

Defined Contribution - Key Features

Defined Contribution (DC) Benefit Structure

This is a new benefit structure for the Social Housing Pension Scheme (SHPS). It is being introduced from October 2010 and is very different from the other benefit structures in SHPS so please read this leaflet for an explanation of how it will work. There are also some websites detailed below which you might find helpful.

How does it work?

All the money you and your employer contribute during your membership of the DC benefit structure is invested for you, less any charges.

Your benefits at retirement will depend on:

- the contributions paid in;
- the charges taken out;
- how well the investments have performed;
- your age and gender;
- your state of health at the time you retire;
- the type of pension you want when you retire; and
- what it costs to buy your pension.

Why do all these things affect my benefits?

When you decide to draw your benefits, the pot of money built up over the years for you, your 'personal fund', is cashed in and used to buy your benefits.

- The money in and out – contributions, investment returns and charges – affect the size of your pension pot.
- At retirement you can take some of your pot as cash, tax-free under current legislation, but the rest must be used to buy an annuity (a pension) with an insurance company, which is taxed as income once in payment.
- Insurance companies use your age, gender and state of health to estimate how long you will draw your pension for; this affects the cost.
- Different types of pension cost more than others. If you want a pension that will increase by, say, 3% a year and will continue at half rate to your partner after you die, it will cost more than a pension that doesn't increase and stops when you die.

A DC calculator will be available shortly on the SHPS website at www.shps.org.uk – follow the link to the Pension Calculator from the homepage. This will give you an estimate of what you might receive at retirement for different levels of contribution rates.



Where can I get more information about how DC schemes work?

The Financial Services Authority has set up an information service called Money Made Clear. The website address is **www.moneymadeclear.fsa.gov.uk**. You may find the following link helpful:
http://www.moneymadeclear.fsa.gov.uk/products/pensions/types/occupational_defined_contribution_schemes.html

How much do I pay?

Your employer will tell you how much you will have to pay if you decide to join. Your employer will also tell you how much they will pay into your pension on your behalf.

If you want to, you may pay extra contributions to provide higher benefits.

Like all the other SHPS benefit structures, you don't pay tax on your contributions. This is explained in more detail below.

Tax-relief

SHPS is an occupational pension scheme, so you benefit from immediate tax-relief on your pension contributions.

- Full tax-relief (at the highest rate of tax that you pay) is given immediately. You only pay tax on your net pay after your pension contributions have been deducted.
- Your pension pot grows in a very tax-efficient way. Only the UK dividend income is taxed – any other income and capital growth is completely free of UK taxes.

National Insurance

As a member of the DC benefit structure you and your employer will pay full rate National Insurance contributions. In return you will build up rights to the State Second Pension (or 'S2P') on top of your SHPS pension. S2P is paid with your Basic State Pension at or after you reach State Pension age. This is different to the arrangements in place for SHPS Defined Benefit (DB) benefit structures.

Your State Pension age depends on your date of birth. It will be somewhere between 60 (for women born before 6 April 1950) to 68 (if you were born after 5 April 1978). The Pensions Service website has a State Pension age calculator at <http://www.thepensionservice.gov.uk/state-pension/age-calculator.asp>

What happens to my contributions?

The contributions paid by you and your employer each month are paid to The Pensions Trust after the end of each month. These amounts are then used to buy units in the investment funds you have chosen.

What are my investment options?

You can select a Lifestyle or Selfstyle investment option. If you select Selfstyle you will be able to choose from a range of eight funds, as below.

Fund Name	Asset Class(es)
Managed Fund Option*	65% Global Equities 35% Non Equities
Pre-retirement Fund Option*	75% Bonds 25% Money Market Instruments
Socially Responsible Investment Fund Option	40% UK Equities 60% Global Equities
Global Equity Fund Option	50% UK Equities 50% Overseas Equities
Property Fund Option	100% Property
Bond Fund Option	100% UK Government Bonds
Index-Linked Gilts Fund Option	100% Index-Linked Bonds
Cash Fund Option	100% Money Market Instruments

*Default Funds

What happens if I don't know what funds to choose?

If you don't feel you can make a choice yourself, your (and your employer's) contributions will be invested in a 'default' investment option. The Lifestyle option has been selected as the 'default' investment option. The Lifestyle option uses the two funds indicated with a * in the table above. The proportion of your contributions invested in each fund will depend on how close you are to your selected retirement date. The Lifestyle option is explained in more detail below.

What is 'Lifestyling'?

As people move closer to retirement it is likely that their tolerance towards risk will reduce. Lifestyling recognises this and provides automatic switching over a period of time from funds with more risk (like equities) to funds with less risk (such as bonds and money market instruments) as retirement approaches.

If you select the Lifestyle option your contributions will be invested in the Managed Fund if you are more than five years from your Selected Retirement Date (SRD). From five years before your SRD your existing fund and new contributions will be automatically switched in defined portions into the Pre-Retirement Fund.

Where can I find out more about investments?

Further information on each of the SHPS investment funds, the default option and the Lifestyling option will be available online at www.shps.org.uk

For general information, different types of investments, default option and Lifestyle are explained on the Pensions Advisory Service's website. The link is:

http://www.pensionsadvisoryservice.org.uk/personal_and_stakeholder_pensions/investment/

What does the SHPS DC benefit structure cost?

An annual management charge of 0.5% of the value of your personal fund will be deducted each year to cover expenses and investment costs.

Your employer will meet other regular costs during your membership, including the cost of your death-in-service lump sum benefit (explained later in this leaflet) that will be deducted from the monthly contributions the employer makes on your behalf.

Will I be able to change my choice of investment funds?

Yes. If you have selected Selfstyle you will be able to choose:

- to have your future contributions invested in different funds; or
- to have your past contributions switched into different funds;
- or both.

If you want to change your funds, known as an investment switch, you will be allowed to do this once a year at no charge. The procedure will be simple – you will download and complete a form and send it to the SHPS Administration Team at The Pensions Trust.

The switch will normally be processed within five days of receiving your instruction. However, please note that there will be some times, for example while the monthly investment cycle is being processed, that it will not be possible to process a switch instruction until all monies have been unitised. If this is the case your switch instruction will be carried out at the earliest opportunity after completion of the monthly investment cycle.

If you have selected the Lifestyle option and wish to change the funds used to invest your contributions you can select the Selfstyle option and can then choose from any of the investment funds shown in the table on page 3. You should note that automatic switching will cease if you move to the Selfstyle option and should you wish to switch your funds as you approach retirement you will need to do this by downloading and completing a form and sending it to the SHPS Administration Team at The Pensions Trust.

Keeping track of your pension's progress

Every year you will receive a benefit statement showing:

- the units held for you at the end of the previous year;
- the units bought and sold during the latest year;
- any deductions to cover administration and investment charges;
- unit prices and the value of your units at the date of the statement; and
- an illustration of the pension that could be provided.

When can I take my pension?

You can choose to convert your fund into a pension at any time between the normal minimum pension age and age 75 (or earlier on the grounds of ill-health). You don't need to stop work to take your benefits provided you are at least 55 years old.

The age you would retire from work is an employment issue for agreement with your employer.

If you select the Lifestyle investment option you will be asked to indicate a Selected Retirement Date (SRD). This date will be used as the trigger for the automatic switching to commence. You should note that if you elect to take your benefits at a date other than your SRD the proportion of your investments will not be in-line with the retirement position of the Lifestyle table.

You can change your SRD at any time by downloading and completing a form and sending it to the SHPS Administration Team at The Pensions Trust. Your investments will then be switched into the relevant proportions for your current age and years from your SRD.

Who will pay my pension?

You will choose who pays your pension.

When you decide to take your benefits, your personal fund is cashed in and the balance after payment of any cash sum you select is paid over to a pension provider of your choice. This is known as an 'open market option' or 'OMO'.

Neither your employer nor The Pensions Trust is authorised to provide financial advice. You should seek independent financial advice if you need help with your annuity choices.

SHPS will use the services of a specialist annuity broker, if you want assistance with purchasing your annuity. There will be a charge for this which will be deducted from your available fund.

You should note that it normally takes around two to three months to arrange an annuity and for payment to commence. You should take account of this when planning your retirement income.

What choices will I have to make regarding my pension?

First of all you will have to decide whether you want to take part of your fund as a lump sum – and if so, how much (see below). The rest of the fund is used to buy a pension from the provider you choose (see above). Taking a lump sum therefore reduces the amount available to buy a pension.

Then you will need to think about whether you want:

- Your pension to be guaranteed for a number of years. If you were to die within a year or two of retiring, your pension would be poor value for money. You can ask for a pension that is guaranteed to be paid for five or ten years.
- Your pension to increase each year (an 'escalating pension') - or not (a 'level' pension) – and if so, by how much (3%, 5%, RPI etc).
- Your pension to continue to your spouse or partner after you die (and if so, at what rate – 33%, 50%, etc).

Please bear in mind that there is a cost to each of these options and this will reduce the amount of pension you receive.

Can I have a lump sum when I take my benefits?

Yes – you can take up to a quarter of your fund as a lump sum, which is tax-free under current legislation.

Where can I get more information about retirement options?

For more information about retirement benefits from pension arrangements like the SHPS DC benefit structure you may want to look at the following websites:

The Pensions Advisory Service at **www.pensionsadvisoryservice.org.uk**. In the section on Personal and Stakeholder Pensions there is a clear explanation of how annuities – pensions – from DC schemes work. The link is: http://www.pensionsadvisoryservice.org.uk/Personal_and_Stakeholder_Pensions/Annuities/index.asp

The FSA's Money Made Clear website also provides information about retirement options. This link will take you to a useful factsheet: http://www.moneymadeclear.fsa.gov.uk/pdfs/retirement_options_ink.pdf

What happens if I leave?

If you leave your employer and move to a new employer in SHPS, then you may be able to carry on contributing to your DC fund if your new employer offers this benefit structure.

If your new employer doesn't offer the DC benefit structure then you would join another benefit structure instead, and your DC fund will carry on accumulating investment returns until you draw your benefits or transfer your fund to another scheme.

If you leave your employer and the Scheme then what happens will depend on how long you have been a member of SHPS.

- If you have been a member of SHPS for less than three months then the value of your contributions only will be refunded to you. You will have to pay tax on the refund.
- If you have been a member of SHPS for between three months and two years, you have the option of a refund or a transfer value payable to another pension arrangement. The transfer value will include the value of your and the employers contributions that have been paid on your behalf. You will only have three months to make up your mind – after this a refund will be paid.
- If your pensionable service in SHPS is two years or more (or if SHPS has received a transfer value from a personal pension or similar arrangement for you) your fund will remain invested and carry on accumulating investment returns until you draw your benefits or transfer your fund to another scheme. You will receive an annual statement and can continue to elect to switch your investments.

What happens when I die?

If you die after joining SHPS but before your benefits have been paid out, your personal fund will be cashed in and paid as a lump sum.

A lump sum of three times your pensionable earnings is payable in addition if you die in pensionable service.

SHPS is set up under a Trustee and as the benefits are paid at the discretion of the Trustee these lump sum benefits are not subject to Inheritance Tax under current legislation. Please remember to complete a Nomination Form indicating who you would like to be your beneficiary/ies. The Trustee will consider your wishes in deciding who will receive the benefits due.

If you die after your pension has started, the benefits payable will depend on the type of pension you bought from your chosen provider when you retired.

Where can I get more information about the SHPS DC benefit structure?

This leaflet is intended to give you an overview of the SHPS DC benefit structure, which will be offered from October 2010. Information and member literature will be added to the SHPS website at www.shps.org.uk as it becomes available.

