

Voluntary Salary Cap (VSC)

The lifetime allowance (LTA) and annual allowance (AA) limits are set by the government, and if you're near these limits and earn above the salary threshold, you could choose a Voluntary Salary Cap (VSC) to help you manage your tax charges.

A VSC lets you set a pensionable salary that's lower than your actual salary (but not less than the salary threshold), so you can manage the amount of pensions tax you pay.

With a VSC, your death in service and ill health benefits can still be based on your full salary.

What is the purpose of the VSC?

If you're close to your LTA or your AA limits (government-set limits on how much pension savings you can make before they're subject to tax), a VSC could help you strike a balance between the amount of tax you pay on the pension benefits you accrue and on your salary. For more information on the LTA and AA, [visit our pensions tax page](#).

Who can use the VSC?

Any active member who earns above the salary threshold (£57,216.50 from 1 April 2018) in USS-eligible employment.

When can I apply for a VSC?

VSCs take effect at the start of each tax year (1 April), and the deadline to apply is 3 March. If you miss the deadline or you join USS after 3 March, the earliest you can have a VSC is the following April.

How do I decide where to set my VSC?

That's up to you; neither USS nor your employer can give you financial advice, so you must make a decision based on your personal circumstances. Use our [AA modeller](#) to help estimate the impact of different VSCs.

Using a VSC to reduce your pensions tax liability lowers your pensionable salary. This will affect the benefits you receive in retirement. Seek financial advice to see whether a tax saving with a VSC is more beneficial to you than your current level of USS benefits. Find a financial adviser on unbiased.co.uk. You may be charged for any advice you receive.

Should I set a VSC that ensures my USS Investment Builder savings will pay for any tax charges?

It could be tax-efficient for you to use some of your USS Investment Builder savings to pay AA tax charges. This is called Scheme Pays. Find out more about Scheme Pays and the LTA excess charge on the [pensions tax page](#). Seek financial advice to find out whether either of these options are best for you.

How will my VSC impact my annual allowance?

You can set your VSC anywhere between the salary threshold (£57,216.50 for 2018/19) and your pensionable salary. Setting the cap higher will increase the amount of AA you use up, but it will also increase the amount of benefits you build up in the USS Investment Builder.

Here's an estimate of the amount of annual allowance you'd use with at different VSC levels:

Salary Cap	£57,216.50 (minimum)*	£70,000	£80,000	£100,000	£120,000
Estimated annual allowance used up**	£15,000	£17,000	£19,000	£23,000	£27,000

* Salary Threshold for 2018/19. **This assumes you're not making any additional contributions.

What effect would a VSC have on the tapered AA?

Your taxable income is the starting point for determining your tapered AA, and that's not affected by a VSC. However, a VSC will reduce your pension accrual. In turn, this will reduce your 'adjusted income' and the amount of your salary that's assessed for AA purposes. Find out more with the [Annual allowance factsheet](#).

What contribution rate will I pay?

You'll pay 8% of your salary up to your VSC. Any contributions above the salary threshold but below your VSC will be saved in the USS Investment Builder.

Does my employer pay any contributions in respect of my salary above the VSC?

Your employer won't pay contributions above your VSC to your USS Investment Builder fund.

Can I still have for the 1% matching contribution?

Yes. You can still take the match, with your 1% additional contribution matched by your employer up to your VSC.

Will death in service and incapacity benefits be limited to the VSC I set?

If you want to keep your death in service and incapacity benefits based on your full salary, you can pay a contribution of 2.5% of your salary above your VSC. Otherwise, these benefits will be based on your VSC salary.

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

You still need to decide the overall level of your VSC, but it's up to you to tell your employers how you want it to be applied.

For instance, if you want to cap your salary at the threshold, and you have two posts at £40,000 per annum, the VSC could apply to one employer, with your salary capped at £17,216.50 and no cap applied to your other employment. This is just an example, and it is up to you to decide how the cap applies.

What if I end one of my employments part way through the year?

If you left the job that didn't have a VSC applied to the salary, using the example above, your pensionable salary would be restricted to £17,216.50 until the following 31 March, when your VSC would be cancelled as it would be lower than the salary threshold. If you left the job to which your VSC applied, the VSC would end.

How do I implement a VSC 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.

Can I cancel my VSC?

Yes, but you must give at least 28 days' notice. You can give notice any time, but the cancellation will only come into effect on 31 March – so your VSC will be in place for at least a year, and the latest you can give notice is 2 March.

If you don't cancel your VSC, it will continue each year on a rolling basis. Should the salary threshold (which rises annually broadly in line with inflation) increase above the level you've set, your VSC will automatically increase to the new salary threshold level.

A VSC is not suitable for everyone, and you should seek independent financial advice, before electing for a VSC. Find an independent financial adviser on unbiased.co.uk. You may be charged for any advice you receive.

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