

# Supplement in Lieu of Pension Policy

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## 2. Background

2.1 The University's pension schemes are a critical element of the reward offering allowing the University to attract and retain the most talented employees from around the world.

2.2 Changes to pension taxation have meant that pension benefits earned in a single year or over a working lifetime that exceed the Annual Allowance or Lifetime Allowance, can lead to excess tax charges. These charges can make pension benefits a potentially unattractive means of attracting and retaining staff.

The USS has introduced various voluntary amendments to help affected members address the high tax charges on benefits, including an "Enhanced Opt Out" (EOO) and a "Voluntary Salary Cap" (VSC) (<https://www.uss.co.uk/members/members-home/tax-considerations>).

2.3 These amendments have given added flexibility for employees to remain in the USS in some form and to reduce potential tax charges. However, each involves a reduction in the level of pension accrual without any alternative form of reward.

2.4 To address this issue the University has introduced a supplement that is paid in place of pension contributions for those affected by the pension tax allowances.

## 3. Statement of Policy

3.1 Employees adversely affected by pension tax allowances may choose to opt out of future pension provision and apply for a cash supplement of up to 12%, subject to certain eligibility criteria.

## 4. Eligibility

4.1 To be eligible for the supplement in lieu of pension, an employee must:

- be an **employee** of the University, Cambridge Enterprise or JBS Executive Education;

- be able and willing to demonstrate that they will be **subject to tax charges** relating to either the Lifetime Allowance (LTA) or the Annual Allowance (AA) i.e. they have exceeded the AA or are expected to exceed the LTA and have benefit statements from their pension providers (including USS) and/or a protection application certificate or acknowledgement from HMRC;
- **confirm that they have taken the Enhanced Opt Out** (USS members only); OR **confirm that they have elected to use the Voluntary Salary Cap** and have either chosen to pay the 2.5% contribution on salary above the VSC to maintain death and ill health benefits or signed the appropriate declaration (USS members only); OR **sign a declaration on the application form confirming** that they understand opting out of active pension scheme membership will mean they no longer automatically benefit from death in service and active member ill health provisions (all schemes);
- confirm that they **have taken independent financial advice** in relation to this matter; and,
- **consent to a variation to their contract** of employment.

4.2 The University is committed to investing in pension provision for employees so that at retirement they are more financially secure. The University does not want to provide any encouragement to employees who may not be financially secure to opt out of pension scheme membership. Individuals likely to be affected by the pension tax limits are typically high earners with a high degree of financial security for retirement as a result of previous pension scheme membership.

## 5. Guidance

### 5.1 USS Arrangements

The USS has introduced various voluntary amendments to help affected members address the high tax charges on benefits, including an “Enhanced Opt Out” and a “Voluntary Salary Cap”. These can be used in conjunction with the supplement in lieu of pension.

#### 5.1.1 Enhanced Opt Out

Employees who choose to leave active membership of USS will no longer be automatically covered by death in service or ill health provisions.

USS has introduced an arrangement called Enhanced Opt Out. Should an employee elect for this option and then die in service or retire due to incapacity, EOO will provide benefits as if the individual had remained in USS active membership. This cover costs employees 2.5% of pensionable salary. The University also contributes 2.1% of pensionable salary for individuals who choose to take advantage of EOO. Please note these are the rates set by the USS as at 1 January 2017 and may be subject to change. For the latest rates please visit the USS website. Further details on EOO are included in mini-fact sheet 3, “Enhanced Opt Out”, available to download from the USS webpage on [pension scheme tax allowances](#).

The level of the cash supplement has been set in the expectation that most individuals who opt out of active membership of USS will take advantage of the cover provided by EOO. There is no adjustment to the pension cash supplement for those who do not opt for EOO.

Those who choose to opt out of active membership of USS should state in the appropriate section of the Supplement in lieu of pension form whether they wish to choose EOO. If they do, they should also complete the USS enhanced opt out form and enclose it with the completed application for the supplement in lieu of pension form.

#### 5.1.2 Voluntary Salary Cap

A Voluntary Salary Cap is also available to members of the USS to limit the value of their pensionable salary. Employees may use the cap to help manage their future benefit accrual within the Annual or Lifetime Allowance thresholds. The VSC must be no lower than the defined benefit salary threshold (£55,550 from April 2017).

Should an individual choose the VSC, the cash supplement will be available on pensionable salary above the VSC. Further details of VSC are included in mini-factsheet 4, "Voluntary Salary Cap", available to download from the USS webpage on [pension scheme tax allowances](#). Individuals will be able to maintain full death in service and incapacity benefits in return for contributions of 2.5% (or other amount as set by USS) of salary above the VSC.

Those who choose the VSC (are subject to AA or LTA tax charges) and wish to take the cash supplement above the VSC, should state on the supplement in lieu of pension application form whether they wish to maintain death in service and incapacity cover above the VSC and complete the relevant USS VSC form.

## **5.2 Independent financial advice**

Employees who decide to opt out of active membership of USS must seek independent advice as to whether to choose EOO. It is recommended that employees also take independent financial advice as to whether the additional cash allowance, subject to tax and National Insurance, outweighs the benefits of membership of USS, albeit subject to tax charges in respect of benefits above the LTA and AA permitted maxima. This is not a straightforward decision and in some instances, further accrual of pension benefits, albeit above the LTA and AA limits, could provide better value than the cash alternative. Please note the University of Cambridge Pension Office and the USS cannot provide advice in this regard.

## **5.3 Payment of the cash supplement**

Those who cease active membership of USS and can demonstrate that they meet the eligibility criteria may apply for gross monthly payments equating to 12% of their pensionable salary, as defined under the rules of the relevant pension arrangement, in accordance with the University's Pension Policy. These payments will replace the employer contributions relating to active membership of the pension arrangement.

If an individual re-joins the pension arrangement, payment of the cash supplement will cease. Should an individual elect for EOO, the required employer contributions of 2.1% (currently) will be paid to USS, in addition to the 12% paid to the employee. The individual will be responsible for any member contributions required under EOO (currently 2.5%).

## **5.4 Re-joining active membership of USS**

Eligible employees who have opted out of active membership of USS, but wish to re-join the scheme can do so by contacting the Pensions Office. Individuals are advised to obtain independent financial advice in relation to their own tax and retirement saving arrangements.

The arrangement will be reviewed periodically, and when there is a change in the taxation of pensions, employer contribution rates or other pension arrangements and maybe amended or withdrawn.

## **5.5 Members of the NHS Pension Scheme (NHSPS)**

Members of the NHSPS with pension saving above the LTA or AA maxima may elect for the pension cash supplement, if they meet the eligibility criteria above. It should be noted that:

- NHSPS does not have an alternative for death in service or ill health cover equivalent to EOO in USS; and,
- if, whilst employed by the University, an individual changes their mind, or their situation changes, they will not be able, under current rules, to re-join the NHSPS.

## **5.6 Members of the CPS**

Members of the CPS with pension saving above the LTA or AA maxima may elect for the pension cash supplement, if they meet the eligibility criteria above. It should be noted that:

- CPS does not at present have an alternative for death in service or ill health cover equivalent to EOO in USS; and, employees are strongly encouraged to obtain alternative life insurance cover.
- Eligible employees who have opted out of active membership of CPS, but wish to re-join the scheme may be eligible to do so by contacting the Pensions Office.

## 5.7 Members of the MRC Pension Scheme (MRCPS)

Members of the MRCPS with pension saving above the LTA or AA maxima may elect for the pension cash supplement, if they meet the eligibility criteria above. It should be noted that:

- MRCPS does not have an alternative for death in service or ill health cover equivalent to EOO in USS; and, employees are strongly encouraged to obtain alternative life insurance cover.
- if, whilst employed by the University, an individual changes their mind, or their situation changes, they will not be able, under current rules, to re-join the MRCPS.

## 6. Procedure

6.1 Employees who fulfil the eligibility criteria may apply in writing by completing the application form below to receive a supplement in place of further pensions benefits. The completed form, together with the specified enclosures, should be signed and sent to the Head of Pensions. The Head of Pensions will confirm that each applicant meets the criteria listed above, process the application to terminate their relevant pension scheme membership, and arrange for the supplement to be paid, with effect from the date specified on the form (or the earliest possible date if insufficient notice is given).

6.2 To opt out of the USS pension scheme or to take the enhanced opt out option (to retain death in service and ill health retirement benefits) please visit the USS website at <https://www.uss.co.uk/members/members-home/resources/forms>. Alternatively the form can be obtained by sending a request to USS by email or post. Once completed it should be sent to the University Pensions Section. An employee can re-join USS at any time while they remain in employment which gives eligibility for membership of USS. Except where an employee has opted out of pension provision for tax reasons employees who opt out or stop making payments will be automatically enrolled back into a pension scheme at a later date (usually every three years). This is because the employee's circumstances may have changed and it may be the right time for them to start saving. The Pensions Office will contact employees when this happens, and employees will have the option to opt out if it's still not right for them.

6.3 To apply for a Voluntary Salary Cap (<https://www.uss.co.uk/members/members-home/tax-considerations>), please download mini-fact sheet 4 "Voluntary Salary Cap" from the USS webpage on pension scheme tax allowances. A form can be obtained from the University Pensions Office by e-mailing [pensionsonline@admin.cam.ac.uk](mailto:pensionsonline@admin.cam.ac.uk).

6.4 To opt out of the CPS the opt out form should be downloaded from the Pensions Office website at <http://www.pensions.admin.cam.ac.uk/cps/just-joined/which-forms-should-i-complete> and once completed this should be sent to the University Pensions Office. Alternatively a form can be obtained by sending a request to the University Pensions Office by e-mail at [pensionsonline@admin.cam.ac.uk](mailto:pensionsonline@admin.cam.ac.uk) or post.

6.5 To opt out of the NHS Pension Scheme the opt out form should be downloaded from the NHS website at <https://www.nhsbsa.nhs.uk/member-hub/leaving-or-taking-break-scheme> and once completed this should be sent to the University Pensions Office.

6.6 To opt out of the MRC Pension Scheme the opt out form should be downloaded from the MRCPS website at [www.mrcps.co.uk](http://www.mrcps.co.uk) using scheme identification code **672785**. Once completed this should be sent to the University Pensions Office.

## 7. Documentation

- [Supplement in lieu of pension application form](#)

- Opt out and enhanced opt out forms are available on the USS website <https://www.uss.co.uk/members/members-home/resources/forms>
- Voluntary salary cap form (A form can be obtained from the University Pensions Office by e-mailing [pensionsonline@admin.cam.ac.uk](mailto:pensionsonline@admin.cam.ac.uk))

## 8. Additional Sources of Information

For further information about this policy, please contact the Head of Pensions, Mrs Sue Curryer, [Sue.Curryer@admin.cam.ac.uk](mailto:Sue.Curryer@admin.cam.ac.uk).

Further information is available at the links below:

- [USS pension tax information](#)
- [HMRC: overview](#)
- [HMRC AA](#)
- [HMRC LTA](#)
- [Unbiased.co.uk](#) – search website for independent financial advisers.

## 9. Supplement in lieu of pension FAQ's

### Eligibility

#### **Who will decide if I am eligible for a pension cash supplement?**

A supplement in lieu of pension will be paid to any employee who meets the eligibility criteria set out in the policy. The Head of Pensions will determine whether individual applicants meet those criteria.

#### **Where do I find out more information about the level of my USS pension?**

Please visit the [USS benefit modeller](#).

Each year USS will contact members who have exceeded the Annual Allowance in a given tax year by 6 October in the following tax year.

Members with USS money purchase AVCs may log into the USS member portal My USS to get their AVC fund value [www.uss.co.uk](http://www.uss.co.uk).

#### **How will I know if I am going to exceed the Annual Allowance or the Lifetime Allowance?**

You can see information provided by USS on your pension by logging on to the [USS benefits modeller](#), including Annual Allowance and Lifetime Allowance information.

### The application process

#### **Do I need the approval of my Head of Department or Institution to apply for a supplement in lieu of pension?**

You do not need departmental approval. If you meet the eligibility criteria set out in the Policy, you can apply using the application form.

#### **When should I apply?**

You can apply at any time; this is not restricted to tax or scheme years. However you should take time in making any decision about your pension options and take the appropriate financial advice. You need to give at least one month's notice when applying for the pension cash supplement to allow time for the Pensions Office to check your eligibility and for the adjustment to

salary to be processed. USS needs at least 28 days' notice of your intention to opt out, or to take the Enhance Opt Out.

## **The supplement**

### **How has the level of the pension cash supplement been set?**

The level of the cash alternative for members of USS (12%) was set in line with the pension contribution that the University would otherwise make in respect of future pension provision for a typical senior employee. It does not include any contributions that the University would make towards the deficit in USS. It was set at a level so that those opting out would not gain any advantage when compared with others who remain members of a pension scheme. The level of cash alternative also recognises that the University contribution rate to the USS Investment Builder section is 12%.

Should you be a member of another pension scheme, please contact the Pensions section for further information about how this scheme will apply to you. The level of the supplement is non-negotiable and in the case of USS, has been set in the expectation that most individuals who opt out will take advantage of Enhanced Opt Out (EOO). There is no adjustment for those who do not opt for EOO.

Please note that the University may at any time withdraw or amend the supplement. The arrangement is subject to periodic review and will be re-assessed when there is a change in the taxation of pensions, a change to the pension benefits or employer contribution rates.

### **I work part time, how will this affect the pension cash supplement?**

The supplement will be based on your part time salary.

### **Does the cash supplement increase?**

The cash supplement will remain static at 12% of relevant pensionable salary for members of USS or such level as the University decides for members of other pension arrangements. The value of the supplement will increase in line with increases in your pensionable salary.

### **How will this pension cash supplement be disclosed in the University's financial statements?**

The University's annual financial statements report the salaries of individuals earning £100,000 and above in £10,000 bands. If a cash supplement is paid then this amount would be included in salary, with a note describing the adjustment.

## **Other**

### **What should I consider before I opt out of pension saving?**

There are consequences if you choose the cash supplement. Some of the consequences are set out below:

- Your pension at retirement (and any pension payable to your spouse or dependants on death) will be lower;
- The pension cash allowance will be subject to income tax and NI deductions ;
- For USS members only
  - without Enhanced Opt Out, death in service cover of three times annual salary is foregone;
  - without Enhanced Opt Out, there is a loss of ill-health benefits;
  - without Enhanced Opt out, you are not entitled to the USS late retirement uplift if you draw your pension after normal pension age;
  - the ability to draw part of your pension if you take flexible retirement option is lost.

- If you choose Enhanced Opt Out it must remain in place for a minimum of 12 months after which you can cancel.

**If I opt to receive a pension cash supplement, can I change my mind and re-join the pension scheme?**

If you opt out you may be able to re-join USS or the CPS. If you opt out of NHS Pension Scheme or the MRC Pension Scheme you will not be able to re-join.

Further information regarding elections for Voluntary Salary Cap (VSC) is available on the [USS website](#).

Further details on opting out of other pension schemes is provided in the Policy.

**I have opted out of pension provision and am over age 55 and I am continuing to work at the University. Can I draw my pension?**

Under the rules of USS and the CPS you must leave employment to start to receive your pension. If you were a member of the NHSPS or MRCPS you may be able to receive your pension whilst remaining in employment.