



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. And 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 part of USS and that'll provide you with a guaranteed income for life when you retire. 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 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.

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, so your laptop, your tablet or your smartphone.

Let's take a look at how your benefits and savings in USS can build up. There's two main types of pension in the UK, the 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 that you build up is not directly connected to how much you or your employer's 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 (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. And then at retirement, your benefit is 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 (DC) savings.

In the defined contribution (DC) part, the Investment Builder, you can choose where your money's invested if you wish to, from a range of investments that USS offers or USS can invest these for you. For the defined benefit (DB) part, the Retirement Income Builder, USS makes those investment decisions on behalf of all members so that you receive your specific level of benefit.

We're going to have a look at these in more detail now and show some examples of how the benefits are calculated. In USS, everyone builds up Retirement Income Builder, defined benefit (DB), 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 (DC) 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.

Now just having a closer look at how the Retirement Income Builder works. 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 though is only up to a maximum of the salary threshold, which is currently £74,208, so you will build up a block of pension for each year that you're paying into the scheme. Then annual increases are applied to the block of pension between the time it's earned and the time it's eventually paid, and these increases are currently linked to the Consumer Prices Index or CPI measure inflation up to certain limits.

If we add all those blocks together with those annual increases, we get your total annual pension. And 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, paid 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; you make that decision when you come to retire. Then, 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 a 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 just having a look at how the Investment Builder works. 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 and 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 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 (DB) in the Retirement Income Builder. But you can also choose to make additional contributions to USS if you want to and that's 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 payment from your pay. To pay additional contributions though you will need to set these 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? Or does the transfer require financial advice?

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.

We'll now 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.

Now, as your contributions are taken from your pay packet before you're taxed, you only pay income tax on the remainder of your wage. There are some limits to tax relief set by HMRC that you will need to be aware of while you're contributing to your pension, and these are particularly relevant if you're a high earner.

For example, whilst you're paying in to USS, you could be affected by what's known as the Annual Allowance, particularly if you are a high earner. The Annual Allowance is the maximum amount of pension



savings you can build up each year before you get a tax charge, and the Annual Allowance for the current tax year is £60,000.

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 pay 6.1% of your total salary, so regardless of whether you're earning above or below the salary threshold in to USS, and your employer pays 14.5%. This goes towards paying all of your benefits from the scheme, so not just your pension benefits but also the 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.

I've got some examples here to show you. Firstly let's look at the example of someone who earns £25,000 a year and so pays income tax at the 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 just £1,220 and that means there's an annual tax saving of £305.

Using the Retirement Income Builder formula that we've been through before 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 will be payable to the member in retirement plus any annual increases for the rest of their life. And 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 an additional cash sum of £1,000.

At first glance you might think £333 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 that person's life, in addition to any valuable benefits payable after they've died as well.

Then we have an example of someone who earns £40,000 and so is also paying income tax at the rate of 20%. Their 6.1% contribution to USS amounts to £2,440 over a full year, but the impact on take home pay in this case is £1,952. Using the formula again, this provides a pension block of £533 a year and a tax-free cash lump sum of three times the pension of £1,600.

Finally we have an example who earns £55,000 a year and is paying income tax at a 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 just £2,013. This will provide a pension block of £733 and a tax-free cash lump sum of three times the annual pension 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'll also save on National Insurance contributions because your salary is reduced before National Insurance is worked out. The impact on your take home pay if you're paying by salary sacrifice might be even less than what I've shown on the screen here.

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.

Our example member has a salary of £25,000 and they are using salary sacrifice. The first thing we need to do is click the button here that says **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.

So if we click here, we'll get your results. You can see for this member earning £25,000 a year and paying contributions via salary sacrifice, their 6.1% monthly contribution is £127 but the actual cost to them is just £92.

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 one, £60,000 in year two, and £80,000 in year three. 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.

In this example, looking at year one first. At the end of year one, our member's 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 one of £600 which will be payable every year in retirement. Moving on to the end of year two.

First of all, the block of annual pension from year one was earned a year ago, so it will receive an increase from the end of year one to the end of year two.

At the end of year two, our member's 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 two of £800. At the end of year three, our banked annual pensions from years one and two will increase in line with USS annual increases so we'll apply that there.

At the end of year three, our member's 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. Using a formula of a 75ths of the earnings up to the salary threshold, this gives the member a block of pension from year three 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. 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 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 member's paid contributions on in excess of the salary threshold. As mentioned earlier, a total of 20% of this element of the member's salary goes into the Investment Builder.

So in this case, £1,158 has been paid into the Investment Builder part 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 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 three 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 Price Index or CPI measure of inflation up to certain limits. This is plus a one off, tax-free lump sum at £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.



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, that you consider the total service from each of these periods to determine which options that you have on leaving.

If you leave USS within three months of joining, dependent on your circumstances, the options available to you may include a refund of your own contributions paid from your employer, paid through your pay, less any tax savings that you've had. You may be also 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 under three months service. However in this case there's some scenarios where you might not be eligible for a refund. For example, you've contributed via a salary sacrifice, you've transferred in benefits or you're over the Normal Pension Age (NPA) of age 66. You'll be able to choose to leave your benefits though with the scheme or transfer your benefits out to another pension provider.

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 and 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.



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. 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.

Now payment of these lump sums is made at the discretion of USS but your wishes are taken into consideration. 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, and you can fill this form out on My USS. 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 section here on **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.

We do get a lot of questions about going overseas. If you are going overseas to work, you might be able to keep building up your benefits if you're still working for a USS employer. Or if you're moving overseas for good, you may be able to transfer your USS benefits to your new pension scheme.

The USS trustee is required to check that your new scheme is a Recognised Overseas Pension Scheme (ROPS) before paying the transfer and there may be other restrictions and implications on the transfer, for example any tax charges.

If you're moving overseas for good, you do not have to take a transfer to another arrangement. You can just leave the benefits in USS as a deferred member and then draw your benefits when you come to retirement. As a reminder, the benefits that you've built up in the Retirement Income Builder will still belong to you and will go up in line with annual increases between leaving and retirement.

And any savings in the Investment Builder will remain invested and they could go up or down in line with investment performance. Just to note, if you do retire from USS and are resident outside of the UK, any benefits that you receive may be taxed in your country of residence according to the rules of that country rather than the UK rules.

This might apply to both the pension and lump sum elements, but it's your responsibility to understand the tax rules of the country where you're resident and seek local tax advice if required. If you're overseas when you retire, for most countries your pension can still be paid to you via a UK bank account or by an overseas payment service to your overseas bank account.

Here we'll look at the calculators and tools that you can use to understand more about what you're paying in to USS and what your benefits and savings could look like when you retire. USS has calculators and tools online which can tell you more about things like the cost to you of contributing, how much you can save in tax relief, how much you could get in the future, or the impact of different options that you might choose from.



If you have not yet joined the scheme, you can use a basic calculator on the USS website, uss.co.uk, to get a quick estimate of how much it could cost you to be a member and what you could get from USS at retirement. You'll find this basic calculator on the **what your pension might look like page** and that's in the **you're a new joiner** section of the area on the USS website **For members**.

In here all you'll need to do is input your date of birth and salary to be able to get that basic calculation of how much it would cost you and what your benefits might look like at retirement. If you've already joined USS though, or you've paid into the scheme in the past, you can log in to the online member portal My USS to use more detailed calculators.

You'll find that the calculators in My USS feature some prepopulated information because you'll be logged into your personal account. However, some calculators can be tailored to help you understand the impact of any decisions or changes you might make.

If you're thinking of contributing more of your salary in to USS, or you've previously built-up benefits and you're thinking about paying in again, you might find the Contributions & Tax Calculator useful.

And there's also the Benefit Calculator. This can help you understand what your benefits could look like in the future, so 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 you 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 on this example is earning £25,000 a year. They're paying contributions via salary sacrifice so they're 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.