



The proposed changes to USS at a glance

There is good news in that existing USS members would retain final salary benefits.

But carefully chosen changes would be needed to ensure the future sustainability of the scheme. The proposed changes include:

Introduction of a Normal Pension Age (NPA) of 65 – a NPA of 65 would be introduced for new entrants and for existing members' future service. Consequently, members retiring early, from age 60 and before age 65, would receive lower benefits. Existing members age 55 and over would be protected from this change. For past service (benefits built up to 31 March 2011), your pension would not be reduced for early payment if you retire upon reaching your contractual pension age or upon reaching age 60 (if you have five or more years pensionable service and your employer's consent to retire).

A reduction would apply to your past service if you retire before your contractual pension age or age 60 (these are the same rules that exist now).

Future NPA increases would be linked to increases to the State Pension Age.

Introduction of flexible retirement – you could choose to take up to 80% of your benefits (with employer consent) from age 55 while continuing to work but you would have to agree to reduce your working hours and your pay by at least 20%.

Contribution increases and cost sharing arrangements – your contribution would increase from 6.35% to 7.5% of salary and cost sharing would be introduced with a 65:35 employer/employee ratio.



New section of USS for new members joining after 31 March 2011 – a new section will apply to new members, with a different way of calculating their pension. This would only apply to current members if they were to leave the final salary section and rejoin the scheme more than six months later.

Pension increases – increases for pensions in payment will be in line with the Consumer Price Index measure of inflation, with a maximum increase applying of 5% a year, applying to service built up after 31 March 2011.

For those who leave USS and are not old enough to retire their 'deferred benefits' in respect of service after 31 March 2011 would increase up to retirement in the same way, but limited to a maximum increase of 2.5% a year.

Separate to the proposals for change, the government has changed the way in which 'official pensions' are increased. Under the scheme's rules USS pensions are increased in the same way as 'official pensions'. Official pensions include pension schemes for the NHS, Teaching and Civil Service and state retirement benefits are increased in the same manner. Since the scheme's inception this has meant that pensions were increased in line with the Retail Price Index (RPI). The Chancellor announced in the emergency budget that with effect from April 2011 official pensions will be increased in line with the Consumer Price Index (CPI), which means that the basis on which USS pensions are paid will also change. CPI is a different measure of UK price inflation, it measures a slightly different spread of goods and services; for example it excludes mortgage interest and council tax. It has become the main measure of price inflation used by the government.

Therefore, subject to confirmation by the Secretary of State for Work and Pensions when he approves the pensions increase in October, with effect from the USS pensions increase due in April 2011 all USS pensions currently in payment and deferred benefits will continue to increase in line with official pensions, but of course now reflecting the rise in CPI, rather than RPI.