

# USS Pension Scheme

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# USS Pension Scheme

- funding the scheme
- how to calculate your retirement benefits
- what happens if.....?
- increasing your benefits
- USS website
- questions

# USS Funding

- members pay 6.35% of salary (gross contribution)
  - less tax relief and saving on National Insurance
- employers pay balance of cost - currently 14% of salary
- on 31<sup>st</sup> Dec 2007 the scheme was 94% funded

# USS Funding Level

- Minimum Funding Requirement 126%
- Pension Protection Fund 110%
- FRS17 90%
- USS ongoing funding position  
(31/3/05) 77%

# Calculating your pension as a full-time member

- full-time

- $1/80^{\text{th}}$  X service X pensionable salary

- example – 20 years service

$$= 20 \times 1/80^{\text{th}} \times \text{£}40,000$$

$$= 20/80 \times \text{£}40,000 = \underline{\text{£}10,000.00 \text{ pa}}$$

# Calculating your pension as a part-time member

- part-time
  - service reduced to full-time equivalent but pension calculated on full-time equivalent salary

# USS Lump sum

- payable in addition to pension (standard package)
- *standard* tax-free cash is 3 X your pension
  - option to take more cash (subject to limits)
  - option to take less, or no cash
- Benefit Modeller available to calculate cash options and effect on your pension
  - maximum cash is 25% of the capital value of your benefits (approx. 5.75 times standard pension)

# Increasing lump sum- cash conversion factor

- eg. using factor of 15.24 (male aged 65):
  - £1 pension gives £15.24 cash, or
    - £15.24 of cash would provide £1 pension

## Male

65 = 15.24

60 = 17.86

55 = 20.33

## Female

65 = 16.89

60 = 19.34

55 = 21.69



# Pensionable salary

- pensionable salary calculated in most favourable way possible
- based on last 13 years salary history
- all salaries indexed by RPI
- better of best 12 months in last 36; or
- best average over 3 years falling in last 13 years

# Pensionable salary revalued

● Salary date	Salary		RPI	Revalued Salary
● 01/10/2005	40000	x	193.5/193.5 =	40000
● 01/10/2004	38889	x	193.5/188.6 =	39982
● 01/10/2003	37612	x	193.5/182.6 =	39857
● 01/10/2002	36501	x	193.5/177.9 =	39701
● 01/10/2001	34914	x	193.5/174.3 =	38760
● 01/10/2000	33327	x	193.5/171.6 =	37580
● 01/10/1999	31740	x	193.5/166.5 =	36887
● 01/10/1998	30153	x	193.5/164.5 =	35468
● 01/10/1997	28566	x	193.5/159.5 =	34655
● 01/10/1996	36500	x	193.5/153.8 =	45922
● 01/10/1995	31740	x	193.5/149.8 =	41000
● 01/10/1994	28566	x	193.5/145.2 =	38068
● 01/10/1993	22218	x	193.5/141.8 =	30318
				=41663

# Retirement options

- early retirement between 50 & 60 due to redundancy or at request of employer - no actuarial reduction to member but the employer is charged the full cost.
- from age 60 in accordance with contract or with employer's consent, no charge or reduction.
- If deferred member can take your pension on your contractual retirement date or at age 63.5 years without any loss if later. Can take earlier with a loss.
- minimum retirement age 55 from 6 April 2010

# Actuarial Reduction of Pension

No of years	Male %	Female %
1	4.8	4.4
2	9.2	8.6
3	13.3	12.5
4	17.1	16.1
5	20.7	19.5
6	24.0	22.7
7	27.1	25.7
8	30.1	28.5
9	32.8	31.2
10	35.4	33.7

# Cost to the employer

- The reduction in pension x Buy Back Factors + the reduction in lump sum

Age	Male	Female
50	24.37	25.78
51	23.87	25.30
52	23.35	24.84
53	22.82	24.32
54	22.29	23.82
55	21.75	23.31
56	21.70	22.79
57	20.55	22.26
58	20.09	21.73
59	19.52	21.19
60	18.95	20.65

A man retiring in redundancy situation at age 51, with 20 years USS service, and a final salary £35K.

- **Man**
- Actual pension individual would receive
- $35000/80 \times 20 = £8750$  lump sum £26250
- Loss
- $32.8\% = £8750/100 \times 32.8 = 2870$  lump sum £8610
- **Employer costs £77,116.90**
- Factor 23.87 at this age
- Formula
- The reduction in Pension x Buy Back Factor + the reduction in Lump Sum =
- $£2870 \times 23.87 + £8610 = £77116.90$

A woman retiring in redundancy situation at age 51, with 20 years USS service, and a final salary £35K.

Actual pension same £8750 and lump sum £26250

Loss

$31.2\% = £8750/100 \times 31.2 = £2730$  lump sum £8190

**Employer costs £77259**

Factor 25.30

Formula

The reduction in Pension x Buy Back Factor + the reduction in Lump Sum =

$£2730 \times 25.30 + £8190 = £77259$

A man retiring in a redundancy situation at age 56, with 25 years of USS service, and a final salary of £40K.

Actual pension individual would receive

$\text{£}40000/80 \times 25 = \text{£}12,500$  lump sum  $\text{£}37,500$

Loss

$17.1\% = \text{£}12500/100 \times 17.1 = \text{£}2137.5$  lump sum  $\text{£}6412.5$

**Employer costs  $\text{£}51,727.50$**

Factor 21.20

Formula

The reduction in Pension x Buy Back Factor + the reduction in Lump Sum =

$\text{£}2137.5 \times 21.20 + \text{£}6412.5 = \text{£}51727.50$



A woman retiring in a redundancy situation at age 56, with 25 years of USS service, and a final salary of £40K.

Actual pension individual would receive

$\text{£}40000/80 \times 25 = \text{£}12,500$  lump sum  $\text{£}37,500$

Loss

$16.1\% = \text{£}12500/100 \times 16.1 = \text{£}2012.5$  lump sum  $\text{£}6037.50$

**Employer costs £51842**

Factor 22.76

Formula

- The reduction in Pension x Buy Back Factor + the reduction in Lump Sum =  
 $\text{£}2012.50 \times 22.76 + 6037.50 = \text{£}51842$

# What if I am too ill to work

- total incapacity

- unreduced pension based on service projected to 65
  - long-term inability to perform current duties or duties in a role that would pay more than a 10% of current salary

OR

- partial incapacity

- unreduced pension based on service to date of retirement
  - long-term inability to fully perform current duties or duties in a comparable role but partial or alternative work possible

# What if I die before I retire?

- lump sum of 3 times salary on death in service
- spouse's/dependant's/civil partner's pension equivalent to half member's pension projected to age 65
- children's pensions equivalent to 3/4 of member's projected to age 65
- 3/8ths if only one child

# What if I die after I have retired?

- lump sum may be due on death within 5 years of retirement
  - amount depends on how much cash you took at retirement
- spouse's/dependant's/civil partner's of
  - $1/160^{\text{th}}$  X service X pensionable salary at retirement
  - Plus
    - pension increases to date of death
- plus pensions to eligible children

# What happens if I leave the scheme

- transfer to another USS institution
- deferred pension & lump sum
- refund option if less than 2 years service—(less tax and NI)
- option to transfer to another scheme
  - public sector transfer club
  - private transfer
- on re-joining deferred pension cancelled and service added together

# Transfers

- much more restrictive since April 2006
- overseas scheme must register with HM Revenue & Customs and meet their requirements
- many overseas schemes will not wish to register, thereby making a transfer unattractive (would be subject to a 40% tax charge)

## Building more than 40 years service or continuing to build after 65 years of age

- members can build up service in excess of 40 years
  - optional for the member
  - optional for the employer
- member can opt to pay in past 40 years even if employer does not
  - only 25% service credit for future service
- employer advised by USS when 40 years reached
  - service purchased with post April 2006 added years contracts not counted

## Improving your pension Additional Voluntary Contributions AVC

- suitable for members who can't achieve the benefits they need or wish to retire early
- two different options with USS

tax efficient way to buy extra pension benefits

- contributions deducted from salary
- monthly or lump sum
- tax relief granted at source



# Added Years AVC

- final salary benefit
- secures extra years and days USS service
- final benefits dependent on pensionable salary at retirement and service purchased
- maximum additional 15% of salary contribution to added years
- changes to payment amount requires new contract

# Money Purchase AVC Facility

- retirement benefits dependent on
  - amount invested
  - investment choice/performance
  - cost to buy retirement benefits at retirement
- contributions up to 100% of gross taxable pay
- tax-free cash (25% of fund and possibly 100% at retirement)
- fund can be used at retirement to buy years and days service from USS
- flexible contributions
- purchase of pension can be at any time before age 75

# Charges and Penalties?

## Added Years

- no penalties for ending contributions
- no charges

## Money Purchase

- no penalties for ending contributions
- annual charge depending on investment choice (max. 1%)

# Contacts

USS website – [www.usshq.co.uk](http://www.usshq.co.uk)

- list of financial advisers under 'Planning' section
- Factsheets in communication section
- 0151 227 4711

Prudential

- Website [www.pru.co.uk](http://www.pru.co.uk)
- Helpline 0845 070 0007

UCU

- local association [ucu@manchester.ac.uk](mailto:ucu@manchester.ac.uk)
- website [www.ucu.org.uk](http://www.ucu.org.uk)

# Pensions

- Wise to go to your local association in the first instance, who will support you.
- If they refer you then come to
- Pensions
- [pensions@ucu.org.uk](mailto:pensions@ucu.org.uk)  
0121 634 7387  
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