

## **Additional Information About Your AVC – Freedom and Choice Rules**

If you are a member with flexible pension benefits, i.e. a LGPS Additional Voluntary Contribution (AVC) plan, you have certain options within the law regarding what you are allowed to do with your AVC fund. I am therefore obliged to provide you with the following information, in order that any choices you make now or in the future regarding your AVC are made on an informed basis.

### **Transfer your AVC fund to another pension scheme or arrangement**

The LGPS does not currently permit flexi-access drawdown of AVC benefits. However, legislation allows additional flexibility to allow accrued AVC funds within the LGPS to be transferred to another provider in order to flexibly access these benefits.

You can therefore transfer your AVC fund to another pension scheme or arrangement, including to a scheme that offers flexible benefits.

If you were to transfer your AVC funds to a defined contribution scheme which provides flexible benefits, the four main flexible benefit options that scheme might offer include:

- to purchase an annuity (regular pension income) or scheme pension (see below)
- taking a number of cash sums at different stages
- taking the entire pot as cash in one go
- flexi access drawdown

You should be aware that there may be tax implications associated with accessing flexible benefits. The income from a pension is taxable; the rate of tax you would pay depends on the amount of income that you receive from a pension and from other sources.

Different providers have different features, rates of payment, tax implications and charges.

It is possible to split the AVC and transfer to one or more pension providers.

If you wish to use flexi-access drawdown on your AVC Fund, you have to transfer your AVC fund to another Scheme, and can do so without also having to transfer the value of your main LGPS rights.

### **Buying an Annuity**

This is where an insurance company, bank or building society of your choice takes your AVC Fund and pays you a pension in return. You would buy an annuity at the same time as you draw your LGPS benefits. An annuity is paid completely separately from your LGPS benefits.

The amount of annuity depends on several factors, such as interest rates and your age. You also have some choice over the type of annuity, for example whether you want a flat-rate pension or one that increases each year, and whether you also want to provide for dependants' benefits in the event of your death. Annuities are subject to annuity rates which in turn are affected by interest rates.

When interest rates rise, the organisation selling annuities is able to obtain a greater income from each pound in your AVC fund, and therefore provide a higher pension. A fall in interest rates may reduce the pension which can be purchased.

Income from a pension plan is taxable and that the rate depends on amount of income from other sources.

In our retirement letters this is referred to as the 'Open Market Option'.

## **Statement of options available under LGPS scheme rules**

### **Take your AVCs as cash**

You can take some or all of your AVC fund as a tax-free cash lump sum but you can only take it all as a lump sum if you draw it at the same time as your main LGPS benefits and provided, when added to your LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund).

Also, your total lump sum cannot be more than a separate HM Revenue & Customs' limit of 25% of the current lifetime allowance.

There are instances where your AVC fund is more than you can take as a one-off tax-free lump sum of money. This means that we have told you the most lump sum that you can have, and you would have to take the rest of your AVC fund as extra pension income.

If the lump sum limit applies to you, the extra LGPS pension the pension fund can provide for you using the remaining AVC fund will have been included in the amounts in the retirement options letter. However you could if you wish take the 'Open Market Option' and use the remainder of the AVC fund to purchase a pension income from a provider of your choice.

### **Take your AVCs as extra LGPS pension**

As mentioned above, there are instances where your AVC fund is more than you can take as a one-off tax-free lump sum of money. This means that we have told you the most lump sum that you can have, and you would have to take the rest of your AVC fund as extra pension a year.

However even if you are not subject to these limits, you can still choose to use some, or all, of your AVC fund to buy extra pension from the LGPS.

This extra pension from the LGPS would increase each year in line with the government's measure of inflation (the Consumer Prices Index) so that it keeps pace with the cost of living throughout your retirement. If you have a spouse (a husband, wife or civil partner), or an eligible cohabiting partner, the extra pension would also provide a Survivor's Pension for them when you die.

When you become entitled to your pension benefits, the extra LGPS pension the pension fund can provide for you will be included in the amounts in the your retirement options letter. However you could if you wish take the 'Open Market Option' instead and use the AVC fund to purchase a pension income from a provider of your choice.

**Regulatory note:** It is the case that deferred LGPS members who left the LGPS before 1<sup>st</sup> April 2014 do not have the option to use any of their AVC fund to purchase a pension income directly from the LGPS Pension Fund, which is something that is afforded to those that left the scheme after 1<sup>st</sup> April 2014.

### **Leave your AVCs invested and use them later (some restrictions apply)**

If this pension does not include any LGPS membership from after 1<sup>st</sup> April 2014 because you left before this date, you can choose not to take your AVC fund now as part of your overall retirement benefits. However you must take payment of your AVC fund by age 75.

You will be able to use your AVC pot to buy a regular pension income and/or take a lump sum of money. It is important to note however that in this situation, the most lump sum that you could take tax-free would be limited to 25% of your AVC pot.

However if this LGPS pension includes membership accrued after 1<sup>st</sup> April 2014, then the option to defer the AVC does not apply to you.

## Things you need to think about

It is important to make sure you have enough money to live on throughout your retirement. You should think about your own personal circumstances and whether you should get a regular pension income from your AVC pot, or take it as a lump sum of money in one go, or take it as lump sums of money in stages (this option is only available if you transfer the AVC).

You should also consider that the money that you get from a pension counts towards any income tax that you might have to pay.

Transferring your benefits from the LGPS has the potential to adversely affect your eventual retirement income or the potential income of your widow, widower, surviving civil partner, nominee, successor or other dependant

## More Information

The choices you have to use your AVC have different features, different rates of payment, different charges and different tax implications.

The **Money Advice Service** is an independent service set up by the government. Their guide '**Your pension: it's time to choose**' tells you what you might be able to do with a pot of pension money, and things you should think about. This includes taking 'flexible benefits' from another pension arrangement.

Find an information guide in the 'Guides' area of their website: [www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk)

### Guidance and Advice

Pension guidance is available from the Government's guidance website Pension Wise if you are considering taking flexible benefits. The guidance is free and impartial and can be accessed on the internet, by phone, or face to face. For more information see [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) or call **0800 138 3944** or **0300 330 1003**.

**If you are considering taking flexible benefits you should consider accessing this pension guidance and taking independent advice to help you decide which option is most suitable for you.**

**Please note, Pension Wise does not provide guidance about taking benefits from a defined benefit scheme such as the LGPS (i.e. your main scheme benefits).**



Dear Sir or Madam,

You now have more freedom when taking your pension money. To help you understand your options, the government has set up a free and impartial service called Pension Wise.

Pension Wise gives:

- guidance on your pension options and how to make the best use of your money
- information about tax when taking money from your pension
- tips on getting the best deal, including how to compare products, get financial advice and avoid scams

Go to [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) or call **0300 330 1003** to book a free phone or face-to-face appointment for specialist guidance on what you can do with your pension pot.

Yours faithfully,

Pension Wise

## Financial Advice

You should also **think about getting independent financial advice** from an authorised Financial Adviser about what is the best thing for you to do in your own personal circumstances.

If you are thinking about transferring your AVC pot out to another pension arrangement you should think about getting advice from an authorised Financial Adviser who is a **pensions' transfer specialist**.

We cannot tell you which Financial Adviser you should speak to, but you can check if your Financial Adviser is authorised by the Financial Conduct Authority on their website at:

[www.fsa.gov.uk/register/firmSearchForm.do](http://www.fsa.gov.uk/register/firmSearchForm.do)

## The Leicestershire County Council Pension Fund cannot give you any financial advice about what you should do with your AVCs.

Disclaimer: This factsheet provides an overview of the AVC rules and is based on current understanding. It should not be treated as a complete and authoritative statement of the law. The rules governing AVCs can be complex and are subject to change. There are also restrictions on transferring AVC funds in some rare cases. If you proceed further and request a transfer quotation in respect of your AVC fund, information about these restrictions will be found in the wording of the discharge forms. Ultimately, if you are unsure how to proceed you are advised to obtain independent financial advice.