

Information on DC implementation and salary threshold

Key points

- From 1 October a salary threshold will be introduced; all members will receive defined benefits on a career revalued benefits basis on salary up to £55,000.
- If you earn more than £55,000 contributions in respect of your salary above the threshold will go into the new defined contribution section of the scheme.
- Employers will pay 18% of your full pensionable salary in contributions, this is a single rate for all USS employers.
- All members will pay 8% contributions on full pensionable salary. You can choose to pay more in to the defined contribution section. The first 1% of any additional contribution you make will be matched by your employer.

Salary threshold

From 1 October 2016 all USS members will earn a defined benefits pension on a career revalued benefits basis on pensionable salary up to a salary threshold of £55,000. Contributions paid on pensionable salary earned above that threshold will go into your individual account within the new defined contribution section of the scheme.

The salary threshold will be applied on a monthly basis, except for variable time employees for whom the threshold will be applied annually, as described **below**. For members with a regular monthly salary, from 1 October 2016 your monthly rate of salary will be assessed against a monthly equivalent of the salary threshold (which at 1 October 2016 will be £55,000 that is £4,584 per month).

The salary threshold will start at £55,000 per year and will be automatically revalued each April (from 2017 onwards) in line with increases in official pensions (currently linked to CPI), subject to certain caps (please refer to the **revaluation fact sheet** for more information).

Member contributions and salary threshold

As of 1 April 2016 all active member contribution rates will increase to 8% of your full salary. That is an increase of 0.5% for final salary members, and 1.5% for CRB members.

Once the new DC section of the scheme has been introduced (on 1 October 2016), if your rate of salary is below or equal to the salary threshold of £55,000 you will continue to earn benefits in the revised CRB section. If you earn above the salary threshold, then the 8% contribution in respect of salary above the threshold will go into your defined contribution account.

1% additional contribution and employer match

From 1 October 2016 all members can choose to make additional contributions into the DC section. These additional contributions would be on top of the standard 8%, regardless of whether or not your salary is above the threshold. Your employer will match the first 1% of any additional contribution you choose to make. You can pay further contributions (i.e. more than 1% of your full salary), but these would not be matched by your employer.

Employer Contributions

From 1 April 2016, all employers in the USS scheme will pay 18% of salary for all members (increased from 16%). Employers have committed to pay 18% of salaries until the formal review of scheme funding as at 31 March 2020. From 1 October 2016, 12% of the employer contribution rate in respect of salary above the salary threshold will be allocated by USS to the individual accounts of members in the DC section.

The combined employer contribution rate will include various elements. Below is a breakdown of the rate following full implementation of scheme changes (including the implementation of the salary threshold and defined contribution section):

- (i) The future service defined benefits – this accounts for 13%
- (ii) The employer contribution to the funding deficit – which is 2.1%
- (iii) The employer contribution to the DC section – which is 2.5% - this is made up of:
 - 12% on salaries in excess of the £55,000 threshold;
 - the 1% employer contribution to the DC matching facility
- (iv) Expenses of 0.4%.

Salary threshold for part time and variable time employment

Part time employment

The £55,000 salary threshold, once implemented on the 1 October 2016, will be based on actual salary. This means that members in part-time employment will earn pension benefits based on actual salary received up to the salary threshold.

In other words, the salary threshold will not be reduced in proportion to working hours.

For example, a member who works part-time and has a part-time service fraction of 50%, with a full-time equivalent salary of £70,000 a year. Provided that the member has no additional salary that is pensionable within the scheme rules, it will be the actual salary of £35,000 which will be used to assess salary against the salary threshold – of £55,000 – and all benefits would therefore be built up in the revised CRB section.

Variable time employment

In the case of variable time employees (VTEs), the salary threshold will not be applied on a monthly basis, but on a cumulative basis, by assessing salary over the relevant year against the annual amount of the salary threshold. A check will be made at the end of the scheme year to assess the member's salary, for that year against the annual amount of the salary threshold. If the salary over the year exceeds the annual amount, the contributions relating to that excess will be reallocated to the member's DC account.