

The Universities Superannuation Scheme (USS) is changing from the 1 April 2016

10 Q&As to help active members understand the changes to USS

1. Why is the USS changing?

Changes are required to ensure that USS is affordable and sustainable for the future. The USS Trustees are legally responsible for making sure that there is enough money in the fund to pay members' benefits, from both past and future service. Currently there is a substantial shortfall, or deficit, between the value of the benefits already built up and the value of the fund's assets. As well as being sizeable, the deficit is volatile and this volatility poses additional risks to the security of the USS. In March 2013, the deficit was £11.5 billion and even after the impact of the 2011 benefit reforms is taken into account the last valuation in March 2014 showed that the scheme had a deficit of £5.4 billion. By March 2015 this had risen to £8.3 billion.

The USS Trustees were required to put in place a plan to fund the deficit over a reasonable period and in order to do that they need to agree a contribution level with the employers that is affordable over the long term.

The changes to contributions and benefits are about securing the USS for the future, not just funding the past service deficit. The cost of maintaining the current final salary benefit structure is increasing so rapidly that costs need to be brought under control.

Employers will also pay more from April 2016 with their contribution rate increasing from 16% to 18% of total salary, an additional investment of approximately £135 million a year.

2. What is changing from April 2016?

There are some important changes that you as an active member need to be aware of; including changes to your retirement/future benefits and to the amount you pay.

NOTE: Changes apply to all USS members, regardless of the amount you earn or length of time in the scheme.

Changes to contributions

From 1 April 2016 your contributions increase to 8% of salary (from current rates of 7.5% for final salary members and 6.5% for career revalued benefits (CRB) members).

Employer contributions also increase from 16% to 18% from 1 April 2016.

Changes to benefits

The final salary section of the scheme closes on 31 March 2016.

The existing CRB section of the scheme closes on 31 March 2016.

From 1 April 2016 all active members will become members of the USS Retirement Income Builder; this is the new CRB section of the scheme.

Any benefits you have earned up to 31 March 2016 are protected by law and in the scheme rules. Going forward these benefits will be increased annually in line with official pensions¹ (subject to certain limits, please refer to the [Revaluation Factsheet](#) for more information).

Between 1 April 2016 and 30 September 2016 the USS Retirement Income Builder operates in a similar way to the existing CRB section, but the rate at which your benefits will build up will also increase from 1/80 to 1/75 of your actual salary in pension, plus a cash lump sum of 3/75 of your salary for each year you are a member of the scheme.

From 1 October 2016 a maximum salary threshold will be introduced for savings into the USS Retirement Income Builder; initially this will be £55,000 per year.

Going forward the salary threshold will be increased annually in line with official pensions¹ (subject to certain limits, please refer to the [Revaluation Factsheet](#) for more information).

If you earn more than the threshold, your (and your employer's) contributions in relation to your salary above the threshold will go into the new USS Investment Builder, this is the new Defined Contribution (DC) section of the USS.

12% of the employer contribution rate in respect of salary above the salary threshold will be allocated by USS to the USS Investment Builder from 1 October 2016. Your employer's total contribution to the scheme is however 18% of your salary (see Q7 below for more details).

If you earn under £55,000 you will not be affected by the threshold and will continue to contribute solely to the USS Retirement Income Builder, unless you choose to pay more to make additional pensions savings.

Even if you earn less than £55,000 a year you can choose to pay more and this will go into the new USS Investment Builder.

If you wish to take up the employer match and pay an additional 1% contribution into the USS Investment Builder, your employer will automatically match this contribution. Any contribution you pay over the 1% will not be automatically matched.

A USS [Benefit Illustrator](#) is available and can be used to estimate your future benefits and future costs.

3. What about the benefits I've already built up?

The benefits you have built up in the scheme prior to 31 March 2016 are protected by the scheme rules and in government legislation. There is no change to the benefits you have already earned. The closure of the final salary section means that there is a change to the way these benefits will build up in future.

If you are a member of the existing final salary section the benefits you have built up to 31 March 2016 will be calculated using your pensionable salary and pensionable service at that date.

Going forward, the final salary benefits you have earned up to 31 March 2016 will be revalued in line with increases in official pensions each April (currently the Consumer Prices Index – CPI – subject to

¹ Official pensions increases are those paid to retired public sector employees such as teachers, civil servants or NHS employees. Currently, the annual increases to official pensions, usually effective from each April, are linked to changes in the consumer price index, which is a measure of inflation over the 12 months up to each September.

certain limits), up to the point of retirement (or if you leave the scheme and become a deferred member).

4. What are my options for investing in the USS Investment Builder?

If you earn more than the salary threshold you will automatically contribute to the USS Investment Builder from 1 October 2016.

If you earn less than the salary threshold your choice to invest in the USS Investment Builder is a decision you must make based upon your own personal financial position.

Some things you may wish to consider when making this decision are:

- The employer match – your employer will match the first 1% of any additional contribution;
- Tax relief on your pension contributions is available up to certain limits;
- Tax free lump sums – in many cases you will be able to draw your DC investment from the USS Investment Builder tax free at retirement (again within certain limits).

Remember all members can choose to pay more than the additional 1% into the USS Investment Builder, but anything above the 1% will not be matched by your employer.

To find out more information visit the [DC education section](#) of the USS For the Future website.

5. Should I consider retiring before these changes take effect?

Benefits built up prior to the changes are unaffected, so you will not be worse off if you retire after the changes take effect. The scheme will continue to provide generous benefits which will include significant employer contributions, as well as comprehensive cover for ill health, incapacity and death.

You must make your own decisions about retirement based on your personal circumstances. The decision to retire needs to be considered carefully and you should seek independent financial advice if you need to.

6. Should I continue paying towards my added years AVC?

If you are currently paying monthly added years Additional Voluntary Contributions (AVCs) you can continue to pay them after the closure of the final salary section, but it is important to note that the all benefits you build up will be based on a calculation using your pensionable salary at 31 March 2016. The amount you contribute towards your AVC, however, will continue to increase in line with your future salary.

If you have a monthly added years AVC you should consider whether continuing the AVC arrangement still represents good value for you. It does depend on your individual circumstances, how close you are to retirement and how significantly you expect your salary to change between now and retirement.

7. Employers' contributions are increasing from 16% to 18% - how do these rates break down?

Employers have committed to pay a minimum of 18% from April 2016 (until at least 2020), when the USS Joint Negotiating Committee (JNC) will review this position.

This breaks down to:

- (i) The future service defined benefits – this accounts for 13%

- (ii) The employer contribution to the funding deficit – which is 2.1%
- (iii) The employer contribution to the USS Investment Builder – which is 2.5% - this is made up of:
 - i. 12% on salaries in excess of the £55,000 threshold;
 - ii. An allowance for the 1% employer match.
- (iv) Expenses of 0.4%.

8. How does the changed accrual rate affect me?

The accrual rate for the USS Retirement Income Builder is 1/75. This is an improved accrual rate (it was previously 1/80) meaning from 1 April you will earn a pension of 1/75 and a lump sum of 3/75 each year based on actual salary up to an initial salary threshold of £55,000 a year.

9. Do I need to do anything with the benefits I have already earned?

No, you do not need to do anything with the benefits you have already earned. USS will calculate your benefits as at 31 March 2016 and these will be reflected in your statements going forwards.

10. What do I have to consider and do, and by when?

USS will be launching a USS Investment Builder Guide and series of factsheets in the summer. These will provide a general overview for members who are unfamiliar with how DC investment works, and detail the type of investment funds available, as well as providing a lot of useful information about how you can choose to invest.

An online member portal will also be made available by USS, and when you register you will be able to make DC choices (for the USS Investment Builder), and from October, monitor and amend your investments online.

For more information visit the USS website - www.uss.co.uk

This Q&A has been prepared by the Employers' Pension Forum (EPF). The EPF was established by GuildHE, the Universities and Colleges Employers Association (UCEA) and Universities UK (UUK) in 2007 as a broad based forum for HEIs to discuss current and longer term pensions issues and to develop a strategy that will enable the HE sector to continue to offer staff access to high quality pensions schemes as an important part of the total remuneration package. Membership of the Forum consists of representatives drawn from Vice-Chancellors, Finance Directors, HR Directors, Registrars and Chairs of Governing bodies, all with considerable experience in this area.

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