USS

Salary sacrifice

How does it work?

This factsheet explains the implications for USS benefits if your employer provides a 'salary sacrifice' arrangement in respect of USS contributions.

What is a salary sacrifice?

A salary sacrifice happens when an employee gives up the right to receive part of his/her pay, usually in return for the employer providing some form of non-cash benefit. The advantage to the employee is that they will pay lower national insurance contributions; the employer also saves on its national insurance contribution.

Which USS contributions qualify?

Your employer is able to provide salary sacrifice in respect of:

- Ordinary USS contribution (currently 8% of salary);
- Special USS contributions (which are paid by certain members) – for example those payable by re-employed pensioners
  and flexible retirers; plus
- If you wish to take up the employer match and pay an additional 1% contribution into the USS Investment Builder, this will also qualify.

Effectively your employer then pays your pension contributions on your behalf, and your salary is reduced by the amount of those contributions.

How does this affect your USS pension benefits?

Salary sacrifice arrangements have no effect on the salary used in any USS benefit calculations and your employer must continue to pay the full amount of pension contributions to USS based on the salary before any sacrifice is made. Here's a simple example to illustrate how this works for a salary sacrifice arrangement for ordinary USS pension contributions:

Salary before 'sacrifice'	£40,000	
Standard USS contribution	£3,200	*(8%* of £40,000)*
Salary after 'sacrifice'	£36,800	*(earnings on which tax and NI are levied)*
Employee contribution paid by the employer	£3,200	*(in addition to the normal employercontribution)*
Contribution paid by employee	NIL	
Salary reported to USS by employer	£40,000	

* 8% for illustration purposes only.

You save on national insurance (tax relief has already been granted on your contribution) and you do not pay any contribution to USS. This is a very simple example of how it works; the savings vary depending on your salary.

Refund restriction

If you have been part of a salary sacrifice arrangement for USS contributions, and you leave USS with less than two years' qualifying service, any refund payable would not include those contributions paid on your behalf by your employer under the salary sacrifice arrangement. In practice that may result in a very small refund being available or none at all.

You should take this restriction into account when deciding upon whether to participate in a salary sacrifice arrangement if you think that you may leave USS after a short period and would like the option of a refund. However, if a refund is not required, the alternative is deferred benefits based on the contributions paid on your behalf by your employer under the salary sacrifice arrangement (plus any contributions paid by you before entering into the arrangement). The value of these deferred benefits could be transferred to another pension scheme. The amount transferable, which would not be less than the contributions used to calculate the deferred pension, would be calculated based on the full value of your benefits. Please see the leaver factsheet for full information.

Maternity leave

Statutory Maternity Pay (SMP) must not be reduced for employees taking part in a salary sacrifice arrangement prior to embarking on maternity leave. If you are entitled to contractual maternity pay, which exceeds SMP, then pension contributions may be deducted from maternity pay providing the remaining payment to you does not fall below the current level of SMP. Your employer must provide you with full details of your salary sacrifice arrangements.