What is flexible retirement?

Flexible retirement allows you to draw a proportion of your pension and tax-free cash benefits but enables you to continue working, albeit at reduced hours and salary. Importantly, you still build up more benefits based on your future membership in the scheme.

This factsheet sets out the USS flexible retirement terms.

Commonly asked questions

From what age can I start to flexibly retire?
The earliest age at which you could flex part of your benefits is currently age 55, but you must have a minimum of two years' qualifying service.

How many flexes could I take?
You can take part of your benefits on two occasions whilst continuing to work; on the third occasion you would have to fully retire, receive the remainder of your benefits and have 'retired' as defined in the USS rules.

Retirement means that your contract of employment has terminated due to retirement. Importantly, you would not be deemed to have retired if you intend to commence another post which gives an entitlement to USS membership. If however, after you have retired you are subsequently offered new employment that is pensionable in USS, your employer may have a duty to enrol you into a pension scheme. You will need to seek advice from your employer as to your eligibility and whether you are able to rejoin USS. Further information on auto-enrolment can be found on the USS website at **www.uss.co.uk**

How much can I flex on each occasion?
You can draw between a maximum of 80% and a minimum of 20% of your benefits. However, if you flex 80% on the first flex then to draw further benefits you must fully retire.

If you flexed 50% on the first occasion, then on the second occasion you could flex up to 30% if you intended to remain in employment. Remember, at each flex you must reduce your current working hours and salary by at least 20%.

Under what circumstances can I flexibly retire?
It is up to you if you wish to take advantage of the flexible retirement terms.

However, importantly you must receive your employer's consent and they will have to agree to a long-term reduction in your current working hours and salary of at least 20% each time you flex. Your part-time service fraction should then not increase again within 12 months of the flex. USS should be given at least two months' notice of the date at which you intend to flexibly retire.

What happens if my role changes and my working hours legitimately increase?
If your working hours and/or salary increase following flexible retirement, you will contribute based upon the salary you actually receive, and benefits will build up based upon this salary.

What happens to the benefits I've not drawn and what about future contributions?
When you flex part of your benefits, you will continue to contribute to USS on a part-time basis up until the point you fully retire. You will therefore continue to build up additional benefits going forward, which will increase the amount of benefits that you have yet to draw. Your final benefits will then be based on your total benefits, less the value of benefits already flexed.

Are there any members who cannot take advantage of flexible retirement?

Yes, variable time employees and members who have Enhanced Opted Out are unable to take advantage of flexible retirement and, although those members with multiple appointments are able to flex, the situation is more complex.

Will my pension be reduced?

If you take some of your pension before your normal pension age, however much you take out, some/all of the pension you take may be subject to an early retirement reduction.

Joiners since 1 October 2011

If you first joined USS on or after 1 October 2011 the early retirement terms are much easier to explain.The amount of the reduction is approximately an average of 4% for each year and part-year earlier than NPA. So, if you retired 5 years early the benefits you had built up would be reduced by approximately 20%.For those aged 60 or more, the amount of this reduction may be reduced if your employer gives its separate consent for this to happen; this is in addition to the consent for you to be allowed to take flexible retirement and reduce your hours and salary.

Joiners before 1 October 2011

However, it is worth noting that the effect of early retirement factors below age 60 become far greater. After age 60, employers are able to give their consent for you to draw your pre-October 2011 benefits in full; it is not possible to do this below age 60, hence the difference in values.

How does this work?

Example 1 – 1st flex at age 60

Date of flexible retirement:	1 October 2017
Percentage to be flexed:	50%

Contractual pension age: (as at 30 September 2011)	65
Gender:	Male
Exempt from NPA change?	No
Employer consent to receive pre-1 October 2011 benefits without reduction for early retirement:	Yes

Flex 1

First of all we need to work out all the benefit splits/tranches to assess the early retirement factor.

1. **Benefits earned before 1 October 2011:** **£12,249**
2. **Benefits earned after 1 October 2011:** **£ 3,000**

Then we can work out the early retirement pension as follows:

	Calculation	Early retirement reductions	Flex %	Pension
1	£12,249 x ERF*	£12,249 x 1 = £12,249	50%	£6,125
2	£ 3,000 x ERF*	£ 3,000 x 0.793 = £2,379	50%	£1,190
Total annual pension at flex 1				**£7,315**

*ERF = early retirement factor for illustration only. Rates subject to regular review.

As the employer has given its consent to both the flexible retirement and the payment of pre-October 2011 benefits in full from age 60, no ERF applies to the pre-October 2011 benefits.

The member wishes to flex 50%, so he draws £7,315 a year pension and takes the standard tax-free cash of: £21,945 (£7,315 x 3 = £21,945).

Flex 2

The member now works another two years but on a part-time basis of 80% of full-time hours and now wishes to flex another 20% of his benefits.

At age 62, the additional pension benefit earned is £830.00 a year.

So, if he takes a second flex of 20% and reduces his hours to 50% of his full-time equivalent hours, the benefits are as follows:

1. **Benefits earned before 1 October 2011:** **£12,709**
2. **Benefits earned after 1 October 2011:** **£ 3,113**
3. **Benefits earned after first flex:** **£ 830**

	Calculation	Early retirement reductions	Flex %	Pension
1	£12,709 x ERF*	£12,709 x 1 = £12,709	20%	£2,542
2	£ 3,113 x ERF*	£ 3,113 x 0.867 = £2,698	20%	£ 540
3	£ 830 x ERF*	£ 830 x 0.867 = £720	20%	£ 144
Total annual pension at flex 2				**£3,226**

*ERF = early retirement factor for illustration only. Rates subject to regular review.

So, the member drew £7,315 a year pension from age 60 (as well as the tax-free cash of £21,945) and then at 62 took an additional flex and drew £3,226 a year extra pension plus £9,678 tax-free cash (£3,226 x 3).

Retirement

Three years later, when the member reaches age 65, the remainder of the benefits are drawn. He had reduced his hours to 50% for the final three years of employment.

At age 65 he has therefore built up another £845.00 a year pension.

So, at 65, the benefits are is as follows:

1. **Benefits earned before 1 October 2011: £13,781**
2. **Benefits earned after 1 October 2011: £ 3,375**
3. **Benefits earned after first flex: £ 900**
4. **Benefits earned after second flex (3 years x 50%): £ 845**

	Calculation	Early retirement reductions	Flex %	Pension
1	£13,781 x ERF*	£13,781 x 1 = £13,781	30%	£4,134
2	£ 3,375 x ERF*	£ 3,375 x 1 = £3,375	30%	£1,013
3	£ 900 x ERF*	£ 900 x 1 = £900	80%	£ 720
4	£ 845 x ERF*	£ 845 x 1 = £845	100%	£ 845
Total annual pension at retirement				£6,712

*ERF = early retirement factor for illustration only. Rates subject to regular review.

In addition, the member took a tax-free cash sum of £20,136 (£6,712 x 3)

So, to summarise...

This member took flex 1 at age 60 and drew:
£7,315 a year plus £21,945 as tax-free cash

Then at flex 2 at age 62 drew:
£3,226 a year plus £9,678 as tax-free cash

Then on retirement at age 65 drew:
£6,712 a year plus £20,136 as tax-free cash.

The pension elements are reviewed each year and increased in line with the increases applied to official pensions, subject to the cap for service after 1 October 2011. The member was also able to reduce his hours but still accrue further benefits, albeit on a part-time basis.

How does this work?

This example explains how reductions work for those under age 60.

Example 2 – 1st flex at age 58

In this example we want to demonstrate the difference in value of the pension due to the full effect of early retirement reductions on retirement before age 60.

This example is based on the same member as Example 1, with all other details the same, except that we've assumed he was age 58 when drawing the benefits. We have also included figures for a female member for comparison.

First of all, we need to work out all the benefit splits/tranches to assess the early retirement factor.

Please see the 'Retirement' factsheet on the USS website at **www.uss.co.uk**

1. **Benefits earned before 17 May 1990:** **£ 1,563**
2. **Benefits earned between 17 May 1990 and 31 March 1995:** **£ 2,437**
3. **Benefits earned between 1 April 1995 and 30 September 2011:** **£ 8,252**
4. **Benefits earned after safter 30 September 2011:** **£ 3,000**

	Calculation	Male	Female
1	£1,563 x ERF*	£1,563 x 0.729 = £1,139	£1,563 x 0.914 = £1,429
2	£2,437 x ERF*	£2,437 x 0.908 = £2,213	£2,437 x 0.914 = £2,227
3	£8,252 x ERF*	£8,252 x 0.7765 = £6,408	£8,252 x 0.789 = £6,511
4	£3,000 x ERF*	£3,000 x 0.729 = £2,187	£3,000 x 0.743 = £2,229
Total annual pension at retirement		**£11,947**	**£12,396**

*ERF = early retirement factor for illustration only. Rates subject to regular review.

Please remember, in addition to the annual pension the standard tax-free cash sum is 3 x the value of the early retirement pension (3 x £11,947 for the male member in the example above).

The total pension before the application of the early retirement factors was £15,252 a year. The member can now take flexible benefits. If the member took 50% as in flex 1 in example 1, for a male member his pension would be £5,974, compared to £7,315 a year had we used age 60 in our calculations.

As you can see, the difference is substantial. If you wish to receive a quotation for flexible retirement before age 60, please contact your employer.

Treatment of Added Years and Revalued Benefits AVC arrangements

If you retire before you have completed the term of your monthly AVC arrangement i.e up to your proposed retirement date (normally age 65), you will be credited with a proportion of the benefit which you arranged to buy, as follows:

$$\left(\frac{\text{period for which AVCs were actually paid}}{\text{period for which AVCs would have been payable until proposed retirement date}} \right) \times \text{benefits that would have been bought by proposed retirement date}$$

How does this work?

So, if you were purchasing five years' service (in the Added Years AVC arrangement) with regular monthly contributions over a 20-year period to age 65, the pro-rata reduction if you retired five years before age 65 would be:

$$\frac{\textbf{15 yrs}}{\textbf{20 yrs}} \textbf{ x 5 years = 3 years and 274 days service}$$

If you bought additional benefits by lump sum AVC and retire before the proposed retirement date, you will be credited with the full amount of benefits, unless the lump sum AVC was paid less than 12 months before retirement.

However, the benefits will be reduced by an early retirement factor based on the number of years early you retire before the age stipulated in the AVC arrangement. This early retirement reduction does not apply to monthly Added Years AVC arrangements that started before April 2006, if you draw those benefits after age 60 with consent from your employer.

Once you have flexed part of your Added Years AVC arrangement, you will continue to contribute at the original contract rate, however, your reduction in part-time service fraction will in turn reduce the remaining proportion of additional pensionable service purchased.

With Revalued Benefits AVC arrangements you will continue to build up future additional benefits at the same rate as previously, assuming you continue with the arrangement.

Flexible retirement and ill-health pensions

If you flex part of your benefits this may impact what you would receive should you later retire in full due to ill health. If you flex and then retire on grounds of incapacity, any enhancement to your ill-health pension will be based on your full time equivalent salary at retirement but this will then be reduced by applying a part time service fraction.

More information about ill health early retirement can be found in the 'Incapacity Retirement' and 'Full Commutation' factsheets at www.uss.co.uk **www.uss.co.uk**

What if I die in service after flexible retirement?

If you die during a period of flexible retirement, the death benefits payable are a combination of death in service and death after retirement benefits subject to an overall maximum limit.

Death in service benefits relating to active service at the date of death are payable and calculated in accordance with the existing death in service rules, incorporating an enhanced beneficiary pension together with supporting eligible children's annuities and a tax free lump sum of three times actual salary at date of death. For further details please refer to our 'Bereavement' factsheet.

In addition, death after retirement benefits in respect of the pension in payment at date of death are payable, calculated in accordance with the existing death after retirement rules. Should you die within five years of your most recent flexible retirement date, a lump sum may be payable but will be determined after factoring in to the calculation the pension and lump sum payments you have received since taking flexible retirement.

Death benefits payable following flexible retirement are subject to an overall maximum limit. The total benefits payable will not exceed the value of the death benefits which would have been payable had you died in active membership immediately before the date of your first flexible retirement.

Please direct any questions concerning death benefits following flexible retirement to the bereavement team at **deathbenefits@uss.co.uk** who will be happy to respond to any queries.

Prudential Money Purchase AVCs (MPAVCs)

If you have contributed to the MPAVC, you will have a number of options when you retire. You can use the fund to buy a pension (annuity) from Prudential, or you could buy an annuity from another provider under the 'open market' option.

You may also be able to convert your MPAVC fund to USS benefits, at the point of retirement. This would provide you with additional USS pension and lump sum. The additional USS pension would be payable for your life, and would continue to your spouse/civil partner/dependant on your death at the rate of 50%. It would increase in payment in line with the increase (subject to a cap) in official pensions e.g. pensions for public sector schemes like civil service, teaching etc. For more information about this option, contact the pensions administrator at your institution.

With Prudential MPAVCs, it is not possible to draw part of the fund. When you flex, you are required to draw 100% of the MPAVC or leave it to be taken at a future event.

Please note, enhanced protection will be lost if you elect to convert your MPAVC fund to secure additional benefits in USS upon retirement.

See the 'Conversion tool for MPAVC or the USS Investment Builder' on the USS website at **www.uss.co.uk**

Importantly, since 6 April 2006, your MPAVC fund can be taken as tax-free cash. You are allowed to take up to 25% of the capital value of your benefits (including the USS MPAVC) as tax-free cash. You could opt to take your entire USS MPAVC fund as cash, or take less cash from the main scheme and receive a higher USS pension. However, tax regulations may change, so you cannot guarantee that you will be able to take all or part of your MPAVC fund as tax-free cash when you retire. Full details will be provided on retirement.

Please note: If you do not take your MPAVC at your first flex, this may mean that the amount that can be taken as tax-free cash at your next flex/retirement will be reduced. This is because your MPAVC value may be more than 25% of the value of your un-flexed USS benefits

You should consider all your options and take advice as necessary as to what best suits your circumstances.

USS Investment Builder funds

On flexible retirement, your USS Investment Builder funds can be used to increase your pension, or to increase your total tax-free cash, subject to the 25% limit described above. Further contributions into the USS Investment Builder will still be possible in respect of your continuing employment, until the point at which you fully retire. Unlike MPAVCs, it is also possible to draw upon only part of your USS Investment Builder fund upon flexible retirement, whilst leaving the remaining portion invested. Please note that there is no obligation to draw upon your USS Investment Builder fund at the same time that you flexibly or fully retire from USS if you do not wish to do so.

Early payment of benefits transferred to USS

Transfer values agreed before 1 April 2009

Benefit for any transfers to USS may be actuarially reduced if you opt for flexible retirement.

If you take flexible retirement before age 60, your benefits in respect of the transfer-in are reduced for each year and part-year earlier than age 63.5, or your Contractual Pension Age (as at 30 September 2011), if lower. The level of benefit secured by transfer-ins (including any applicable reductions) will be determined by the date received, age at date of retirement, retirement type and reason for retirement.

This condition applies to all transfers agreed before April 2009. The reduction would be applied only to the benefit for the service transferred-in, irrespective of whether or not the remainder of your USS pension has been reduced for early payment.

Transfer values agreed on or after 1 April 2009

If you agreed a transfer-in to USS on or after 1 April 2009, the benefits granted will be payable in full from age 65, or the NPA applicable at the time of transfer (age 66 from April 2020). If you draw these benefits early, the benefits in respect of the transfer-in will be reduced for the years and days earlier than age 65.

Pension increases

You will receive an annual pension increase linked to the increase in official pensions paid to public sector employees like teachers, civil servants or NHS employees. The annual increases, usually effective from each April, are currently linked to changes in inflation over the 12 months up to the previous September. In periods of negative inflation, pensions will not be reduced but no increase will be applied.

For service you accrued before 1 October 2011, USS will match the increase in official pensions. For service you accrued from 1 October 2011, USS will pay increases which match official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%. So, if official pensions increased by 15%, the USS increase would be 10% in that year.

Limits to tax-privileged pensions and lump sums

HM Revenue & Customs (HMRC) limits the amount of tax privileged benefits you can receive from a UK pension scheme. They do this by imposing a maximum allowance on the amount of pension savings at retirement called the Lifetime Allowance (LTA) and also an allowance for the maximum you are allowed to take as a tax-free lump sum on retirement. In addition, there is an annual limit to the amount of benefit you can build up called the Annual Allowance.

You will be advised of the maximum tax-free cash at retirement.

Please see the 'Tax-free cash options at retirement' factsheet at **www.uss.co.uk**

Lifetime allowance

Since April 2006, it has been the responsibility of each individual member to check whether their 'total' retirement savings (i.e. USS plus any other retirement benefits) exceed the LTA. To calculate the LTA value of your potential USS pension on the statutory basis, multiply your expected pension by 20 and add on 3 times the value of your pension as tax-free cash (assuming you opt for the standard retirement package). So, if you're expecting a pension of £10,000 a year plus £30,000 as tax-free cash, the LTA value would be £230,000.

However, the value of most members' retirement benefits will be nowhere near the maximum as the LTA is substantial. If you do exceed the LTA in force at the point of retirement a quotation detailing the charge to HMRC and resulting benefits will be supplied to you by USS either upon request or at the point of retirement.

Annual allowance

Since April 2011, a new limit has been introduced by HMRC to the maximum amount of pension you can accruein a year and still receive tax relief, called the Annual Allowance (AA).

What if I exceed the allowances?

If you require assistance in calculating your allowance, or if you think you have exceeded the allowance, please contact USS for a full quotation.

If you think you have or might exceed either (or both) the LTA or AA, please also refer to the 'Limits to tax relief and tax-free benefits' factsheet.

Working after retirement

In order to qualify to draw 100% of your accrued pension, you must terminate your current pensionable employment. Reaching age 65, or achieving 40 years' service, does not automatically make you eligible for a pension if you haven't stopped working.

You would not be deemed to have retired if you intend to commence another job with your current employer, or with any other employer that participates in USS, that is pensionable in USS. If however, after you have retired you are subsequently offered new employment your employer may have a duty to enrol you into a pension scheme. You will need to seek advice from your employer as to your eligibility and whether you are able to rejoin USS. Further information can be found on the USS website at **www.uss.co.uk**

You should note that your total income, including your pension, will be assessed for income tax.

How will my flex retirement be taxed?

Your flexible retirement pension will be taxed using the tax code OT month 1 basis. This means that there are no free-pay allowances and your pension will be taxed at the appropriate tax rate until such time as we receive a change to your tax coding from HMRC.

Small 'trivial' pensions

Where your pension from USS is very small, it may be possible in some circumstances to 'fully commute' this benefit. In other words, you could receive a one-off lump sum payment rather than the small pension income. You will be advised if this is an option for you.

Tax-free cash and pension options

The 'standard' package of benefits from USS is a pension plus a cash sum of three times that pension.

All members can take less or no cash and receive a higher pension. Alternatively, members can take more cash and a lower pension. However, HM Revenue & Customs (HMRC) limit the amount of tax-free cash you can take at retirement.

This tax-free cash limit is 25% of the lifetime allowance (LTA) value of your pension. This LTA includes the value of all your pension benefits being drawn on the same day, not just USS. As an estimate this new tax-free cash limit will on average be in the region of 5.75 times (varying with age and gender) the standard USS pension for most members.

If they wish, all members may receive a tax-free cash sum up to this new limit and the maximum amount will be provided in your retirement quotation.

See the 'Tax-free cash options at retirement' factsheet available on the USS website at **www.uss.co.uk**

Payment of benefits

Retirement cash sums

Your retirement cash sum will be paid into your bank account on the first working day after retirement, except in the circumstances surrounding delayed notification of retirement. Alternatively, it can be paid to you by cheque, which will be posted in time for you to receive it on the due day. Please note that it can take several days for a payment to be cleared through your account.

Pension payments

USS pensions are paid monthly to either a bank or a building society account through the Bankers Automated Clearing Service (BACS) which is a computerised money transfer system. Each instalment will be equal to 1/12th of your annual rate of gross pension unless you retire on a date other than the last day of a month, in which case the first instalment of pension will be calculated proportionately.

Payments of pension are made commencing on the 21st day of the calendar month following that in which retirement occurred, except in circumstances surrounding delayed notification of retirement. In these cases the payment of pension will be made in the next available monthly payroll cycle, including any arrears payable.

How does this work?

If you retire on 30 September, your first pensionpayment would normally be paid on 21 October. This would be for the full amount, representing the entire month of October.

If you were to retire on 10 October, you would receive a proportionate pension payment representing the period from 11 to 31 October. This would be paid on 21 November, along with the full pension in respect of November.

Thereafter payments will continue to be made on 21st of each month, or the last working day preceding this if this date falls on a weekend or bank holiday. Income tax will be deducted from your gross monthly pension under PAYE. If you intend to live abroad you must apply to HMRC for exemption from UK income tax in order to be recognised as non resident in the UK. Exemption can be considered only after you have established permanent residence abroad.

Note: These arrangements assume USS will be given at least ten working days' notice of your retirement by your employer. If we are unable to pay your lump sum within one month of its becoming due or if an instalment of pension is a month or more overdue and the amounts payable were in excess of £2,000 we will pay interest to compensate you, irrespective of who is to blame for the delay (excluding Prudential benefits).