

## Usdaw Staff Superannuation Fund - AVCs

As a member of the USDAW Staff Superannuation Fund (the Fund) you are able to pay Additional Voluntary Contributions (AVCs) into the AVC arrangement with Royal London.

The Trustees have therefore prepared this communication to aid your understanding of AVCs and to:

- Outline what AVCs are and how they work
- Remind you of the benefits of paying AVCs
- Provide an overview of how AVCs are invested
- Give you an overview of the options available for AVCs at retirement

### What are AVCs and how do they work?

AVCs allow you to pay more to build up additional benefits for retirement.

If you choose to pay AVCs, they are invested separately in funds managed by the AVC provider, Royal London. All AVC contributions are invested in a Royal London With-Profits fund.

AVCs will be taken from your salary in the same way as your normal contributions to the Fund. Contributions are normally paid using salary exchange, unless you have either opted out or not been included in the arrangement. Please see the salary exchange documentation available on the staff intranet for further information.

You can pay as much or as little as you like into the AVC arrangement as long as you don't exceed the Annual Allowance, which applies to all of your pensions. For 2022/23 this limit is set at 100% of your income, with a cap of £40,000. However, please note that this limit can be significantly reduced if your earnings from all sources are over a certain level (above £200,000 per annum, excluding pension contributions). If you believe you may be impacted by this, we recommend you seek independent financial advice.

The value of your AVCs at retirement will depend on how much you paid into your AVC pot, the length of time that each contribution has been invested, the performance of the With-Profits fund and the associated level of bonuses/penalties applied. It is worth noting that the value of your investments can go down as well as up and you may not get back the amount you put in.

If you leave USDAW before retirement, your AVC contributions would cease when you leave. The value of your AVC fund would continue to be invested until it is paid out. Your AVC can be transferred to another pension arrangement, subject to any surrender penalties, or taken at retirement along with your Fund pension.

If you die before retirement then your accumulated fund would transfer to a named dependent. Benefits on death post retirement would depend on the option you have chosen at retirement.

### The benefits of paying AVCs

There are a number of benefits to paying AVCs and we have outlined some below:

- In the same way as your contributions into the Fund benefit from tax relief, AVCs also receive tax relief. Both the Fund and the AVC arrangement operate under a net pay arrangement meaning that pension contributions are collected before income tax is

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deducted, meaning that no income tax is paid on these AVC contributions. So for example, an AVC contribution of £100 will effectively cost a basic rate taxpayer £80, and a higher rate taxpayer £60. If you make contributions using salary exchange the savings will be higher than this.

- The Rules of the Fund enable members to use their AVC pot to fund their tax free cash lump sum payable from the Fund. This enables members to take a higher pension from the Fund.
- You are able to choose how to take your AVCs at retirement to accommodate your needs in retirement. Further details are set out below.
- AVCs enable you to boost your retirement income. It is important to consider the level of income you will need in retirement. Your annual benefit statement sets out your pension from the Fund at Normal Retirement Date and therefore you should consider whether you would benefit from paying AVCs or increasing your existing AVC contribution. The sooner you start paying AVCs, the longer your AVC fund will have the opportunity to grow.

### Overview of the With Profits fund

Your contributions are pooled together with those paid by other people and are invested in the Royal London Co-Operative Insurance Society With-Profits Sub fund (the With-Profits fund). With Profits funds operate differently to most investment funds and we thought that it would be helpful to provide a summary setting out how they work.

The With-Profits fund is invested in a range of different types of investment, such as shares, property, bonds and cash.

With most policies, the amount of growth on the money that you paid in depends mainly on the performance of the investments in the With-Profits fund. The costs of running the fund are deducted and what is left over (the profit) is available to be paid to investors.

You get your share of profits in the form of annual and interim bonuses added to your policy. This is usually “smoothed” so that in years where investment returns are high, some is held back to allow bonuses to be paid in years where investment returns are low.

A final or terminal bonus may also be payable when you retire and it is designed to broadly reflect the actual performance of the fund over the period that you invested.

Usually, once added, bonuses can't be taken away. But Royal London can claw back some or all of the bonuses paid by making a Market Value Reduction (MVR) or Market Value Adjustment (MVA) to your policy if you surrender early (i.e. you transfer out or take your benefits before your retirement date). This is most likely in times of adverse investment conditions like a stock market crash.

Annual AVC statements set out details of your plan value, including annual bonuses, estimated values at retirement, transfer values, including the value should you die before retirement.

Please bear in mind that there is no guarantee to the level of future bonuses and that past performance is not a guide to future growth.

### Options for AVCs at retirement

You will be able to use your AVC fund in a variety of ways, although not all of these are available as options within the Fund. These options remain subject to change owing to any future changes in legislation; however, currently individuals may access defined contribution funds in the following ways at retirement:

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- You are able to use the value of your AVC policy towards taking your tax free cash from the Fund, instead of having to commute any of your defined benefit pension.
- Up to one quarter of your fund can be taken as a tax free lump sum, with the remainder continuing to be invested. Individuals can then choose to draw an income from the residual funds as and when they like. The residual funds will continue to be invested in a tax-efficient manner, with the aim of achieving further investment growth before they are withdrawn from the pension pot as income. Flexi-access drawdown payments will be classed as taxable income.
- The fund can be taken as a single lump sum payment, or a series of lump sum payments. Any residual funds will continue to be invested in a tax-efficient manner, with the aim of achieving further investment growth before they are withdrawn from the pension pot as a lump sum. One quarter of each lump sum payment will be tax free, with the remainder classed as taxable income.

Please note while all of the above options are available to individuals with defined contribution funds, only the first option is available within the Fund. If you wish to access your benefits in any other way, the value of your AVC pot must be transferred to an alternative pension arrangement, and unless you are taking a transfer value prior to retirement you must take your AVCs at the same time as your Fund benefits.

### **Further Information**

We hope you find this information useful. Should you require any further information or if you wish to make any changes to your AVC policy or start paying AVCs please contact the Secretary to the Trustees at the Union's Head Office.

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If you are unsure what to do, we recommend you consider taking independent financial advice. You can find an advisor online at [www.moneyhelper.org.uk](http://www.moneyhelper.org.uk), and searching for 'advisor'.

**The Trustees of the USDAW Staff Superannuation Fund**  
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