Cadent | Gas Pension Scheme.

What can you do today, to make a brighter tomorrow?

A guide to AVCs.

As a member of the Cadent Gas Pension Scheme you can increase your income in retirement by paying Additional Voluntary Contributions (AVCs). This guide aims to help you understand the options available to you and how they can help you to achieve your retirement goals.

As an active member of the Cadent Gas Pension Scheme, you are building up a generous level of benefits. You have the option to increase your benefits by paying AVCs.

How do they work?

Essentially you are making a choice to put more in to get more out! The important points you should be aware of before going any further are:

- AVCs are paid in addition to your normal pension contributions but are deducted in the same way.
- AVCs are a flexible way of increasing your existing pension benefits.
- AVC benefits cannot be taken until you retire, so they should be seen as a long-term investment.
- AVCs are tax-free, provided you do not exceed the Annual Allowance (see page 15) in any tax year.

What's inside?

This guide aims to help you understand the AVC choices available to you and has been broken down into four sections:

Please remember that neither the Trustee nor UK Pensions Operations are authorised to give you financial advice. The information and examples included in this note are illustrative only and should not be relied on when making a decision. If you are unsure whether paying AVCs is right for you, on what basis, or which investment option to choose, please speak to an Independent Financial Advice (IFA). To find an IFA local to you visit **www.moneyadviceservice.org.uk**

Section 1:

Why AVCs?

AVCs can be a very flexible and tax-efficient way to help you achieve your retirement goals. However, it is important to determine what your reasons are for exploring AVCs as this could affect the decision you make.

Regardless of how near or far away retirement is for you, it's important to think about what your retirement goals are:

- What sorts of things might you like to do in retirement?
- How much is your retirement lifestyle likely to cost (including day-to-day living costs)?
- How are you going to fund it all?

Asking yourself the following questions might help:

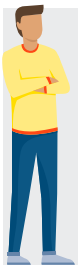
- At what age do you plan to retire or take your pension benefits?
- How many years do you have between now and then?
- Will you have any other savings or investments?
- How much can you afford to save towards your retirement now?

Once you have an understanding of your own situation and goals, you can start to consider your AVC choices.

What are ‘people like me’ thinking?

To help you further in the choices you might want to make, below are some typical Scheme members’ reasons for considering AVCs.

We will refer back to these members throughout this guide to help explain the choices available. These examples are not intended to provide you with specific advice but we hope they will act as a useful reference.



AVC BOOST

David, 40

David doesn’t think his current plans are going to provide him with enough for the kind of lifestyle he wants in retirement. So David is looking at paying AVCs as a way of boosting his retirement benefits.

AVC TIME

Barbara, 55

Barbara joined the Scheme later on in her career. As a result, Barbara has not had enough time to build up the level of benefits she needs and is looking to make up for lost time by paying AVCs.

LUMP SUM AVC

John, 60

John has set himself a goal of a trip to New Zealand to visit his grandchildren when he retires. He is planning on taking a tax-free cash sum at retirement to do this but is worried about the impact this would have on his annual pension. Paying AVCs would help John build up a sufficient amount to provide this cash without having to sacrifice any of his annual pension.

AVC EARLY

Linda, 40

Linda wants to retire at age 55. This is earlier than the Scheme’s Normal Pension Age of 60 and Linda’s pension would be reduced to reflect the fact it is likely to be paid for longer. Paying AVCs can help Linda to build up additional benefits before she retires.

AVC INVEST

Eric, 45

Eric has been looking for ways of saving some disposable income in a tax-efficient way. AVCs give Eric an alternative to more typical savings vehicles such as ISAs. However, it’s important for Eric to remember that he may not be able to withdraw his money early like other saving or investment options. He should also be mindful of the tax allowance limits for pension savings.

Section 2:

Understand your options

There are two options available:

Option 1

The Added Years approach

AVC BOOST

AVC TIME

AVC EARLY

You buy extra service, which is added to your Scheme service and counts towards your final pension calculation. See pages 8 and 9 for more detail on this approach.

Advantages

- Your AVC benefits are not dependent on the performance of an investment fund or the cost of pensions at the time you retire.
- You can work out how much extra pension at retirement your Added Years will buy.
- Your Added Years pension increases each year in line with your Scheme pension.
- Your dependants are potentially entitled to valuable additional benefits should you become ill or die.

For members wanting a greater level of certainty about the level of their benefits, for example, like David, Barbara and Linda (see page 5), they may want to consider if the Added Years approach is more appropriate for them.

Section 2: Understand your options (continued)

Option 2

The Money Purchase approach

LUMP SUM AVC

AVC INVEST

You invest your contribution in a choice of funds. When you come to retire, it is used to buy additional benefits. See pages 10 and 11 for more information about how it works.

Advantages

- You can choose how your AVCs are invested, with a choice of funds.
- The amount of AVCs you can pay is more flexible than Added Years AVCs.
- Subject to statutory allowances, you can use your AVC account to fund part or all of your tax-free cash sum at retirement, thereby protecting your Scheme pension.
- If you are not taking a cash sum at retirement, you can use your Money Purchase AVCs to buy an additional pension in the Scheme, or transfer them to another provider to access other options such as income drawdown, an enhanced annuity or a flexible retirement income.

For members wanting greater control, choice and flexibility over their benefits, for example, like Eric and John (see page 5), they may want to consider if the Money Purchase approach is more appropriate for them.

You can contribute to both options, subject to the 15% Scheme limit. The 2% increase to members' pension contributions that came in from 6 April 2016 is treated separately from the rest of your pension contributions and sits outside of the 15% Scheme limit. Please speak to UK Pensions Operations for more information.

Option 1:

The Added Years approach

If you have decided that the Added Years approach is better suited to your circumstances, the next step is to work out how many Added Years you wish to buy.

To do this, you first need to be aware of the two key factors that will affect how much pension you are entitled to receive from the Scheme:

1. Pensionable Salary

This relates to either your Pensionable Salary or Capped Pensionable Salary at retirement.

2. Pensionable Service

This is the number of qualifying years and days you will have been a member of the Scheme at retirement. You can increase your Pensionable Service by paying AVCs.

The Added Years approach to paying AVCs means the additional contributions you pay buy extra Pensionable Service. Each Added Year built up increases your pension by 1/60th of your Pensionable Salary or Capped Pensionable Salary, depending on the start date of your contributions.

How does it work?

Step 1

Work out the cost to you

The cost of Added Years AVCs will depend on your age (and therefore the time to your retirement date) and your pensionable pay. UK Pensions Operations will be able to tell you how much your benefits would increase by, and the likely cost.

Step 2

Decide how many Added Years you want to buy

Based on the information provided by UK Pensions Operations, you decide how many Added Years of Pensionable Service you want to buy.

Step 3

Decide how you want to contribute

You can make a one-off payment or monthly contributions, which will be deducted in the same way as your normal pension contributions. You will start building up the extra Pensionable Service the day you make your first AVC payment.

Step 4

When you retire

When you reach retirement, or leave service, the Added Years you have purchased will be included in your main pension. For those taken out before 1 April 2014, the extra pension will be based on Pensionable Salary and for Added Years taken out on or after 1 April 2014, the extra pension will be based on Capped Pensionable Salary.

Option 1: The Added Years approach (continued)

PLEASE NOTE:
There is a 15% limit on all contributions to the Scheme, although the 2% increase to members' contributions that came in from 6 April 2016 sits outside of that limit. The amount of AVCs (including Added Years) you can pay is therefore limited to 12% of your Capped Salary plus 15% of any other taxable pay.

Please speak to UK Pensions Operations for more information.

AVC EARLY EXAMPLE

Linda wants to retire early at age 55 so any Added Years she has purchased will be added to her main pension.

AVC TIME EXAMPLE

Barbara, who has five years left to retirement, considers the Added Years approach to be more suited to her circumstances.

Added Years: What happens if...

I have to retire due to ill health?

After paying in for five years, the extra Pensionable Service you have been paying for will be awarded in full.

I die?

You can choose a spouse's pension that will provide retirement benefits to your partner on your death, or you can opt for a pension that only provides for your retirement.

I leave the Company or retire early?

If you leave before age 60, extra pension from Added Years AVCs will be calculated based on your pensionable pay at the time you leave and will be reduced because you are ending contributions early. If you retire before 60, your additional pension will be further reduced for early payment.

I want to reduce the level of AVCs I pay, or stop altogether?

Paying AVCs is your decision and you can reduce the level of AVCs or stop paying them altogether at any time. If you reduce your AVCs you will be reducing the number of Added Years and days you will build up. The less you pay the less you get.

Option 2:

The Money Purchase approach

If you have decided that the Money Purchase approach is better suited to your circumstances, the next step is to consider your investment strategy and the fund(s) you wish to invest in.

The Money Purchase approach has the advantage of giving you greater control but with it comes greater responsibility for the choices you make, so there are more steps for you to consider.

How does it work?

Step 1

Think about your retirement goals

Before making your decision it's important to think about your retirement goals, the time you have left until retirement and your attitude to risk.

Step 2

Understand the risks

Investment risk
The possibility that the value of your investments could go down.

Inflation risk
The possibility that while the value of your investments may increase, it could fail to keep pace with inflation.

Pension conversion risk
If you are considering taking your AVCs as a pension and if long-term interest rates are falling and the price of bonds is increasing, the amount of pension you could buy with your fund may be lower than expected.

Option 2: The Money Purchase approach (continued)

There are two Lifestyle options. Both track the FTSE All-World Index initially, then over the five years prior to your chosen retirement age, units are gradually switched to track one of two funds. The aim of switching funds gradually is to protect the value of your investment from a sudden drop before you retire. Which of these Lifestyle options you choose will depend on how you intend to take your AVCs when you retire.

Step 3

Understand your investment options

The table on page 12 provides an overview of the funds available, their associated risk and what each fund aims to achieve. These are 'notional funds' which means your contributions will be converted into units; the aim is that the value of your units will follow (or 'track') the ups and downs of a specific financial index.

You have the option of investing in one of two lifestyle options, which use different combinations of investment funds to achieve different retirement outcomes, or you can choose to invest in the Deposit Fund.

The two Lifestyle options both track the FTSE All-World Index initially, then over the five years prior to your chosen retirement age units are gradually switched to track one of two funds. The aim of switching funds gradually is to protect the value of your investment from a sudden drop before you retire. Which of these Lifestyle options you choose will depend on how you intend to take your AVCs when you retire.

The Cash Targeted Lifestyle Fund tracks the movements in the FTSE All-World Index initially and gradually switches to track the Bank of England Base Rate five years from retirement. It is aimed at people who wish to take their AVCs as tax-free cash from the Scheme.

The Annuity Targeted Lifestyle Fund invests in the Global Equity Fund and gradually switches to the Index-Linked Gilt Fund five years from retirement to protect the value of your investment from a sudden drop in value before you retire. It is aimed at people who wish to take their AVCs as Scheme pension.

Step 4

Choose your investment option

Once you have considered your retirement goals, the risks involved, and learned about the different lifestyle options and funds available, you need to choose your AVC investment fund.

AVC INVEST EXAMPLE

Eric has 20 years until he retires, so he would like to protect his AVC funds against the risk of inflation with an investment strategy that aims to achieve a higher level of growth. He selects the Cash Targeted Lifestyle Fund, but makes a mental note to review it closer to retirement in case he wants to buy an annuity with his AVCs.

Money Purchase: Investment options and funds

Fund	How it works	Investment aim	Risk
Cash Targeted Lifestyle Fund	Contributions initially buy units in the Global Equity Fund (this fund tracks movements in the FTSE All-World Index) until five years before your chosen retirement age, when funds are gradually diverted into the Deposit Fund (this fund is linked to Bank of England base rate).	To achieve steady growth over the medium to long term before gradually switching to lower-risk funds to protect the fund you have built up as you come to convert it into tax-free cash. Suitable: Anytime	Some investment risk. This is managed by the switching process in the run up to your retirement. This option may not be appropriate if you intend to take AVCs as pension.
Annuity Targeted Lifestyle Fund	Contributions initially buy units in the Global Equity Fund (this fund tracks movements in the FTSE All-World Index) until five years before your chosen retirement age, when funds are gradually diverted into the Index-Linked Gilt Fund (this fund tracks movements in the FTSE Actuaries Index-linked Gilts, over five years Total Return Index).	To achieve steady growth over the medium to long term before gradually switching to lower-risk funds to protect the fund you have built up as you come to convert it into pension. Suitable: Anytime	Some investment risk. This is managed by the switching process in the run up to your retirement. This option may not be appropriate if you intend to take AVCs as cash.
Deposit Fund	Contributions are used to buy units where returns are linked to Bank of England base rate.	To protect the fund you have built up as you approach retirement. Suitable: For members nearing retirement	Inflation risk. Pension conversion risk (this is a low risk if you are planning to take the cash option).

AVC LUMP SUM EXAMPLE

As John only has five years until he retires and has a specific investment goal of using his AVCs for his tax–free cash lump sum, he may be more suited to the Cash Targeted Lifestyle or the Deposit Fund which still offers a steady level of growth but will protect the value of his investment.

Money Purchase: Things to consider...

Step 5

Decide how much you want to invest

Based on the information available you should then decide how much you want to invest. The number of units you can buy with each contribution will vary according to the unit price for that month. You can download the Money Purchase unit prices, and those for the last five years, from the website at: www.TBC

Step 6

Decide how to pay your contributions

You have the option to pay:

- A specified regular amount every month;
- A percentage of your taxable pay every month; or
- A lump sum.

Step 7

When you retire

Your Money Purchase AVCs are used towards your tax-free cash sum. If you prefer not to take cash, you can use the fund to buy a pension from the Scheme. The cost is calculated by the Scheme Actuary, taking into account interest rates and market conditions at the time you buy the pension. There are no administration or commission charges.

As an alternative when you retire, you can transfer out your Money Purchase AVCs to another pension provider. This would allow you to access a number of other options, including income drawdown, regular cash withdrawals or buying an annuity (a pension from an insurance company). Different options have different rates of payment, different charges and different tax implications.

The government's 'Pension Wise' service offers free, impartial guidance designed to help individuals understand their options. Go to **www.pensionwise.gov.uk** to learn more.

We would also strongly recommend talking to an Independent Financial Adviser (IFA) about your options. You should be aware that an IFA is likely to charge for any advice given and that any product you buy may be subject to commission and/or management fees.

There is a 15% limit on all contributions to the Scheme, although the 2% increase to members' contributions that came in from 6 April 2016 sits outside of that limit. The amount of AVCs (including Money Purchase) you can pay is therefore limited to 12% of your Capped Pensionable Salary plus 15% of any other taxable pay. Please speak to UK Pensions Operations for more information.

Money Purchase: What happens if...

I retire early?

Providing you haven't already converted your fund into a pension amount, at retirement the value of your fund will depend on the contributions you have paid and the investment performance of your chosen fund(s).

Your Money Purchase AVCs will first be used towards a tax-free cash sum, if this is what you choose at retirement. If you prefer to buy a pension, its value will depend on the cost of buying a pension at the time of purchase.

I leave the Company?

On leaving the Scheme you have the option to convert your Money Purchase AVCs into pension with the Scheme (which is payable with your Scheme pension on retirement).

The amount of pension purchased depends on your age and market rates at date of purchase.

If you do not choose to convert your fund on leaving, you have the option to do so at any time up to your retirement.

I die before retirement?

If you die in service, or die after leaving, without having chosen to convert your Money Purchase AVCs into a pension, your fund will normally be used to increase benefits in the following order:

- Lump sum benefit;
- Dependant's pension; and
- Child's pension.

Note that you are able to change this order of priority at the time that the AVC contract begins.

I want to reduce the level of AVCs I pay, or stop altogether?

Paying AVCs is your decision and you can reduce the level of AVCs or stop paying them altogether at any time. If you reduce your AVCs, you will be reducing the extra benefits you will receive. The less you pay the less you get.

I have to retire due to ill health?

Your accumulated AVCs will be used to buy benefits.

Section 3:

What else you need to know...

Are my AVCs subject to tax?

When paying AVCs, regardless of whether you choose the Added Years or Money Purchase approach, you can benefit from valuable tax advantages.

In the same way as your normal contributions receive full tax relief, your AVCs are deducted from your pay when assessed for tax. In addition, the investment returns that your AVCs earn under the Money Purchase approach are generally tax-free. However, there are rules set by HM Revenue & Customs about the amount of pension contributions you can pay without incurring a tax charge.

Therefore, the following allowances apply:

Annual Allowance (AA)

The AA is the threshold for the total amount of pension you can build up in each year from all your pension arrangements before having to pay tax.

The current AA for most people is £40,000.

If the value of your total pension benefits for tax purposes (including AVCs and any contributions to any other pension schemes) exceeds the Annual Allowance in any year, there will be a tax charge on the excess. Details about how much of your AA and Lifetime Allowance you have used up, based on your Scheme benefits (including any AVCs), will appear each year on your benefit statement.

Money Purchase Annual Allowance (MPAA)

If you have flexibly accessed your benefits from a Defined Contribution (DC) pension arrangement after 6 April 2015, the MPAA may apply as the maximum that you can contribute to DC arrangements – including to Money Purchase AVCs – before having to pay tax.

The current MPAA is £4,000.

If the MPAA applies to you, and your contributions to Money Purchase AVCs (and any other DC arrangement that you contribute to) exceed the MPAA, there will be a tax charge on the excess.

Lifetime Allowance (LTA)

The LTA is the threshold above which the value of pension benefits built up over your lifetime incurs an additional tax charge.

The LTA increased to £1,073,100 (from £1,055,000) with effect from 6 April 2020. If the value of your total pension benefits from all sources is higher than the LTA at retirement, you will pay an effective tax charge of 55% on the excess.

You should also bear in mind that your pension, once in payment, will be subject to tax under the PAYE system.

Section 4:

Make your choice

We hope this guide has helped you begin to decide whether AVCs are right for you. Now it's over to you to decide whether or not you would like to save extra towards your future.

Step 1

Read this guide
If, having read this guide, you still have questions, UK Pensions Operations are available to talk through the options with you.

Step 2

Get advice
Please remember that UK Pensions Operations are not authorised to give you financial advice, so if you are unsure whether paying AVCs is right for you, please speak to an Independent Financial Adviser (IFA). To find an IFA local to you visit **www.moneyadviceservice.org.uk**

Step 3

Complete the AVC application form
Once you have made your decision, you will need to complete and return the AVC application form which is available from **www.TBC** or from UK Pensions Operations (see contact details below).

Contact

Email: [TBC]

Post: UK Pensions Operations
PO Box 3604
Wokingham RG40 9JA

Tel: [0118 936 8996]
Internal: [780 8996]

[Scheme website TBC]

Nothing in this guide overrides the Scheme Rules or legislation which will apply in the event of any conflict.