USS
UNIVERSITIES SUPERANNUATION SCHEME

Flexible retirement

This factsheet sets out the USS flexible retirement terms.

What is flexible retirement?

Flexible retirement allows you to draw a proportion of your pension and tax-free cash benefits but enables you to continue working, albeit at reduced hours and salary. Importantly, as you have not drawn all of your benefits, the remaining proportion you have not taken will continue to be calculated by reference to your full-time equivalent pensionable pay based on the future part-time service you accrue leading up to your full retirement.

However, if you take up a new additional employment then this additional employment will not be pensionable in USS.

From what age can I start to flexibly retire?

The earliest age at which you could flex part of your benefits is age 55, but you must have a minimum of two years' qualifying service.

How many flexes could I take?

You can take part of your benefits on two occasions whilst continuing to work; on the third occasion you would have to fully retire, receive the remainder of your benefits and have 'retired' as defined in the USS rules.

Retirement means that your contract of employment has terminated due to retirement. Importantly, you would not be deemed to have retired if you intend to commence another post which gives an entitlement to USS membership. If however, after you have retired you are subsequently offered new employment that is pensionable in USS, you can accept that job but you cannot rejoin the scheme, unless you are in receipt of a non-enhanced partial incapacity pension; in this situation, contact USS for further information.

How much can I flex on each occasion?

You can draw between a maximum of 80% and a minimum of 20% of your benefits. However, if you flex 80% on the first flex then to draw further benefits you must fully retire.

If you flexed 50% on the first occasion, then on the second occasion you could flex up to 30% if you intended to remain in employment. Remember, at each flex you must reduce your current working hours and salary by at least 20%.

Under what circumstances can I flexibly retire?

It is up to you if you wish to take advantage of the flexible retirement terms.

However, importantly you must receive your employer's consent and they will have to agree to a long-term reduction in your current working hours and salary of at least 20% each time you flex and this reduction must apply for at least 12 months following any flex. The Trustee Company must be given at least two months' notice of the date at which you intend to flexibly retire.

What happens if my role changes and my working hours legitimately increase?

The Trustee Company will be informed by your employer of the agreed reduction in working hours and salary; therefore if you have the minimum reduction of 20% of working hours, your part-time service fraction will be 80%. Upon retirement your benefits will be calculated based upon a part-time service fraction of no more than 80%, and therefore your employment situation can change, however it will not affect your retirement benefits.

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What happens to the benefits I've not drawn and what about future contributions?

When you flex part of your benefits, you will continue to contribute to USS on a part-time basis up until the point you fully retire.

You will therefore continue to build up additional pensionable service going forward, which will increase the amount of service that you have yet to draw. Your final pension will then be based on your total pensionable service, less the value of benefits already flexed.

Can everyone take advantage of flexible retirement?

Most members can, however it is not currently available to multiple appointment holders and variable-time members.

Will my pension be reduced?

If you take some of your pension before your normal pension age, however much you take out, some/all of the pension you take may be subject to an early retirement reduction. For those aged 60 or more, the amount of this reduction may be reduced if your employer gives its separate consent for this to happen; this is in addition to the consent for you to be allowed to take flexible retirement and reduce your hours and salary.

*Please see the 'Retirement' factsheet on the USS website at **www.uss.co.uk***

However, it is worth noting that the effect of early retirement factors below age 60 become far greater. After age 60, employers are able to give their consent for you to draw your pre-October 2011 benefits in full; it is not possible to do this below age 60, hence the difference in values.

How does this work?

The first example is based on a full-time member flexing benefits at age 60, then continuing in the scheme until age 65 on an 80% part-time basis.

To illustrate the difference in the effect of early retirement factors below age 60, the second example is based on the same member flexing benefits at age 58, then continuing to work to age 65 on an 80% part-time basis.

Example 1 – 1st flex at age 60

Date of flexible retirement:	1 October 2017
Total pensionable service at 60:	30 years 182 days (24 years 182 days pre-1 October 2011, 6 years after)
Percentage to be flexed:	50%
Pensionable salary at age 60:	£40,000 a year
Contractual pension age: (as at 30 September 2011)	65
Gender:	Male
Exempt from NPA change?	No
Employer consent to receive pre-1 October 2011 benefits without reduction for early retirement:	Yes

Flex 1

First of all we need to work out all the service splits/tranches to assess the early retirement factor.

1. Service before 1 October 2011:	24 years 182 days
2. Service after 1 October 2011:	6 years

Then we can work out the early retirement pension as follows:

	Calculation	Early retirement reductions	Flex %	Pension
1	24y 182d x 1/80 x £40,000 = £12,249 x ERF*	£12,249 x 1 = £12,249	50%	£6,125
2	6 x 1/80 x £40,000 = £3,000 x ERF*	£3,000 x 0.793 = £2,379	50%	£ 1,190
Total annual pension at flex 1				**£7,315**

*ERF = early retirement factor

As the employer has given its consent to both the flexible retirement and the payment of pre-October 2011 benefits in full from age 60, no ERF applies to the pre-October 2011 benefits.

The member wishes to flex 50%, so he draws £7,315 a year pension and takes the standard tax-free cash of: £21,945 (£7,315 x 3 = £21,945)

Flex 2

The member now works another two years but on a part-time basis of 80% of full-time hours and now wishes to flex another 20% of his benefits.

At age 62, the additional accrual is 2 years x 80% pensionable service = 1 year and 219 days.

His full-time equivalent pensionable salary at 62 is £41,500 a year
(actual part-time salary of £33,200 grossed up to its full-time equivalent).

So, if he takes a second flex of 20% and reduces his hours to 50% of his full-time equivalent hours, the service is as follows:

1. Service before 1 October 2011:	24 years 182 days
2. Service after 1 October 2011 up to first flex:	6 years
3. Service after first flex (2 years x 80%):	1 year 219 days

	Calculation	Early retirement reductions	Flex %	Pension
1	24y 182d x 1/80 x £41,500 = £12,709 x ERF*	£12,709 x 1 = £12,709	20%	£2,542
2	6 x 1/80 x £41,500 = £3,113 x ERF*	£3,113 x 0.867 = £2,698	20%	£540
3	1 y 219d x 1/80 x £41,500 = £830 x ERF*	£830 x 0.867 = £720	20%	£144
Total annual pension at flex 2				**£3,226**

*ERF = early retirement factor

So, the member drew £7,315 a year pension from age 60 (as well as the tax-free cash of £21,945) and then at 62 took an additional flex and drew £3,226 a year extra pension plus £9,678 tax-free cash (£3,226 x 3).

example continued

Retirement

Three years later, when the member reaches age 65, the remainder of the benefits are drawn. He had reduced his hours to 50% for the final three years of employment and his full-time equivalent salary at 65 is £45,000 a year.

At age 65 he has therefore built up another 1 year and 182 days' service, being 3 years x 50%.

So, at 65, the service is as follows:

1. Service before 1 October 2011:	24 years 182 days
2. Service after 1 October 2011 up to first flex:	6 years
3. Service after first flex (2 years x 80%):	1 year 219 days
4. Service after second flex (3 years x 50%):	1 year 183 days

	Calculation	Early retirement reductions	Un-flexed %	Pension
1	24y 182d x 1/80 x £45,000 = £13,781 x ERF*	£13,781 x 1 = £13,781	30%	£4,134
2	6 x 1/80 x £45,000 = £3,375 x ERF*	£3,375 x 1 = £3,375	30%	£1,013
3	1y 219d x 1/80 x £45,000 = £900 x ERF*	£900 x 1 = £900	80%	£720
4	1y 183d x 1/80 x £45,000 = £845 x ERF*	£845 x 1 = £845	100%	£845
Total annual pension at retirement				**£6,712**

*ERF = early retirement factor

In addition, the member took a tax-free cash sum of £20,136 (£6,712 x 3)

So, to summarise...

This member took flex 1 at age 60 and drew:
£7,315 a year plus £21,945 as tax-free cash

Then at flex 2 at age 62 drew:
£3,226 a year plus £9,678 as tax-free cash

Then on retirement at age 65 drew:
£6,712 a year plus £20,136 as tax-free cash.

The pension elements are reviewed each year and increased in line with the increases applied to official pensions, subject to the cap for service after 1 October 2011. The member was also able to reduce his hours but still accrue further benefits, albeit on a part-time basis.

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How does this work?

This example explains how reductions work for those under age 60.

Example 2 – 1st flex at age 58

In this example we want to demonstrate the difference in value of the pension due to the full effect of early retirement reductions on retirement before age 60.

This example is based on the same member as Example 1, with all other details the same, except that we've assumed he was age 58 when drawing the benefits. We have also included figures for a female member for comparison.

First of all, we need to work out all the service splits/tranches to assess the early retirement factor.

Please see the 'Retirement' factsheet on the USS website at ***www.uss.co.uk***

1. Service before 18 May 1990:	3 years and 46 days
2. Service between 18 May 1990 and 31 March 1995:	4 years and 318 days
3. Service between 1 April 1995 and 30 September 2011:	16 years and 183 days
4. Service after 30 September 2011:	6 years

Then we can work out the early retirement pension as follows:

	Calculation	Male	Female
1	(3y 46d x 1/80 x £40,000) = £1,563 x ERF*	£1,563 x 0.729 = £1,139	£1,563 x 0.914 = £1,429
2	(4y 318d x 1/80 x £40,000) = £2,437 x ERF*	£2,437 x 0.908 = £2,213	£2,437 x 0.914 = £2,227
3	(16y 183d x 1/80 x £40,000) = £8,252 x ERF*	£8,252 x 0.7765 = £6,408	£8,252 x 0.789 = £6,511
4	(6y x 1/80 X £40,000) = £3,000 x ERF*	£3,000 x 0.729 = £2,187	£3,000 x 0.743 = £2,229
Total annual pension at retirement		**£11,947**	**£12,396**

*ERF = early retirement factor

Please remember, in addition to the annual pension the standard tax-free cash sum is 3 x the value of the early retirement pension (3 x £11,947 for the male member in the example above).

The total pension before the application of the early retirement factors was £15,250 a year. The member can now take flexible benefits. If the member took 50% as in flex 1 in example 1, for a male member his pension would be £5,974, compared to £7,315 a year had we used age 60 in our calculations.

As you can see, the difference is substantial. If you wish to receive a quotation for flexible retirement before age 60, please contact your employer.

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Pensionable service bought by Additional Voluntary Contributions (AVCs)

If you retire before you have completed the term of your monthly AVC contract i.e up to your proposed retirement date (normally age 65), you will be credited with a proportion of the benefit which you contracted to buy, as follows:

$$\left(\frac{\text{period for which AVCs were actually paid}}{\text{period for which AVCs would have been payable until proposed retirement date}}\right) \times \text{benefits that would have been bought by proposed retirement date}$$

How does this work?

So, if you were purchasing five years' service with regular monthly contributions over a 20-year period to age 65, the pro-rata reduction if you retired five years before age 65 would be:

$$\frac{15 \text{ yrs}}{20 \text{ yrs}} \times 5 \text{ years} = 3 \text{ years and } 274 \text{ days service}$$

If you bought additional benefits by lump sum AVC and retire before the proposed retirement date, you will be credited with the full amount of pensionable service, unless the lump sum AVC was paid less than 12 months before retirement.

However, the benefits will be reduced by an early retirement factor based on the number of years early you retire before the age stipulated in the AVC contract. This early retirement reduction does not apply to monthly Added Years AVC contracts that started before April 2006, if you draw those benefits after age 60 with consent from your employer.

Once you have flexed part of your Added Years AVC contract, you will continue to contribute at the original contract rate, however, your reduction in part-time service fraction will in turn reduce the remaining proportion of additional pensionable service purchased.

Money Purchase AVCs (MPAVCs)

With MPAVCs, it is not possible to draw part of the fund. When you flex, you are required to draw 100% of the MPAVC or leave it to be taken at a future event. Should you draw your MPAVC, you can set up another MPAVC account going forward and draw 100% of that fund at the next flex or retirement.

If you have contributed to the MPAVC, you will have a number of options when you retire.

You can use the fund to buy a pension (annuity) from Prudential, or you could buy an annuity from another provider under the 'open market' option.

You may also be able to convert your MPAVC fund to USS benefits, at the point of retirement. This would provide you with additional USS pension and lump sum. The additional USS pension would be payable for your life, and would continue to your spouse/civil partner/dependant on your death at the rate of 50%. It would increase in payment in line with the increase (subject to a cap) in official pensions e.g. pensions for public sector schemes like civil service, teaching etc. For more information about this option, contact the pensions administrator at your institution.

*See the 'Prudential Conversion Tool' on the USS website at **www.uss.co.uk***

Importantly, since 6 April 2006, your MPAVC fund can be taken as tax-free cash. You are allowed to take up to 25% of the capital value of your benefits (including the USS MPAVC) as tax-free cash. You could opt to take your entire USS MPAVC fund as cash, or take less cash from the main scheme and receive a higher USS pension. However, tax regulations may change, so you cannot guarantee that you will be able to take all or part of your MPAVC fund as tax-free cash when you retire. Full details will be provided on retirement.

Please note: If you do not take your MPAVC at your first flex, you may not be able to take the entire fund as tax-free cash at the next flex / retirement. This is because your MPAVC value may be more than 25% of the value of your un-flexed USS benefits.

You should consider all your options and take advice as necessary as to what best suits your circumstances.

Early payment of benefits transferred to USS

Transfer values agreed before 1 April 2009

Benefit for any service transferred to USS may be actuarially reduced if you opt for flexible retirement.

> If you take flexible retirement before age 60, your benefits in respect of the transfer-in are reduced for each year and part-year earlier than age 63.5, or your Contractual Pension Age (as at 30 September 2011), if lower.

This condition applies to all transfers agreed before April 2009. The reduction would be applied only to the benefit for the service transferred-in, irrespective of whether or not the remainder of your USS pension has been reduced for early payment.

Transfer values agreed on or after 1 April 2009

If you agreed a transfer-in to USS on or after 1 April 2009, the benefits granted will be payable in full from age 65, or the NPA applicable at the time of transfer (age 66 from April 2020). If you draw these benefits early, the benefits in respect of the transfer-in will be reduced for the years and days earlier than age 65.

Pension increases

You will receive an annual pension increase linked to the increase in official pensions paid to public sector employees like teachers, civil servants or NHS employees. The annual increases, usually effective from each April, are currently linked to changes in inflation over the 12 months up to the previous September. In periods of negative inflation, pensions will not be reduced but no increase will be applied.

For service you accrued before 1 October 2011, USS will match the increase in official pensions. For service you accrued from 1 October 2011, USS will pay increases which match official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%. So, if official pensions increased by 15%, the USS increase would be 10% in that year.

Limits to tax-privileged pensions and lump sums

HM Revenue & Customs (HMRC) limits the amount of tax privileged benefits you can receive from a UK pension scheme. They do this by imposing a maximum allowance on the amount of pension savings at retirement called the Lifetime Allowance (LTA) and also an allowance for the maximum you are allowed to take as a tax-free lump sum on retirement. In addition, there is an annual limit to the amount of benefit you can build up called the Annual Allowance.

You will be advised of the maximum tax-free cash at retirement.

*Please see the 'Tax-free cash options at retirement' factsheet at **www.uss.co.uk***

Lifetime Allowance

Since April 2006, it has been the responsibility of each individual member to check whether their 'total' retirement savings (i.e. USS plus any other retirement benefits) exceed the LTA. To calculate the LTA value of your potential USS pension on the statutory basis, multiply your expected pension by 20 and add on 3 times the value of your pension as tax-free cash (assuming you opt for the standard retirement package). So, if you're expecting a pension of £10,000 a year plus £30,000 as tax-free cash, the LTA value would be £230,000.

However, the value of most members' retirement benefits will be nowhere near the maximum as the LTA allowance is substantial (£1.8 million at time of printing and reducing to £1.5 million from April 2012). If you do exceed the LTA value applicable when you retire, the value of your pension would be reduced as you will be required to pay tax at 25% on the excess, i.e the amount of your pension capital value that exceeds the LTA (as determined on the statutory basis). Periodic payments of your remaining pension will still be subject to income tax. Alternatively, the excess may be taken as a lump sum and taxed at 55%.

You will have a responsibility to report the value of your benefits on retirement to HMRC. The LTA value of your USS benefits will be advised to you at the point of your retirement. Accurate retirement benefit calculations cannot be done until shortly before you retire, but you can obtain a quotation of your retirement benefits from USS that will indicate the LTA value of your benefits.

Annual Allowance

Since April 2011, a new limit has been introduced by HMRC to the maximum amount of pension you can accrue in a year and still receive tax relief, called the Annual Allowance (AA).

This is a limit to the maximum growth in the value of your pension over what is called a Pension Input Period (PIP). For USS, the PIP is 1 April to 31 March. This limit is expressed as a capital value; for the 2011/12 year in which it was introduced, the limit is £50,000. It is not clear at the time of printing how or if the limit will be increased in the future. Updates will be available on the USS website at **www.uss.co.uk**

To work out the AA for yourself in a given PIP, you first need to work out the value of your pension on 1 April and increase that value by the rise in the Consumer Prices Index (CPI) for the previous year. Then work out the value of your pension on 31 March of the following year (the PIP in USS) and work out the difference between the two. Then multiply this figure by 19. This is your AA for that particular tax year.

If you are a retired member, you would simply compare the standard pension (before you elected to take more/less cash from USS) on retirement to the value at 1 April before retirement.

How does it work?

Based on your service in the scheme as at 1 April in the year of retirement and your pensionable salary at that point, you can work out your standard pension. If your service was 30 years and your pensionable salary was £42,000, the pension would be:

30 X 1/80 X £42,000 = £15,750 a year

Plus CPI increase of 3.1% (based on annual CPI increase for the year up to 31 March 2011)

= £15,750 X 1.031

= £16,238.25

Your standard pension at retirement figure is quoted under Option 1 in your retirement quotation. For the illustration below, a figure of £16,500 has been used.

Annual Allowance used up = (£16,500 - £16,238.50) X 19

Annual Allowance used up = £4,968.50

Please note that if you paid any USS Money Purchase AVCs (Prudential) during the PIP then simply add the amount paid during the period to the figure above. Additionally, if you were a member of another pension scheme during the period, you will need to add to the total the amount of allowance you have used up in that arrangement/ arrangements. In this example, the member was well within the £50,000 limit.

If you exceed the AA, there is scope to utilise unused allowances from up to the previous three years. If you are still in excess of the limit then anything over the £50,000 is added to your gross taxable pay and taxed under the PAYE system, meaning that the tax charge could be 20%, 40% or perhaps 50%, depending on the level of your taxable pay.

The £50,000 limit is however generally only of concern for high earners with long service.

What if I exceed the allowances?

If you require assistance in calculating your allowance, or if you think you have exceeded the allowance, please contact USS for a full quotation.

If you think you have or might exceed either (or both) the LTA or AA, please also refer to the 'Limits to tax relief and tax-free benefits' factsheet.

Working after retirement

With the exception of 'flexible retirement', in order to qualify to draw 100% of your accrued pension, you must terminate your current pensionable employment. Reaching age 65, or achieving 40 years' service, does not automatically make you eligible for a pension if you haven't stopped working.

You would not be deemed to have retired if you intend to commence another job with your current employer, or with any other employer that participates in USS, that is pensionable in USS. If however, after you have retired you are subsequently offered new employment that is pensionable in USS, you can accept that job but you cannot rejoin the scheme, unless you are in receipt of a non-enhanced partial incapacity pension; in this situation contact USS for further information.

You should note that your total income, including your pension, will be assessed for income tax.

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Tax-free cash and pension options

The 'standard' package of benefits from USS is a pension of 1/80th of your pensionable salary for each year of service plus a cash sum of three times that pension.

All members can take less or no cash and receive a higher pension. Additionally, from April 2006, HMRC increased the limit on the amount of tax-free cash that can be drawn from an approved pension scheme like USS.

This new tax-free cash limit is 25% of the LTA value of your pension. This LTA includes the value of all your pension benefits being drawn on the same day, not just USS. As an estimate this new tax-free cash limit will on average be in the region of 5.75 times (varying with age and gender) the standard 1/80ths USS pension for most members.

If they wish, all members may receive a tax-free cash sum up to this new limit and the maximum amount will be provided in your retirement quotation.

*A modeller is available on the USS website at **www.uss.co.uk***

*See the 'Tax-free cash options at retirement' factsheet at **www.uss.co.uk***

Deductions from benefits

If you have been credited with pensionable service in USS in respect of service either before joining USS (other than as a result of a transfer payment) or in respect of an earlier period of membership of USS, for which you received a refund of contributions, any amounts still due to USS at the date of your retirement will be deducted with interest from your retirement lump sum or, where appropriate, from your pension. This excludes benefits from overseas schemes and surrendered FSSU policies.

It may be possible to pay some or all of this amount to USS shortly before you retire and claim tax relief up to the maximum allowed. If you wish to investigate this option, you should ask for a quotation of the cost shortly before you are due to retire.

If you contributed to the State Earnings Related Pension Scheme (SERPS) during a period of service with which you have been credited in USS (e.g. whilst a member of FSSU during any time from 6 April 1978 to 5 April 1980), a deduction will be made from your USS pension commencing from the date of your retirement or, if later, the date you reach state pension age. The amount of the deduction will be equivalent to the amount of additional pension which you earned in SERPS during the period of service for which you were given credit in USS and which you will be paid directly by the Department for Work and Pensions. The exact amount of this deduction cannot be calculated until the beginning of the tax year in which you reach state pension age because the amount is revalued each year. The Trustee Company can, however, calculate the current value on request.

Small 'trivial' pensions

Where your pension from USS is very small, it may be possible in some circumstances to 'fully commute' this benefit. In other words, you could receive a one-off lump sum payment rather than the small pension income. You will be advised if this is an option for you.

Payment of benefits

Retirement cash sums

Your retirement cash sum will be paid into your bank account on the first working day after retirement, except in the circumstances surrounding delayed notification of retirement. Alternatively, it can be paid to you by cheque, which will be posted in time for you to receive it on the due day. Please note that it can take several days for a payment to be cleared through your account.

Pension payments

USS pensions are paid monthly to either a bank or a building society account through the Bankers Automated Clearing Service (BACS) which is a computerised money transfer system. Each instalment will be equal to 1/12th of your annual rate of gross pension unless you retire on a date other than the last day of a month, in which case the first instalment of pension will be calculated proportionately.

Payments of pension are made commencing on the 21st day of the calendar month following that in which retirement occurred, except in circumstances surrounding delayed notification of retirement. In these cases the payment of pension will be made in the next available monthly payroll cycle, including any arrears payable.

How does this work?

If you retire on 30 September, your first pension payment would normally be paid on 21 October. This would be for the full amount, representing the entire month of October.

If you were to retire on 10 October, you would receive a proportionate pension payment representing the period from 11 to 31 October. This would be paid on 21 November, along with the full pension in respect of November.

Thereafter payments will continue to be made on 21st of each month, or the last working day preceding this if this date falls on a weekend or bank holiday. Income tax will be deducted from your gross monthly pension under PAYE. If you intend to live abroad you must apply to HMRC for exemption from UK income tax in order to be recognised as non resident in the UK. Exemption can be considered only after you have established permanent residence abroad.

Note: These arrangements assume the Trustee Company will be given at least ten working days' notice of your retirement by your employer. If we are unable to pay your lump sum within one month of its becoming due or if an instalment of pension is a month or more overdue and the amounts payable were in excess of £2,000 we will pay interest to compensate you, irrespective of who is to blame for the delay.

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