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Here you will find frequently asked questions about pension tax.

Do I receive tax relief on my USS contributions?

All of your contributions, including any additional voluntary contributions, are currently eligible for tax relief at the highest rate of income tax that you pay.

Of course, you are taxed upon your pension when it is paid in retirement via the PAYE system, however you will have received the tax relief up front, plus if your marginal rate of tax in employment is greater than it is in retirement, that has a further positive effect overall.

There are limits to the amount of tax relief you can receive. The two main limits are the annual allowance and lifetime allowance (see below). The maximum tax relief you can receive in a year is also limited to 100% of your UK earnings that year (or £3,600 if this is greater than your earnings).

How does the tax relief apply in USS?

USS operates as a "net pay" arrangement. That means that your contributions are deducted from your pay **before** income tax is calculated. This means that tax relief is always received at your highest marginal rate of income tax. You do not need to apply for a "top-up" or fill out a self-assessment return in order to receive the correct tax relief.

If you pay your contributions via a 'salary sacrifice' arrangement then there may also be a saving on your national insurance contributions.

What is the annual allowance (AA)?

The AA is an annual limit on the amount of pension savings you can build up across all registered pension schemes before you become subject to a tax charge. At present this limit is £40,000 per year but this will be subject to review in the future. You can find out more about the AA by looking at the [factsheet](#) included in this section of the website.

Higher earning members (£200k+) may be subject to a reduced annual allowance, and you may be subject to special arrangements if you have previously accessed pension savings from a defined contribution pot. See the AA factsheet for further details.

USS has an annual allowance modeller which can estimate how much allowance you will use up in USS over the current and next tax year. The modeller can be [found here](#).

What is the lifetime allowance (LTA)?

The LTA is the total amount of pensions savings you can build up across all registered pension schemes before you become subject to an LTA charge. At present the limit is set by the government at to £1,073,100 (from 6 April 2020) and is set to increase according to the consumer prices index each year.

Related Information



Pension tax articles

- > Pension tax relief in a nutshell
- > The easy way to keep track of your annual and lifetime allowances
- > The USS pension tax relief checklist
- > A close look at pension tax

Further information

- > Pension tax
- > Tax FAQs for US citizen members


Factsheets

- > Lifetime allowance
- > Annual allowance
- > Scheme Pays
- > Enhanced opt-out
- > Voluntary salary cap
- > Tax free cash at retirement
- > Tax free cash options at retirement (deferred members)
- > Historical information and HMRC tax protections

The LTA charge is payable on all pension savings above the LTA and is generally paid at retirement, with the current rates being 25% of any pension and 55% of any lump sum in excess of the LTA.

You can find out more about the LTA by looking at the [factsheet](#).

The current LTA value of your USS benefits can be found in your annual member statement, although you will need to include all pension savings from other arrangements outside of USS too.


If I am subject to the AA, the LTA or both, surely I should I withdraw from the scheme? 

The answer is not straightforward – even if you are (or may be) subject to AA and/or LTA tax charges you may decide to remain an active member of the scheme and, if so, you may want to consider the USS tax options available to help manage your tax affairs. However, whether or not you should withdraw from the scheme will depend on your individual financial circumstances, and there is no one answer which is appropriate for all members.

The value of your benefits in the scheme will reduce if you are subject to an AA and/or LTA tax charge, and the overall position will be affected by the rate of tax you will pay in retirement.

You should check with your employer any impact on your remuneration of opting out of the scheme or making an election for one of the USS tax options.

If you are not sure what's best for you, we strongly recommend that you speak to an independent financial adviser (IFA) before making any decision to restrict your pension savings. You can find an IFA through the following website: www.unbiased.co.uk. Please be aware that you may be charged a fee for any advice.

The government are constantly changing the amounts that can be saved into a pension and there would seem to be no guarantee that my benefits will not be subject to further changes. It's all getting incredibly complicated, should I just save my money elsewhere? 


The benefits you have already accrued are protected by law. There is no guarantee that there will not be further change, however, for the vast majority of individuals, saving into a pension scheme is likely to be the most tax efficient way to plan for your retirement.

What tax options are available within USS? 

There are two main tax options open for members to use to help manage scheme benefits and pension tax. These options are enhanced opt out (EOO), which allows you to retain the death in service and incapacity cover offered by the scheme without building up any further retirement benefits, and the voluntary salary cap (VSC), which allows you to cap future accrual of benefits by setting your salary for pensionable purposes lower than your actual salary (no lower than the salary threshold).

Both of these options (or opting out of the scheme) are designed to reduce the tax levied on your pension benefits. However please note that your future USS pension benefits will be reduced as a result. Additionally, although you would pay lower contributions to USS under these options (or none at all if you opt out of the scheme), the money saved would be subject to income tax in the usual way, so you would not get the full value back as take-home pay.


There are specific factsheets on both options, but in brief, EOO was developed for members with LTA issues and VSC to help manage the effect of the AA.

If I have taken flexible retirement, am I subject to a reduced annual allowance? 

Individuals who access their pension savings pots "flexibly" are subject to a reduced annual allowance, known as the money purchase annual allowance ("MPAA"). However, taking flexible retirement in USS does not currently trigger the MPAA, even if you take some of your USS Investment Builder funds as part of your flexible retirement.

The MPAA will only be triggered if you access your USS Investment Builder funds at a

time before or after (flexible) retirement. If the payment of any of your USS benefits will trigger the MPAA then we will notify you of this before putting the benefits into payment.

I have reviewed the tax information on your website and undertaken further reading. I am still unsure of what I should do next, can USS help guide and advise me? 

Neither USS nor your employer can provide you with tax or financial advice. If you are not sure what's best for you, we strongly recommend that you speak to an independent financial adviser (IFA) before making any decision to restrict your pension savings. You can find an IFA through the following website: www.unbiased.co.uk. Please be aware that you may be charged a fee for any advice.

