Things you can do today to make a brighter tomorrow

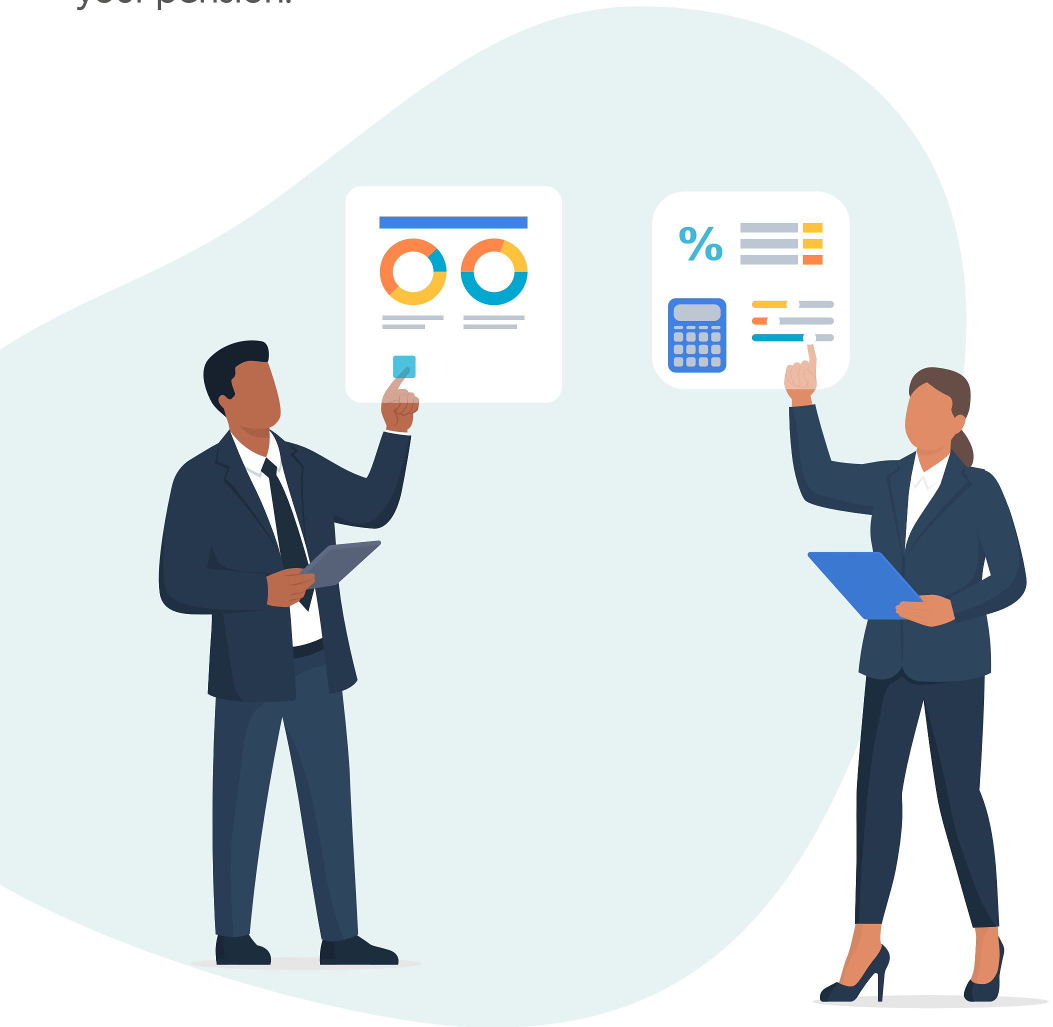
A guide to AVCs

In this guide

As a member of the National Gas Transmission Pension Scheme, you can increase your income in retirement by paying Additional Voluntary Contributions (AVCs). This guide explains the options available to you and how they could help you achieve your retirement goals.

A beginner's guide to AVCs

Depending on when you stop working, your retirement could last for more than 30 years. How you spend that time will depend on your financial position. As an active member of the National Gas Transmission Pension Scheme, you're already entitled to a generous level of benefits, but do you want to give your benefits a boost? If you do, AVCs are an option to save more towards your pension.



How do they work?
While not the simplest of subjects, AVCs are not as complicated as they sound. Essentially, you're making a choice to put more in to get more out! The important points to understand before going any further are:

- you pay AVCs in addition to your normal contributions, but they're deducted in the same way
- AVCs are a flexible way of increasing your existing pension benefits
- AVC benefits can't be taken until you retire, so think of them as a long-term investment
- AVCs are tax-free, provided you don't go over the Annual Allowance (see page 16).

Why AVCs?

You may be considering ways to increase the level of benefits you'll receive at retirement. AVCs can be a very flexible and tax-efficient way to help you achieve this. However, it's important to discover what your reasons are for exploring AVCs, as they could affect the decision you make.

Regardless of how near or far away retirement is for you, it's important to think about your retirement goals:

- What kind of things do you hope to do in retirement?
- How much is your retirement lifestyle likely to cost (including day-to-day living costs)?
- How are you going to fund it all?

Asking yourself the following questions might help:

- At what age do you plan to retire or take your pension benefits?
- How many years do you have between now and then?
- Will you have any other savings or investments?
- How much can you afford to save towards your retirement?

Once you have an understanding of your own situation and goals, you can start to consider your AVC choices.

What are ‘people like me’ thinking?

To help you in the choices you might want to make, here are some typical Scheme members’ reasons for considering AVCs. We’ll refer back to these members throughout this guide to help explain the choices available. These examples aren’t intended to provide you with specific advice, but we hope you’ll find them useful.

AVC Boost

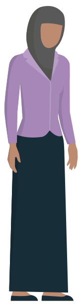
Max, 40

Max doesn’t think his current plans are going to provide him with enough for the kind of lifestyle he wants in retirement. So, Max is looking at paying AVCs as a way of boosting his retirement benefits.

AVC Time

Julie, 55

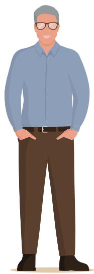
Julie joined the Scheme later on in her career. As a result, Julie hasn’t had enough time to build up the level of benefits she needs and is looking to make up for lost time by paying AVCs.



AVC Early

Ava, 45

Ava wants to retire at age 57. This is earlier than the Scheme’s Normal Retirement Age of 65, and Ava’s pension would be reduced to reflect the fact it’s likely to be paid for longer. Paying AVCs can help Ava to build up additional benefits before she retires.



AVC Lump sum

Warren, 60

Warren has set himself a goal of a trip to New Zealand to visit his grandchildren when he retires. He’s planning on taking a tax-free cash sum at retirement to do this but is worried about the impact this would have on his annual pension. Paying AVCs would help Warren build up enough savings to provide this cash without having to sacrifice any of his annual pension.

AVC Invest

Celine, 50

Celine’s been looking for ways to save some disposable income in a tax-efficient way. AVCs give Celine an alternative to more typical savings vehicles, like ISAs. However, it’s important for Celine to remember that she might not be able to withdraw her money early like other savings or investment options.

Understand your options

Once you've thought about your reasons for AVCs and your retirement goals, the next stage is to decide which option best suits your circumstances. There are two options available:

Option 1: the Added Years approach

You buy extra service, which is added to your Scheme service and counts towards your final pension calculation. See pages 8 and 9 for more detail on this approach.

AVC Boost

AVC Time

AVC Early

Advantages

Your AVC benefits don't depend on the performance of an investment fund or the cost of pensions at the time you retire. This means that:

- you can work out how much extra pension at retirement your Added Years will buy
- your Added Years pension increases each year in line with your Scheme pension
- your dependants are potentially entitled to valuable additional benefits should you become ill or die.

The Added Years approach may be more appropriate for Max, Julie and Ava (see page 5) because it gives them a greater level of certainty.

Option 2: The Money Purchase approach

You invest your contributions in a choice of funds. When you come to retire, they're used to buy additional benefits.
See pages 10 and 11 for more information about how it works.

Advantages

Your AVC benefits depend on market performance, which means that:

- you can play an active role in how your AVCs are invested, with a choice of funds
- the amount of AVCs you can pay is more flexible than Added Years AVCs
- subject to statutory allowances, you can use your AVC account to fund part or all of your tax-free cash sum at retirement, thereby protecting your Scheme pension
- if you're not taking a cash sum at retirement, you can use your Money Purchase AVCs to buy additional pension in the Scheme or transfer them to another provider to access other options such as income drawdown, an enhanced annuity or a flexible retirement income.

AVC Lump sum

AVC Invest

Celine and Warren (see page 5) might prefer the Money Purchase approach because it gives them greater control, choice and flexibility.

You can contribute to both options, subject to the 15% Scheme limit. The 2% increase to members' pension contributions that came in from 6 April 2016 is treated separately from the rest of your pension contributions and sits outside of the 15% Scheme limit. Please speak to the Scheme administrator for more information.

Option 1: the Added Years approach

If you've decided that the Added Years approach is better suited to your circumstances, the next step is to work out how many Added Years you'd like to buy. To do this, you'll need to look at the two key factors which affect how much pension you're entitled to receive from the Scheme:

- **Your Pensionable Salary***

  This is your Pensionable Salary at or near retirement.

- **Your Pensionable Service**

  This is the number of qualifying years and days you'll have been a member of the Scheme at retirement.

The Added Years approach to paying AVCs means the additional contributions you pay go directly into the Scheme, where they buy extra Pensionable Service. Each Added Year increases your pension by 1/60th of your final Pensionable Salary*, depending on the start date of your contributions.

***A note about Pensionable Salary**
For Added Years contracts taken out before 1 April 2014, your contributions and extra pension are based on Uncapped Pensionable Salary. For those taken out from 1 April 2014, your contributions and extra pension are based on Capped Pensionable Salary.

How does it work?

Step 1: work out the cost to you

The cost of your Added Years AVCs depend on your age and your pensionable pay. The pensions team will be able to tell you how much your benefits would increase by and the cost.

Step 2: decide how many Added Years you want to buy

Based on the information provided by the pensions team, you decide how many Added Years of Pensionable Service you want to buy.

Step 3: decide how you want to contribute

You can make a one-off payment or monthly contributions as a percentage of your salary. Monthly contributions are deducted in the same way as your normal contributions and the extra Pensionable Service you buy starts from the day of your first AVC payment.

Step 4: when you retire

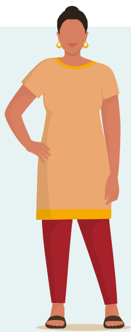
When you reach retirement or leave service, the Added Years you've purchased are included in your main pension.

Please note:
There's a limit on the amount of AVCs you can pay into the Scheme. This limit is 12% of your Capped Pensionable Salary plus 15% of any other taxable pay.

If you're a former ESPS member, these rates are different, please contact the Scheme administrator for more information.

AVC Early example

Ava wants to retire early at age 57, so any Added Years she's purchased are added to her main pension.



AVC Time example

Julie considered the Added Years approach to be more suited to her circumstances. Based on her current Capped Pensionable Salary of £40,000, the cost of buying one Added Year is £440* per month. This will provide her with extra pension of approximately £667 per year (increasing as her salary increases).

*This cost increases in line with increases in Julie's Capped Pensionable Salary.

What happens if...

I have to retire due to ill health?

After paying in for five years, the extra Pensionable Service you've been paying for will be awarded in full.

I die?

You can choose a spouse's pension that will provide retirement benefits to your partner on your death, or you can opt for a pension that only provides for your retirement.

I leave the Company or retire early?

If you leave before age 60, extra pension from Added Years AVCs will be calculated based on your pensionable pay at the time you leave and will be reduced because you're ending contributions early. If you retire before 60, your additional pension will be further reduced for early payment.

I want to reduce the level of AVCs I pay or stop altogether?

Paying AVCs is your decision and you can reduce the level of AVCs or stop paying them altogether at any time. If you reduce your AVCs, you'll be reducing the number of Added Years and days you'll receive. The less you pay the less you get.

Option 2: The Money Purchase approach

If you've decided that the Money Purchase approach is better suited to your circumstances, the next step is to consider your investment strategy and the fund(s) you'd like to invest in. The Money Purchase approach has the advantage of giving you greater control but with it comes greater responsibility for the choices you make, so there are more steps for you to consider.

How does it work?

Step 1: think about your retirement goals

Before making your decision it's important to think about your retirement goals, the time you have left until retirement and your attitude to risk.

Step 2: understand the risks

- Investment risk – the possibility that the value of your investments could go down
- Inflation risk – the possibility that while the value of your investments may increase, it could fail to keep pace with inflation
- Pension conversion risk – if you're considering taking your AVCs as a pension and if long-term interest rates are falling and the price of bonds is increasing, the amount of pension you could buy with your fund may be lower than expected.

Step 3: understand your investment options

The table on page 12 provides an overview of the funds available, their associated risk and what each fund aims to achieve. These are 'notional funds' which means your contributions will be converted into units. The aim is that the value of your units will track (follow) the ups and downs of a specific financial index, for example the FTSE All-World Index.

Step 4: choose your investment option

Once you've considered your retirement goals, the risks involved, and learned about the different types of asset classes and funds available, you need to choose your AVC investment option – lifestyle or self-select.

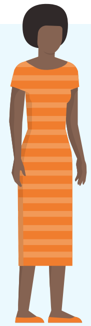
Lifestyle options

The Cash Targeted Lifestyle Option invests in the Global Equity Fund and then gradually switches to the Deposit Fund five years before your retirement to help protect the value of your investment from a sudden drop in market conditions before you retire. It's aimed at people who plan to take their AVCs as tax-free cash from the Scheme.

The Annuity Protected Lifestyle Option invests in the Global Equity Fund and then gradually switches to the Index-Linked Gilt Fund five years before your retirement to help protect the value of your investment from a sudden drop in market conditions before you retire. It's aimed at people who plan to take their AVCs as Scheme pension.

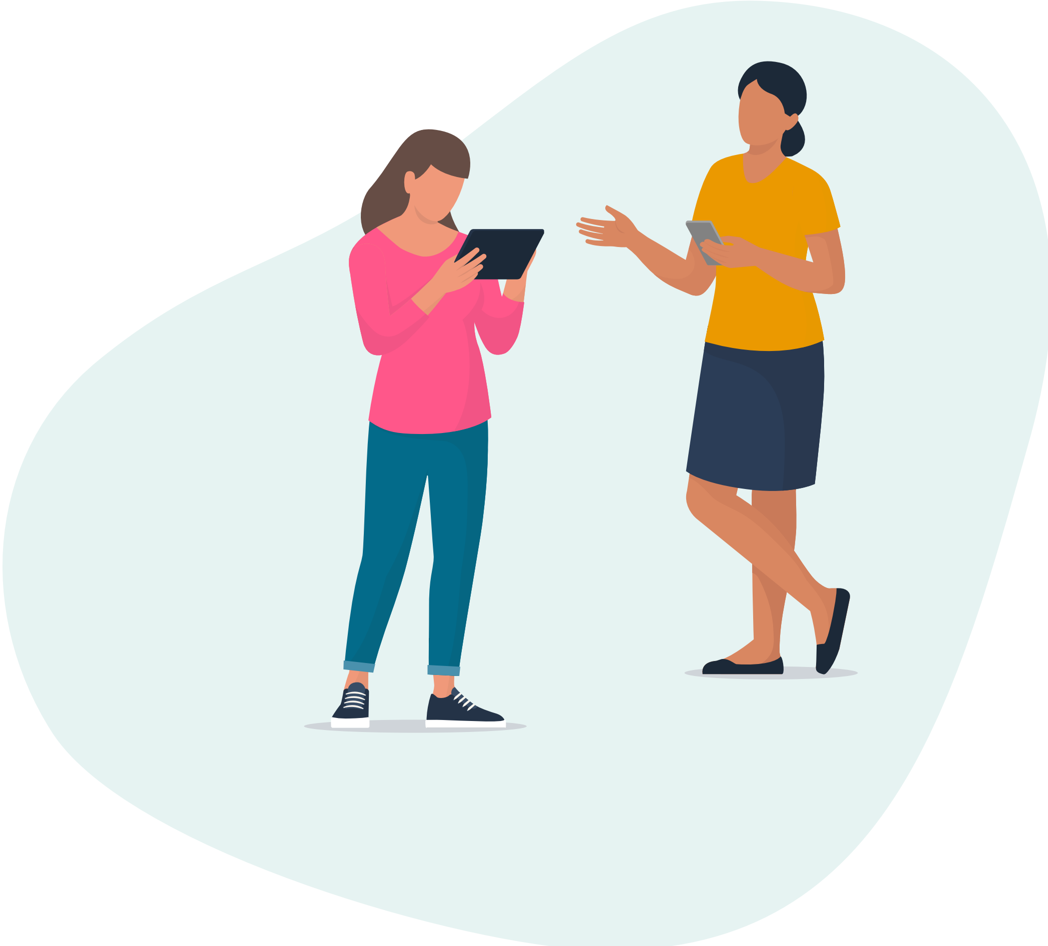
Self-select

As an alternative to choosing one of the lifestyle options, you can choose to invest in the Deposit Fund.



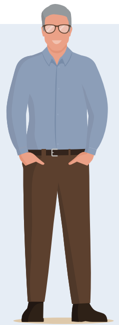
AVC Invest example

Celine has 20 years until she retires, so she'd like to try and protect her AVC funds against the risk of inflation with an investment strategy that aims to achieve a higher level of growth.



Money Purchase: investment options and funds

Fund	How it works	Investment aim	Risk
Cash Targeted Lifestyle Fund	Contributions initially buy units in the Global Equity Fund (this fund is linked to movements in the FTSE All-World Index). Five years before your chosen retirement age, funds are gradually switched into the Deposit Fund (this fund is linked to Bank of England base rate). The unit price is calculated monthly.	To achieve steady growth over the medium to long term before gradually switching to lower-risk funds to protect the fund you have built up before you convert it into tax-free cash. Suitable: Anytime.	Some investment risk. This is managed by the switching process in the run up to your retirement. This option may not be appropriate if you intend to take AVCs as pension.
Annuity Protected Lifestyle Fund	Contributions initially buy units in the Global Equity Fund (this fund is linked to movements in the FTSE All-World Index). Five years before your chosen retirement age, funds are gradually switched into the Index-Linked Gilt Fund (this fund is linked to the FTSE Actuaries Index-linked Gilts, over five years Total Return Index). The unit price is calculated monthly.	To achieve steady growth over the medium to long term before gradually switching to lower-risk funds to protect the fund you have built up before you convert it into pension. Suitable: Anytime.	Some investment risk. This is managed by the switching process in the run up to your retirement. This option may not be appropriate if you intend to take AVCs as cash.
Deposit Fund	Contributions are used to buy units where returns are linked to Bank of England base rate. The unit price is calculated monthly.	To protect the fund you have built up as you approach retirement. Suitable: For members nearing retirement.	Inflation risk. Pension conversion risk (this is a low risk if you are planning to take the cash option).



AVC lump sum example

As Warren only has five years until he retires and has a specific investment goal of using his AVCs for his tax-free cash lump sum, he may be more suited to the Cash Targeted Lifestyle or the Deposit Fund which still offers a steady level of growth but will protect the value of his investment.

Money Purchase: things to consider...

Step 5: decide how much you want to invest

Based on the information available, you should then decide how much you want to invest. The number of units you can buy with each contribution will vary according to the unit price for that month. To find out the latest Money Purchase Unit prices, and those for the past five years, please contact the pensions team.

Step 6: decide how to pay your contributions

You can choose to pay either:

- a specified regular amount every month
- a percentage of your taxable pay every month
- a lump sum.

Step 7: when you retire

Your Money Purchase AVCs are used towards your tax-free cash sum.* If you prefer not to take cash, you can use the fund to buy a pension from the Scheme. The cost is calculated by the Scheme Actuary, taking into account interest rates and market conditions at the time you buy the pension.

There are no administration or commission charges.

Alternatively, you can transfer out your Money Purchase AVCs to another pension provider. This would allow you to access a number of other options, including income drawdown, regular cash withdrawals or buying an annuity (a pension from an insurance company). Different options have different rates of payment, different charges and different tax implications.

*If your MPAVC fund is larger than your maximum tax-free cash amount, you can transfer your excess AVCs into another pension arrangement.

Further support

Pension Wise is a government service offering free, impartial guidance designed to help people understand their pension options. You can find out more at **www.moneyhelper.org.uk**

We would also strongly recommend talking to an Independent Financial Adviser (IFA) about your options. Please note that an IFA will charge for any advice given and that any product you buy may be subject to commission and/or management fees.

There's a limit on the amount of AVCs you can pay into the Scheme. This limit is 12% of your Capped Pensionable Salary plus 15% of any other taxable pay.

If you're a former ESPS member, these rates are different, please contact the Scheme administrator for more information.

Money purchase: what happens if...

I have to retire due to ill health?

Your accumulated AVCs will be used to buy benefits.

I retire early?

Providing you haven't already converted your fund into a pension amount, the value of your fund at retirement will depend on the contributions you've paid and the investment performance of your chosen fund(s).

Your Money Purchase AVCs will first be used towards a tax-free cash sum, if this is what you choose at retirement. If you prefer to buy a pension, its value will depend on the cost of buying a pension at the time of purchase.

I leave the Company?

On leaving employment, you can choose to convert your Money Purchase AVCs into pension with the Scheme (which is payable with your Scheme pension on retirement).

The amount of pension purchased depends on your age and market rates at date of purchase.

If you don't choose to convert your fund on leaving, you have the option to do so at any time up to your retirement.

I die before retirement?

If you die in service or die after leaving, without having chosen to convert your Money Purchase AVCs into a pension, your fund will normally be used to increase benefits in the following order:

- lump sum benefit
- a dependant's pension
- a child's pension.

Please note that you can change this order of priority at the time that the AVC contract begins.

I want to reduce the level of AVCs I pay or stop altogether?

Paying AVCs is your decision, and you can reduce the level of AVCs or stop paying them altogether at any time. If you reduce your AVCs, you'll be reducing the extra benefits you'll receive. The less you pay in, the less you'll get.

What else you need to know...

Are my AVCs subject to tax?

No, you don't pay income tax on your AVCs, regardless of whether you choose the Added Years or Money Purchase approach. In the same way as your normal contributions receive full tax relief, your AVCs are deducted from your pay when assessed for tax.

In addition, the investment returns that your AVCs earn under the Money Purchase approach are generally tax free. However, there are limits set by HM Revenue & Customs about the amount of pension contributions you can pay without incurring a tax charge. Therefore, the following allowances apply:

Annual Allowance (AA)
The AA is the threshold for the total amount of pension you can build up in each year from all your pension arrangements before having to pay tax. The current AA for most people is £60,000.

If the value of your total pension benefits for tax purposes (including AVCs and contributions to any other pension schemes) exceeds the Annual Allowance in any year, there will be a tax charge on the excess. Details about how much of your AA you've used up, based on your Scheme benefits (including any AVCs), are included each year on your benefit statement.

Money Purchase Annual Allowance (MPAA)
If you've flexibly accessed benefits from a defined contribution (DC) pension arrangement after 6 April 2015, the MPAA may apply to you. This is the maximum that you can contribute to DC arrangements – including your Money Purchase AVCs – before having to pay tax. The current MPAA is £10,000.

If the MPAA applies to you, and your contributions to Money Purchase AVCs (and any other DC arrangement that you contribute to) exceed the MPAA, there will be a tax charge on the excess.

Lifetime Allowance (LTA)
Before 6 April 2024, there was a limit applied to pension pots called the Lifetime Allowance. Any pension benefits built up over your lifetime above this amount incurred an additional tax charge. The LTA tax charge was removed from 6 April 2023, with legislation expected to abolish the LTA altogether from April 2024.

You should also bear in mind that your pension, once in payment, will be subject to tax under the PAYE system.

Make your choice

We hope this guide helps you think about whether AVCs are right for you. Now it's over to you to decide whether or not you'd like to save extra towards your future.

1. Read this guide

After reading this guide, if you still have any questions, the pensions team is available to talk through the options with you.

2. Get advice

Please remember that the pensions team can't give you financial advice, so if you're not sure whether paying AVCs is right for you, please speak to an Independent Financial Adviser (IFA). To find an IFA local to you visit **www.moneyhelper.org.uk**

3. Complete the AVC application form

Once you've made your decision, please complete and return the AVC application form which is available from **www.ngtpensions.nationalgas.com** or from the Scheme administrator (see contact details below).

Contact us

Email us:
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Call us:
0808 175 3612 (Freephone UK)
(+44) 1483 661 341 (from overseas)

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Nothing in this guide overrides the Scheme Rules or legislation which will apply in the unlikely event of any inconsistency.