RETIREMENT PLANNING FOR UNIVERSITY PROFESSIONALS

The University (USS) pension is still regarded as one of the best workplace pension schemes, but it can be complex and has been subject to substantial changes recently. Unfortunately, this means USS professionals are often caught out by surprise tax charges and in some cases unnecessarily stop contributing into the scheme.

In this guide we look at the issues you need to be aware of when it comes to your pension, how you can avoid paying unnecessary tax charges and how to give yourself the best chance of achieving your retirement goals.

About Tilney

We are an award-winning financial planning and investment company that builds on a heritage of more than 180 years. We look after more than £24 billion on behalf of our clients and offer investment management, investment advisory and financial planning services.

At Tilney, your personal wealth is our personal responsibility.

TILNEY

Have you exceeded your annual allowance?

The annual allowance is the maximum amount that your pension benefits can grow each year before you pay a tax charge. Currently the allowance is the same as your annual earnings, usually up to a maximum of £40,000. It may reduce for certain people with more than £200,000 of annual income, the annual allowance tapers down to a minimum of £4,000.

It can be difficult for USS professionals to calculate their annual income accurately. This is because the calculation doesn't just include your university salary but also other revenue such as rental income, savings interest and income from dividends and other investments. Incorrectly calculating your annual income could cost you thousands of pounds in tax and potential interest.

Breaching the annual allowance

University professionals often exceed the annual allowance without realising or being aware of the potential consequences. This causes them to build up an unexpected future tax charge.

The USS Pension Trustees will write to you if the amount of your USS pensionable earnings suggest that you may have breached the standard £40,000 annual allowance. However, they will not take into account your other earnings – so there is no guarantee that you will receive a warning if you have other sources of income. It's your responsibility to calculate the growth of your pension and declare any tax liabilities to HMRC in your Self Assessment tax return.

Common reasons for breaching the allowance

You may not consider yourself to be a high earner, however due to HMRC rules you could still be at risk of breaching your annual allowance if:

- You have a company that provides you with income
- You receive a pay rise
- You make contributions into a personal pension
- You make additional contributions into the USS Investment Builder
- The capital value of your pension increases due to a change in Consumer Prices Index (CPI) inflation

If you are concerned about exceeding the annual allowance and think you may need to pay a tax charge in the future, you should speak to one of our specialist financial planners.

Managing the lifetime allowance tax charge

The lifetime allowance is the amount of benefits you can build up across all of your pensions without paying a tax charge. It is currently £1.0731 million. Calculating your lifetime allowance, and whether you are likely to exceed it, can be extremely confusing. This is especially true for people with a combination of defined benefit (also known as final salary) and defined contribution (also known as money purchase) pensions, and those looking to calculate the historical values of their pensions.

If you have breached your lifetime allowance, or are worried about doing so in the future, simply opting out of the USS pension scheme may not be your best course of action. Employer contributions will increase the value of your pension without any extra cost to you and although you may be subject to a lifetime allowance tax charge, a taxed benefit is better than no benefit at all. However, in many cases contributions come from both you and your employer and the most beneficial amount for you to contribute will depend on the percentage split between the two.

This can be a particularly complex area but our experts can help calculate the combined value of your pensions and ensure you make an informed decision.

Options for protecting your pension

A lifetime allowance tax charge will sometimes be unavoidable, but there are some strategies you can adopt that will help to manage it. For instance, you may be able to protect your lifetime allowance up to a maximum of £1.25 million using Individual Protection 2016.

Before protecting your allowance, you should take advice from a financial planner. We can help you to find out which option is best for you and if necessary guide you through the process of applying for protection.

Why should you take professional advice?

Although it may be tempting to do it yourself when it comes to retirement planning, with such complex and frequently changing pension rules, professional advice is essential. A good financial planner will help you plan for the future – forecasting your future finances while taking into account any potential tax charges and structuring your wider finances tax-efficiently.

You should review your finances annually, as a lot can change in 12 months. A specialist financial planner with knowledge of the USS pension schemes can tell you if you have exceeded the pension annual or lifetime allowances, and just as importantly, if you will in the future. They will calculate any tax charges you may need to pay and show you how this will affect the amount of money you will have in retirement. By planning ahead you can prevent any nasty surprises when it comes to taking your pension further down the line.

Using other tax allowances

Aside from pensions, your financial planner can help you to take advantage of a number of other tax allowances, including those for ISA contributions, dividend income, capital gains and many more. They can also introduce you to various other options for building a tax-efficient retirement income.

If you are married or in a civil partnership, your financial planner will also look at both partners' tax allowances to ensure that your finances as a couple are structured as tax-efficiently as possible.

Are your retirement plans on track?

A financial planner can tell you if your retirement plans are on track. They will talk to you about what you want your retirement to look like, and then calculate how much money you may need and whether you are set to achieve this by the time you retire.

If there is a potential shortfall, you can discuss the alternative options. These could include postponing retirement a few years, making additional contributions into ISAs or other savings accounts, or setting up an investment strategy to get your money working harder for you.

Your wider finances

While pensions are usually the main focus, a financial planner can also look at other areas of your finances to ensure you are making the most of your money. These could include:

- Estate planning and managing a future Inheritance Tax bill
- Saving and paying for a child's education
- Making provisions for long-term care in later life
- Ensuring you and your family have a suitable level of financial protection in place

Case studies

Case study 1*
When can I retire?

Marie worked at University of West of Scotland and approached Tilney when she was 58 years old. Her husband, Mike, is seven years older than her and had already retired.

She was extremely concerned that if she worked on to the State pension age, Mike would not be able to enjoy an active retirement with her. Marie was 'being ground down' by a significant daily commute to work. Her attitude towards work was changing with age and a recent health scare had made her keen to retire.

However, Marie was worried about the effect on her pension of retiring early. She knew the pension would be actuarially reduced which would mean a significant reduction in her benefits, and was also aware that the State pension age was now 67 for her. This seemed an awfully long way off. Additionally, her defined benefit pension scheme had recently changed and it was not going to give her as much income as previously expected.

By working with David Vallance, a USS specialist financial planner from our Glasgow office, Marie has managed to find a way to semi-retire. By understanding exactly what she had in her pension and how much she needed to live off both now and in the future, Marie and David built a financial plan that allowed her to retire early from full-time employment.

'We see these kinds of challenges all the time from our clients, especially women, who previously could have expected to draw on their State pension from age 60' says David. 'It is important to interlink their pension with their personal tax position and their overall financial situation, as this way they can easily see the pros and cons when making decisions around their pensions.'

In Marie's case, David worked with her on the construction of her own individual financial plan. This quantified what she might have at her disposal at different retirement ages, which allowed her to plan for how and when she was going to leave her position at the university. This support made her pension planning far simpler in what could have been a very confusing situation.

By planning ahead, Marie has been able to semi-retire early which has been 'priceless'. She now runs her own lifestyle business in Dumfries and is 'stress-free'. Marie is fully taking advantage of her career change, which would not have been possible without careful financial planning.

Case study 2*
How can I save tax?

Barbara is a senior researcher who has worked at The University of Edinburgh for almost 30 years and has been a client of Tilney for nearly 12 months.

Previously, she worked for The University of Leicester for a few years and then lived overseas, before deciding to settle in Scotland following the birth of her children. She initially worked part-time in order to balance her home life with her career and also took some time off following the birth of her third child.

During her time at The University of Edinburgh, Barbara has made contributions to the USS pension, but a few years ago, she became conscious of the fact that she might not be making the most of her pension, especially as there were times when she was not working or working part-time and did not make the maximum pension contributions. She had an idea that tax could be saved, but did not understand the extent or how this would work in practical terms. Additionally, she felt unsure what effect any additional contribution would have on her overall benefits in retirement.

Concerned about her prospects, Barbara contacted a financial adviser. The adviser summarised her current financial position and what would happen if she retired within the next couple of years, but didn't come up with any proposals for improving her situation.

Keen for a better solution, Barbara attended a retirement event at the university, which was hosted by Tilney. She was extremely impressed with how well and clearly the information was presented. Immediately following the event, she had a chat with David A. Smith, an award-winning Chartered Financial Planner from our Glasgow office and then decided to go ahead with an initial consultation. As a member of the Tilney university specialist team, David has built up a wealth of knowledge and experience in dealing with universities and their related pension schemes.

Barbara received a full report, which calculated what her carry forward position was for the annual allowance (i.e. if she had any scope to carry forward any unused annual allowance going back three full tax years). In turn, this led to a forward projection of benefits to ensure that she was not going to exceed the annual allowance or the lifetime allowance at retirement.

David then showed how she could increase her additional contributions, which was effectively a 'headroom check'. This saved her a substantial amount of Income Tax and, critically, it meant that she could have the opportunity to increase her cash lump sum on retirement and effectively withdraw additional contributions tax-free.

Finally, David completed the advice and guidance by showing how to practically put all this in place and agreed a suitable review schedule. The additional pension reserve may allow her to retire earlier than planned.

Case study 3*
Should I stay in the pension scheme?

Tony is a Professor at the University of Edinburgh, where he has worked since 2002. He has taken time off for periods of specialist training and overseas placements, but returned to the university over five years ago. He is married with two children and became a client of Tilney's around six months ago.

Tony is 46 and is not considering retiring in the near future, but around 18 months ago he became aware that he needed to give his pension some attention. He is a member of the USS pension scheme. As a higher rate earner, he was concerned that if he stayed in the pension scheme, it would lose its tax-efficiency due to the size of the annual allowance and lifetime allowance charges. On the recommendation of another Tilney client (his sister), Tony contacted David A. Smith for guidance.

We went back to Tony with our calculations which showed that he did not have an annual allowance issue to deal with historically. Going forward towards retirement, there was a small amount of annual allowance charge to pay each year. Additionally we confirmed that if he retired early, there would be no lifetime allowance charge, but if he retired at the normal pension age, there would be.

Our calculations contrasted the benefits of staying in the scheme and accruing benefits against coming out and avoiding potential tax charges.

We showed Tony that even given the potential tax charges incurred by staying in the scheme, this was still financially more beneficial than ceasing being a member. Tony now has the peace of mind that he is doing the right thing by staying in it.

Speak to an expert

At Tilney we have specialist financial planners who help university professionals with the unique challenges they face when it comes to their pensions and retirement planning.

To find out how we can help you, please contact us on **020 7189 2400** or email **universities@tilney.co.uk**

Important information

The value of investments, and the income derived from them, can go down as well as up and you can get back less than you originally invested. This guide is not a personal recommendation and should not be seen as advice to take, or refrain from, any course of action. Prevailing tax rates and reliefs are dependent on your individual circumstances and are subject to change. Please note we do not provide tax advice.

*This is a real Tilney client case study. Names have been changed for anonymity and the client has given consent for the case study to be used.

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