

## **USS - The employers' approach to scheme benefits**

Universities UK as the employers' representative has proposed the following changes to the benefit structure:

### **Defined benefits (DB)**

- The final salary section of the USS will be closed to existing members.
- The final salary benefits that existing USS members build up before the date the changes are implemented will be calculated based on their individual salaries at the date the changes come into force and from that date on will be increased each year in line with the Consumer Prices Index (CPI). This means that benefits at retirement will no longer be linked to a member's final salary at retirement.
- All members of the USS – both existing members and new members – will join the career revalued benefits (CRB) section of the USS for future service.
- Benefits in the CRB section will be based on the same accrual rate as currently – members will build up benefits based on an accrual rate of 1/80th of pensionable salary per year. Each year their benefits will be increased in line with CPI (guaranteed up to 5% with half of any additional increase in CPI up to 15% i.e. a maximum increase of 10% per year).
- However, benefits in the CRB section will only apply to salary up to a salary threshold of £50,000 pa.
- The Normal Retirement Age in USS will remain linked to increases in the State Pension Age.
- No changes are being made to members' ability to take a tax free cash lump sum at retirement.

### **Defined Contribution (DC) benefits**

- A new section of the USS will be created that will provide DC benefits (which depend on the amounts contributed, the time they have been invested and investment performance; they are not guaranteed).
- Alongside the CRB pension, employees in the USS will be able to pay an additional 1% into a DC section up to the salary threshold and employers will match the 1% contribution. This will mean that every member of USS can build up an extra pension pot on top of their CRB pension. The new pension flexibilities introduced by the Government will mean that members will have greater choice in how they draw benefits from their DC pot, including the ability to take it all as cash, subject to income tax.
- Higher earning members whose salary is above the salary threshold will still build up CRB benefits (plus DC benefits on any additional contributions they make in accordance with the above bullet point) on their salary up to the salary threshold of £50,000 pa, but their pension benefit on salary above the salary threshold will be covered by the new DC section. It is currently proposed that employers will contribute 12% of pensionable salary above the salary threshold into the DC section and employees will contribute 6.5%.
- The provision of a DC section enables greater risk to be shared between the employers and the employees, as the benefits payable from the DC pot are not guaranteed. By focusing the largest proportion of DC benefits on those USS members earning the most, the intention is to share the greatest risk with those who can afford to bear that risk while ensuring that all employees retain a minimum core DB pension.

### **Death in service and ill health benefits**

- Death in service and ill health benefits have yet to be finalised but will be broadly comparable to those provided now. Members' death in service/ill health benefits will derive from the DB section (comprising both final salary benefits up to the date of change and CRB thereafter) up to the salary threshold. For those members whose salary is above the salary threshold part of these benefits will come from the DC section, potentially through an additional insured solution.

### **Employer and employee contribution rates**

- The employers aim to maintain employer contribution rates within the range 16-18%.