

The Pension that comes with your job

Additional Voluntary Contributions (AVCs)

Improving your retirement benefits

As a member of the Local Government Pension Scheme (LGPS) you can pay Additional Voluntary Contributions (AVCs) to improve your retirement benefits. AVCs offer great flexibility. You can choose how much to contribute up to a maximum of 50 per cent of your gross earnings in any pay period. You can increase, decrease, or even suspend and restart your payments. Payment can normally start from your next pay day. The AVCs deducted are shown on your pay slip and each year you receive a statement which sets out the current value of your investment.

AVCs are deducted from your earnings before tax -
so you get full tax relief on your payments.

How the AVC fund can be used at retirement

When your LGPS benefits are put into payment, you will have the following options to use your accumulated AVC fund.

- You can use the entire AVC fund to buy an additional pension.
- You can take up to 100 per cent of the AVC fund as an additional lump sum (but see the 25 per cent limitation explained below).
- You can take some of the fund as an additional lump sum and use the remainder to buy an additional pension.
- You can leave it invested with the AVC provider, although it must be paid out before you are 75 years of age.

Under the current HMRC taxation rules, any additional lump sum paid from your AVC fund is tax free provided it does not exceed 25 per cent of the overall value of the retirement package being put into payment (LGPS benefits and/or AVC fund). The value of your retirement package is calculated as twenty times your annual pension plus the total lump sum paid out.

(Note that HMRC can change their rules governing the use of AVCs without notice.)

Further information

If you move to another employer and elect to transfer your main Scheme benefits, your AVC investment will normally be transferred at the same time to your new employer's AVC provider.

If you should die before retirement your AVC fund will be paid out as instructed by the administrator of your estate. There is also a separate AVC facility to increase death-in-service benefits without acquiring an investment fund.

You may prefer to pay additional regular contributions (ARCs) to buy extra LGPS pension. You can enter into a contract to pay a fixed monthly amount over an agreed number of years to purchase an additional pension of £250 per annum, or multiples thereof, up to a maximum of £5,000 per annum.

Investing your AVCs

AVCs must be invested separately from the Isle of Wight Council Pension Fund. The council has carefully selected Prudential as their in-house AVC provider, so you may choose to invest your AVCs in one or more of the following Prudential funds:

The Deposit Fund

Your savings earn interest calculated on a daily basis. Once credited interest cannot be taken away. The rate of interest may be adjusted fairly frequently in line with the Bank of England base rate.

There is no minimum to the amount of AVCs which can be paid.

Prudential make no expense charge to the amount of your AVCs.

Investment in the deposit fund can be regarded as safe because the value of your fund cannot fall below the value of your accumulated AVCs.

The With Profits Fund

This is a fund with the Prudential which grows annually by the addition of bonuses.

A basic rate of interest is added to your account once a year. In addition an annual bonus is credited to reflect the investment income achieved over the past year. A final bonus is also stated each year which reflects how the investments are expected to perform in the following months and is therefore not guaranteed. The final bonus is added to your account when your investment is paid out.

To protect all policyholders, Prudential reserves the right to adjust the amount of bonuses applied in respect of any new or increased AVCs made into the fund within five years of retirement.

Investment in the fund should provide a relatively stable rate of return reflecting long-term trends in investment markets.

The Discretionary Fund

This 'unit-linked' fund managed by the Prudential offers you the opportunity to participate more directly in the movement of the value of the underlying assets. Your AVCs purchase units in a fund which is invested in a wide-ranging portfolio of investments.

Your investment could grow with the overall increase in the value of the units purchased. It is, however, important to remember that investment results will fluctuate with the performance of financial markets, so unit prices can go down as well as up.

The minimum amount of AVCs which can be used to buy units in the discretionary fund is £20 per month or £5 per week.

A percentage of each of your AVC payments will be used to buy units at the appropriate 'offer' price. The 'offer' price includes an initial charge of 5 per cent. The 'bid' price of units (i.e. the price at which units are released upon retirement) will be 5 per cent lower than the 'offer' price on that day.

There is also a fund management charge of 0.75 per cent which is allowed for in the unit prices.

It is possible to redirect or switch your AVCs between the three investment funds.

Contact the council's pensions office for further information about the payment of both AVCs and ARCs, e.g. to start paying AVCs or ARCs or to change to existing arrangements. The pensions office is located in room 208 on floor two of County Hall. The telephone number is 823626.

Forecasts and investment information can be obtained from Prudential. See their website www.pru.co.uk/content/schemes/localgovavc/home/choice_of_funds/scheme_fund_info/iow/ or telephone 0845 6000 343.