

## Example of flexible retirement

### Scenario

Employee is a member of USS. The calculation method outlined applies equally to members of OSPS.

Employee elects, and department agrees, to:

- step down to 80% working at age 59 for two years,
- then to step down to 50% from age 61 for one year,
- retiring fully at age 62.

Employee's FTE salary is £40,000 pa.

- For ease of calculation inflation, and hence any general pay award, is ignored.

Employee has 30 years pensionable service with USS to the first flex

- 25 years prior to 1<sup>st</sup> October 2011; 5 years after 30<sup>th</sup> September 2011
- No AVCs, and
- No transfer-in

Employee elects to take:

- 50% benefits at first step
- An additional 30% benefits at second step

**Results:** (detailed calculations overleaf)

Age	58	59	60	61	62
Salary £pa	40,000.00	32,000.00	32,000.00	20,000.00	Nil
Pension £pa	0.00	6,900.00	6,900.00	11,470.71	15,106.48
Total income	40,000.00	38,900.00	38,900.00	31,470.71	15,106.48
Tax free cash	0.00	20,700.00	0.00	13,712.13	10,907.31

Total income over 25 years from age 59:

- On the above flexible example:  
total income = £444,613.27  
Total tax free cash = £45,319.44
- If retired fully at age 59:  
total income = £345,000.00  
Total tax free cash = £41,400.00
- If no flex, retired fully at 62:  
total income = £471,296.00  
Total tax free cash = £47,904.00

## Detailed Calculations

- Flexible Retirement Benefits payable from age 59 are:
  - Pre-2011 accrued pension at age 59 =  $£40,000 \times 25 / 80 = £12,500$  pa  
Post-2011 accrued pension at age 59 =  $£40,000 \times 5 / 80 = £2,500$  pa
  - First step selected % = 50%
  - Pre-2011 EPRF at age 59 = 0.952  
Post-2011 EPRF at age 59 = 0.76
  - Pension payable =  $£12,500 \times 50\% \times 0.952 + £2,500 \times 50\% \times 0.76 =$   
£6,900 pa  
Retirement tax free cash =  $£6,900 \times 3 =$  £20,700.
  - Salary paid =  $£40,000 \times 80\% = £32,000$  pa
  - Salary + pension =  $£38,900$  pa (97.3% of FTE salary)
- Flexible Retirement Benefits payable from age 61 are:
  - Salary reduces to  $£20,000$  pa
  - Pension in payment =  $£6,900$  pa
  - Second step selected % = 30% (i.e. 80% - 50%)
  - Pre-2011 EPRF at age 61 = 1.000  
Post-2011 EPRF at age 61 = 0.829
  - Addition from Pre-2011 accrued pension is:  
 $£12,500 \times 30\% \times 1.000 = £3,750$  pa.
  - Addition from Post-2011 accrued pension is:  
 $£2,500 \times 30\% \times 0.829 = £621.75$  pa.
  - Addition from service from age 59 to age 61 at 80% is:  
 $£40,000 \times 80\% \times 2 \text{ years} / 80 \times 30\% \times 0.829 = £198.96$  pa
  - Total additional pension =  $£3,750 + £621.75 + £198.96 = £4,570.71$  pa  
Total pension payable from 61 =  $£6,900 + £4,570.71 =$  £11,470.71 pa  
Total additional cash payable =  $£4,570.71 \times 3 =$  £13,712.13
  - Salary + pension =  $£31,470.71$  pa (78.7% of FTE salary)
- Full Retirement Benefits payable from age 62 are:
  - Salary reduces to  $£nil$  pa
  - Pension in payment =  $£11,470.71$  pa
  - Unflexed share:  
to age 59 – 20%  
to age 61 – 70%  
to age 62 – 100%
  - Pre-2011 EPRF at age 62 = 1.000  
Post-2011 EPRF at age 62 = 0.867
  - Addition from Pre-2011 accrued pension is:  
 $£12,500 \times 20\% \times 1.000 = £2,500$  pa.

- Addition from Post-2011 accrued pension is:  
 $\text{£}2,500 \times 20\% \times 0.867 = \text{£}433.50 \text{ pa.}$
- Addition from service from age 59 to age 61 is:  
 $\text{£}40,000 \times 80\% \times 2 \text{ years} / 80 \times 70\% \times 0.867 = \text{£}485.52 \text{ pa.}$
- Addition from service from age 61 to age 62 at 50% is:  
 $\text{£}40,000 \times 50\% \times 1 \text{ year} / 80 \times 0.867 = \text{£}216.75 \text{ pa}$
- Total additional pension =  $\text{£}2,500 + \text{£}433.50 + \text{£}485.52 + \text{£}216.75 = \text{£}3,635.77 \text{ pa}$   
 Total pension from 62 =  $\text{£}11,470.71 + \text{£}3,635.77 = \underline{\text{£}15,106.48 \text{ pa}}$   
 Total additional cash payable =  $\text{£}3,635.77 \times 3 = \underline{\text{£}10,907.31}$
- Salary + pension =  $\text{£}15,106.48 \text{ pa}$  (37.77% of FTE salary)