Boosting your
Plan benefits

University of Newcastle upon Tyne Retirement Benefits Plan (1971)

your guide to paying
Additional Voluntary Contributions
No matter how far away retirement may seem, it’s important to consider your current level of retirement savings and the income this will provide. To enjoy a comfortable standard of living when you retire, it’s wise to plan your savings well in advance. The earlier you start, the easier it will be to secure the income you want.

Your membership of the University of Newcastle upon Tyne Retirement Benefits Plan (1971) gives you access to a wide range of benefits, including life assurance and the opportunity to build up valuable pension rights with the help of your Employer.

The Plan also offers members the option to boost their retirement income by paying Additional Voluntary Contributions (AVCs). There is scope for almost everyone to improve their retirement benefits and AVCs offer a flexible, tax-effective way to make savings in addition to your main Plan pension.

AVCs can be a particularly attractive option if you would like to:

- make up for any times during your career when you were not earning pension;
- make up for some or all of the reduction in your pension if you retire early;
- simply increase the amount of your pension at retirement; or
- provide extra protection against inflation for yourself or your dependants.

The purpose of this leaflet is to explain in general terms the advantages of paying AVCs and to set out the AVC investment options available to you.

Before considering AVCs, please remember that, just like the main Plan benefits, these are long-term savings which you cannot draw upon until you retire. However, if you have a target income at retirement and are able to make additional savings, AVCs may help you to meet that target. You should consider carefully how much you wish to save each month.

It is also important to note that AVCs are only one of a number of ways you can make additional retirement savings. You may wish to seek independent financial advice before making any decision to start paying AVCs.

Important note: the Trustees of the University of Newcastle upon Tyne Retirement Benefits Plan (1971) are not authorised to give financial advice and cannot advise you on which investment options might be best suited to your own specific circumstances. If you are in any doubt about which investment options to choose, the Trustees recommend that you seek independent financial advice.
are you on target?

If you want to secure a reasonable standard of living when you retire, you can make a start by finding out how much you might receive at retirement, based on your present level of pension contributions. Your annual benefit statement from the Plan (and, if applicable, your AVC statement) provides you with details of your Plan benefits. Why not use your next statement to check if you are on track to meet your retirement plans?

You might also wish to take into consideration any retirement benefits from previous employers’ pension arrangements, personal pension plans or other savings. This will allow you to build up an accurate picture of your overall retirement income.

In addition, you can request an estimate of your State pension benefits by completing form BR19, which you can request by calling 0845 300 0168 or online at: www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/StatePensionforecast

the advantages of AVCs

Some special features of AVCs (based on current legislation) are set out below:

- AVCs receive full tax relief.
- You decide how much to contribute.
- Your AVCs are invested in your own individual AVC Account. The Plan offers you a choice of investment options for your AVCs (see page 5).
- Interest and investment earnings on your AVCs grow mainly tax free, which means that your savings can grow more quickly.
- You can increase, reduce or even stop your AVCs at any time.
- You don’t have to commit yourself to regular savings. You can pay AVCs as an occasional lump sum if you prefer.
- You have the option to draw your AVCs at the same time as your main Plan benefits OR defer taking your AVCs until any date between the date you retire and your 75th birthday.

making payments

AVCs give you choice and flexibility. You can pay AVCs as a regular fixed amount, as a percentage of your regular pay or as a one-off lump sum. It’s entirely up to you.

If you are a Pensions+ member, you can ask your Employer to reduce your salary and pay your AVCs direct. This way, you will pay less in National Insurance contributions. If you choose to do this, you must commit to paying the same amount of AVCs each month. You can change whether your AVCs are paid via Pensions+ at any time by notifying your employer.

You can pay pension contributions of up to 100% of your taxable earnings each year (or £3,600 per annum if greater) into any pension arrangement that receives tax relief. Your total pension contributions must not exceed the Annual Allowance (currently £50,000, reducing to 40,000 from 2014/15). Any contributions made in excess of these limits will be taxed at 40%.

Whatever your preferred method of saving, your AVCs will receive tax relief. For example, £10 paid as AVCs will cost you £8.00 based on current income tax at 20%.

If you would like an estimate of how much you will need to contribute to buy a target level of AVC pension at a particular age, or how much extra pension you could receive by contributing a percentage of your salary, an independent financial adviser can help.

Please remember that any AVCs you choose to make are paid in addition to your normal Plan contributions.
benefits when you retire

When you retire, you can use your AVC fund to increase your own and/or your dependants’ retirement benefits in several ways.

your pension

You can use your AVCs to buy extra pension for yourself. The amount of benefits that can be bought will depend on your age at retirement, how much you have paid as AVCs, how much they have grown in value and the cost of buying a pension (annuity) when you retire. The rates for buying pensions are not fixed and can vary.

If you wish, you can defer taking AVC benefits until any time between the date you retire from the main Plan and age 75. This option could be particularly advantageous for tax purposes or if pension conversion rates are poor at the time you retire. Please note, however, that you cannot take your AVCs before you draw your main Plan benefits.

cash sum

If you wish, you can choose to take the entire value of your AVCs as a tax-free cash sum, provided it is within the overall tax-free cash lump sum limit of 25% of your total pension benefits (from all sources).

extra pension for your spouse or a dependant

You may use your AVCs to provide an additional pension for your spouse or a dependant when you die.

pension increases

You may opt to use your AVCs to help provide extra security against inflation for your own pension or any pensions that become payable in the future for your dependants.

if you die before retirement

If you die before retirement, the full value of your AVCs will be paid as a lump sum.

If you decide to take your AVC benefits later than your main Plan benefits, and die before your AVC benefits come into payment, the Trustees will use the value of your AVCs to buy an annuity or annuities for one or more of your dependants. If you have no dependants at the time of your death, your AVC benefits will be paid as a lump sum for distribution along with the remainder of your estate.

if you leave the Plan

Under current legislation, if you leave the Plan you must stop paying AVCs. Your AVC options will depend on what you decide to do with your main Plan benefits. Full details are included in your Plan booklet and a summary is shown below:

If you leave the Plan having completed two or more years’ Pensionable Service, you can either:

- leave your AVCs invested until you take your benefits

OR

- transfer the cash value of your AVC benefits to another suitable arrangement.

If you leave after completing less than two years’ Pensionable Service, your options will depend on whether or not you are a Pensions+ member. Please refer to your Plan booklet for details.

If you transfer the value of your main Plan benefits to another pension arrangement, the value of your AVCs will be transferred at the same time.

The Payroll Section of the Finance and Planning Office will provide you with full details of your AVC options if you leave the Plan.
choosing your investments

The Trustees have appointed Prudential plc, one of the world’s largest insurance companies, to provide a choice of funds for investing AVCs. You can choose from the following options:

EITHER automatic lifestyling with:

■ Default Investment Fund

OR one or a combination of:

■ With Profits Fund

■ Deposit Fund

If you choose the Default Investment Fund, you must invest 100% of your AVCs in this option. You cannot mix with any of the other two Funds.

It is important that you weigh up the specific advantages of each Fund before you make your AVC investment choices.

When selecting funds, please consider your approach to investment risk. To help you determine the type of funds that might be suitable for you, we have included a five-point guide to different types of risk (overleaf/opposite). Also, at the end of each Fund description, we have included a note on the level of investment risk that applies.

Default Investment Fund

The Default Investment Fund follows a lifestyle strategy. Lifestyle is designed to allow access to relatively high risk (and potentially high growth) asset classes, such as equities, in the early years of paying contributions. Later, in the period leading up to retirement, lifestyle seeks to lower risk by automatically switching your investments into less volatile assets, such as bonds and cash. The aim is to safeguard your investments against sharp movements in the equity markets near to retirement and to maintain the value of your AVCs in relation to the cost of buying a pension.

Historically, equities have provided the best possible protection against inflation over the medium to long term.

Initially, 100% of your AVCs are invested in equities, split as follows:

■ 50% in the Prudential UK Equity Passive Fund; and

■ 50% in the Prudential Overseas Equity Passive Fund.

Seven years before your retirement age, your AVCs will be automatically and gradually switched into less volatile fixed interest and deposit funds in order to safeguard your investment growth.

The Default Investment Fund will be suitable for a majority of investors, but not all. It is unlikely to be suitable for extremely cautious or extremely speculative investors. It may particularly suit those who do not wish to make their own selection from the other two options or take an active role in managing their investments.

The lifestyle strategy used in the Default Investment Fund is illustrated as follows:

Investment Risk Level: The Default Investment Fund might be most suitable for people with an average to above average tolerance of investment risk.
With Profits Cash Accumulation Fund

In a with profits fund, gains and losses on the underlying assets are not passed on to your investments at the time they occur, but spread over a certain period. The aim of this is to smooth out the effect of investment market fluctuations. The performance of the With Profits Fund depends on the profits and losses of the Fund’s underlying investments and the decisions that Prudential makes in respect of distributing these profits and losses. Investment profits are added to your AVC investments in the form of bonuses. At the time you retire or take your benefits, an additional share of any profits may be added by way of a final bonus. Please note that a final bonus is not guaranteed to be paid.

Regular bonuses are declared by Prudential on the With Profit Fund and these bonuses, once applied, are guaranteed to be paid if the monies remain invested until maturity (usually your normal retirement date). Prudential may reserve the right to withdraw part of the bonus if you withdraw your AVC investments before retirement. This reduction is known as a ‘market value reduction’ (MVR). Prudential has discretion to set the level of the MVR, but it should reflect investment market conditions at the time AVC funds are withdrawn.

With profit funds provide an investment environment whereby investors can be certain of their investment returns once applied. However, they are not as flexible as other investment funds, due to the potential for an MVR to be applied.

**Investment Risk Level:** The With Profits Cash Accumulation Fund might be most suitable for people with an average to below average tolerance of investment risk.

Deposit Fund

Investment returns on the Deposit Fund mirror movements in the Bank of England base rate of interest and returns are declared monthly after any management charges have been applied. It is important to remember that this fund is an investment fund and different to the type of deposit fund that is provided by a bank or building society. For that reason, though the Fund is designed for savers requiring a greater level of stability, there is potential for the value of your investments to rise and fall.

Typically, a deposit fund (or cash fund) is most suitable when used as part of an investment portfolio that includes a range of investments or for protecting the value of savings when approaching retirement (as discussed above in the Default Investment Fund description).

Generally speaking, deposit funds are unsuitable for long-term investment, other than for those investors who are risk averse and unwilling to take any investment risk to increase their returns. This is because long-term returns tend not to be sufficient to protect investments from the risk of inflation, meaning that there is a significant risk of shortfall at retirement.

**Investment Risk Level:** The Deposit Fund might be most suitable for people with a low tolerance of investment risk and for those approaching retirement.

**IMPORTANT NOTE:** although asset-backed investments (such as those investing in stocks and shares) tend to represent the best possible guard against inflation in the medium to long term, please remember that the value of such investments can go down or up and past performance is not a guide to future performance.

If you would like help and advice on how to make the most of tax-efficient savings, please consult an independent financial adviser.
attitude to investment risk – five point scale

To help you consider your own attitude towards investment risk, and so help you determine the type of fund/funds that may be suitable for you, we have outlined five different attitudes to investment risk using the following scale:

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<th>Attitude</th>
<th>Description</th>
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<tr>
<td><strong>Low</strong></td>
<td>I am cautious and dislike risk. I prefer guaranteed benefits or benefits known in advance wherever possible. I accept this may result in lower returns than other risk categories but consider this a price worth paying for certainty of financial security. For investment funds, security of capital is important to me and I accept that this may mean low rates of return being earned, such as in cash/deposit funds.</td>
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<td><strong>Below average</strong></td>
<td>I am prudent in my outlook. I am attracted to security of returns, but I am willing to accept a limited exposure to variable or non-guaranteed benefits where I can see a clear advantage in doing so. In terms of investment funds, I am prepared to tolerate a limited degree of risk that the value of my capital may fall, in the hope of meeting my objectives over the medium to long term. I will accept limited stock market exposure, for example with profits or cautiously managed funds.</td>
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<tr>
<td><strong>Average</strong></td>
<td>Part of my investment strategy should be to provide security for my present and future financial position and, in part, to take opportunities for increased benefits in the future. I am prepared to accept an average degree of risk and am comfortable with exposure to stock-market-based funds, which may result in the value of my capital falling, in return for the potential to provide above average returns over the medium to long term.</td>
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<td><strong>Above average</strong></td>
<td>I am adventurous and aim for above average long-term returns. Security of benefits is a secondary consideration and I can tolerate a higher than average degree of risk in order to take advantage of the opportunities available. I prefer any investment strategy to offer a high degree of exposure to equity funds (stocks and shares) and I understand the performance of such funds may be volatile, for example active managed/equity funds.</td>
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<tr>
<td><strong>High</strong></td>
<td>I am speculative in my approach to investment and I am looking to maximise possible returns rather than secure those already accrued. I am therefore willing to accept a high level of risk. I realise that such an approach may include holdings in specialist funds and products whose performance may be highly volatile. I also appreciate that returns from certain high-risk investment funds may not be quickly converted into cash and that access to reliable data for valuing such funds may be restricted, such as specialist funds.</td>
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If you are unsure about which investment fund or funds are the most suitable for you, the Trustees recommend that you obtain independent financial advice. For details of financial advisers in your area you can contact IFA Promotion on 0800 0853250 or www.unbiased.co.uk

what to do now?

If you are not currently paying AVCs and would like to start, please complete the AVC application form and return it to the Payroll Section of the Finance and Planning Office. If you would like more information about AVCs, or if you would like to amend the level of your AVCs or change your investment options, please contact:

Payroll Section  
Finance and Planning Office  
Newcastle University  
King’s Gate  
Newcastle upon Tyne  
NE1 7RU  

tel: 0191 222 6496  
email: Val.Wall@ncl.ac.uk