

USS EMPLOYER CONSULTATION 2021

FACTSHEET: Revaluation of your benefits and pension increases in payment

Introduction

This factsheet explains how your USS Retirement Income Builder benefits are currently increased both before and after you retire (revaluation before retirement and indexation/increases post retirement). It also covers the proposed changes to revaluation and increases which are being consulted on as part of the USS Employer Consultation 2021.

Please note that, while this factsheet looks only at revaluation and increases in payment, the consultation covers a combined package of proposed benefit changes which would be implemented together, if they go ahead. To get a more detailed picture of how your future benefits might be affected by the package of proposed changes you can use the consultation modeller – go to the ‘Modeller’ page on the consultation website (ussconsultation2021.co.uk).

But please remember that the proposed changes will only affect your future benefits built up from 1 April 2022– what you have already built up before then will not be affected.

What is revaluation, and what are pension increases (indexation)?

If you’re a member of the USS Retirement Income Builder (the defined benefit or ‘DB’ section of USS) then for each year (or part-year) of active membership you earn a pension and separate lump sum based on your salary up to the Salary Threshold. For more details on this see our factsheets on the **Accrual Rate** and the **Salary Threshold**.

These pension and lump sum amounts are then increased or “revalued” each year up to your retirement both whilst you are an active member of the Scheme and if you become a deferred member. The amount by which the pension and lump sum are revalued is based on the increases to official pensions paid to public sector employees, subject to certain caps.

Once you retire, your USS Retirement Income Builder pension is then increased each year whilst it is being paid to you (again based on the increases to official pensions in those years and subject to certain caps).

How are revaluation rates and pension increases in payment currently calculated in the USS Retirement Income Builder?

At present both revaluation of your benefits before retirement, and increases to your pension after retirement, are based on the increases in official pensions, which are currently linked to inflation as measured by the Consumer Prices Index. This is subject to an annual cap. The current position is summarised below:

If the increase in official pensions is:	Then the revaluation / increase applied to USS benefits is:
Less than 5%	The same increase
5%	5%
More than 5% but less than 15%	5% plus one-half of the amount above 5%
15% or more	10%

What changes are proposed?

It is proposed that the annual cap applied to both revaluation of benefits and increases to pensions in payment will be reduced to a maximum of 2.5% each year. Summarising this in the same way as the table above:

If the increase in official pensions is:	Then the proposed revaluation / increase applied to USS benefits is:
Less than 2.5%	The same increase
2.5% or more	2.5%

What impact would these proposed changes have on you if they go ahead?

The impact on you depends on the rate of inflation as reflected in official pensions increases in a particular year. Where inflation is 2.5% or less in any year after 1 April 2022, there will be no impact on the revaluation or increases applied to your benefits.

However, in any year after 1 April 2022 where the increase in official pensions is greater than 2.5%, your benefits built up from that date would be revalued by a maximum of 2.5%. The same would be the case after you retire, with any benefits built up after 1 April 2022, only increasing by a maximum of 2.5%.

As a simple example, assume the increases in official pensions in three years were as follows:

Year	Increase in official pensions
Year 1	3.5%
Year 2	2.0%
Year 3	2.8%

- Currently before retirement a USS Retirement Income Builder pension of £1,000 would revalue to £1,085 over the three years above.
(This is because the full increase as set out in the table above is applied each year, as each is less than the current 5% threshold: the calculation is $£1,000 \times 1.035 \times 1.02 \times 28$)

The corresponding cash lump sum would also revalue from £3,000 to £3,256.

- Under the proposals being made now, the same pension would revalue to a lower amount, £1,072, because the increases in Years 1 and 3 would be capped at 2.5%. (The calculation is $£1,000 \times 1.025 \times 1.02 \times 1.025$)

The corresponding cash lump sum would revalue from £3,000 to £3,215.

The example above considers the proposals in the context of revaluation, but if the same pension was in payment, you would see the same effect over the same three years.

You can use the consultation modeller to look at a comparison of your projected benefits before and after the proposed changes.

Does the proposal affect the benefits I have built up in USS before 1 April 2022?

No, it doesn't – these changes would only affect benefits you build up after 31 March 2022.

Please note this information is a summary only, for general guidance. 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.