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USS

USS Changes

January 2016

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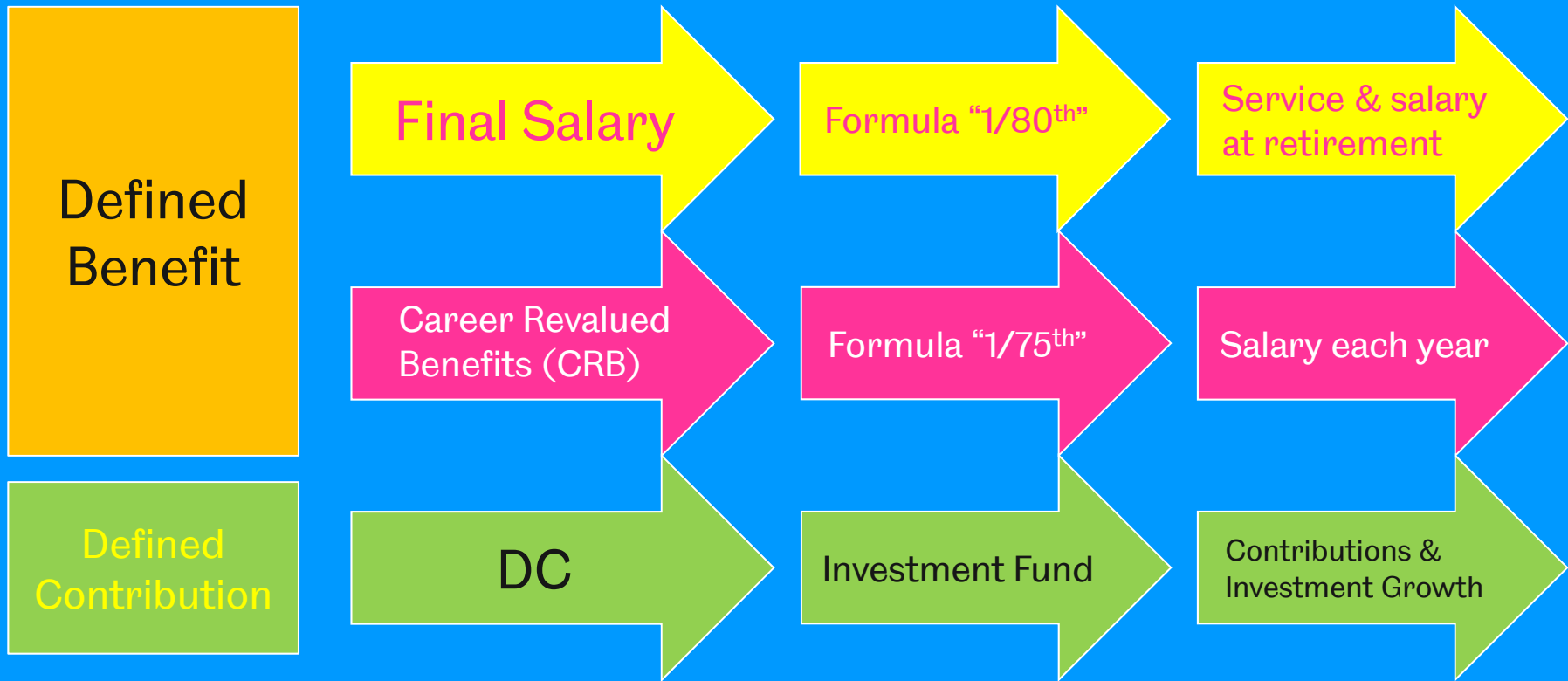
USS

What we will cover

- Terminology
- Changes
- Q&A

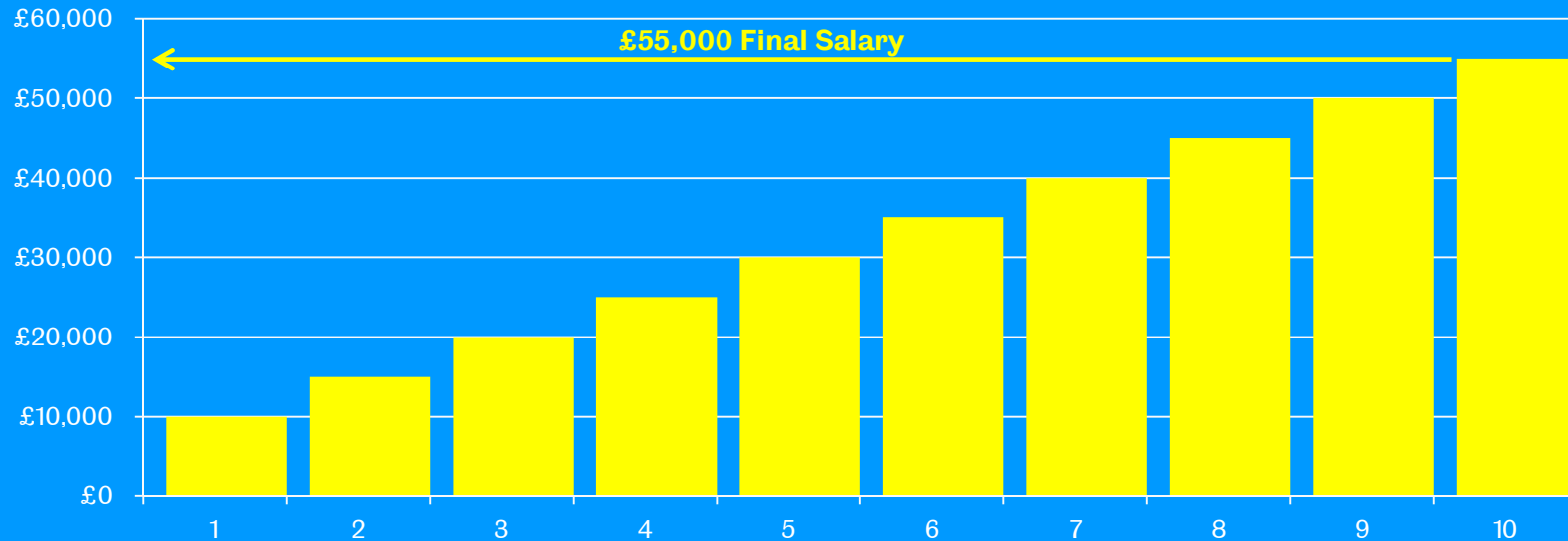


Pensions Terminology





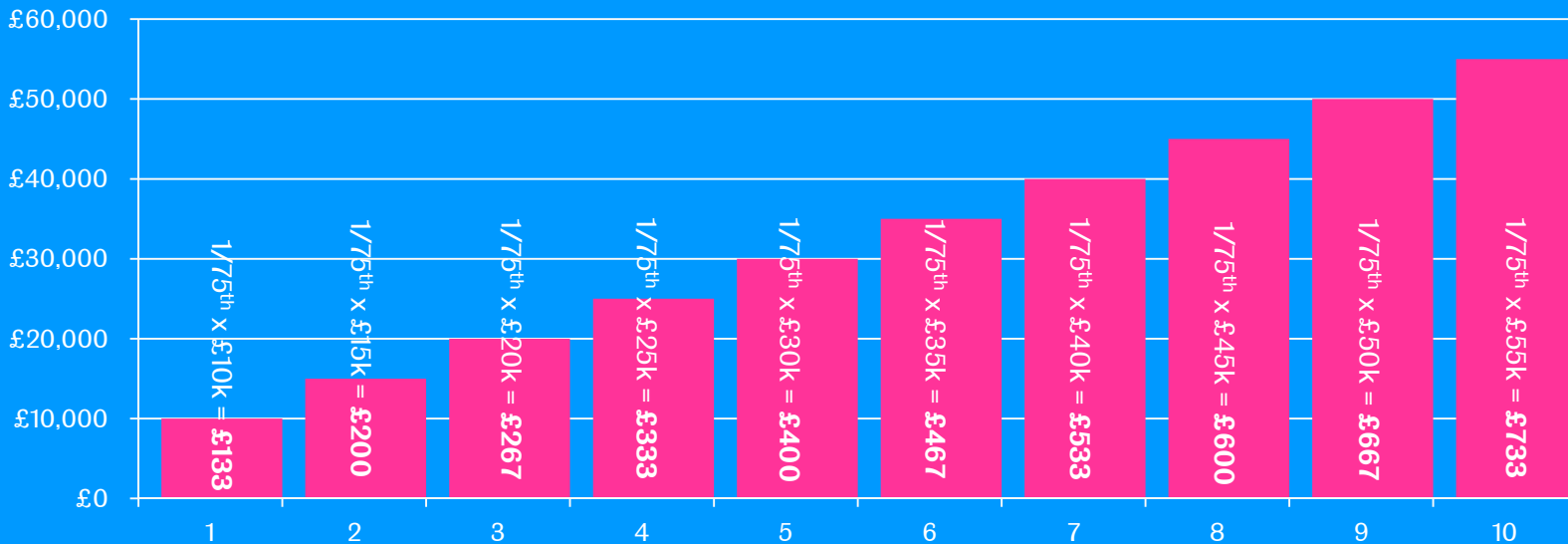
Final Salary Pension



- E.g. 10 years' service, '1/80th' scheme, final salary £55k
- Pension income = $10/80^{\text{ths}} \times £55\text{k} = £6,875$ /year
- Tax-free cash of 3 x pension = £20,625



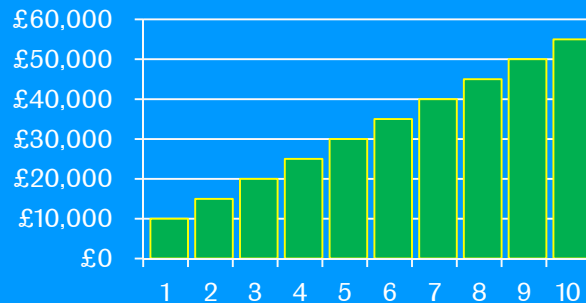
Career Revalued Benefits



- E.g. 10 years' service, '1/75th' scheme
- Pension = £133+£200+£267.....+£733 = £4,333/year
- Tax-free cash of 3 x pension = £13,000
- Amounts re-valued each year
 - Re-valuation at 2.5%/year = c£4,700/year pension



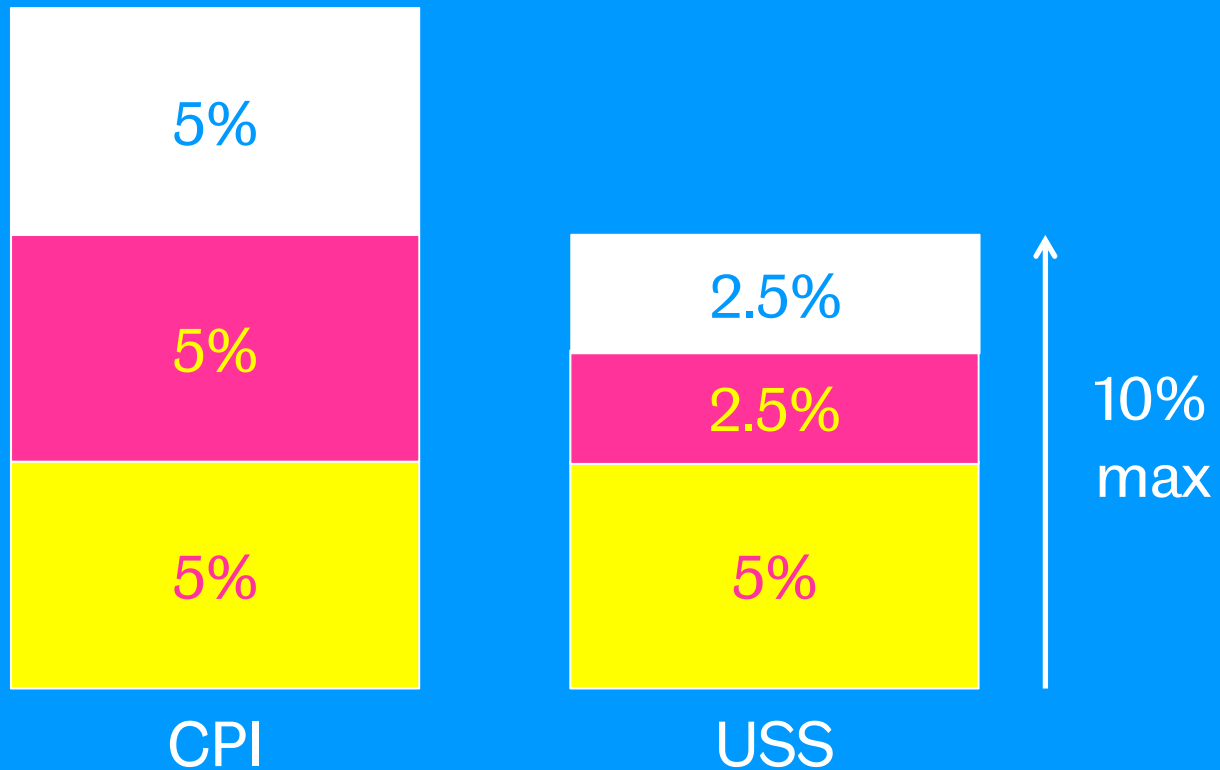
Defined Contribution



- Fund value determined by contribution & investment growth
- e.g. 20% total contribution rate = £65,000 into pot over 10 yrs
- Contributions invested – aim to grow value
 - e.g. 5% growth/year fund value after 10yrs c£76,500
- Choice of investment funds – different levels of risk/potential return
- Risk that value reduces as well as increases
- Convert into income at retirement – now more choice – not just annuities



USS Pension Increases





USS Pension Increases

CPI

-1%

USS = 0%



Headline Changes:

1. Final salary section to close
2. All staff move to new CRB section (1/75^{ths})
3. Benefits on earnings above £55,000 on DC basis.
4. Optional DC savings of additional 1% of earnings matched by employer (on whole salary)
5. Employer & member contributions increase

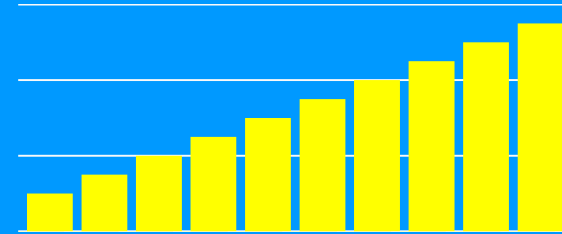


Final Salary Section Closes

- All past benefits are protected

E.g. as at 31 March 2016:

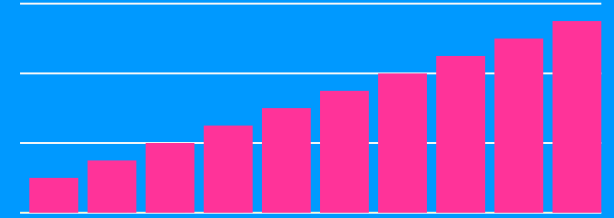
- 20 years' service
- Pensionable salary £40,000
- Pension "accrued" = $20/80\text{ths} \times £40\text{k} = £10,000 / \text{yr}$
- Plus 3 x annual pension (£30,000) tax-free cash
- Pensionable salary is increased each year based on USS pension increases
- Paid on retirement in addition to future benefits





New CRB Section

- All future pensions based on CRB
- Each year “accrue” 1/75th of salary as pension
- PLUS 3/75^{ths} of salary as tax-free cash
- Up to a salary cap of £55,000 from 1 October 2016
- E.g. salary is £40,000



Pension built up each year: $1/75^{\text{th}} \times \text{£}40,000 = \text{£}533$

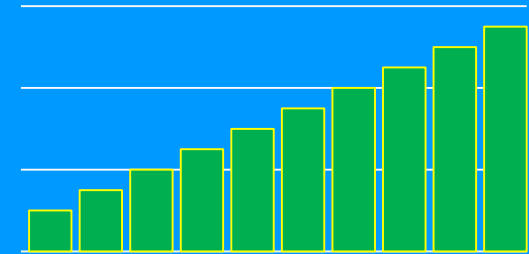
Tax-free cash built up each year: $3/75^{\text{ths}} \times \text{£}40,000 = \text{£}1,600$

Accrued benefits increased each year based on USS pension increases (as currently)



New DC Section from 1 Oct

- Benefits on earnings above £55,000 on Defined Contribution (DC) basis.
- Total contribution to DC pot = 20% of salary above £55k (8% member, 12% Uni)



E.g. Salary £75,000

First £55,000 = CRB benefits build up

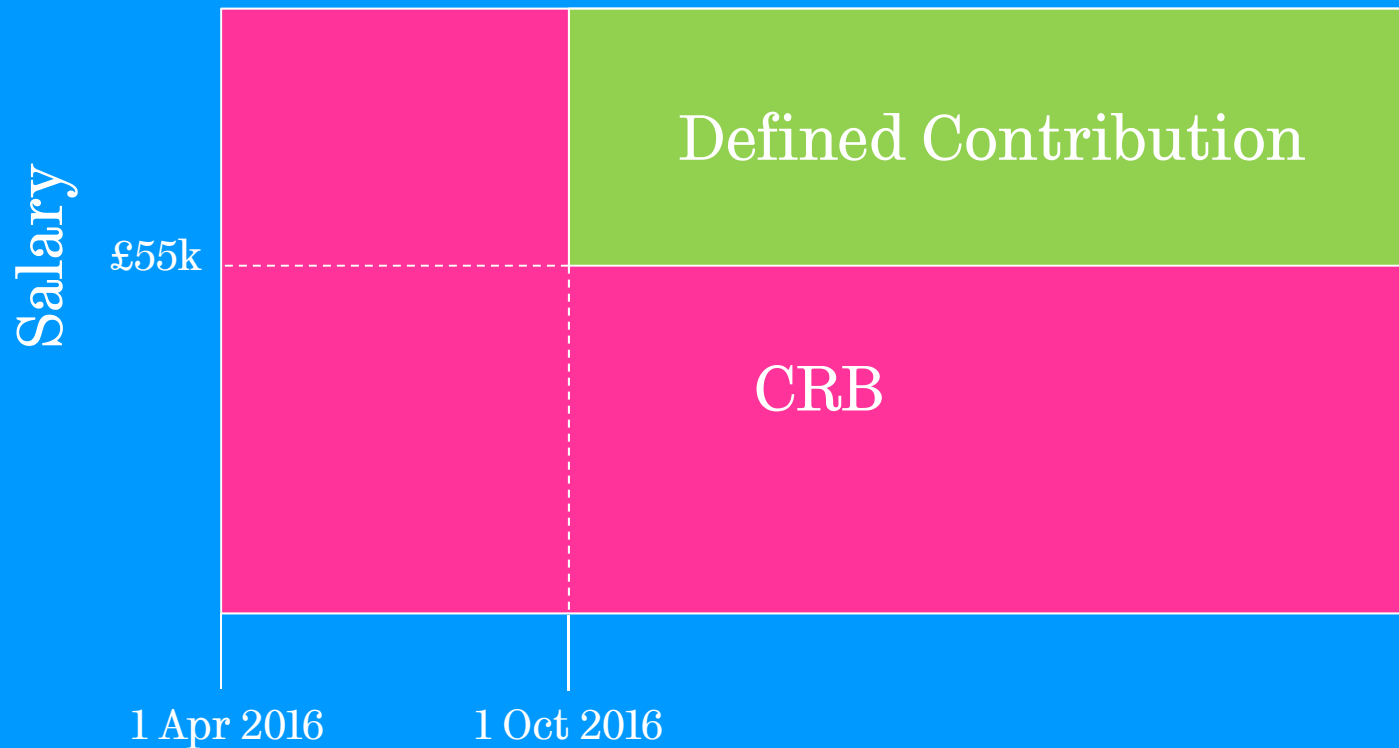
Remaining £20,000 on DC basis @ 20% total contribution = £4,000 per year into pot

Investment returns dictate size of pot at retirement

- Investment choices/default funds/lifestyling to be determined
- Investment management fees subsidised



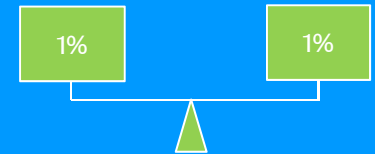
Phased implementation





Additional DC Savings

- Optional additional DC savings available on whole salary
- First 1% of additional contribution matched by employer
- E.g. Salary £40,000



Pension benefits on whole salary are CRB based

Member chooses to contribute 1% of £40k to DC pot =
£400 per year (£320 net pay)

Employer matches this with 1% of £40k = another £400 per
year

Total = £800 per year into optional DC pot

Investment returns dictate size of pot at retirement



New Contribution Levels

- **Member 8%** (currently CRB = 6.5%, FS = 7.5%)
 - E.g. Salary £40,000
 - Current CRB member contribution = £217/mth
 - Current FS member contribution = £250/mth
 - Future CRB contributions = £267/mth
- **Employer 18%** (currently 16%)
 - UoS approx. additional £4,000,000 per year.
 - “Blended rate” – covers all elements of scheme



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In practice:



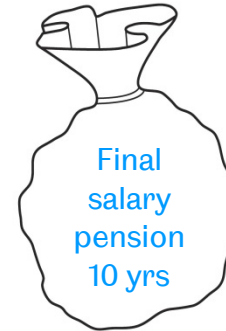
2016



10 years

OFFICE COPY

Employee No.	Employee Name	Payable Date	Net Pay
£40,000			
<small>PLEASE KEEP THIS PAY ADVISE IN A SAFE PLACE. IT MAY BE REQUIRED FOR THE PURPOSE OF SELF-ASSESSMENT.</small>			

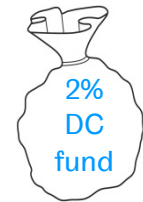
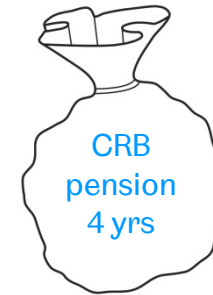


2020



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Employee No.	Employee Name	Payable Date	Net Pay
£55,000			
<small>PLEASE KEEP THIS PAY ADVISE IN A SAFE PLACE. IT MAY BE REQUIRED FOR THE PURPOSE OF SELF-ASSESSMENT.</small>			

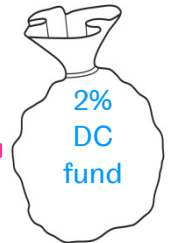
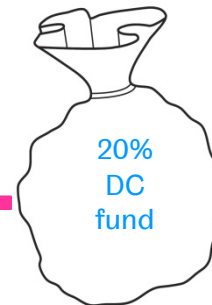


2035



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Employee No.	Employee Name	Payable Date	Net Pay
£75,000			
<small>PLEASE KEEP THIS PAY ADVISE IN A SAFE PLACE. IT MAY BE REQUIRED FOR THE PURPOSE OF SELF-ASSESSMENT.</small>			

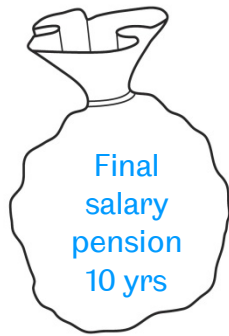




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In retirement:

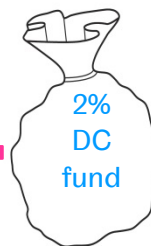
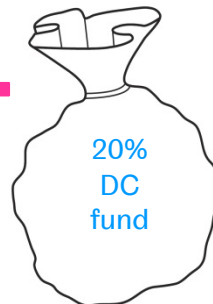
2036 to ????



= income for life + tax-free cash



= income for life + tax-free cash



= choice over how to access, including some tax-free cash



Other changes (1):

- Added years AVCs
 - No new AY AVCs from 1 Nov 2015
 - AY AVCs now based on pensionable pay at 31 Mar 2016 (revalued in line with USS pension increases)
 - AY AVCs will be based on %age of ACTUAL salary
 - Existing AY AVCs will continue unless member decides to cease them
 - USS will contact everyone with an AY AVC in early 2016 to explain detail of options
- Revalued Benefits AVCs
 - No new RB AVCs from 1 April 2016
 - Any existing RB AVCs buy additional pension + cash revalued in line with USS pension increases (same as now)



Other changes (2):

- Money Purchase AVCs – Pru
 - Value of funds as at 31 March 2016 (plus investment growth on that value) can be used to buy additional pension in FS section
 - Existing MP AVCs can continue beyond 1 Apr 2016
- All future AVCs after 1 Oct 2016 will go into DC section
- USS Flexibilities (introduced within 18 months of launch of DC)
 - Will view all of USS benefits as a single “pension pot” and will be able to take up to 25% of value of total “pot” as tax-free cash under current HMRC rules – i.e. take more of DC fund as cash
 - Will be able to begin drawing from the DC section from age 55 without drawing from the other DB parts of the scheme



Other changes (3):

- Transfers in to USS
 - Public Sector Transfer Club exit from 31 Mar 2016
 - 2 Year transition period (within 2 years of joining/re-joining USS)
 - In FS – adds service (based on pensionable pay at 31 March 2016)
 - In CRB – buys additional pension + cash which revalue in line with USS pension increases
 - Non-Club Transfers
 - Previous non-club transfers to FS buy additional service (now based on pensionable pay at 31 Mar 2016)
 - No more transfers into FS section from 1 Nov 2015
 - Previous non-club transfers into CRB buy additional pension + cash (revalued in line with USS pension increases) – option will cease from 31 Mar 2016
 - 1 Apr – 30 Sep 2016; will buy additional pension + cash in new CRB section
 - 1 Oct 2016 onwards; all transfers in go into DC section



National Insurance

- Nothing to do with USS changes
- Changes to State Pension from April 2016
- “Contracting Out” of Additional State Pension will cease
- Employee and employer NI contributions will increase
- Up to extra c£40 per month (earners over c£40k)
- www.gov.uk/new-state-pension/overview



More information

- University web pages:
 - www.sheffield.ac.uk/hr/guidance/usschanges
- USS web pages:
 - <https://forthefuture.uss.co.uk/>

Any questions?





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Summary of Changes

Scheme provision	Current FS	Current CRB	Change
Form of defined benefit scheme design	Final salary	Career Revalued Benefits	Career Revalued Benefits
Pension accrual rate	1/80 th of salary for each year	1/80 th of salary for each year	1/75 th of salary for each year in CRB section
Lump sum accrual rate	3 x pension	3 x pension	3 x pension on CRB benefits
Revaluation of benefits during active membership	Linked to final salary	USS pension increases (CPI with a cap)	USS pension increases (CPI with a cap)
Member contributions	7.5%	6.5%	8%
Threshold for defined benefit accrual	None	None	Salary of £55k, revalued in line with USS pension increases
Facility to purchase additional defined benefits	Option to purchase added years of pensionable service	Option to purchase additional revalued benefits (pension + cash)	None
Facility to purchase additional defined contribution benefits	DC AVC facility (currently with Prudential)	DC AVC facility (currently with Prudential)	DC AVC facility will be available in USS
Pension provision in respect of salary above threshold	N/A	N/A	DC provision – total contribution 20%