



# USS



## Limits to tax relief and tax-free benefits

### About this factsheet

Tax-favourable pension benefits built up by individuals in the UK are subject to allowances set by HM Revenue & Customs (HMRC).

If you exceed the allowances you may be subject to additional tax.

This USS factsheet explains more about the tax allowances that affect your pension benefits as well as your reporting obligations.

# Limits to tax relief and tax-free benefits

## Introduction

Tax favourable pension benefits earned by individuals in the UK are subject to allowances set by HM Revenue & Customs (HMRC). The tax-favourable value of your pension benefits earned in all schemes in which you are building up benefits is limited for taxation purposes in two ways:

**1. The lifetime allowance (LTA)** – this is a threshold for the tax favourable benefits you can receive on retirement (from all schemes). You can build up benefits in excess of this allowance but benefits over the allowance will be subject to a tax charge. At the time of publication the tax charge is 25% of the excess if taken as a pension (on which you will then pay income tax), or 55% if you take the excess as a refund. The LTA is currently set at £1.25million, and is due to decrease to £1million from 6 April 2016.

**2. The annual allowance (AA)** – this measures the increase in the value of your benefits over a 12 month period called the pension input period (PIP). The PIP for a member of USS is currently 1 April to 31 March the following year. The AA is currently £40,000 a year. Any excess accrued over the allowance may be subject to income tax at your highest marginal rate.

**Maximum tax-free cash** – a limit also applies to the amount of tax-free cash you can receive on retirement. This is 25% of the value of your benefits (or 25% of the LTA if this is lower).

If you exceed the AA, it is your responsibility to tell HMRC about the increase in the value of your benefits using a self assessment tax return. Your employer and USS will be able to help you gather the information you require for your tax return. There is more information about the requirements later in this factsheet.

## Lifetime allowance (LTA)

### The effect of the LTA on your retirement benefits

You can build up any amount of benefits you wish in a pension scheme in the UK. However, benefits in excess of the LTA are subject to a tax charge. For the purposes of comparing your benefits against the LTA, the capital value of your USS benefit is:

$$\begin{array}{r}
 \text{Pension x 20} \\
 + \\
 \text{Any tax-free cash you decide to take} \\
 + \\
 \text{The fund value of any USS Money Purchase AVCs} \\
 \text{(plus any funds built up under the new USS defined} \\
 \text{contribution arrangements in place from 1 October 2016)}
 \end{array}$$

When measuring against the LTA figure, you must include any other benefits you are entitled to from any pension scheme approved by HMRC, if they have already been brought into payment or will be on the same day as your USS benefits. If the total value of all of your retirement benefits exceeds the value of the LTA, a tax charge is applied to the excess. The remainder of the excess can be taken as additional pension or you may have the option to take it as a lump sum. USS will be able to confirm this.

### LTA values

Tax Year	LTA
2010/11 – 2011/12	£1.8 million
2012/13 – 2013/14	£1.5 million
2014/15 – 2015/16	£1.25 million
2016/17 – onwards	£1 million

## Fixed protection – 2012, 2014 and 2016

Due to reductions in the LTA, methods of benefit protection (called fixed protection) were introduced by HMRC. These protections allow pension scheme members to apply to retain the higher LTA value that applied previously.

- Fixed protection 2012 – a LTA of £1.8 million to be retained. HMRC accepted applications up to and including 5 April 2012.
- Fixed protection 2014 – a LTA of £1.5 million to be retained. HMRC accepted applications up to and including 5 April 2014.
- Fixed protection 2016 – a LTA of £1.25 million to be retained. **With Fixed protection 2016 you must cease further build up of benefits in any pension scheme by 5 April 2016.**

You can lose this protection if you pay any further contributions to USS or any other pension arrangement other than to provide life cover. Please note, fixed protection will be lost if you elect to transfer your USS Money Purchase AVC fund to secure additional benefits in USS upon retirement. There are other circumstances under which you could lose fixed protection. See <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm093400> for details on how you can lose fixed protection.

For fixed protection 2016 this online system will not be available until summer 2016. HMRC have confirmed you must apply in writing in the interim. Please follow the following link for full information on how to apply for the 2016 protections: <https://www.gov.uk/government/publications/pension-schemes-newsletter-74-december-2015/pension-schemes-newsletter-74-december-2015#lifetime-allowance-reduction>.

**However, to re-emphasise, to rely on fixed protection 2016 you must opt-out of USS and stop any additional pension build up by 5 April 2016.**

What's more, the benefits that the benefits built up in USS before taking fixed protection must not increase by more than is allowed under the fixed protection terms. Increases that are applied by USS, however, will be within these limits.

## Individual protection – 2014 and 2016

**Individual protection 2014** – As well as fixed protection 2014, the government introduced another form of protection called 'individual protection 2014' (IP2014) is available following the reduction of the LTA to £1.25 million for 2014/15. You can apply if the value of your lifetime allowance at 5 April 2014 was more than £1.25 million and you do not have a valid primary protection in place. Primary protection is an earlier form of protection that applied when the lifetime allowance was first introduced. By opting for IP2014, you will have a personal lifetime allowance equal to the value of your rights on 5 April 2014, subject to an overall maximum of £1.5 million. Importantly, you can continue to build up more pension benefits, but these benefits will then be subject to a tax charge when you do eventually retire. The application form for IP2014 is available online through HMRC's website. You can apply for this up to 5 April 2017.

**Individual protection 2016** – This will work in a similar way to IP2014, except that you can apply if your lifetime allowance at 5 April 2016 is more than £1.0 million and you do not have a valid primary protection in place. You will have a personal lifetime allowance equal to the value of your rights on 5 April 2016, subject to an overall maximum of £1.25 million. Importantly, you can continue to build up more pension benefits, but these benefits will then be subject to a tax charge when you do eventually retire. You can apply for this at any time before you retire.

### Earlier forms of protection (Enhanced & Primary)

To find out more about earlier types of protection please see the HMRC website.

## Annual allowance (AA)

This is a measure of the increase in your benefit in a defined benefit scheme and your (and your employer's) contributions to a money purchase/defined contribution arrangement in any Pension Input Period (PIP). The AA is currently set at £40,000 a year. However, members with taxable income of more than £110,000 a year may have a lower allowance, possibly as low as £10,000 a year, as explained later under the new 'tapering rules'. Any excess benefit over this allowance is taxed at your highest marginal rate. You may, as we'll explain later, be able to 'carry forward' unused allowances from earlier years to set against this.

### How is the AA measured?

- In a defined benefit scheme, it is the increase in the value of your benefit over the course of the year which is measured, not the contributions which have been paid by either you or your employer.
- for money purchase/defined contribution schemes, it is simply the contributions (gross) which you (and your employer) have paid which are measured. Investment returns are not included in the AA calculation for money purchase benefits.

So, to consider how this works for USS benefits, your accrual over the course of a year is calculated for the purposes of the AA in three stages:

**1. The opening value** – the pension is calculated at the beginning of the PIP (1 April) as if you were entitled to your benefits at that date, but without applying any actuarial reductions for early payment. That pension is then revalued to the end of the PIP based upon the increases in the Consumer Prices Index (CPI) to ensure it takes some account of inflation.

**2. The closing value** – the pension is calculated at the end of the PIP (31 March of the following year), without applying any actuarial reductions. Note that the revaluation step in point 1, to account for inflation, is not included here.

**3. Accrual** – the opening value is subtracted from the closing value and the result is then multiplied by a factor set out in

legislation (currently the factor is 16 but 3 has to be added to take into account the standard accrued lump sum). Next, add in the value of any USS defined contribution/money purchase AVC contributions paid by you and your employer during the PIP to give the capitalised value. The increase over the course of the PIP is then measured against the AA for that year. Any excess over AA is subject to tax.

It is important to note that for final salary members, the increases you receive to your salary will have a bearing on the value of your benefits along with the amount of service you have accrued. You may not have a particularly high salary but if you receive a large increase in your pay, perhaps if you take on a new position, then this may take you over the AA, particularly if you have a long service with the scheme.

### Lower annual allowance for some (tapering)

HMRC introduced a lower allowance for those with high incomes, which applies for the tax year 2016-17 onwards. HMRC describe this as 'tapering'.

You could have a lower annual allowance if your taxable income (what HMRC call your 'threshold income') is over £110,000 a year.

If what's called you 'adjusted income' is more than £150,000 a year then your annual allowance could be as low as £10,000.

The annual allowance is reduced by £1 for every £2 of income above £110,000. The table here gives some examples:

Adjusted income	Reduced annual allowance
£210,000	£10,000
£200,000	£15,000
£190,000	£20,000
£180,000	£25,000
£170,000	£30,000
£160,000	£35,000

**What is threshold income?**

Broadly all taxable income plus:

*Any income sacrificed under a salary sacrifice arrangement entered into on or after 9 July 2015.*

Then deduct:

*The gross amount of any contribution paid using the relief at source method (this is used for personal contributions to personal pension schemes).*

**What is adjusted income?**

Broadly threshold income plus:

*The full annual allowance input amount for the year for USS and any other arrangement(s) you paid in to.*

**Pension Input Periods to be aligned to tax years**

As a consequence of the introduction of the tapered annual allowance rules from 6 April 2016, the government is aligning all pension input periods (PIPs) with tax years. Complex transitional arrangements apply but no member should be worse off for as a result of the transition, and some may actually gain.

**What is changing?**

It was announced in the Summer Budget Statement of 8 July 2015 that there was to be an immediate change to the PIP rules. In summary, this means that for existing arrangements, all PIPs that were open on 8 July 2015 were immediately closed on that date to form a 'mini' PIP. The next 'mini' PIP will run from 9 July 2015 and will end on 5 April 2016. PIPs will then run in line with tax years from 6 April 2016 onwards.

**What does this mean for 2015/16?**

Essentially, the 2015/16 tax year will be split into two mini PIPs.

'Mini PIP 1' ends on 8 July 2015 and HMRC refer to this as the 'pre-alignment tax year'. This covers savings made with USS over the period 1 April to 8 July 2015.

'Mini PIP 2' runs from 9 July 2015 to 5 April 2016 and HMRC

refer to this as the 'post-alignment tax year'. This covers savings made with USS from 9 July 2015 to 5 April 2016.

**Potentially a larger annual allowance for 2015/16**

One unusual result of this change could be advantageous. Essentially the annual allowance for the period 1 April 2015 to 5 April 2016 could be up to £80,000. If you had built up an accrued benefit of up to £40,000 for the pre-alignment period then you could build up another £40,000 for the post-alignment period. However, if you had built up more than £40,000 for the pre-alignment period you can only build up to £80,000 in total under the combined period.

All a bit confusing and something most members won't benefit from as you would have needed to know about it in advance to take full advantage. The following table sets out a summary of how much annual allowance you can build up for the period 1 April 2015 to 5 April 2016 in USS.

Pre-alignment period AA used	Post-alignment period AA permitted
£10,000	£40,000 plus carry-forward
£20,000	£40,000 plus carry-forward
£30,000	£40,000 plus carry-forward
£40,000	£40,000 plus carry-forward
£50,000	£30,000 plus carry-forward
£60,000	£20,000 plus carry-forward
£70,000	£10,000 plus carry-forward
£80,000	NIL plus carry-forward

This only looks at the position with USS. You may have other pension savings that currently have differing PIPs. You should seek advice as this is a complicated area.

### **How do ongoing Added Years or Revalued Benefits AVC affect the annual allowance?**

Final salary members purchase additional service by paying an Additional Voluntary Contribution (AVC), whereas CRB members purchase additional revalued benefits. Using Added Years AVCs as an example, for monthly AVC contracts taken out on or after 1 April 2012, a proportion of the total service you would have purchased by the end of the contract counts for the purpose of AA calculations. So, if you took out a contract to buy an additional five years' service over a 20 year period, this would equate to the purchase of an additional 92 days of service for each of those 20 years, which would be included in the closing value calculation each year.

For monthly AVC contracts taken out prior to 1 April 2012, service counts in full for the purpose of AA calculations.

So, if you took out an AVC contract before 1 April 2012 to purchase an additional five years, then in the PIP for the year the contract commenced, a five-year increase in service would be added to the closing value calculation.

### **How does a Money Purchase AVC affect the annual allowance?**

This is very easy to work out. The gross amount deducted from your pay (before tax relief) is the value you add in to the AA calculation. So, it's much easier to work out how much you can pay in to the Money Purchase AVC and stay within the AA limit.

### **Are deferred pension benefits counted?**

Deferred benefits are payable to you when you retire from schemes into which you no longer pay contributions.

Any deferred benefits accrued during the PIP count towards the AA for that period. After that year, none of the previous deferred benefits count towards the AA .

### **Other pension arrangements**

It is extremely important to remember that HMRC include all of your pension benefits earned when looking at your AA.

When working out your total pensions savings during any year, you must include pension savings from any other pension scheme that you have been a member of during the year. You should contact the administrators of any other pension

arrangements, whether they are occupational or personal pension arrangements, to obtain this pensions savings figure from them. The combined value represents your total pension savings for the tax year.

### **How will I know if I've exceeded the AA?**

USS will advise any members who exceed the AA over this combined period by 6 October 2016. Please note for PIPs from 6 April 2016 USS will not be able to do this for those with high levels of income. Whilst the USS will still provide you with your 'Pension Input Amount', it will not be able to determine your AA if you are affected by the taper.

### **What if I've exceeded the annual allowance?**

The government has put measures in place to try to mitigate the problem for those who have a one-off salary spike. These measures are called 'carry forward'.

Under carry forward, any unused allowance for the three years prior to the one in which an AA charge is due can be used to offset an AA charge. If the total of the unused relief is greater than the accrual over the course of the PIP in question; or reduces the accrual to less than the AA in force during the PIP, then the amount payable will be reduced to zero.

So, if you trigger the AA charge in 2014/15, you can draw upon unused allowances for the tax years 2011/12, 2012/13 and 2013/14 to offset the charge. Importantly, the AA for those prior years and the revaluation factor are £50,000 a year and 16:1 (plus the standard tax-free cash sum) respectively.

## Carry forward

### Calculating your unused allowance (carry forward)

If your total pension savings for the PIP in question are more than the AA, you can carry forward any unused allowance from the previous three years. You must use the AA in the current PIP first, then go back to the earliest of the three carry forward years available.

*You will only have to pay tax if you are still in excess of the AA having taken account of any unused allowances.*

You can only carry forward unused allowance if, during the tax year, you were a member of either:

- A registered pension scheme (such as USS or TPS and the majority of other occupational pension schemes in the UK); or
- An overseas pension scheme and either you or your employer qualified for UK tax relief on pension savings in that scheme.

### Impact on carry-forward of aligning PIPs with tax years

The alignment of PIPs to tax years has been explained but this does have an impact on the carry-forward calculation.

Carry forward will continue to be available, it's just more complicated. The only exception is that there will be special rules for the 2015/16 tax year where this is a carry forward year. Effectively, carry forward will be available in line with the figures illustrated in the table opposite.

Current tax year	Carry forward years and maximum amounts
9 July 2015 to 5 April 2016	2012/13 (£50,000) 2013/14 (£50,000) 2014/15 (£40,000) plus mini PIP 1 (£40,000).
Tax year 2016/17	2013/14 (£50,000) 2014/15 (£40,000) mini PIP 1 (£40,000).
Tax year 2017/18	2014/15 (£40,000) mini PIP 1 (£40,000) 2016/17 (£40,000)
Tax year 2018/19	Mini PIP 1 (£40,000) 2016/17 (£40,000) 2017/18 (£40,000).

These examples assume that the taper provisions do not apply.

The calculation is complicated and we strongly suggest you seek financial advice. You do not need to complete a tax return in relation to those years where you do not exceed the AA once you have taken into account any carry forward, but you will need to keep a record of your calculations in case your pension savings exceed the AA in a subsequent tax year.

*More information about the AA and carry forward allowances can be found at <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm055100>*

*HM Revenue & Customs (HMRC) have developed a calculator to help you work out whether or not you are liable to any tax. You will find this on HMRC's website here <https://www.gov.uk/guidance/hmrc-tools-and-calculators>*

The AA is a personal taxation matter, however, since April 2013 pension schemes have a statutory USS has a responsibility to provide you with a savings statement by 6 October each year if you have exceeded the AA. USS will issue statements in September each year to members who have exceeded the AA during the previous tax year/PIP.



## Money Purchase annual allowance (MPAA)

Since April 2015, legislation allows those aged 55 or over to access their 'defined contribution' savings 'flexibly', provided the arrangement in question allows. Defined contribution schemes are where contributions are invested in a fund, the fund is then used at retirement to provide a regular income or lump sum. They are also termed as 'money purchase' arrangements.

You can take 25% of a defined contribution fund as a tax-free payment, the balance will be taxed at your marginal rate, meaning for larger funds this could be taxed at the higher rates of income tax.

If you were to draw defined contribution benefits from a scheme outside of USS the MPAA will be applied to the amount of money you can then save in to any other defined contribution arrangement, including those provided by USS. In other words, only contributions paid in to a defined contribution arrangement up to the MPAA will benefit from tax relief. The MPAA is currently £10,000 a year although complex transitional arrangements apply for 2015/16.

If you do contribute more than £10,000 a year, contributions in excess of this threshold will be subject to additional income tax, negating the tax relief that had been applied automatically.

HMRC have implemented this to prevent individuals from drawing pension funds and re-cycling the same funds into another pension scheme and receiving tax relief again on funds that have already benefitted from tax relief.

### Impact of the MPAA

It is important to remember that you still retain an annual allowance in respect of any 'defined benefit' arrangements. If you pay into a defined contribution arrangement and are subject to the MPAA, then you can accrue defined benefits up to the annual allowance less any defined contribution payments up to the MPAA.

For example, if you paid £15,000 into a defined contribution arrangement you would still have £30,000 of the annual allowance (based on 2015/16 rates). The £15,000 is £5,000 in excess of the MPAA (£10,000 at time of publication), so the £5,000 will be subject to additional income tax.

### What if the MPAA applies as well as a reduced annual allowance as a result of tapering?

Where someone is subject to the MPAA provisions and they are also subject to the taper provisions, the taper is applied to their alternative annual allowance amount. The alternative annual allowance amount is the standard annual allowance less the £10,000 MPAA.

This means that where someone is subject to the maximum taper provisions, their alternative annual allowance for defined benefit pension savings will be nil. They would, however, still have a £10,000 MPAA limit and would still be able to use carry forward for any unused defined benefit pension savings from the previous three years.

### Your responsibility

It's up to you to let USS know that you have taken defined contribution benefits from another arrangement. If you then pay in more to the USS Money Purchase AVC and this exceeds the MPAA we will send you a notification so you can inform HMRC of the excess. Please note, from 1 October 2016, you and your employer contributions will be counted (to the defined contribution section).

Unlike the annual allowance, there is no 'carry-forward' available from earlier years in respect of the MPAA.

## Scheme pays

### What if I have exceeded the annual allowance after allowing for carry forward?

If you have exceeded the AA and you do not have any or enough carry forward to use, you will incur a tax charge.

You are responsible for providing information to HMRC using a self assessment tax return. If you don't normally complete a self assessment tax return, you'll need to register with HMRC to complete one. HMRC has a helpsheet which you may find useful.

Search for HS345 on [www.hmrc.gov.uk](http://www.hmrc.gov.uk) to find the 'Pensions - tax charges on any excess over the lifetime allowance, annual allowance, and special annual allowance and on unauthorised payments' helpsheet.



### How can the charge be paid?

You could choose to settle the charge yourself from savings, or if you're retiring and taking a tax-free lump sum, you could put aside some of the tax-free cash sum to settle the tax charge. In future, after 1 October 2016, you could use any funds built up in the new USS defined contribution section to pay a charge.

The government has decided that members of registered pension schemes, such as USS, will be able to ask the scheme to pay an AA tax charge on their behalf in return for a deduction to benefits. This is called 'scheme pays'. Although this sounds simple in theory, in practice there is a lot to consider.

### When can I use scheme pays?

You can use scheme pays if:

- Your benefit accrual in a USS PIP is greater than the AA in force during that period; and
- Your overall AA tax charge is more than £2,000.

If these conditions are met, you can ask the scheme to pay the charge for you, with a corresponding deduction made to your benefits.

You cannot use scheme pays in respect of any tax charge as a result of exceeding the MPAA.

### How much can I ask the scheme to pay?

If you have exceeded the AA as a result of benefits built up in two or more pension arrangements, USS will only pay a tax charge in relation to any excess allowance built up in this scheme.

*For further details and an illustration of how this would work in practice please refer to the HMRC helpsheet 345 available from: <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056410>*

The amount of tax charge you wish USS to pay on your behalf may be more or less than £2,000. You can pay part of the charge yourself, with USS covering the remainder or, you can USS to pay the whole charge.

### How do I apply for scheme pays?

You will need to complete a self assessment tax return by no later than 31 January following the tax year in question and confirm to HMRC the amount of any AA charge which is to be paid by the scheme. You will then have until the following 31 July – or retirement if earlier – to notify USS of the AA tax charge to be paid on your behalf.

It is your responsibility to ensure that the amount of the AA tax charge is correctly calculated. The scheme will not be in a position to calculate your tax for you. You should also bear in mind that a scheme pays notification cannot be cancelled, but it may be amended.

Should you decide to pay part of the AA tax charge, and the nominated amount of the scheme's liability is less than £2,000, then you will need to write to USS confirming that your total AA charge is over £2,000.

If your liability to the AA charge changes, you can submit a further notice to the scheme, requesting payment of an additional annual allowance tax charge through scheme pays so long as your benefits have not crystallised and it is received no later than 31 July following the end of the four year period that began on the last day of the relevant tax year.

**Example:** *If you exceeded the AA in 2012/13 (as a result of USS pension accrual) the latest date for submission of an amendment to scheme pays would be 31 July 2017.*

For self assessment purposes the USS pension scheme tax reference number is **00330004RR**.

### Can I use scheme pays if I am due to retire or over normal pension age (65)?

The answer to this is yes, however, your notice must be given to the scheme before your benefits are drawn, rather than the July after your self assessment return was due.

In practice, if you have requested a retirement quotation from USS it will include your accrual for the PIP in which you retire and the previous year, if this information has not already been issued. If you calculate that your AA tax charge for the PIP in which you retire will exceed £2,000, or perhaps the PIP prior, then you can give notice to the scheme to pay the charge on your behalf.

As mentioned, you must submit your notice to USS before retiring so that the appropriate deduction can be applied before your USS benefits are brought into payment. You'll lose the opportunity to rely on scheme pays if you don't notify USS before your benefits crystallise. The notice of intention to elect for scheme pays will be included in the USS retirement forms.

It's possible that you won't know for certain what your AA tax liability is, for the PIP in which you retire, until the end of the tax year – and therefore after your retirement date – as you will need to know what your taxable earnings were for the year. If this is the case, you can submit a scheme pays notice to USS shortly before your retirement on the basis of the information that's known to you at the time .

You will need to inform HMRC of any amendments once your taxable earnings for the year are known.

#### **How is my deduction calculated?**

All members able to use scheme pays will be able to have their AA tax charge met by a deduction to their DC Account, once it is available, in the first instance (you will not be able to specify which part of your DC Account is used for this purpose). If you do not wish to use this option, or there is a balance to be met, there would be a deduction to your DB benefits and how this is done depends on your circumstances.

#### **1 You ask USS to pay your tax charge:**

- At the point of retirement; or
- As you're approaching retirement; or
- If you're age 65 or over.

In these circumstances, the deduction can be made to your pension or lump sum (but not a combination) – if you opt for a pension debit, it will be calculated using the commutation factors applicable at retirement / the calculation date. We use the same factors that are used if you wish to commute pension to extra cash or vice versa. This amount would then be deducted from your pension.

Should you wish to investigate this option and receive a quotation of the reduction to your annual pension, please contact USS.

#### **2 You ask USS to pay your tax charge:**

- When you're under the age of 65; or
- You're not contemplating retirement.

In these circumstances, a deduction is made to your standard benefits (lump sum and pension) equal in value to the tax charge, calculated using the current cash equivalent transfer value basis. If you would like a quote showing the reduction to your annual pension under this category, please use the scheme pays calculator on [www.uss.co.uk](http://www.uss.co.uk).

#### **How will my benefits be affected under scheme pays?**

In return for the scheme paying the AA tax charge on your behalf, a deduction (called a pension debit) will be made to your pension benefits. The deduction will be expressed as an amount of pension (and lump sum) which is equivalent to the cash value paid to HMRC. The amount of the deduction will be confirmed in writing when you inform USS of the tax charge to be paid.

Your pension debit will be adjusted each year by increases to official pensions. These increases are currently based upon increases in the Consumer Prices Index and are subject to the maximum pension increases payable under the scheme rules. The benefits payable to you will therefore be calculated after deducting the revalued scheme pays pension debit . If you opt to meet the tax charge through a deduction to your DC Account, the amount is recorded should it need to be taken into account for later benefit calculations, such as on total incapacity or death in service, where only your DC Account in respect of voluntary contributions are payable in addition to DB benefits.

#### **Is it possible to have multiple scheme pays debits?**

Yes. It is possible that a member could trigger the AA charge more than once and therefore he/she will have a scheme pays debit for each year in which the scheme is required to pay the charge.

#### **Will a scheme pays debit affect any benefits which may be payable to beneficiaries?**

Only the member's pension will be reduced.

## Historic limits

Members joining or re-joining USS on or after 1 June 1989 were subject to a statutory earnings cap for pension purposes, set by HMRC. The contributions payable by the member and the institution were based on a maximum amount determined by the government. The amount was usually reviewed annually to reflect changes in the Retail Prices Index and rounded to the next higher multiple of £600. Any amount in excess of the cap could not be taken into account when calculating pension benefits. The figure for the final year of the statutory earnings cap (2005/06) was £105,600.

The statutory earnings cap was removed with effect from 6 April 2006, but for the purpose of calculating USS benefits its effect on past service accrued prior to that date remains. Members who were subject to the earnings cap as at April 2006 had the option to continue to have their future benefits subject to the cap.

The continuation of the statutory earnings cap is written into the USS scheme rules and is known as the 'scheme specific cap'. It is increased on an annual basis using the same methodology as the statutory cap. The scheme specific cap will be revalued each year and any past service benefits, which were capped, will be based on the relevant figure at retirement. In addition, it will be used as the basis for ongoing contributions for any members who decided to keep the cap for future accrual.

If you are unsure whether the cap applies to part of your USS benefits, please check with your employer. If you were affected by the statutory earnings cap for any service from 1 June 1989 (14 March 1989 in some cases) to 6 April 2006, your benefits accrued from 6 April 2006 will now be calculated by reference to your full pensionable salary. Your pension contributions will also be based on your actual salary (unless of course you requested that your salary remained capped by the USS scheme specific cap).

If, after 6 April 2006, the earnings cap no longer affects you, your benefits will be calculated in at least two parts:

- The benefits from 1989 (or date you joined the scheme if later) to April 2006 will be calculated by reference to the scheme specific cap in the year in which you retire or leave.
- The benefits from April 2006 will be calculated by reference to your full pensionable salary. Additionally, if you have transferred benefits into USS from another scheme based on an uncapped salary, or you have earlier uncapped service, these will continue to be calculated by reference to your full pensionable salary.

You and your employer have the option of making a payment to remove the effect of the earnings cap in all or in part. There is only one opportunity to make a payment to remove the effect of the cap. However, there is no time restriction on when this is made, so long as you remain an active member of the scheme.

If a payment is made to completely remove the effect of the earnings cap, then all of your benefits will be calculated by reference to your full pensionable salary. If only part of the earnings cap is removed, then your benefits will be calculated separately, but with a reduced amount being subject to the cap. There are some restrictions on removing the cap; please speak to your employer regarding your options.

## Financial advice

USS recognises that you may wish to seek financial advice on your options. If you need advice on tax matters, we suggest you contact a tax or financial adviser. Our website has more information on financial advice.

*To find out more about financial advice, visit the USS website [www.uss.co.uk](http://www.uss.co.uk).*

*If you think you may be affected by any of the information held in this factsheet, please also refer to our factsheet 'Options for members affected by the annual and/or lifetime allowances' which you'll find on our website [www.uss.co.uk](http://www.uss.co.uk)*

This publication is for general guidance only. It is not a legal document and does not explain all situations or eventualities. USS is governed by a trust deed and rules and if there is any difference between this publication and the trust deed and rules the latter prevail.

Every effort has been made to present accurate information at the date of publication and members are advised to check with their employer contact for latest information regarding the scheme, and any changes that may have occurred to its rules and benefits.