# A guide to your AVCs

As a member of the Cadent Gas Pension Scheme, you may have paid Additional Voluntary Contributions (AVCs).

This guide explains what your options are.

# Welcome

**This guide explains the options for your AVCs and has been broken down into three sections:**

- **Section 1 – Added Years AVCs**
- **Section 2 – Money Purchase AVCs**
- **Section 3 - Taxation**

**Please remember that neither the Trustee nor Aptia 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 any decisions.**

The Trustee has appointed a specialist firm of independent financial advisers (an IFA) to help you get clear on your options. An IFA can provide bespoke advice based on your retirement figures and specific circumstances. The Trustee will generally pay for you to receive advice when you're within a year of your earliest Scheme retirement age (usually age 54). You can arrange this via My Retirement Planner.

Please consider carefully the timing of when you take advice, as the Trustees will only pay for this financial advice once. You can use your own IFA if you wish, but you will have to pay for this yourself. You could find one from MoneyHelper or unbiased.co.uk.

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

# Section 1: Added Years AVCs

**You bought extra service, which is added to your Scheme service and counts towards your final pension calculation. Please note:**

- Your AVC benefits are not dependent on the performance of an investment fund or the cost of pensions at the time you retire.
- 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.

## How do Added Years AVCs work

The Added Years approach to paying AVCs means the additional contributions you paid will 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.

For those Added Years AVCs 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.

### When you retire

When you reach the point when you wish to take benefits from the Scheme, the Added Years you have purchased will be included with your main pension.

If you take benefits from the Scheme before age 60, extra pension from Added Years AVCs will be reduced in the same way as your main pension is reduced, to reflect the fact that your pension is being paid from an earlier date, and therefore for a longer time.

# Section 2: Money Purchase AVCs

**You invest your contribution in a choice of funds. When you come to take your Scheme benefits, the AVCs are used to provide additional benefits. Please note:**

- You can choose how your AVCs are invested, with a choice of funds.
- 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 monthly Scheme pension payment.
- 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 annuity or a flexible retirement income.

## 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, the amount of pension you could buy with your fund may be lower than expected.

### Understand your investment options

The table on the next page provides an overview of the funds available, what each fund aims to achieve, and the associated risks. Your contributions have been converted into units, and the value of your units will track the ups and downs of a specific financial index.

### Choose your investment options

You have the option of investing your Money Purchase AVCs in one of two lifestyle options, which use different combinations of investment funds to achieve different retirement outcomes.

Which of these lifestyle options you choose will depend on how you intend to take your AVCs when you retire.

The lifestyle options switch funds gradually to protect the value of your investment from a sudden drop before you retire.

If you do not wish to choose a lifestyle option, you can invest in the Deposit Fund.

# Money Purchase AVCs:

## 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 the 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.<br>Suitable: Anytime | Some investment risk. This is managed by the switching process in the run-up to your retirement.<br>This option may not be appropriate if you intend to take AVCs as a 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.<br>Suitable: Anytime | Some investment risk. This is managed by the switching process in the run-up to your retirement.<br>This option may not be appropriate if you intend to take AVCs as a tax-free cash sum. |
| **Deposit Fund** | Contributions are used to buy units where returns are linked to the Bank of England base rate. | To protect the fund you have built up as you approach retirement.<br>Suitable: For members nearing retirement | Inflation risk.<br>Pension conversion risk (this is a lower risk if you are planning to take the tax-free cash sum option). |

## Switching your Money Purchase AVC funds

**You can change where your Money Purchase AVCs are invested at any time. To request an AVC Switch Form please contact Aptia:**

Aptia, Maclaren House, Talbot Street, Manchester, M32 0FP

**0345 528 0601**

**pensionuk.aptia-group.com**

### When you retire

Your Money Purchase AVCs are used towards your tax-free cash sum.

If you prefer not to take a tax-free cash sum, you can use the AVCs to give you a pension from the Scheme.

The pension amount is calculated by the Scheme Actuary, taking into account interest rates and market conditions at the time you choose to convert your AVCs to pension. There are no administration or commission charges.

### If you die before retirement

The fund from your Money Purchase AVCs will normally be used to increase benefits in the following order:

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

## Transferring your AVCs out

As an alternative, 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. You can find out more on the MoneyHelper website (**www.moneyhelper.org.uk**).

We would also strongly recommend talking to an Independent Financial Adviser (IFA) about your options.

If you want to take free advice from the Trustee-appointed independent financial advice firm, WPS Advisory, you can arrange this via My Retirement Planner.

The IFA will contact you to discuss your options and do a 'fact find'. This will include information about your income, spending, savings, debts, and retirement goals. They will provide a personal recommendation report for you.

If you then wish to proceed with the transfer, the IFA will manage the process and request a guaranteed transfer value from Aptia. After the IFA tells Aptia what you've decided to do, Aptia then sends out the forms to complete the process. It's important to complete the paperwork fully to avoid delaying the process.

If you prefer to choose your own IFA, please contact Aptia to find out more about the process and get the relevant forms. 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.

# Section 3: Taxation

**Your AVC benefits, whether Added Years or Money Purchase, form part of your overall Cadent Gas Scheme Pension benefits and the following taxation rules will apply.**

## At Retirement

Under the current tax regime, the tax-free cash (the 'Pension Commencement Lump Sum') at retirement is limited by an individual's lump sum allowance (ILSA). The standard full ILSA is £268,275.

You can usually take up to 25% of the amount built up in any pension as a tax-free lump sum. The most you can take in total from all Schemes is £268,275.

If you hold a protected allowance, this may increase the amount of tax-free lump sums you can take from your pensions.

A tax-free lump sum does not affect your Personal Allowance.

Consideration of the tax position for those with substantial pension savings continues to be complex. If you think you might be impacted, for advice please consult an independent financial adviser and for further information please contact the Scheme's administrator.

## In payment

After you've retired, you still have to pay Income Tax on any income over your Personal Allowance. This applies to all your pension income, including the State Pension.

National Insurance contributions are not payable on pension income.

## On Death

Many lump sums payable on death before age 75 can be paid tax free up to a limit called the Lump Sum and Death Benefits Allowance (LSDBA). The standard LSDBA is currently £1,073,100.

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