

A vibrant photograph of a butterfly with orange and black wings perched on a yellow flower. The background shows a lush green field and distant mountains under a bright sky with a sun flare.

# A Guide for Members

Additional Voluntary Contributions  
How to boost your pension



The Pensions Trust

# A Guide for Members



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## How can I boost my pension?

### Your choices

You can boost your pension by:

- paying Additional Voluntary Contributions (AVCs) to The Pensions Trust; or
- paying extra contributions to any other tax-registered pension arrangement with a provider of your choice. Note: You will need to make your own arrangements for payment of contributions if you choose this option.

You should be aware that AVCs are extra provision for retirement and before then you will not receive any benefit from your fund.

You may also wish to consider other private tax-efficient savings options, for example ISAs (Individual Savings Accounts) which you can discuss with an Independent Financial Adviser.



### Should I pay AVCs?

There are various reasons for choosing to pay AVCs. These include:

- increasing the pension you will receive at Normal Pension Age (NPA); or
- to offset the reduction which is applied to pensions paid early; or
- to boost your pension in order to reduce the impact of previous breaks in employment or periods where you did not have access to a pension scheme.

The Pensions Trust cannot give financial planning advice and the decision on whether to pay AVCs is the member's responsibility. This booklet seeks to provide information only.

## How much can I pay?

From 6 April 2006 you will receive full tax relief on contributions to as many different tax-registered pension arrangements as you choose, provided that the combined total paid in each year does not exceed your annual earnings or the Annual Allowance (see 'Definitions').

As long as the total increase in your benefits in any one year does not exceed the Annual Allowance, you will receive tax relief on up to 100% of your earnings. For example, if your normal contribution rate (to your main scheme) is 7%, this will give you scope to pay up to a further 93% of your earnings as tax-free AVCs.

If your contributions exceed 100% of your earnings in any tax year, tax on the excess, at your marginal rate, is payable through self-assessment.

### Are there any restrictions?

You can amass pension benefits from all sources up to the Lifetime Allowance (see 'Definitions') without incurring tax charges.

## Who do I pay AVCs to?

You can pay AVCs to The Pensions Trust or, if you wish, you can pay extra contributions privately to any other tax-registered pension arrangement with a pension provider of your choice.

### **The Pensions Trust**

If you choose to pay AVCs to The Pensions Trust you will have the choice of one or more of the following options:

- the Growth Plan; or
- the Unitised Ethical Plan; or
- the Flexible Retirement Plan; or
- in some salary related schemes you may have the option to pay AVCs to secure 'added years' pensionable service. Please contact the person that deals with pensions in your organisation or The Pensions Trust for confirmation as to whether this option is available to you.

Please refer to the Growth Plan, Unitised Ethical Plan or Flexible Retirement Plan 'A Guide for Members' booklet for full details of the above arrangements. For added years AVCs, the benefits will be as described in the relevant member's guide for the scheme concerned. These booklets can be found in the Document Library section of The Pensions Trust's website [www.thepensionstrust.org.uk](http://www.thepensionstrust.org.uk) or you can request copies from The Pensions Trust.

## **What do money purchase AVCs buy?**

Your AVCs may be paid to the Growth Plan, the Unitised Ethical Plan or the Flexible Retirement Plan and will be used to provide additional pension benefits on a money purchase basis. This means the amount of pension will depend on variable factors such as:

- how much you pay;
- the investment return; and
- the cost of pensions when you retire.

Because of these variables, it is not feasible, before contributions commence, to project what pension might be expected. After you start paying AVCs you will receive an annual statement which will include, where appropriate, a pension projection based on stated assumptions.

### **Benefit options**

Under the Growth Plan or the Unitised Ethical Plan, when you retire you will normally be able to choose to use your fund for either of the following:

- more pension for yourself during retirement; or
- more pension for yourself plus extra pension for your dependant(s) following your death.

With the Flexible Retirement Plan, the value of your units will be cashed-in and paid to a pension provider of your choice. This provider will then pay you a pension for life.

### **Can I switch between plans?**

You can only pay AVCs into one plan at any given time, but should you change your mind, it may be possible to switch your AVCs between the Growth Plan, Unitised Ethical Plan or the Flexible Retirement Plan.

If you want to switch plans, please contact The Pensions Trust.

## If you choose the Unitised Ethical Plan

The Unitised Ethical Plan (UEP) is invested entirely in equity shares within the Stewardship Fund. This is an ethical investment which means that the companies in which the Fund invests do not harm the world, its resources, its people or animals. The external manager is F&C Asset Management plc. It is monitored by an independent committee.

As the fund is invested entirely in equity shares it is not a 'balanced' investment fund and its value may fluctuate more than a balanced fund which would include government stocks and bonds, etc, and its performance may be relatively variable.

The UEP provides an investment fund for those who do not consider performance to be the sole basis for investment decisions, but look to wider issues. The Stewardship Fund's strong ethical approach means that many large companies are excluded and thus the fund has a pronounced small-company bias. This can lead to significant short-term variability, relative to mainstream UK equity funds.

An annual charge of 0.75% of the value of the units is deducted to cover expenses. This includes a monthly deduction, made by the external fund manager, of 0.02% of the value of the units, to cover expenses.

The UEP cannot pay a pension; instead, when you retire (see 'What happens') the value of your units is used to buy a pension. It may be possible for your pension to be paid through the Growth Plan – The Pensions Trust will inform you if this applies to you. Alternatively you may have the value of your units paid to another pension provider which will then pay your pension.

## If you choose the Growth Plan

Your AVCs will be invested by The Pensions Trust in the Money Market Fund (see 'Definitions') The Growth Plan is designed to provide you with steady growth each year.

The contributions paid are recorded in your personal fund as a Growth Plan member. After the end of each financial year, the following applies:

- **Investment credit:** the Trustee considers investment returns and takes advice from its Actuary on how much can be distributed. The decision on the amount allocated to members is based on long term assessment and not on the latest investment results. The investment credit is then added to the net contributions.
- **Deductions:** costs are also allocated each year. The current rate is approximately 1% of your fund value. At retirement (see 'What happens') your personal fund can provide additional benefits from the Growth Plan. Alternatively you can choose to have it paid to a pension provider of your choice which will then pay your pension.



## If you choose the Flexible Retirement Plan

The Flexible Retirement Plan is a low cost money purchase plan where the money you contribute over your membership will be invested to provide a pension when you retire from a provider of your choice. Your AVCs can be invested across a range of separate investment funds offered by the Trustee.

There are two options you can take when investing your fund:

- **Option 1 – Default Funds (low involvement)** The Trustee recognises that investment is a specialist area and if you don't wish to design your own investment portfolio the Trustee will invest your payments into either of the Managed Fund or the Pre-Retirement Fund options, dependent on how close you are to your Normal Pension Age.
- **Option 2 – Select your own Funds (high involvement)** You may wish to design your own investment portfolio and if you choose this option you can select from the range of investment funds. Your portfolio can include a mixture from Core and Guest Funds but it is your responsibility to regularly monitor the performance of your funds and decide whether to change them.

The return for each investment fund is directly related to the performance of the asset classes in which it is invested.

Note: The value of assets in each asset class can go down as well as up.

If your employer offers the Flexible Retirement Plan as an AVC option please refer to the Flexible Retirement Plan 'A Guide for Members' booklet. This booklet provides more information on this arrangement including details of the Investment Funds available.

## What happens if I leave my employer or decide to stop paying AVCs?

The value of your AVCs will be treated broadly in the same way as your main pension scheme benefits if you leave your current employment or your pension scheme. Your options are as follows:

- If you are eligible and choose to take a refund of your contributions from your main pension scheme then you will also receive a refund of your AVCs (less tax) if you have chosen the Growth Plan. If you have chosen the Unitised Ethical Plan or Flexible Retirement Plan you will receive the value of your units, less a deduction for tax. (This option is normally available if you leave your pension scheme within two years of joining.)
- If you leave your main pension scheme benefits with The Pensions Trust then the value of your AVCs will remain invested also with The Pensions Trust until your retirement, when they will be used to provide you with additional benefits;
- If you decide to transfer your main pension scheme benefits then the value of your AVCs will usually be transferred. However, you may choose to leave your AVCs with The Pensions Trust despite transferring your main scheme benefits to another pension provider. You cannot continue to pay AVCs to The Pensions Trust after you have left your main pension scheme.

## What happens?

### What happens when I retire?

Any additional pension you choose to provide for yourself from The Pensions Trust will normally be paid with your main pension. Any member wishing to investigate the open market option (see 'Definitions') may wish to consider taking independent financial advice.

If your AVCs are paid into the Growth Plan you can choose to have either:

- a pension which increases by LPI (see 'Definitions'); or
- a 'level pension' – this is a pension which is paid at the same rate from the date you retire until you die, and which therefore starts at a higher rate than a pension which increases by LPI.



If your AVCs are paid into the Unitised Ethical Plan you will use the value of your units to either buy a pension in the Growth Plan (which will increase as described above) or to purchase a pension from an alternative pension provider.

If you have 'added years' AVCs the extra years and/or months of membership (or 'notional service') you buy are added to your membership of your main pension scheme when calculating your pension, and any dependants' pension paid upon your death. Where this option is available, you can choose to pay AVCs to buy a set number of extra years/months or you can pay fixed contributions, in which case The Pensions Trust will advise you how much notional service your contributions will buy.

You will receive a higher pension which will be paid with your main pension. If you leave or retire early the amount of additional pension paid will reflect the notional service purchased up to the date of leaving. The extra pension, both for you and your dependants, qualifies for future increases in the same way as your normal pension. If you die before retirement, the added years/months used in calculating dependants' pensions would be reduced to reflect the fact that you have not finished buying the planned notional service. Additionally, your nominee(s) would receive a refund of the AVCs you had paid up to the date of your death.

If your AVCs are paid into the Flexible Retirement Plan on retirement, your Flexible Retirement Plan units will be cashed-in and the proceeds paid to a pension provider of your choice (The Pensions Trust can assist you with this). Your chosen provider will then pay your pension to you during your retirement.

## What happens when I die?

In the event of death before retirement the amount paid from your AVC fund will depend on how you have decided to invest your AVCs:

- With the Growth Plan, for any contributions paid from October 2001, the total value of your personal fund would be paid to your nominee(s). For contributions paid before this date your own contributions, plus interest (see 'Definitions') would be refunded.
- With the Unitised Ethical Plan, the value of your units would be paid to your nominee(s).
- With the Flexible Retirement Plan the value of your units will be cashed-in to be paid as a lump sum to your nominee(s).

If you receive your pension from The Pensions Trust and you die within five years of retiring, your nominee(s) will receive a taxable pension (except for added years AVCs, where a lump sum will be paid). This will be paid from the date you die and will stop on the fifth anniversary of your pension commencing. The sum paid will be the same as the pension in payment at your date of death, plus any increases as they fall due. The pension(s) will be paid to your nominee(s) in the proportions you have specified in your nomination.

If you had chosen, when you retired, to use your AVCs to provide dependants' pensions, these pensions will be paid after your death. In addition you may have other death benefits as arranged or provided by your main pension scheme.

## What should I do now?

If you wish to pay AVCs you should complete an AVC Application Form and pass it on to the person who deals with pensions within your organisation. Your AVCs to The Pensions Trust will then be deducted from your salary in the same way as your 'normal' contributions, giving you tax relief immediately.

AVCs are usually a percentage of your salary and can be stopped, started, increased and decreased on request.

If you prefer, you can pay your AVCs direct to The Pensions Trust as a lump sum instead of regular monthly payments. You would then need to reclaim tax relief direct from HM Revenue & Customs at the end of each tax-year. If you wish to pay extra contributions to another pension provider you will need to make your own private arrangements direct with that provider.

## Further Information

Further information about all of the AVC options is available from The Pensions Trust. Details can be found on the website [www.thepensionstrust.org.uk](http://www.thepensionstrust.org.uk) or can be obtained from The Pensions Trust (see contact details on the back cover of this booklet).

## Rights, obligations, limitations

The rights and obligations of Members of The Pensions Trust are set out in the Trust Deed and Rules which is the formal document of the appropriate scheme. This leaflet is intended to provide a clear and simple explanation of the AVC arrangements. If there is any conflict between the interpretation given in this leaflet and the formal Trust Deed and Rules the legal interpretation of the formal documents shall prevail. A copy of the Trust Deed and Rules is available from The Pensions Trust. Before making any financial commitment please ensure that you understand the options available to you.

The Pensions Trust is not registered under the Financial Services and Markets Act to give financial advice. Any information provided to members or prospective members should therefore be taken to constitute information and not be taken to constitute advice. When providing information to members or prospective members we take care to provide an accurate service but the final decision and choice remains with the individual for which the Trust cannot be responsible.

## Definitions

### **Additional Voluntary Contributions (AVCs)**

are any contributions you pay above your 'normal' contributions to secure extra benefits.

### **Annual Allowance**

The Annual Allowance came into effect on 6 April 2006 and is £225,000 for the tax year 2007/08, and will increase by £10,000 each year to £255,000 in 2010/11.

If the amount by which the value of your pension benefits increase in any one year (known as the 'input value' – explained below) exceeds the Annual Allowance, you will be liable for an 'Annual Allowance tax charge', even if your contributions are less than 100% of your earnings. This tax charge is payable (through self-assessment) at 40% on any increase in benefits above the Annual Allowance.

In defined benefit schemes (such as final salary or CARE schemes), the input value is measured by the increase in the value of the pension over the year. The input value is calculated as the increase in the annual pension amount multiplied by 10. For defined contribution arrangements, such as the Trust's Growth Plan, Unitised Ethical Plan or Flexible Retirement Plan, which may be used for AVCs, the input value is the total annual contribution made by you and your employer.

The input value does not take account of transfers into the Scheme or debits or credits from pension sharing arrangements following divorce.

You will be responsible for reporting any excess growth on your annual tax self-assessment return and also for paying the Annual Allowance tax charge. If you are concerned about this we recommend that you seek independent financial advice. The Trust will, on request, supply you with information on the increase in the value of any pension rights held with us.

The input value in the final tax year before your retirement will not count towards the Annual Allowance, as long as you have drawn all benefits in full from the Scheme or if you should die.

### **Benefits**

are the pensions and other payments made to members and their dependants on death, retirement and leaving.

### **Deferred Benefit**

if you leave before you retire and leave your benefits in the fund, this becomes known as a deferred benefit.



## **Index**

is the Retail Prices Index (RPI) or any replacement index prescribed as the measure of price inflation.

## **Lifetime Allowance**

Due to changes introduced by the Finance Act 2004, from 6 April 2006 each individual in the UK is allowed to accumulate pension benefits up to a value of £1.6m (the limit for the 2007/08 tax year) without incurring tax charges.

Each year your benefit statement(s) from will show the value of the pension benefits you have accrued as a percentage of the current Lifetime Allowance. You must also take into account the value of any pension benefits you have from previous pension arrangements in estimating whether you have scope to pay AVCs without any danger of breaching the Lifetime Allowance.

If the Lifetime Allowance is exceeded a tax charge of 55% will be levied on the excess fund if the benefits are taken as a lump sum. If the excess benefits are taken as pension then a tax charge of 25% will be levied, as well as the usual income tax payable on the pension instalments.

If you are concerned that your benefits from all sources may breach the Lifetime Allowance you should consult an Independent Financial Adviser as to your best course of action.

Note: The Pensions Trust and its representatives are not permitted to give financial advice.

## **LPI – ‘Limited Price Indexation’**

is a commitment to increase pensions by the rise in the Index up to a maximum of 2.5%.

## **Money Market Fund**

The Money Market Fund invests in short-term high quality securities and deposits. It aims to preserve the capital invested and to ensure liquidity.

## **Net Contributions**

are contributions excluding the cost of providing death benefits.

## **Notional Service**

means, where available, additional service purchased by AVCs for the calculation of benefits, expressed either as added years and/or months, or as a percentage of final pay.

## **Open Market Option**

is the option (without financial penalty) to transfer the value of your fund from The Pensions Trust to an insurance company or other pension provider of your choice. This provider will then pay you a pension during your retirement.

## **Retirement**

For members who start to receive their pension after 5 April 2006, there is no longer the requirement to have left the employment to which the pension relates. With the exception of all ill-health early retirements, and after 5 April 2010, retirement (where permitted) before age 55, any reference to retirement in this booklet includes those members who choose to receive their pension benefits and continue working, as opposed to retiring in the more traditional sense (i.e. stopping work).

**The above definitions are provided as a summary. Please see the formal Trust Deed and Rules, as appropriate, for further clarification.**





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