New Pension Arrangements for Active PAS members in Grades 6 and above who are to move to USS

Gary Hague, Finance Office
Eifion Morris, USS
Introduction

• Following the recent consultation exercise the University has now confirmed it’s decision to close PAS to future benefit accrual as from March 2016.

Aims of this presentation…

• To explain what will happen when the PAS closes to future benefit accrual
• To provide you with information about the Universities Superannuation scheme
On 31st March 2016

- PAS will close to future benefit accrual
- Active PAS members will become Deferred Members.
- A deferred pension will be calculated based on
  - Years of Service @ 31/03/2016 and
  - Final Pensionable Earnings
- Where Final Pensionable Earnings are the HIGHER of -
  - average pensionable earnings over the best consecutive 12 months for the period April 2013 to March 2016
  - the average of the best consecutive three years over the last 13 years.
- You will receive a statement of your deferred pension from Aon Hewitt in the spring of 2016 following the closure of the PAS to future benefit accrual
On 1st April 2016

- You will be **auto-enrolled** into USS
- You **will** be covered by USS death in service arrangements from day one of your membership
- You **will** also be covered by USS Illness/injury incapacity cover from day one.
- In the event of not being covered by USS ill health/injury capacity cover- the PAS Trustees will be able to supplement the normal deferred member PAS incapacity benefit provided you are in University service at the point of retirement.
Safeguarded PAS Benefits
Safeguarded PAS Benefits

- The **PAS Trustees** will continue to manage the Scheme investments and safeguard the funds.

- The University will continue to make payments into the Scheme in line with the agreed Recovery Plan in order to remove the current Scheme deficit.

- Actuarial Valuations will continue to take place every 3 years (next AV will take place in August 2016) and the outcome will determine the level of payments the University will make to bring the PAS into balance.
When can I take my PAS pension?
- Ordinary Members

- The normal retirement age for the PAS is 65.
- As a deferred member
  - from age 65 you will be able to access your pension unreduced.
  - You can access your pension after age 55 (i.e. a fixed 10 years under the state pension age) if you flexibly retire under the University’s policy (reduce your hours by at least 20%) but your pension will be reduced for early payment. This will require University and PAS Trustee consent.
  - You can transfer to another pensions provider in order to benefit from the Government’s pension freedoms and access your pension as cash or drawdown, but you are required to take independent financial advice before you do this.
- You may give up part of your pension to take a tax free cash lump sum. The maximum amount of cash that HMRC will allow you to take and the amount of pension you give up will be calculated when you reach retirement.
When can I take my PAS pension?
– Special Members (& potential Special Members)

• **Special Member** – someone who joined PAS before July 1991 and has 25 years continuous service (or the potential to achieve 25 years service before retirement)

• **Special Member Rights**
  – May retire from age 60 and access benefits on an **unreduced basis**
  
  or

  – May retire from age 55 with benefits only reduced for period between age at retirement and 60

• **Special Member Rights will continue- albeit with service only to 31st March 2016**

• **Special member rights built into flexible retirement**
Retirement – Your PAS pension

• When you take your pension, your actual pension will be based on the **HIGHER** of

| Your years of service to 31\textsuperscript{st} March 2016 | X | Your final pensionable earnings at the point you decide to draw your pension |

OR

| Your years of service to 31\textsuperscript{st} March 2016 | X | Your deferred pension as at March 2016 **revalued** each year by the PAS’ revaluation factors |

• Details of your position in terms of the impact of the revaluation impact was provided in the one to one sessions.
What is revaluation and how does it work?

• Your deferred pension will be calculated at 31st March 2016 when the PAS closes to future accrual.

• At each subsequent year, until you retire, this deferred pension will be increased in line with a set of revaluation factors.

• Different revaluation factors apply to different periods of your accumulated service in the PAS due to changes in the PAS rules over time

• This is especially important for PAS members who joined the Scheme prior to 1st February 1998
## Revaluation Factors (pre 1 Feb 1998 starters)

<table>
<thead>
<tr>
<th>Period of Service</th>
<th>Revaluation Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>For service built up prior to 5 April 1997</td>
<td>the excess pension built up above the GMP is revalued at a fixed rate of 5% pa.</td>
</tr>
<tr>
<td>For service built up between 6 April 1997 and 31 October 2006</td>
<td>All pension built up is revalued at a fixed rate of 5% pa.</td>
</tr>
<tr>
<td>For service built up between 1 November 2006 and 5 April 2009</td>
<td>All pension built up is revalued in line with CPI (capped at 5% pa.)</td>
</tr>
<tr>
<td>For service built up between 6 April 2009 and 31 March 2016</td>
<td>All pension built up is revalued in line with CPI (capped at 2.5% pa.)</td>
</tr>
</tbody>
</table>

Best explained by way of an example…
Example - Assumptions

- Member aged 55 at 31/3/2016
- Salary at 31/3/2016 - £19,000
- 25 years pensionable service at 31/3/2016
- Assumes CPI of 3% from 2016 to 2026
- Deferred pension at 31/3/2016
  - £7,828 pa \( (18/60 \times £19,000 + 7/62.5 \times £19,000) \)

<table>
<thead>
<tr>
<th>Made up of:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GMP</td>
<td>£650</td>
</tr>
<tr>
<td>Excess over GMP pre 5/4/97</td>
<td>£1,250</td>
</tr>
<tr>
<td>Accrued 6/4/97 - 31/10/06</td>
<td>£3,035</td>
</tr>
<tr>
<td>Accrued 1/11/06 - 5/4/09</td>
<td>£765</td>
</tr>
<tr>
<td>Accrued 6/4/09 - 31/3/16</td>
<td>£2,128</td>
</tr>
<tr>
<td></td>
<td>£7,828</td>
</tr>
</tbody>
</table>
### Example - Application of Revaluation Factors

<table>
<thead>
<tr>
<th>Description</th>
<th>Pension at 31/3/2016</th>
<th>Annual Revaluation rate 1/4/16 - 31/3/26</th>
<th>Cumulative Revaluation factor</th>
<th>Pension at 31/3/26</th>
</tr>
</thead>
<tbody>
<tr>
<td>GMP</td>
<td>£ 650</td>
<td>4.75%</td>
<td>1.59</td>
<td>£ 1,034</td>
</tr>
<tr>
<td>Excess over GMP pre 5/4/97</td>
<td>£ 1,250</td>
<td>5.00%</td>
<td>1.63</td>
<td>£ 2,036</td>
</tr>
<tr>
<td>Accrued 6/4/97 - 31/10/06</td>
<td>£ 3,035</td>
<td>5.00%</td>
<td>1.63</td>
<td>£ 4,944</td>
</tr>
<tr>
<td>Accrued 1/11/06 - 5/4/09</td>
<td>£ 765</td>
<td>3.00%</td>
<td>1.34</td>
<td>£ 1,028</td>
</tr>
<tr>
<td>Accrued 6/4/09 - 31/3/16</td>
<td>£ 2,128</td>
<td>2.50%</td>
<td>1.28</td>
<td>£ 2,724</td>
</tr>
<tr>
<td>Totals</td>
<td><strong>£ 7,828</strong></td>
<td></td>
<td></td>
<td><strong>£ 11,766</strong></td>
</tr>
</tbody>
</table>

"Buying power"                                   | £7,828               | 3.00%                                    | 1.34                          | £10,520           |
Revaluation Factors  (post 1 Feb 1998 starters)

<table>
<thead>
<tr>
<th>Period of Service</th>
<th>Revaluation Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>For service built up prior to 5 April 2009</td>
<td>All pension built up is revalued in line with <strong>CPI</strong> (capped at 5% pa.)</td>
</tr>
<tr>
<td>For service built up between 6 April 2009 and 31 March 2016</td>
<td>All pension built up is revalued in line with <strong>CPI</strong> (capped at 2.5% pa.)</td>
</tr>
</tbody>
</table>
Other PAS benefits retained as a deferred member

• If you die after 31 March 2016 your dependents will get
  – a refund of the contributions that you have paid (without interest)
  – a qualifying spouses pension equal to 50% of your deferred pension—revalued as appropriate
  – A qualifying children’s pension equal to 25% of your deferred pension—revalued as appropriate (a max of 2 children’s pensions are payable)

• If you are forced to retire through ill-health after 31 March 2016
  – you will be able to access a PAS incapacity pension but this will be reduced for early payment
  – However, the PAS Trustees / University will have to discretion to remove the reduction if you do not have other University ill health benefits.
How do pensions increase once in payment?

- Indexation factor is CPI for service after August 2012
- RPI for service prior to this
- Indexation cap set at 5%
USC 2016

Eifion Morris, APMI
Head of Member Communications
Terminology

Career Revalued Benefits (CRB): Salary each year

Defined Contribution (DC): Investment fund
Phased implementation

Salary £,000

CRB

DEFINED CONTRIBUTION

1 Apr 2016

1 Oct 2016

For the future
Career Revalued Benefits
From April 2016
New CRB section

CPI

£55K

1/75th

For the future
The basics

Pension + Tax-free cash = Standard package
**Example**

<table>
<thead>
<tr>
<th>Salary</th>
<th>Pension calculation</th>
<th>Banked</th>
<th>TOTAL: £2,131.25 pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>£37,500</td>
<td>£500.00</td>
<td>£500.00</td>
<td></td>
</tr>
<tr>
<td>£39,375</td>
<td>£525.00</td>
<td>£1,025.00</td>
<td></td>
</tr>
<tr>
<td>£40,781</td>
<td>£543.75</td>
<td>£1,568.75</td>
<td></td>
</tr>
<tr>
<td>£42,187</td>
<td>£562.50</td>
<td>£2,131.25</td>
<td></td>
</tr>
</tbody>
</table>

We now need to add increases ‘revaluation’
### Example

<table>
<thead>
<tr>
<th>Pension</th>
<th>Inflation calculation</th>
<th>Banked</th>
</tr>
</thead>
<tbody>
<tr>
<td>£500.00</td>
<td>£500 x 1</td>
<td>£500.00</td>
</tr>
<tr>
<td>£525.00</td>
<td>(£500 x 1.02) + £525</td>
<td>£1,035.00</td>
</tr>
<tr>
<td>£543.75</td>
<td>(£1,035 x 1.03) + £543.75</td>
<td>£1,609.80</td>
</tr>
<tr>
<td>£562.50</td>
<td>(£1,609.80 x 1.015) + £562.50</td>
<td>£2,196.45</td>
</tr>
</tbody>
</table>

**TOTAL:** £2,196.45 pa

Tax-free cash of 3 X pension in addition
Additional Voluntary Contributions

Until 1 October 2016

- Revalued Benefits AVC
  - 15% maximum £
  - Tax relief
  - Certainty
  - Tax-free cash
  - Long-term saving

- Money purchase
  - Up to £40,000 pa
  - Tax relief
  - Flexibility
  - Tax-free cash
  - Long-term saving

From 1 October 2016

- Defined contribution
  - Up to £40,000 pa
  - Tax relief
  - Flexibility
  - Tax-free cash
  - Long-term saving
  - EMPLOYER MATCH 1%
Additional Voluntary Contributions

- **Revalued Benefits**
  - Use modeller on www.uss.co.uk
  - Contact Pensions Office

- **Money Purchase**
  - Contact Prudential directly
  - Telephone consultation
  - 0800 2346913

- **Defined Contribution**
  - Details to follow
  - May 2016
Defined contribution
From 1 October 2016
Defined Contribution section

1%+1%

DC

12%

8%

£55K

For the future
Defined Contribution flexibilities

55yrs

Tax free

Future Changes

TAX FREE

Transfer

At 55 flexibly
Other considerations
Other considerations

- RIP
- Handicapped
- £55K
- CPI

For the future
Transfers-in

- Membership of ‘transfer club’ to end from 31 March ‘16
  - Transition (2 years)
  - Based on pensionable salary as at 31 March ‘16
- Non-club transfers
  - Up to 1 October ‘16 = CRB
  - 1 October ‘16 onwards = DC
• Normal Pension Age 65
  – Increases in line with State Pension Ages

• Retirement before NPA is early retirement
  – Early retirement reductions approximately 4% for each year early

• Pension increases in payment
  – Match public sector up to 5% pa
    • 50% of any increase over 5%
    • 10% cap
All benefits

Graph key
- Annual pension built up
- Future annual pension
- Lump sum built up
- Future lump sum
- Defined contribution account

Standard benefits

- **£28,340** a year
- **£85,020**
- **£37,210**

Benefits built up at retirement.

Maximum tax-free cash sum

Your maximum tax-free cash sum is estimated to be:

**£169,660**

Learn more about your [Retirement choices](#) and the options you have for drawing your benefits at retirement.
Here you will find information for current and prospective members of Universities Superannuation Scheme about the changes being made to the benefits provided by the scheme.

USS will continue to offer a valuable way to save for your retirement. The revised scheme will ensure a core defined benefit alongside an opportunity for members to accumulate additional flexible pension saving in the form of an individual defined contribution account.

The quick guide provides an overview of the changes and more detailed information is available from the resources within this site.

These changes will be introduced in phases from 1 April 2016 and will affect all current members as well as those joining the scheme in the future.

If you are a deferred or pensioner member of the scheme the changes being introduced from 1 April 2016 will not affect you, unless you wish to re-join the scheme as an active member at some future point.

The information on this site will be updated regularly so please check back from time to time for the latest news.

If you wish to access information about the current scheme structure please go to www.uss.co.uk

Quick guide to the new scheme structure

Need to contact us?

Email the Communications team

Or use the Contact USS page

Latest news

In this section you will find the latest updates about the introduction of the new scheme structure.

- Deadline reminder – Lump sum AVCs 1 November 2015
- Transitional arrangements – changes to retirement quotation process 1 October