to your Investment Builder pot, either because you're earning above the salary threshold or paying additional contributions, or transferring in a pension from another provider in to USS.

Now, if you were paying additional contributions when you were previously a member and you want to restart them, you'll need to set this up in My USS as they will not automatically continue. Also, you will not have two separate periods of service in USS if you rejoin; your benefits will all be joined together.

Here we'll look at the benefits that may be payable when you die. There are survivors' pensions in the event of your death, so a pension may be payable to a spouse, civil partner or eligible financial dependants.

If you do have any financial dependants, it's important to complete the **Registration of potential dependant form** that can be found on My USS and keep it up to date. You do not need to register a child, spouse or civil partner, as they may be eligible to receive a pension in their own right under the scheme rules.

There may also be a lump sum benefit payable depending on whether you die whilst you're still contributing to USS, whether it's after you've retired, or after you've left USS but before your pension started.

Now, if you were to die whilst you're still contributing to USS, a lump sum would be payable that's typically three times your annual salary, and this is known as life cover. But as just mentioned, a lump sum may also be payable if you die after you've retired or if you left USS but before your pension started.

Payment of these lump sums is made at the discretion of USS, but your wishes are taken into consideration, and this consideration allows the trustee to consider who the recipients of any lump sum payable should be.

So that USS can take your wishes into account, it's important to fill out your **Expression of Wish form** to let the trustee know who you'd want to receive any lump sum that might be payable when you die. It does not always have to be a person; it could even be a charity or any other organisation capable of receiving the money.

You can fill this form out on My USS, and USS recommends you keep it updated around every three years, even if your wishes have not changed, to let USS know that your wishes are current.

The **Registration of potential dependant form** and the **Expression of Wish form** can be found on My USS, and you can find them by going to the quick links section **Keeping your beneficiaries up to date** and then clicking on **Update loved ones**.

There may be events that occur in your life that have an impact on your USS benefits. For instance, you may be absent from work, and there could be a number of reasons why you're absent from work for a period of time. You could be away voluntarily, having a baby, seconded to another role where you can not build up a USS pension, or you may need to be off work for reasons out of your control, like if you're unwell.

Depending on why you're absent, you may be able to carry on building up a pension with USS. But if you stop making contributions while you're off, your membership will generally be suspended until you start contributing again. If your membership is suspended but you want your life cover to continue, you'll need to speak to your employer.

In the event of a divorce, you may be asked to give up part of your pension benefit, which is called Pension Sharing.

You may be working or choose to retire overseas, and there's more on that on the next slide.

There may of course be other life events that affect you, and you can visit the [life events](#) section of the USS website to learn more about the possible impact on your benefits and any options that you might have given various events.

If you're made redundant or you take part in any industrial action, please contact your employer for information about how these will affect your USS pension benefits.

And there's also the Benefit Calculator. This can help you understand what your benefits could look like in the future — whether you're paying in, whether you've got benefits and savings in USS but you're no longer paying in, or even if you've retired but still have some savings in the Investment Builder and you want to see what they might look like.

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

Here I'm going to show you the Contributions & Tax Calculator. The Contributions & Tax Calculator in My USS will already be prepopulated with your current information; it'll have things like contributions and benefits in there as well.

You can factor in any additional contributions that you're thinking of paying into the Investment Builder, and you can estimate how much you'll contribute and how much you'll save in tax. You can also see how much you could save in National Insurance with salary sacrifice if your employer offers this, and you can also see how much your employer will contribute to your future as well.

For this member, we're going to click here to get the results. This member in this example is earning £25,000 a year, they're paying contributions via salary sacrifice, so their 6.1% monthly contribution works out to be £127, but the actual cost to the member is just £92 because they save on income tax and National Insurance contributions.

You can also use the Contributions & Tax Calculator to look at a Tax Modelling section to see how the Annual Allowance, the Tapered Annual Allowance and the Money Purchase Annual Allowance could affect you, particularly if you're a higher earner. These allowances set by HMRC limit how much tax relief you can receive when building up benefits each year before you might need to pay a tax charge. You can find out more about these allowances on the [pension tax](#) pages of the USS website.

There's also, as mentioned, the Benefit Calculator in My USS. When you go into the calculator, you can either do a projection of your benefits into the future, or if you've had a retirement quote, you can use your figures to see what your options are on retirement — things like the combinations of pension and cash. But we'll just go into the projection tool here.

In here, the Benefit Calculator can be used to get an instant estimate of what you could get in the future, so it can be helpful at various stages throughout your journey with USS, and as mentioned, it will already be prepopulated with some of your information.

Once you're in the calculator, you scroll down the page and you can use it to make quick changes to things like your salary and the age that you want to retire at, to see what impact that has on your estimated benefits. But you can also make further changes to look at the impact and what that might do to your benefits by clicking this **View options** button here.

If we go in there, you can also model how making changes like saving more, transferring in, leaving USS, taking a career break or taking flexible retirement could impact what you get.

And if you've got Investment Builder savings — whether you're still paying in, whether you're no longer paying in, or whether you've retired — you can estimate what these savings would look like in the future and the options that you have to take them, including changing the level of tax-free cash lump sum you might take at retirement and the impact that might have on your pension income.