

## USS EMPLOYER CONSULTATION 2021

### FACTSHEET: the Salary Threshold

#### Introduction

This factsheet explains the USS Salary Threshold, what it is used for, how it works, and the proposed changes to it, which are being consulted on as part of the USS Employer Consultation 2021.

Please note that, whilst this factsheet explains the Salary Threshold and the changes that have been proposed to it, 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 website.

**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 will not be affected.**

#### What is the Salary Threshold?

If you’re an active member of USS, you’ll be building up benefits in the USS Retirement Income Builder (the defined benefit or ‘DB’ section of USS). The contributions you pay and the benefits you get are based on your salary up to the Salary Threshold.

You can find out more about the USS Retirement Income Builder at <https://www.uss.co.uk/for-members/your-pension-explained/retirement-income-builder>.

If your salary is higher than the Salary Threshold, then part of your contributions on your salary above the Salary Threshold get paid into the USS Investment Builder, the defined contribution (‘DC’) part of USS.

You can find out more about the USS Investment Builder at <https://www.uss.co.uk/for-members/your-pension-explained/investment-builder>.

#### How much is the Salary Threshold currently?

The Salary Threshold for 2021/2022 is £59,883.65.

## How is the Salary Threshold calculated each year?

The Salary Threshold is increased annually each year, in line with official pensions which are paid to public sector employees and currently linked to inflation as measured by the Consumer Prices Index. This is subject to an annual cap. Current increases to the Salary Threshold are summarised below:

<b>If the increase in official pensions is:</b>	<b>Then the increase applied to the Salary Threshold is:</b>
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 to the Salary Threshold are proposed?

It is proposed that the Salary Threshold is reduced to £40,000 with effect from 1 April 2022.

It is also proposed that for benefit years starting from 1 April 2023, the Salary Threshold will increase each year, in line with official pensions which are currently linked to inflation as measured by the Consumer Prices Index, but only up to a cap of 2.5% in any year. These increases will continue until 31 March 2025, unless reviewed by the JNC and changed before then.

For more information about why the changes are being proposed, please see the Summary page on the consultation website ([ussconsultation2021.co.uk/members/summary](https://ussconsultation2021.co.uk/members/summary)).

## If implemented, what impact would a reduced Salary Threshold have on you?

The immediate impact if you're an active member of USS would depend on your salary:

- If your salary is currently and remains less than £40,000 then the reduction to the Salary Threshold from 1 April 2022 would have no immediate impact – you would continue to build up pension and a cash lump sum in the Retirement Income Builder based on your full salary.
- However, if your salary is currently higher than £40,000, then the reduction to the Salary Threshold would reduce the annual pension and separate cash lump sum you build up in the USS Retirement Income Builder (from 1 April 2022). However, you would begin to save more into the USS Investment Builder (because some of the contributions from you and your employer on salary over £40,000 would be used to build up your savings in the USS Investment Builder – see the **USS contribution rates** factsheet).

Some examples are set out below which illustrate the total pension and cash that would build up in a single year based on a range of salaries, before and after the proposed changes.

Please note that if it goes ahead, the Salary Threshold is part of a package of benefit changes which would be implemented together and the examples reflect this. The table below also illustrates the proposed change in Accrual Rate from 1/75ths to 1/85ths from 1 April 2022 (see the **Accrual Rate factsheet**).

### Benefits being built up each year before and after proposed changes:

Salary	BEFORE: current Threshold of £59,883.65 and Accrual Rate of 1/75ths				AFTER: proposed Threshold of £40,000 and Accrual Rate of 1/85ths			
	Salary above the Threshold	DB pension (per annum)	DB cash lump sum	DC fund*	Salary above the Threshold	DB pension (per annum)	DB cash lump sum	DC fund*
<b>£25,000</b>	£0	£333	£1,000	£0	£0	£294	£882	£0
<b>£35,000</b>	£0	£467	£1,400	£0	£0	£412	£1,235	£0
<b>£45,000</b>	£0	£600	£1,800	£0	£5,000	£471	£1,412	£1,000
<b>£55,000</b>	£0	£733	£2,200	£0	£15,000	£471	£1,412	£3,000
<b>£65,000</b>	£5,116	£798	£2,395	£1,023	£25,000	£471	£1,412	£5,000

\* If you have savings in the USS Investment Builder (the Defined Contribution or 'DC' part of USS) then you can use those savings to provide additional cash or additional income at retirement.

You can find out more about the USS Investment Builder at <https://www.uss.co.uk/for-members/your-pension-explained/investment-builder>.

### What impact would the proposed change to the cap on future increases to the Salary Threshold have on you?

How this proposal may affect you will depend on many factors, such as:

- where your current salary stands, compared with the proposed Salary Threshold of £40,000;
- how much your salary increases over your career – both due to career progression and promotions but also due to annual salary increases,
- how much official pensions paid to public sector employees are increased by each year, to reflect the CPI measure of inflation.

For example, if you are close to the £40,000 proposed Salary Threshold, and you receive salary increases which are greater than 2.5% during periods when inflation (as measured by the CPI) is higher than 2.5%, then you may find you overtake the Salary Threshold and start to build up benefits in the USS Investment Builder sooner than if the 2.5% cap wasn't in effect.

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

### **Does this affect the benefits I have already built up in USS?**

No, it doesn't – the reduction to the Salary Threshold will only affect benefits you build up from 1 April 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.