April 2020

Additional Voluntary Contributions Explanatory Leaflet

Pension and Assurance Scheme for Lay Employees of the Methodist Church

Introduction

While you were an Active Member of the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) you may have elected to pay Additional Voluntary Contributions (AVCs) prior to the Scheme closing to future accrual on 31 May 2019.

This booklet describes the AVC arrangements set up by the Trustee of the Scheme and the investment strategies available.

You should note that the information presented in this booklet relates to the AVC arrangements provided by the Trustee and does not cover any other arrangements you may have.

The Pensions Office is happy to help regarding any questions that you have on the AVC arrangements of PASLEMC. You should note that they are unable to give you any financial advice, or advise on details of alternative arrangements, for which you should contact an Independent Financial Adviser.

Pensions Office
Methodist Church House
25 Marylebone Road
London NW1 5JR

Email pensionshelp@methodistchurch.org.uk
Telephone 020 7486 5502

How do AVCs work?

The AVC arrangement operates differently to the way your main scheme benefits built up under PASLEMC. The AVC arrangement operates on a defined contribution basis; that is, the contributions that you paid accumulate with investment returns to provide a fund on your retirement or earlier death.

The value of your AVC Fund is dependent upon the amount of contributions paid and the investment returns on your fund. You should note that the value of your AVC fund cannot be guaranteed.

What benefits will I receive at retirement?

At retirement you have the option to receive your AVC fund either as a tax-free cash lump sum (subject to Her Majesty's Revenue & Customs (HMRC) limits) or converted into an additional pension and paid in addition to your main PASLEMC pension.

Alternatively, you can take the value of your AVC fund at retirement and purchase benefits with a provider of your own choice on the open market.

The Government introduced new flexibilities for defined contribution pension pots (including AVCs). The flexibilities allow members to draw their defined contribution pension pots in a variety of ways including drawing down the pension, flexible lump sums and annuities. If you wish to take advantage of the flexibilities you will need to transfer your AVC fund to one or more providers offering the flexibilities. Different pension providers will offer different options in relation to what you can do with the flexible benefits. Different options have different features, different rates of payment, different charges and different tax implications. You should be aware that there may be tax implications associated with accessing flexible benefits. Income from a pension is taxable and the rate at which income from a pension is taxable depends upon the amount of income that you receive from your pension and other sources.

To assist you in understanding your options and deciding whether to take your AVC fund in a fully flexible way, you can receive free, impartial guidance from the Government. A Government body was introduced to assist people in making the most of their money – The Single Financial Guidance Body (SFGB).

The SFGB creates a single government-sponsored organisation which consists of:

- The Money Advice Service
- The Pensions Advisory Service
- Pension Wise

The SFGB is sponsored by the Department of Work and Pensions and has been created to ensure that people have access and guidance to the information they need to make effective financial decisions over their lifetime. For more information on the guidance and how to access this, go to the dedicated website found here: https://www.singlefinancialguidancebody.org.uk.

You should also consider taking independent financial advice at retirement to help you decide which option is suitable for you.

How are my AVCs invested?

AVC Funds are invested with Aegon. The Trustee has chosen a selection of Funds in consultation with their Advisers.

The Funds available are:

- High Equity With Profits (WP2)*
- Scottish Equitable Blackrock Aquila 50/50 Global Equity Index
- Scottish Equitable Blackrock Aquila Over 15 Years Corporate Bond Index
- Active Cash Fund

** existing investors only*

You have the option to split your investment between more than one fund. Although it is not possible to make any further contributions, it is possible to switch your investments to one or more of the available funds. If you wish to switch your investments, please contact the Pensions Office.

How investment funds work?

An investment fund is a fund in which the money from different investors is pooled together, invested in a variety of assets and managed by a professional manager.

When you invest in an investment fund, you buy units in that fund. Each unit represents a portion of the fund's total value. The price of the unit (known as the unit value) depends upon the current market price of the investments held in the fund, less any investment management fees and operating expenses.

As the fund's underlying investments change in value, so too does the value of your units. If the value rises, the total value of your AVC Fund will rise, however, if the value drops, so too will the value of your AVC Fund.

With Profits investments

In this type of investment, you and other fund investors share in the profits and losses of the fund you're invested in. The returns may be smoothed to reduce the volatility you may see with direct equity investments. As a result some of the returns from good years may be held back to increase the return which can be paid in poorer years.

The Fund is a unitised with profits fund and a final bonus may be added upon retirement, or alternatively a market value reduction (MVR) may be applied in certain circumstances when the benefit becomes payable. The terminal bonus and MVR rates are not guaranteed.

Risks associated with Investment funds

The different investment funds will generally offer different levels of financial reward and carry different levels of investment risk. Risk means the chance that your investment will fall, particularly in the short term, and you may receive back less than you expected. Investment returns can also be volatile.

In general, the more risk taken, the greater the chance for long term rewards; however, there is also the chance of greater losses. Equities are considered to be a riskier investment than bonds, but historically, over the long term have given a greater return than bonds. Cash on the other hand offers minimal risk, but historically only provided modest levels of return. Past performance should only be treated as a guide and does not provide any guarantee for the future.

There is no right or wrong decision and you should invest your AVCs in the way that is right for you. You may wish to consider what your investment objectives are, the time that you have to invest in the AVC Fund and also your attitude to risk. You should also remember that if you change your mind as to where you have your money invested you can always switch this to any one or more of the other available funds.

Investment funds

Descriptions of the Funds available, as supplied by Aegon, are detailed below:

Name of Fund	Description	Fees (Annual Management Charge)	Risk rating
High Equity With Profits Fund (WP2)	This Fund offers a guarantee that the unit price will not fall (i.e. guaranteed return of capital including annual bonus additions to date), if held to maturity date. The Fund invests in a wide range of bonds, gilts and equities in the UK and overseas. **Only available if you previously opted to invest in this fund. Switches to this fund are not permitted.**	1.0% p.a.	Average
Scottish Equitable Blackrock Aquila 50/50 Global Equity Index	The fund aims to provide broad exposure to countries around the world and returns consistent with the markets it invests in by investing approximately 50% in UK shares (Equities) and 50% in overseas equities split equally between the USA, Europe and the Far East.	1.0% p.a.	Above average

Name of Fund	Description	Fees (Annual Management Charge)	Risk rating
Scottish Equitable Blackrock Aquila Over 15 Years Corporate Bond Index	The fund aims to achieve a return consistent with the Markit iBoxx Sterling Non-Gilts Over 15 Years Index. It does so by investing in sterling investment grade corporate bonds that have a maturity period of 15 years or longer. A Corporate Bond is effectively a loan made to a company(ies) who agree to pay back the loan at the end of the fixed period (for example 15 years)	1.0% p.a.	Below average
Active Cash Fund	The Fund aims to outperform the LIBID (London Inter-bank Bid Rate) 7 Day GBP rate by 0.05% before charges over rolling three year periods by investing in sterling-denominated money market instruments such as bank deposits, certificates of deposit and short-term fixed interest securities, which together have an average maturity of no more than 150 days.	0.6% p.a.	Minimal

Further information

Further information on each of the funds, including past performance details can be found on the Aegon website at:

With Profits

https://www.aegon.co.uk/support/faq/Understanding-our-products/funds/with-profits-funds.html

All other Funds

https://www.aegon.co.uk/support/fund-prices-and-performance.html

How will I know how my fund is performing?

You will receive an annual benefit statement so that you can see how your fund is building up. You should note that due to the nature of the investments, your account can fall as well as rise.

What benefits are available upon retirement?

The value of your AVC fund at retirement can be paid either as:

(i) A tax free cash sum (subject to legislation and HMRC limits)
(ii) An additional pension payable from PASLEMC
(iii) An annuity (pension) or income drawdown provided by an Insurer of your choice available on the open market
(iv) A combination of a tax free cash sum (up to HMRC limits) plus an additional pension or income drawdown provided by (ii) or (iii) above.

What benefits are available if I die before retirement?

If you die prior to retirement your fund value will payable as a lump sum to your dependants.

What benefits are available?

You will be entitled to one of the following:

(i) A pension or lump sum payable upon retirement
(ii) A transfer of your AVC fund to an external pension arrangement

Can I transfer my AVC Fund to another provider?

You are able to transfer your AVC Fund to an alternative arrangement.

Recycling lump sum payments

HMRC are concerned about members “recycling” their tax free cash sums and you should be aware of their policy.

Recycling will occur if you use a tax free lump sum received upon retirement from one pension arrangement and directly invest this in another pension arrangement.

Consequently, you are not able to use the cash from your AVC fund to invest in an alternative pension arrangement, nor can you invest any cash sum received from an external pension arrangement to increase your AVC fund.

If you have any queries regarding “recycling” you should seek independent financial advice.

Glossary of terms	
Term	**Definition**
Annual Management Charge	This is the amount that you pay when your AVCs are invested in a fund and which is reflected in the value of your AVC Fund. This charge covers the cost of managing the investments.
Annuity	A pension income for life.
Bonds	A type of loan made either to a Company (Corporate Bonds) or a Government (Gilts)
Cash	Cash is holding deposits on the Money Markets.
Corporate Bonds	A loan made to a company. There is an agreed date (maturity date) by which the company must repay the loan at its face value plus a guaranteed rate of interest paid regularly over the life of the bond. Capital gains and losses are made when the Bond is traded before its maturity date. They are sometimes viewed as less secure than gilts because of the danger that the company could cease to trade. This risk is managed by only investing in companies with good credit ratings.
Gilts	A loan made to the UK government. There is an agreed maturity date when the government must repay the loan at its face value plus a pre determined rate of interest paid regularly over the life of the bond. Capital gains and losses are made when the gilt is traded before its maturity date. These are seen as more secure than Corporate Bonds.
Equities	Equities (also known as stocks and shares) represent an ownership position in a company. UK equities are invested in UK listed companies whereas overseas equities invest in those companies listed in an overseas stock market.
Risk (volatility)	The chance that your investments may gain or lose value. The higher the risk, the higher the potential gain or loss.

The Methodist Church

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