Comparison of USS and NHSPS

January 2018

The below table gives a very brief indication of what pension benefits are provided for current membership of the USS or NHS Pension Schemes. Full details can be seen in the member guides linked to below

USS Retirement Income Builder	USS Investment Builder		NHSPS 2015	NHSPS 2008	NHSPS 1995
For earnings up to salary threshold (of £55,550 in year 2017/18)	Primarily for earnings above Salary Threshold	**Applicability**	For joiners since 1/4/2012 and earlier joiners who were 10 years or more from pension age at that date	For joiners before 1/4/2012 who were within 10 years of pension age at that date (anyone between 10 and 13.5 years of pension age scheduled to move to 2015 Scheme at a date subsequent to April 2015)	
Pension based on career average salary with accrued pension revalued in line with: • Full CPI up 5% • Half of any amount by which CPI exceeds 5%	This arrangement provides a pot of money which is used to fund retirement and need not necessarily provide a regular income	**Pension Calculation**	Pension based on career average salary with accrued pension revalued in line with CPI + 1.5%	Officers – pension based on final salary Practitioners – pension based on career average salary with pension revalued in line with CPI + 1.5%	Officers – pension based on final salary Practitioners – pension based on career average salary with pension revalued in line with CPI + 1.5%
$1/75^{th}$ of each year's salary up to threshold. Additional tax free lump sum payable.	N/A	**Pension Accrual**	$1/54^{th}$ of each year's salary/earnings (all members)	$1/60^{th}$ of final salary for each year of service (officers) $1/53.5^{th}$ of each year's earnings (practitioners)	$1/80^{th}$ of final salary for each year of service. (officers) $1/71.4^{th}$ of each year's earnings (practitioners) Additional tax free lump sum payable (both)
8% of salary up to salary threshold	8% of salary above salary threshold. Optional contributions on earnings below salary threshold	**Member contributions**	Average member contribution of 9.8%. Tiered contributions with lowest earners paying 5% and the highest earners paying 14.5%		

18% of salary	12% of salary above salary threshold 1% of salary below salary threshold (if member makes this optional payment)	**Employer contributions**	14.38% of salary		
State Pension Age • Government changes do not have retrospective effect	Anytime between 55-75	**Pension Age**	State Pension Age • Government changes have retrospective impact	65	60
Pension increases in line with: • Full CPI up 5% Half of any amount by which CPI exceeds 5%	N/A	**Pension Increases in payment**	CPI		
3 times salary (with no threshold cap applied).	Fund value paid to beneficiaries	**Death in Service Lump Sum**	2 times pensionable earnings		
Enhanced pensions payable to adult and child dependents (with no threshold cap applied to salary)	None	**Family Benefits for Death in Service**	Enhanced pensions payable to adult and child dependents		
Law says that any such pension already paid for cannot be diminished, except in the event of insolvency of institutions across HE sector. Future pension provision can be changed subject to consultation with employees.	The value of the fund can go up and down in line with investment returns. There is no guarantee of income in retirement. Future employer contributions can be changed subject to consultation with employees.	**Protections**	Government promises that such pension already paid for cannot be diminished. Future pension provision can be changed if agreed cost cap is breached. This would be the subject of discussion with trade unions.		

Some examples show the differences in member contributions and projected pension benefits from each of these arrangements for some illustrative members:

Example 1

Joe is 40 when he joins the pension scheme and has a State Pension Age of 68. His salary is £60,000 and is assumed to grow each year at a rate of 0.5% more than price inflation. His salary on retirement at age 68 (in today's "real" terms) would be £69,000.

At the age of 68:

USS		NHSPS 2015
£144,000	**Total Member Contributions made**	£225,000
£26,000 (37% of salary at retirement)	**Annual Pension Payable for life**	£41,000 (59% of salary at retirement)
£77,000	**Automatic tax-free lump sum available**	N/A (if Joe wanted a tax free lump sum of £153,000, he would have a reduced pension of £28,000)
£76,000 (from Investment Builder)	**Further Pension Pot Available**	N/A

Example 2

Jasmina is 35 when she joins the pension scheme and has a State Pension Age of 68. Her salary is £76,000 and is assumed to grow each year at a rate of 8% more than price inflation for 5 years and then reverts to grow in line with price inflation. Her salary on retirement at age 68 (in today's "real" terms) would be £103,000.

At the age of 68:

USS		NHSPS 2015
£267,000	**Total Member Contributions made**	£451,000
£31,000 (30% of salary at retirement)	**Annual Pension Payable for life**	£79,000 (76% of salary at retirement)
£94,000	**Automatic tax-free lump sum available**	N/A (if Jenny wanted a theoretical tax free lump sum of £649,000, she would have a reduced pension of £25,000)
£555,000 (from Investment Builder)	**Further Pension Pot Available**	N/A

Lifetime Allowance

It is worth pointing out that under both scenarios, Jasmina would be in breach of the HMRC's current Lifetime Allowance (LTA), which applies tax charges to high levels of pension savings. Her USS benefits would exceed the LTA by £269,000, resulting in a tax charge of up to £148,000. Her NHSPS 2015 benefits would breach the same LTA by £580,000, resulting in a tax charge of up to £319,000.

Notes (please read)

1. These examples are for illustration purposes only and should not be used for financial planning.
2. These examples are based on the current benefit and contribution structures applied to the NHSPS 2015 and the USS, including the current state pension age. It does not account for any changes which are likely to be made to these pension schemes in the future.
3. Amounts quoted are in today's monetary terms ("real terms"), stripping out the effects of future price inflation.
4. Numbers have been significantly rounded.
5. The comparison with the Lifetime Allowance (LTA) is based on the current operation of the LTA. The value of the LTA, as well as the system of providing tax relief to pension savings, have undergone significant change in the past, and could in the future.

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