UNIVERSITY OF YORK PENSION FUND

Money Purchase AVCs

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This short booklet has been designed to give you an overview about the additional saving option available to you through the University of York Pension Fund. It is not a comprehensive guide, and cannot cover all circumstances. Examples provided in the booklet are not based on any real member's circumstances, but are simplified workings, designed to illustrate how a particular calculation works.

Pension schemes are governed by complex legislation which changes regularly. In addition, the rules of the Fund and the factors used in calculations are regularly reviewed by the Fund's Trustee. This booklet describes the Fund benefits and arrangements in place on 1 June 2019.

If you have any questions about this booklet, or how any of the information described in it may apply to you, or if you require any further information about your pension please contact the Pensions Team by any of the methods below:

Post:	University of York Pension Trust Limited Heslington Hall, H/B30, Heslington, York, YO10 5DD
Telephone:	01904 32 4805 or 01904 32 4782
Website:	*www.york.ac.uk/pensions*
E-mail:	pensions@york.ac.uk

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All about AVCs

What is an AVC?

"AVC" stands for additional voluntary contribution. The University of York Pension Fund offers you the option of paying AVCs in order to save more with a view to increasing the benefits that you receive in retirement.

You do not have to save into an AVC, but if you choose to, only you make contributions – your employer does not contribute anything. Subject to limits set by HMRC, you receive tax relief on any contributions that you pay to an AVC in the same way as you do with your main scheme contributions, so paying into an AVC is a tax-efficient way of saving more for your retirement.

How are AVCs different from your main Fund benefits?

Benefits that are built up through the main Fund are known as "defined benefits" (DB). The pension (and lump sum) that you receive are calculated with reference to a formula. The amount that you pay for these benefits is set by the Trustee and employers participating in the Fund. Your employer also contributes an amount towards your main Fund pension. You do not decide how this money is invested and the performance of these investments doesn't affect the overall benefit that you draw from the Fund.

Benefits that are built up through an AVC are known as "defined contribution" (DC) benefits. These are held and invested separately from those held in the Fund providing your main scheme defined benefit pension. You decide the amount that you pay as an AVC and where you want the money invested from the range of options available to you. You then build up an individual AVC policy with Aegon to provide additional benefits at retirement. You also have more choices about how you can draw the money in retirement than you do with your main scheme defined benefit pension.

Why save in an AVC?

One way of using your AVC policy is as part of the maximum lump sum you can take at retirement. So you may be able to take all of your AVC policy as tax free cash, meaning that you may have to give up less or even none of your defined benefit pension to take the maximum tax free cash available.

If you do not wish to take a tax-free lump sum at retirement you can use your AVC policy to provide you with additional pension.

From 6 April 2015 the Government launched "pension freedoms" which introduced new ways to take DC pension savings such as those in an AVC policy. These provide more choice in how and when you choose to access your AVC policy. These flexibilities are not offered by the Fund, and so if you want to access them you will have to transfer your AVC policy to another DC pension arrangement.

If you do so, then the options available to you include:

- Using your AVC policy to buy a guaranteed pension income for life (an annuity). You can choose to take up to one quarter of your AVC policy as a tax-free cash sum and use the rest to buy an annuity. The annuity payments are subject to income tax.
- Transferring your AVC policy to another DC pension arrangement which offers other ways of flexibly accessing your benefits, such as:
    - Choosing to take up to one quarter of your AVC policy as a tax free cash sum and then using the rest for drawdown (to provide an income at times to suit you). All income drawn is taxable. This is known as a flexi-access drawdown arrangement; or,
    - Choosing to take a series of smaller cash sums. One quarter of each sum is paid tax free, with the rest taxed as income. These are known as uncrystallised funds pension lump sums.

For both of these options, you choose how your policy is invested. You choose when and how much or how little income to take. There is no guarantee that your policy will provide an income for your lifetime. You will need to think about how long your retirement savings will need to last, and what you will do if they do not last for as long as you need them to.

You can also choose a combination of the above options.

If you transfer your AVC policy out of the Fund, you can choose to leave the rest of your defined benefit pension within the Fund. You may also able to transfer all of your benefits to another pension arrangement. However, pension transfers are complex. In some circumstances, you have to seek independent financial advice before proceeding with a transfer, although you may also wish to consider seeking independent financial advice even if you are not required to do so. Please see page 17 for details of finding an adviser in your local area.

Choosing investment funds

The Trustee has taken advice to select a range of funds for you to invest in. These are explained in detail further on in this booklet, along with the charges that apply to each investment option.

Attitude to risk

Before selecting your investments, you may want to consider what your attitude to risk is. In order to help you understand the risk associated with the investments the Trustee has chosen, the following explanations are provided to assist you.

Above average risk

This type of fund may suit you if you see yourself as having a higher attitude to risk. The investments that you make will therefore be less aimed at providing security and more aimed towards the opportunity of gaining larger returns over the long term. In investing in this type of fund, you are prepared to accept that the value of your investment may go down in the short term in return for potentially higher rewards in the long term.

Average risk

This type of fund may suit you if you consider yourself to have a balanced approach to risk. You would like part of your investment to provide security for your present and future financial position, and part to seek opportunities for increased benefits in the future. In investing in this type of fund, you are prepared to accept an average degree of risk that the value of your investment may go down in return for potentially average medium to long term rewards.

Below average risk

This type of fund may suit you if you are prudent in your outlook. In investing in this type of fund, you are prepared to tolerate a limited degree of risk that the value of your investment may go down in the hope of meeting your objectives over the medium to long term.

Low risk

This type of fund may suit you if you are cautious and dislike risk. In investing in this type of fund, you accept that this may result in lower returns than other categories but you consider this to be a price worth paying in order for the security of your investment not going down in value.

Investment options

Overleaf is a brief summary of the investment funds available for you to choose from. Each has a risk rating applied as a general guide to help you chose the right investment options for you[1]. There are more detailed factsheets available on the Fund's website, which also provide a summary of the past performance, although you should remember that past performance is not a guide to future performance. You can split your investment between two or more funds in proportions that you choose, as long as the total adds up to 100%. The value of your investment and the potential income from it can go up as well as down, and cannot be guaranteed. You may get back less than you invested.

The Trustee regularly reviews the performance of its selected funds, and from time to time may change the investment managers or funds available as part of this review process. If this happens, you will be notified of the Trustee's decision. The charges shown are levied by Aegon, and are deducted directly from your AVC policy (eg if you had an AVC policy of £1,000, an annual charge of 0.62% would mean £6.20 is deducted from your AVC policy). The level of charges may also vary from time to time. Again, you will be notified if this happens.

[1] The risk rating has been provided by the University of York Pension Fund's adviser, First Actuarial.

Fund	Risk rating	Charges (per year)
Overseas Equity Tracker This fund invests in a number of other funds that aim to closely track the performance of certain overseas share indices eg by buying shares in companies contained within each index.	Above average	0.62%
UK Index Tracker This fund aims to closely track the performance of an index which contains UK companies eg by buying shares in the individual companies within that index.	Above average	0.62%
BlackRock Dynamic Diversified Growth This fund aims to achieve a return which exceeds the Bank of England Base Rate by 3% pwer annum over the medium term. The fund manager will invest largely in bonds, shares, funds and cash instruments, but may also have indirect exposure to alternative investments such as commodities and property. The fund may also invest in derivatives that help manage the portfolio more efficiently and are not intended to increase risk in the fund.	Average	1.37%
L&G UK Property This fund aims to achieve long term growth by investing in a diverse portfolio of UK commercial properties. Note that the fund manager may have to delay your payment for up to 12 months if market conditions make it hard for the manager of the fund to sell properties at a fair price. Also note that property fund valuations can move quite sharply either due to changes in valuation (which are a matter of an independent valuer's opinion rather than fact) or as a result of a change in the fund's valuation methodology.	Average	1.42%
BlackRock Corporate Bond Index All Stocks Tracker Fund This fund invests in bonds issued by UK companies and aims to track an index which is made up of these bonds.	Below average	0.62%
UK Gilts All Stock Tracker This fund invests in bonds issued by the UK Government and aims to track an index which is made up of these bonds.	Below average	0.62%
Cash This fund aims to generate a return similar to that which you would earn in a bank account, by investing in a range of short term deposits and financial instruments. You should be aware that in a low interest rate environment, this fund could generate a negative return after charges.	Low risk	0.62%

How much should I contribute?

This is up to you – you can contribute as much or as little as you like[2]. You can also change the amount that you pay, and stop and re-start your payments at any time depending on your personal circumstances. You can pay a small amount each month, or can make a lump sum payment if you choose. The payments must be made through the payroll, and there are limits to how much you can contribute and receive tax relief. If you are considering making large contributions to an AVC, please contact the Pensions Team for information about the things to consider. You may also wish to seek independent financial advice – see page 17 for more information about this.

Don't forget that you receive tax relief on your contributions, so the real terms cost to you is lower than you may expect. A modeller is available on the Fund's website *www.york.ac.uk/pensions* to show you the net cost of making an AVC.

Setting up your AVC policy

Taking out an AVC policy is easy. Once you've decided how much you want to pay and where you want to invest your money, download a form from the Fund's website *www.york.ac.uk/pensions*. Complete the form and send it to the Pensions Team at the address at the start of this booklet. The team will arrange to set up the deductions from your pay in the next available pay cycle, and will establish your policy with Aegon.

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[2] Limited to 100% of your pensionable pay, less your ordinary pension scheme contributions.

Managing your investments

Online access

When your policy with Aegon has been set up, you will be sent further details, including your policy number. Once you have this, you can register to access your policy online at *www.aegon.co.uk* and clicking on the "Login" button on the website. You will be guided through the online registration process, but if you need help, you can contact Aegon's e-service helpdesk on 03456 10 00 10.

Once you've successfully registered for online access, you'll be able to manage some aspects of your AVC policy online, and monitor its value.

Changing where your investments are held

When you take out your AVC policy with Aegon, you will choose where you want your money invested. However, you can change your mind about this if you want to. If you want to make changes to the funds your money is invested in, you will be able to do this through your online account.

Changing the amount you pay

As well as changing where your money is invested, you can also change how much you contribute to your AVC policy. You need to provide at least one month's notice of any changes that you wish to make. You can increase and decrease your payments if you want to, and can also stop and re-start your payments again.

To make changes to the amount that you contribute to your AVC policy, simply download the form from the pensions website *www.york.ac.uk/pensions* and send it to the Pensions Team at the address at the start of this booklet.

Drawing your AVC benefits

There are a number of options available to you as to how you can draw your AVC policy as part of your overall Fund benefits.

Taking AVCs as a tax free cash lump sum

Taking your AVC policy as tax free cash means that you can give up less or even none of your defined benefit pension in order to take the maximum tax free cash from the Fund. Below is an example of how your AVC policy can be used to maximise the tax free cash available from your pension.

Example

Kate is retiring on her 65th birthday. Her defined benefit Fund pension is £7,000 per annum. If Kate had not made any savings through an AVC, her options at retirement would be:

Without AVCs

Pension: £7,000 per annum

OR

Pension: £4,800 per annum with a one off £32,000 lump sum

If we assume that Kate has paid into an AVC policy, and her policy is worth £10,000 when she retires, then her options at retirement would be:

With AVCs

Pension: £7,000 per annum with a one off £10,000 AVC lump sum

OR

Pension: £5,250 per annum with a one off £35,000 lump sum

As you can see, with an AVC policy included in her benefit package, Kate can take a larger lump sum, and will also receive a bigger pension. This is because the first part of her tax free lump sum has been taken from her AVC policy. She therefore has to give up less defined benefit pension in order to take the maximum tax free cash currently available to her from the Fund.

Taking AVCs as a Fund pension

AVCs don't have to be used as tax free cash. Subject to the agreement of the Trustee, they can also be transferred to the main scheme to purchase additional pension.

Example

Using the example of Kate (left), Kate can use her £10,000 AVC policy to buy an extra £333.33 of Fund pension.

When added to Kate's existing Fund pension of £7,000 per annum, this increases her total retirement pension to £7,333.33 per annum.

Options for AVCs outside of the University of York Pension Fund

There are also lots of ways that you can use your AVCs beyond those offered by the Fund. You can find a summary of these on page 7 under the heading "Why save in an AVC".

Timing

If you want to draw your AVC policy as part of your overall Fund pension, you may wish to consider stopping your AVC contributions a month of two before your planned retirement date, to ensure that your AVC policy can be disinvested and paid to you by the Fund on time. If you choose to continue paying into your AVC policy up until your retirement date, then your AVC policy will have to be disinvested after your last payment of salary. This may mean that your Fund benefits cannot be finalised and paid until a month or two after your retirement date when the final value of your AVC policy is known, although you will be paid any arrears owed to you as a result of this.

Important information

Tax limits on pension saving

Savings that you make to a pension scheme are generally tax free, but there are limits to the amount you can save and draw tax free from a pension scheme. Increasing the amount you save in to a pension scheme through AVCs may cause you to be affected by these limits. To find out more about these, please refer to the "Tax limits on pension saving" section of the Scheme Guide.

Helping you understand your choices

Pension Wise is a Government service that provides tailored guidance to explain your options and help you think about how to make best use of your retirement savings. It can be accessed online at *www.pensionwise.gov.uk* and offers information about:

- The tax implications of the different options available to you at retirement for use of your defined contribution AVC policy.
- Other important things you should think about.
- How to get the best deal, including how to shop around.

If you die before drawing your AVC benefits

If you die whilst still in employment and before drawing the money in your AVC policy, then there are two possibilities for how the money in your AVC policy is used. At the discretion of the Trustee, the sum can either be:

- Transferred to the main scheme, and paid as a death in service lump sum along with any other death benefits due from the Fund; or,
- Paid into a policy established by the Trustee to pay benefits for a spouse, civil partner, child or other dependant.

It is therefore important that you keep your nomination form up to date to let the Trustee know your wishes about who you would like this payment to go to. To find out more information about making a nomination and the death benefits available from the Fund, please see the Fund's Scheme Guide. You can find a nomination form from the Fund's website *www.york.ac.uk/pensions*.

If you become a deferred member of the Fund

If you become a deferred member of the Fund, for example, by leaving employment with the University or other employers, your AVC policy will remain invested with Aegon until you wish to access your retirement benefits. During this time you will still be able to manage your policy online with Aegon.

Getting advice

No-one involved in the running of the Fund – the University or other employers, the Trustee or their advisers, may give you advice about your personal finances. This booklet does not seek to give any sort of advice. If you are at all uncertain you may wish to consider taking independent financial advice. You can find an adviser in your local area using a service such as *www.unbiased.co.uk*. Remember to check that whomever you speak to is properly qualified to give you advice and ask about what they will charge you for providing the advice before seeing them. The Trustee is not able to recommend a specific financial adviser and does not accept any responsibility for the accuracy or appropriateness of any advice received or acted upon.

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Alternative Formats

If you require this document in an alternative format, please call us on 01904 32 4805. We are able to supply large print, braille and spoken word tapes and CDs of all our documents.

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