



**University of Leeds**

**Pension & Assurance Scheme**

**Additional Voluntary Contributions**

**A guide to additional savings for your retirement**

May 2016

## **Introduction**

The University of Leeds Pension and Assurance Scheme (PAS) provides valuable benefits for your retirement, as well as financial support for your dependants on your death.

Although PAS provides excellent pension benefits, there are reasons why you may look to additional savings, in the form of Additional Voluntary Contributions (AVCs), to supplement your retirement income. You may want to increase your contributions to your retirement benefits as;

- **You may be planning to retire early**
- **You may only have a short period of Pensionable Service**
- **You may wish to take advantage of the tax saving which can be made on the contributions**

The AVC's available through PAS is as follows;

**Money purchase (sometimes called defined contribution (DC)) AVCs** —you pay your AVC contributions into your individual account and this will provide you with an additional fund of money at retirement. You can use this fund to provide you with extra tax free cash at retirement (subject to limits) or you can provide additional benefits external to PAS.

There are **tax advantages** to paying AVCs. Because they are deducted from your pay before tax is calculated, the same way as your ordinary Scheme contributions, you get tax relief at your highest rate.

For example, if you pay tax at the basic rate of 20%, for each £100 in contribution, the net cost to you is only £80.

Tax relief on contributions is given against income for the year of payment and cannot be transferred from one year to another.

There are other forms of retirement saving open to you as an individual and you may wish to consider these before deciding to contribute to PAS AVCs. AVCs are a long term commitment and are usually used to provide benefits at retirement. If you are in any doubt you should consider taking independent financial advice.

Should you have any queries regarding the AVC benefits, you can contact the Pensions Department as follows;

The Pensions Department  
Human Resources  
University of Leeds  
Leeds  
LS2 9,1T

Telephone 0113 3434448 or 3434147  
Email [pensionsleeds.ac.uk](mailto:pensionsleeds.ac.uk)

## Quick Summary of PAS Money Purchase AVC Benefits

Contributions can be made monthly, minimum £10 per month, or payments can be made as a lump sum
Contributions are deducted from salary before tax, saving tax at your highest rate
Can stop and start payments and alter payment amounts easily
Fund which builds up will depend on investment return and pension cost (if you choose to buy a pension external to PAS)
Varying levels of risk depending on which investment fund you choose
If taken at the same time as main scheme benefits, AVC fund can be as tax free cash sum (there are limits applied to this)
Fund can be used to provide extra pension on retirement via a pension external to PAS, or additional tax free cash sum (subject to limits)
If choose to buy a pension, you will need to buy a pension (annuity) with an external provider. You can tailor this pension to your own personal circumstances.
Easy to arrange, contact the Pensions Department for further information
If fund taken as pension, pension benefits are taxable. If fund taken as cash, paid tax free.

### How do the AVC's work?

You decide on the level of contribution you wish to make, either a regular monthly amount, a percentage of your salary or a lump sum. Your contributions are invested by the Trustees on your behalf in a separate account from that of the main Scheme, handled by external providers.

As with any investments, the annual returns on your investment may fluctuate to reflect interest rate movements or investment return on your chosen investment.

Not only do you get tax relief on the contributions you make, but the annual interest and investment return is also free of tax.

### How much can I contribute?

You can pay the whole of your salary into a money purchase AVC if you wish, or £3,600 if this is greater, although you may need to take into account deductions from your salary for national insurance or any other voluntary deductions which you currently make. Any contribution in excess of £40,000 (2016/17) may create a tax charge.

### How do I start or vary my contributions?

If you want to set up an AVC contribution, please contact the Pensions Department for an application form. If you want to vary your contributions, we will need your authority in writing.

### What investment choice is available to me?

You have a number of investment choices available. These vary in the amount of risk involved. You can split your contribution between different funds in order to spread the level of risk. The choices available are shown in the table below;

Fund choice	Fund factsheet link	Risk level
Santander		low
International Growth	<a href="http://factsheets.financialexpress.net/equi/EU31.pdf">http://factsheets.financialexpress.net/equi/EU31.pdf</a>	higher
Managed	<a href="http://factsheets.financialexpress.net/equi/EU23.pdf">http://factsheets.financialexpress.net/equi/EU23.pdf</a>	higher
Equitable Life Gilt & Fixed Interest	<a href="http://factsheets.financialexpress.net/equi/EU21.pdf">http://factsheets.financialexpress.net/equi/EU21.pdf</a>	medium
Equitable Life Money	<a href="http://factsheets.financialexpress.net/equi/EU41.pdf">http://factsheets.financialexpress.net/equi/EU41.pdf</a>	low

It is possible to move between funds if you later wish to change your investment choice.

As a matter of good governance, the trustees will carry out a regular review of these funds to ensure that they continue to meet Scheme requirements.

### What happens at retirement?

At retirement you have choices regarding the fund you have built up;

- **Tax free cash sum** - Your AVC fund can be taken as tax free cash. There is a cap on the maximum amount of tax free cash that you can take from your AVC fund. This limit is the difference between your PAS standard tax free cash, and the maximum tax free cash sum limit. This maximum limit is 25% of the capital value of your total benefits from the Scheme. If your AVC fund exceeds the maximum you can take as tax free cash, the balance will have to be converted to a pension external to the scheme, as detailed below. You will be provided with full information at retirement.
- **Purchase extra pension** - As an alternative to taking your AVC fund as tax free cash, you can opt to convert your fund to additional pension. This pension, also called an annuity, would have to be set up outside PAS and would be purchased with an insurance company. When you set up this annuity, you can choose to provide extra pension just for yourself, or you can elect to buy spouses or adult dependants pension in addition, to be payable on your death. The amount of pension you can buy will depend on your age at retirement and the market related factors used by the provider at that time. You may need to take independent financial advice if you are considering this option.

Generic risk warnings for both of the options available in PAS in respect of your AVC fund are included at the end of this booklet. It is important that you read and consider these risk warnings when deciding how to take your PAS AVC fund. We also recommend that you access guidance through Pension Wise (further details below) or obtain your own independent advice.

### What happens if I retire early?

If you retire early, your AVC account will have been building up over a shorter period of time, so you may have a smaller fund than expected. Otherwise, the same options will be available to you as shown above.

### Can I request an estimate of my benefits?

If you are considering taking early retirement, an estimate of your benefits, both your PAS main scheme benefits (if you have not already taken these) and your AVC fund, can be provided on request by contacting the University Pensions Department.

Any AVC fund value provided is not guaranteed and the value may not represent the exact amount available to you to transfer to another pension provider. Depending upon when you began your AVC arrangement and when you take your fund, early exit charges may apply. If you have invested in a with-profits fund a market value reduction may be applied. Further detail can be provided on request

### **How do I know what my fund is worth?**

Each year you will receive a statement from the AVC provider, showing the contributions you have paid in during the year, the value of any interest added during the year and the fund value at the end of the year. Statements are normally provided showing the value as at 31 March, to coincide with the main Scheme year end.

### **What if I leave the Scheme?**

You stop paying AVCs when you leave the Scheme, and your fund can be left invested until you retire. If you are eligible for a refund of contributions, you will also receive a refund of your AVC contributions, less tax. If you transfer out your main Scheme benefits, your AVC fund will also be transferred.

### **When can I transfer my AVC fund?**

If you wish to use your AVC fund in a different way to that offered by PAS, or if you simply wish to switch your funds to another provider, you have a right to transfer your fund to one or more pension providers.

You can still transfer all your PAS benefits together, but you can as an alternative choose to transfer only your AVC funds whilst leaving your main scheme benefits in PAS. Transferring only your AVC funds is known as a partial transfer.

The right to transfer your AVC funds applies to active and deferred PAS members as well as to pensioners with unused AVC funds. You can request a partial transfer at any age but you must have ceased making contributions to your AVC fund.

Please note that if you wish to transfer your main PAS benefits, there is a requirement for members in some circumstances to take regulated financial advice before doing so. If you are considering transferring your AVC funds only then you can contact the University Pensions Department; [pensions@adm.leeds.ac.uk](mailto:pensions@adm.leeds.ac.uk) for further information

### **What happens if I die?**

Your AVC fund will be returned to your beneficiaries as tax free cash. This is paid at the discretion of the trustees and does not form part of your estate.

### **Does the University make payments to my AVC fund?**

No, the fund is built up from your own AVC contributions

### **What other options do I have with my AVC fund?**

Different pension providers may offer different options, including the option to select an annuity. Different options have different features, different rates of payment, different charges and different tax implications. The characteristic features of the different options outside PAS can be found at the Pension Wise website — further details are given below.

### **Are there tax implications?**

There may be tax implications associated with accessing your AVC fund. If you convert your AVC fund to pension, this may be taxable. The rate at which income from a pension is taxable depends on the amount of income you receive from your pension and other sources.

### **Where can I find guidance and advice?**

Free, impartial guidance about what you can do with your pension savings is available from the government's new **Pension Wise** service, designed to offer you:

- Tailored guidance (online, over the telephone or face to face) to explain what options you have and help you think about how to make the best use of your pension savings;
- Information about the tax implications of different options and other important things you should think about;
- Tips on getting the best deal, including how to shop around. Choosing what to do with your pension savings is an important financial decision and you may get more for your money by shopping around.

Pension Wise can be found at [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) and telephone or face to face appointments can be arranged by contacting Pension Wise on 030 0330 1001.

As well as accessing Pension Wise, you should consider taking separate advice from an FCA-regulated financial adviser to help you decide which option is most suitable for you; [www.findanadviser.org](http://www.findanadviser.org)

### Generic risk warning – using your AVC fund to purchase an annuity

You may wish to consider the following points if you are thinking about purchasing an annuity;

- If you have a medical condition, are in poor health, smoke or are overweight, you may be able to get a significantly higher income through taking an ‘enhanced annuity’. In these circumstances it is worth considering opting into health and lifestyle questions – and it’s important to answer these questions honestly.
- If you are considering this option should think about whether to provide an income for a partner or another dependant on death and therefore whether to purchase a single life or joint life annuity. You should compare what each annuity provider can offer to spouses or dependants.
- ‘Level’ annuities provide a higher income to start with than annuities that increase but the payments will then stay the same for life. This means that the purchasing power of the annuity income will reduce over time, due to inflation.

Different providers may pay different levels of income. So it’s important to shop around. Remember that annuity purchases are a lifetime commitment, so there’s no rush to make a final decision.

### Generic risk warning – using your AVC fund as part of your tax free cash lump sum

On average, people aged 55 today will live to their mid-to-late 80s. It is important not to underestimate your own life expectancy. If you are considering this option you should think about how to use the money to provide an income throughout retirement. Taking pension savings as cash may have implications if you have debts or if you may be entitled to means-tested benefits. If you are concerned about this aspect can contact Pension Wise (details above), the Citizens Advice Bureau or the Money Advice Service.

#### Definitions

There are some technical terms used in the booklet, these are explained below.

<b>Adult Dependant</b>	Means an adult you are supporting financially when you die.
<b>Normal Retirement Age</b>	This is your 65 <sup>th</sup> birthday for men and woman
<b>Pensionable Salary</b>	This is your basic salary, excluding overtime and including certain allowances.
<b>Scheme</b>	The University of Leeds Pension & Assurance Scheme
<b>Spouse</b>	Means your legal wife or husband
<b>Trustee</b>	An individual appointed to administer the Scheme.

#### Maximum Benefit Limits

Due to the generous tax relief available, the benefits from the Scheme are subject to certain limits set by the Revenue, called the Lifetime Allowance (LTA) & Annual Allowance (AA).

The allowances for 2016/17 are as follows;

- A LTA of £1 million, which covers the maximum amount of all your tax favoured pension savings, (equivalent for the purposes of the LTA to an annual pension of £50,000).
- An AA of £40,000 for the maximum value of benefits that you can earn (or contributions that can be made on a money purchase basis) in any one year under all your pension arrangements. For the purposes of the Scheme, the year over which you will be assessed for the purposes of the Annual Allowance will be the scheme year starting on 1 April each year.

When you retire we will require you to confirm to us the value of any other pension benefits which you may have so that we can pay benefits promptly.

If your benefits from all sources at retirement exceed the Lifetime Allowance, the excess will be subject to a tax charge. The charge will be 55% if the excess funds are paid as a cash lump sum and 25% if they are used to provide pensions income.