

# Voluntary Salary Cap (VSC)

The VSC will be implemented from 1 October 2016.

The VSC allows you to cap the future accrual of pension benefits in the scheme by setting a salary for pension purposes at a level lower than your actual salary, provided it is no less than the salary threshold for the year. You will be able to make an election to commence VSC from 1 October 2016. Going forward, decisions on VSC will take effect from 1 April each year.

Death in service and incapacity benefits can be maintained based upon full uncapped salary should you decide to pay the special contribution for salary in excess of the VSC.

You should read further if you are at (or close to) annual or lifetime allowance thresholds and wish to consider managing the accrual of your benefits.

## Introduction to the Voluntary Salary Cap (VSC)

The VSC was introduced to give members an option to restrict their salary on a voluntary basis for pension purposes. It allows members to manage their pensions tax position without necessarily having to withdraw from the scheme entirely. It will be most helpful for members looking to manage annual allowance (AA) tax charges and the effect of the AA taper (the taper is explained in detail in the annual allowance factsheet).

A VSC election is not permanent, although there are restrictions around when you can stop and start. The detail of the election is set out in the frequently asked questions below.

Note that even if you are faced with an AA tax charge each year, it may not be in your interests to make a VSC election. We recommend that you read this factsheet and consider seeking independent financial advice before making a decision. You can find an independent financial adviser through the following website: [www.unbiased.co.uk](http://www.unbiased.co.uk). Please be aware that you may be charged a fee for any advice.

## Who can use the VSC?

Any active member with a USS salary above the salary threshold – set to be £55,550 from 1 April 2017 (revalued annually).

## When will the option be available?

You will be able to make an election to have a VSC in place with effect from 1 October 2016. After that, the elections will be effective from 1 April each year.

You must have submitted the application in advance and given at least 28 days' notice.

## Can I cancel the election?

The VSC can be cancelled with effect from 31 March each year. Therefore, your election will be in place for a minimum of 12 months (with the exception of the part-year from 1 October 2016), but will continue each year unless cancelled. You will need to give 28 days' notice to cancel an election.

## How do I make an election and where is the form?

The forms to make an election are available from your employer. You will need to speak to your employer in the first instance because an election for a VSC will require a change to their payroll.

### **What is the purpose of the VSC?**

The VSC allows members with lifetime and annual allowance issues to manage their tax affairs. In particular, it allows members to consider their personal circumstances and strike a balance between the amount of taxation on benefit accrual and on salary.

### **How does the VSC interact with the tapered annual allowance?**

The starting point for determining your tapered annual allowance is your taxable income, which is not affected by the VSC election. However, the VSC will reduce your pension accrual, thereby reducing the addition to "adjusted income" and the amount assessable for AA purposes.

### **What contribution rate will I pay?**

Any member using the VSC will pay 8% on their salary up to the VSC. Any contributions paid above the salary threshold up to the VSC will be invested in the USS Investment Builder.

### **Can I still elect for the 1% matching contribution rate?**

Yes. You and your employer will pay 1% of salary up to the level of the VSC.

### **Will death in service and incapacity benefits be limited to the VSC?**

You have some choice here. Should you want to maintain death in service and incapacity benefits on your full salary (ie not restricted by the VSC), you can do so. You will pay a contribution, which is currently set at 2.5% of the amount of your salary which is in excess of VSC.

### **Does my employer pay any contributions in respect of salary in excess of the cap?**

Yes, your employer is required to continue to make contributions towards any deficit, as set out in the recovery plan. The contribution payable by the employer is currently 2.1% of the amount of your salary which is in excess of VSC.

### **How do I decide where to set the cap?**

This is a matter for you to decide, however there will be a tool available soon for your employer to use that will estimate the impact of the cap on your benefits. It is important to understand that as you reduce your pensions tax liability by lowering the salary assessable for pension contributions, you also affect the benefit you receive. It may be the case that even when your benefits are subject to tax, it is more valuable for you to remain in the scheme than make a VSC election or indeed opt-out entirely. You can find an independent financial adviser through the following website: [www.unbiased.co.uk](http://www.unbiased.co.uk). Please be aware that you may be charged a fee for any advice.

### **Should I set the cap to ensure that there are funds paid to the USS Investment Builder to pay for any tax charges that may fall due?**

You can use your USS Investment Builder fund savings to pay for annual allowance and lifetime allowance tax charges. It may be a more efficient solution to use funds paid to the USS Investment Builder (including contributions paid by your employer of course) to cover these charges.

### **I have multiple employments, how does the VSC work for me?**

You still need to decide the overall level of the salary cap, however you will need to inform your employers as to how it should apply. For instance, if you wanted to apply a cap of £55,550, and you have two posts at £40,000 per annum then the VSC could apply to one employer so that your salary from that employer is capped at £15,550 and then no cap would apply in respect of your other employment (this is just an example and it is up to you to decide how the cap applies).

If both employments are £60,000 per annum, then the VSC could apply entirely to one employer to cap salary to £55,550 for the other.

### **What if I cease one of my employments part way through the year?**

The application would remain in place in respect of the employer you made the election against. So taking the example above, if you ceased one of your £40,000 per annum posts, and that was not the one to which the VSC applied, then your salary from your remaining employment for pension purposes would be restricted to £15,550 until the following 31 March, when it would be cancelled as the cap would be lower than the salary threshold.

This publication is for general guidance only. It is not a legal document and does not explain all situations or eventualities. USS is governed by a trust deed and rules and if there is any difference between this publication and the trust deed and rules the latter prevail. Members are advised to check with their employer contact for latest information regarding the scheme, and any changes that may have occurred to its rules and benefits.

