Get to grips with your hybrid pension

Video transcript

Hi everyone. Thank you for listening today. We're going to be talking about getting to grips with your hybrid pension. I'm with Pete Wallwork, Head of Proposition at USS, who's going tell us a bit more about how your scheme works and in particular the Investment Builder, which is the defined contribution part of USS and how you can make it work for you.

Thanks for your time today, Pete. So, jumping straight in...

USS is a hybrid pension. What does that mean exactly?

Well briefly it means that the scheme's in two parts. There's a DB section which is the Retirement Income Builder and a DC section which is the Investment Builder. Members and employers pay contributions and build benefits and savings in USS.

What's the difference between the two parts?

All members join the Retirement Income Builder section of the scheme. It builds guaranteed benefits based upon your salary and the length of time that you're a member of the scheme. At retirement you can get a lump sum which they can dial up or down, and also a pension for life. If members earn above the salary threshold, transfer in or make additional contributions, then they build a savings pot in the Investment Builder. This is based upon what gets put in, i.e., how much they contribute, and how much the employer contributes, and also what investment returns they make on the amount that they paid in.

So what are the benefits of a hybrid scheme?

Well, there's the guarantee from the Retirement Income Builder, which gives members a bit of security in retirement knowing that they've got a guaranteed income. But then there's also flexibility around the benefits they can take from the Investment Builder and also some benefits of flexibility around what you can actually do with your Retirement Income Builder as well.

The Retirement Income Builder is for everyone, and when they retire, our members get a guaranteed pension for life based on the benefits they've built up. How can they see what their benefits might amount to?

There's a couple of ways that members can see how much they've built up. Firstly, they could use the Benefit Illustrator and they can either log in as a prospective member, in which case they need to put some information in just to get a rough idea of what they could build up, or if they log into the Benefit Illustrator that's actually preloaded with their data. So, they'll actually see how much they've got, and then they can project that amount forward themselves. There's also the option to look at their Annual Member Statement, which also gives members, on an annual basis, an illustration of what the benefits are at that moment in time.

And what about the Investment Builder? How can members see what they might get from that?

Well, there's some of the information already preloaded into the Benefit Illustrator like I mentioned earlier, but they can also log in to My USS for an up to date value because that's more reliant on the amount the members pay in. So as contributions are paid in each month, then their Investment Builder value changes and also as the investments go up and down, members can see how that's moving all behind the log in on My USS.

You talked earlier about USS providing flexibility. What do you mean by that?

There are flexible ways to build benefits within USS so you can pay additional contributions if you like, even if you're not earning above the salary threshold. You've also got investment choices with those contributions into Investment Builder, so you can choose how to manage your investments if that's what you want to do. But you can always leave that for us to do for you if you don't feel confident making those decisions. And there are also flexible ways in which you can actually take your benefits from USS when you come to later life and you want to start accessing the money that you built up.

What are the different ways members can take their Investment Builder savings?

There are many different ways they can do it and it all depends on how members want to use the savings, so they could just take the DC pot as tax free cash at retirement in many cases, which means that your Retirement Income Builder is not reduced by as much because you've taken your DC pot in in place of what you would have turned into a tax free cash amount. But you can only do that at the same time that you're actually taking your Retirement Income Builder benefits. Otherwise, if a member's got past the minimum pension age, they could consider taking their Investment Builder as one or more cash payments. This is often referred to as UFPLS, which is just an industry name, a pension industry name. We call them cash payments for simplicity and if you take a cash payment you tell us how much you want to take out of your Investment Builder pot, a bit like you would by drawing money from a bank, but when you take the money out, 25% of the amount that you take is paid tax free. And the rest is taxed at your marginal tax rates or the rate you would normally pay tax, and this triggers the Money Purchase Annual Allowance, which can limit the amount you can pay in DC in future so you need to consider if that impacts you at all.

You've also the option of transferring your benefits to another pension arrangement that lets you take flexi access drawdown, and you can do this independently of the Retirement Income Builder. So you could just transfer your Investment Builder benefits and then start taking money out of that from a different pension scheme. Members need to be aware that the different fee structures apply to USS. So where you transfer into is quite a big decision, so it's not for everybody and you may lose out on certain things like at the moment we've got a fee cap, so members don't pay, in many cases, they don't pay an annual management charge on the DC pot in the Investment Builder. But once they've transferred, they'd invest the money with a new provider, and then again, they can choose where the invest and then when they come to take money out of that pot, they decide how much they want to take. And similar to UFPLS they can take 25% of the amount that they decided to take tax free. And then with the rest of the amount they can choose how and when they want to take it. So it could be regular amounts. It could be one big payment. Those payments are actually paid but you pay tax on those as well. Again, when you take those payments, you would trigger the Money Purchase Annual Allowance when the income's paid. And so again you would need to consider if that impacts you. You've also the option of transferring to an annuity provider. If you were to do that, you could take 25% of the pot tax free. Again, this is a similar theme when you're taking your Investment Builder Benefits and the remaining amount can be used to secure what we call an annuity from a company that provides annuities. It's just another name really for providing the member with a regular income, and you can set annuities up slightly, you got a bit more flexibility with how it's actually set up. So, for example, you could choose whether it increases or whether it's just a level payment right from when you take it. Or you could choose to include a spouse's pension or not include a spouse's pension. And there's many other options as well. Annuity rates do differ between providers, so if a member was thinking of taking an annuity, the piece of advice I'd give them would be to shop around and make sure you find the best provider, that gives you the best rate for you. And members might also choose to remain invested in the Investment Builder beyond retirement, so they might choose to take their Retirement Income Builder benefits, and then just leave the DC pot where it is, leave it invested. They've still got the option of accessing the Investment Builder pot as I've just mentioned. So with things like taking up a cash payment or drawdown or annuity, they can do that at a later date. But that is always an option for members if they don't think they want to take all the benefits in one go and leave some DC behind.

What can our members do to help them make the decisions that are right for them at the right times?

Well, I'd suggest three key takeaways. One, read the emails that we send you. We send out regular emails to our members. The information that's in there is there to guide and help members. It's not there to sell anything it's just their for member benefit so one read your emails. Two, if you register for My USS. When you register for My USS then you've got access to more decision-making options behind the login and it's the direction of travel for us for putting things like when we launch new modeller tools, we'll be able to prepopulate them behind My USS. I'd suggest that members have a look at the range of webinars that we offer and attend one or more of the webinars that attract them, that are relevant to them at that moment in time so on the website we've got more help there. There's a range of options. So, there's some that are designed for new members. There's one that's there for members that are thinking about taking retirement. There's one that focuses on pensions tax and things like the Annual Allowance and the Lifetime Allowance. And we put recordings of the webinars on our website as well. So, if you can't attend one in real time, there's always a recording that you can go back and watch. They're designed to be the launchpad for members to understand more about USS. And know what questions they need to ask if they do need to come back to us.

So if any of our members have any questions or would like to find out more about what Pete and I discussed in today's podcast, head over to our site at uss.co.uk/help-and-support and you will find a contact us section where we will get back to as soon as possible. The last thing to say is thank you for listening and we hope you found the podcast useful.