USS

Tax protections and historical information

There are different ways you can take your USS pension, and when the time comes, you will need to think about which works best for you. See the retirement factsheet on our resources page.

Whatever choice you make, you are likely to pay some tax on the benefits you receive, with pension income normally subject to the same levels of tax as any other earnings. See the tax factsheets on our resources page.

If the benefits you build up exceed a certain amount (the lifetime allowance), the payments you receive when you retire will be subject to additional tax. See the Lifetime Allowance factsheet on our resources page.

If you take your pension benefits above the lifetime allowance as a lump sum, the tax rate is 55%. If you take them as a pension income, they will be taxed initially by 25%, then taxed as income.

The lifetime allowance is currently £1,055,000 (2019/20) and will increase annually in line with consumer prices index (CPI) inflation, but the government changes the limit from time to time – it has dropped from £1.8 million in 2011 to its current level.

Protecting your lifetime allowance

USS offers a range of options that could help you manage the tax implications of your pension. These include the voluntary salary cap and enhanced opt-out. See the factsheets on our resources page.

You could protect your pension savings from future reductions using a ‘protection’. Protection was introduced because Her Majesty’s Revenue and Customs (HMRC) recognises that you might have been aiming to save to a higher lifetime allowance in the past.

There are two types of protection that you can apply for: Individual protection 2016 and Fixed protection 2016. Both of these protections have replaced previous versions of each.

Individual protection – 2016

You can apply for Individual protection 2016, if your pension was (or pensions, if you have more than one, were) worth more than £1 million on 5 April 2016.

Individual protection will keep your lifetime allowance at either the value of your pension on 5 April 2016 or £1.25 million, whichever is lower. You can still save as much as you want into your pension but you will pay the additional tax on any benefits that are built above your protection limit.

Once you have it, you can only lose your protection or have the limit reduced by becoming subject to a pension debit as a result of a pension sharing order following divorce.

If you already have Individual protection 2014, which set your lifetime allowance at £1.5 million or primary protection (an earlier form of protection offered by HMRC), you cannot apply for Individual protection 2016.

If you receive Individual protection 2016 or you already have Individual protection 2014, you must tell us and the USS contact at your workplace. Visit the HMRC website to apply for Individual protection 2016

Fixed protection 2016

Fixed protection 2016 sets your lifetime allowance at £1.25 million, but to have it, you must have stopped building your pension by 6 April 2016, so it is usually only used by retired people.

If you make any contributions or transfer savings from another pension scheme, including from any arrangement USS has with Prudential, you will lose Fixed protection, and you will have to pay a tax charge on anything above the lifetime allowance of £1.03 million. There are some other circumstances that could lead to you losing fixed protection. See the relevant page in HMRC's Tax Manual, for details

For fixed protection 2016, neither you nor your employer can have contributed to your pension since 5 April 2016.

You can apply if you:	You can't apply if you have:
Opted out of USS by 5 April 2016; or you already have individual protection 2014.	Individual protection 2016; enhanced protection; primary protection; or fixed protection 2012 or 2014.

Earlier protections

- Individual protection 2014 capped the personalised limit at £1.5 million. Applications closed on 5 April 2017.
- Fixed protection 2014 capped the personalised limit at £1.5 million. Applications closed on 5 April 2014.
- Fixed protection 2012 capped the personalised limit at £1.8 million. Applications closed on 5 April 2012.
- Enhanced and Primary protections capped the personalised lifetime limit at £1.5 million. They were introduced to protect against additional tax charges brought about the then new lifetime allowance.

Historic limits – earnings cap

If you joined or re-joined a scheme such as USS between 1 June 1989 and 5 April 2006, the government put a limit on the amount you (and your employer on your behalf) could contribute. It did this by setting a pensionable earnings limit, and you could not build benefits based on any salary above that limit.

The limit was reviewed each year to reflect inflation (the Retail Prices Index), and for its final year (2005/06), the pensionable earnings limit was £105,600.

The statutory earnings cap was removed in 2006, when the lifetime allowance was introduced. Members of USS who were subject to the cap as at 5 April 2006 could choose to continue to build their benefits the same way, keeping the cap in place (with it increased broadly in line with inflation each year). This is known as the 'scheme specific cap', and it offered a way for members to manage the tax on benefits they built up.

If the statutory earnings cap applied to any of your service from 1989-2006, the benefits you built up during that period will be calculated up to the cap, where necessary. Benefits built up after that (unless you chose the scheme specific cap) will be based on contributions from your full pensionable salary.

Likewise, benefits built up during any periods of earlier uncapped USS-eligible employment and benefits transferred into USS from other pension arrangements based on uncapped salaries will be calculated by reference to your full pensionable salary.

You and your employer can pay to remove the effect of the earnings cap in full or in part. There is no time restriction, but you must be an active member currently contributing to USS. There are some restrictions on removing the cap; please speak to your employer regarding your options.

If you are unsure whether the cap applies to part of your USS benefits, please check with the pensions contact at your workplace.