SOUTHWARK PENSION SERVICES

Southwark Council
southwark.gov.uk

THE LONDON BOROUGH OF SOUTHWARK PENSION FUND

Administrating additional voluntary contributions (AVCs)

What you need to know

YOUR PENSION CONNECTION

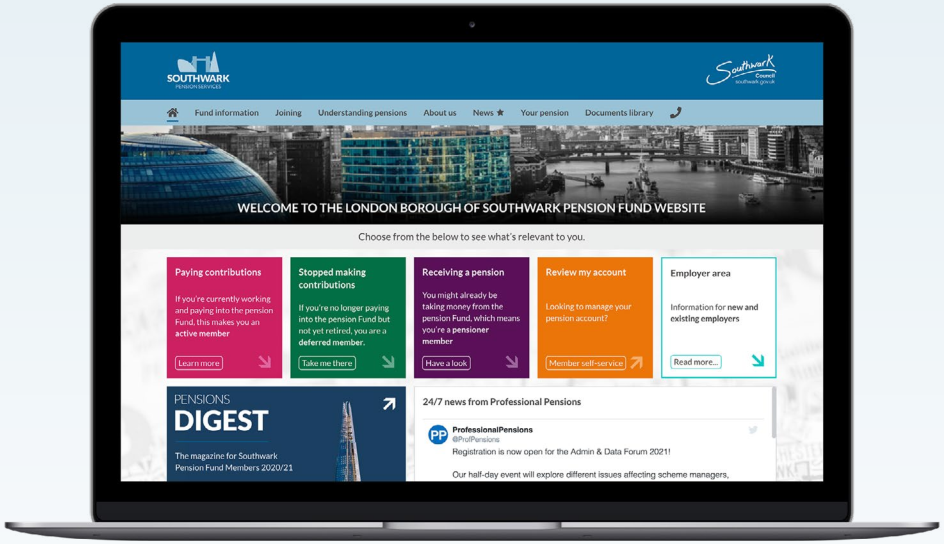
INTRODUCTION

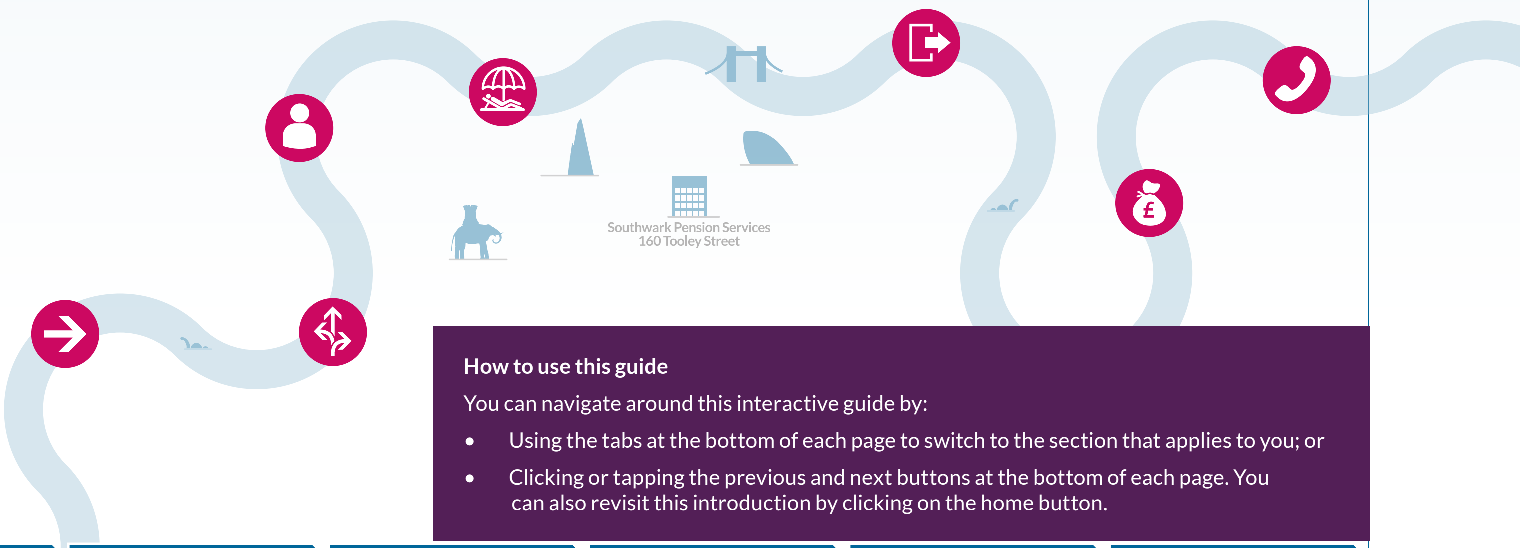
This is a summary of Southwark Council's process of how to administer additional voluntary contributions (AVC) plans for members.

While the Fund has tried to ensure the accuracy of this guide, it is not a legal document and does not confer any rights to the benefits outlined within it. The Fund is subject to UK legislation, any changes to the legislation that come into effect after April 2021 may not be accurately reflected in this guide.

In addition to the guide, the Fund website **www.southwarkpensions.co.uk** contains more information. Southwark Pension Services are also here to help. You can contact them on:

- **lbspensions@southwark.gov.uk**
- **020 7525 4924**
- **Southwark Pension Services**
  Southwark Pension Fund
  PO Box 7606
  WS10 1EJ





How to use this guide

You can navigate around this interactive guide by:

- Using the tabs at the bottom of each page to switch to the section that applies to you; or
- Clicking or tapping the previous and next buttons at the bottom of each page. You can also revisit this introduction by clicking on the home button.

DIFFERENT AVC SCENARIOS TO BE AWARE OF

What are the scenarios?

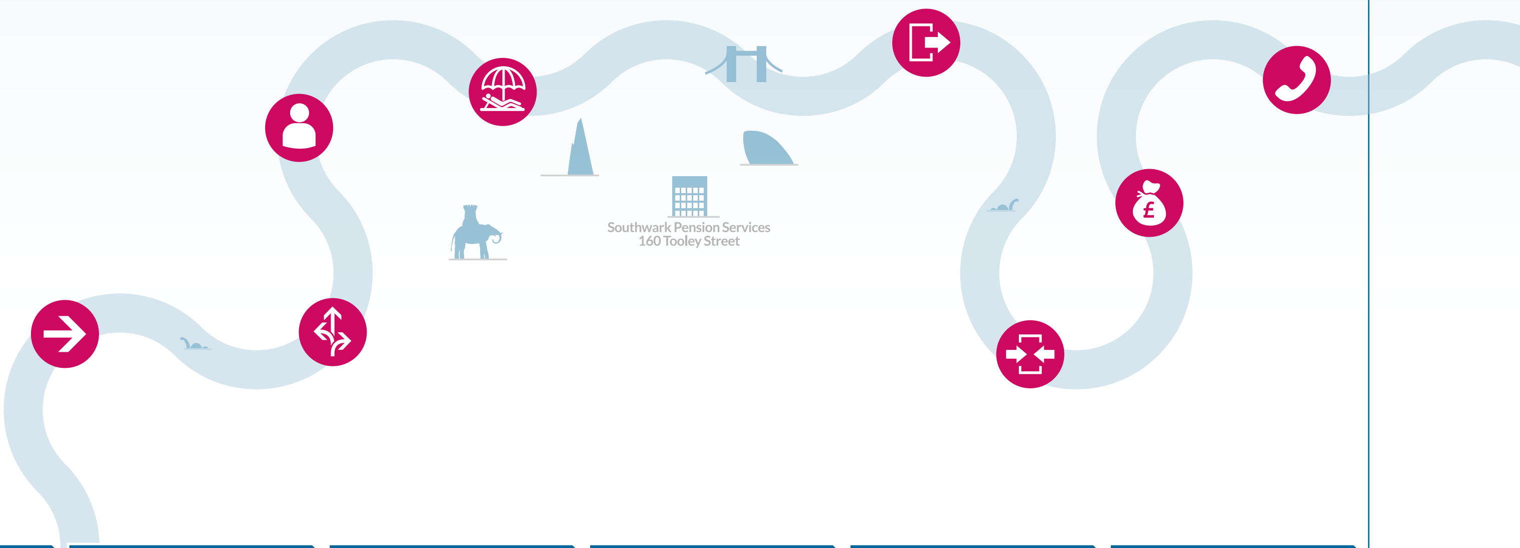
- Member wishes to amend their AVC payments (increase or decrease)
- Member decides to cease paying into the AVC
- Member is leaving to work elsewhere
- Elects to retain AVC and benefits with Southwark Council
- Elects to transfer AVC and benefits to another pension provider
- Elects to retain only the AVC with Southwark Council
- Member elects only to transfer the AVC to another provider

If the member is retiring they might want to:

- Take the AVC as maximum tax-free cash lump sum
- Take the AVC as maximum tax-free cash lump sum and surplus as an annuity within the Local Government Pension Scheme (LGPS)
- Take the AVC as an annuity in the LGPS
- Take the AVC as an annuity with Aegon
- Use the Open Market Option
- Defer claiming the AVC until a later date but before age 75 years old (only pre 2014 members have this option and they lose the option to purchase an annuity within the LGPS if they defer)

What type of pension arrangement are AVCs?

- For clarity, the LGPS is a defined benefit (DB) pension scheme with an in-house AVC arrangement provided for within its regulations
- The in-house AVC arrangement is a defined contribution (DC) scheme

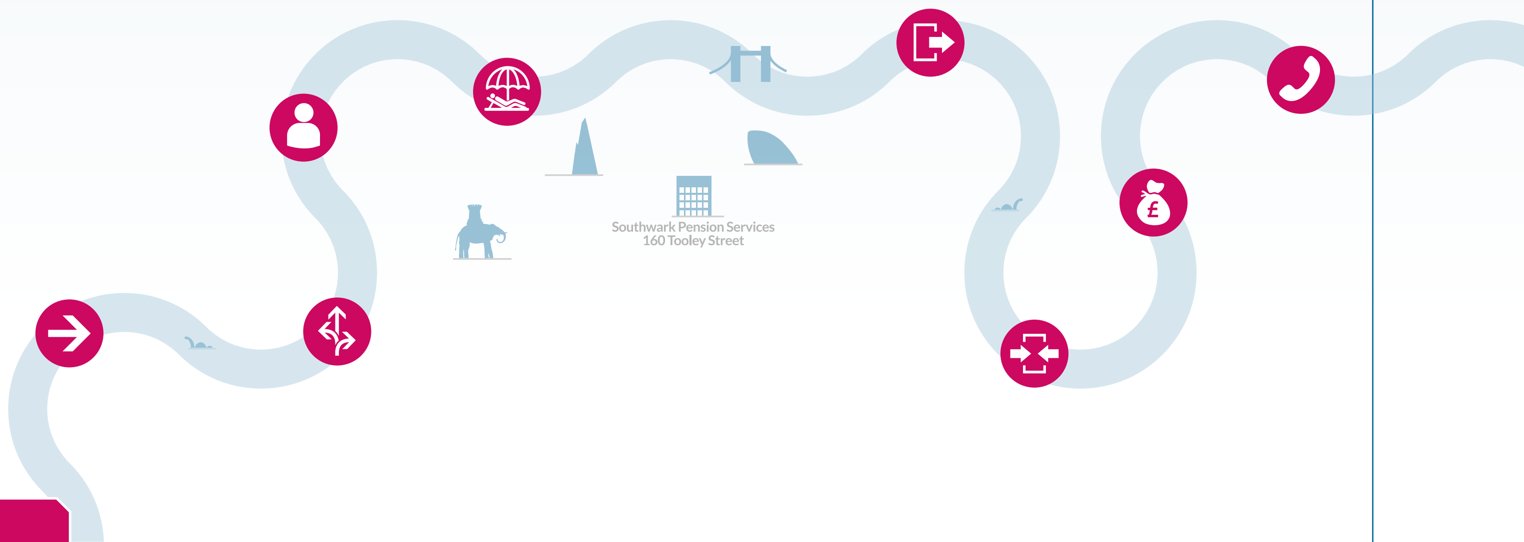


DO THE PENSION FLEXIBILITIES APPLY TO IN-HOUSE AVCS?

Members of DC schemes now have increased flexibility over how they can take their retirement income. From 6 April 2015 (subject to their pension scheme offering) members of DC schemes can use their pension pots in four main ways:

- Buy an annuity (or scheme pension, if offered by the scheme, with or without a pension commencement lump sum);
- Enter into a flexi access drawdown arrangement;
- Take a number of lump sums from uncrystallised funds at different stages i.e. an Uncrystallised Funds Pension Lump Sum (UFPLS); or
- Take the entire pot from uncrystallised funds in one go (UFPLS).

Although the in-house AVC arrangement within the LGPS is a DC scheme which provides money-purchase benefits, the increased flexibilities mentioned above i.e. flexi access drawdown and the option of taking one or more UFPLS are not permitted in the LGPS.



When a member takes their main scheme benefits from the LGPS they must notify the relevant administering authority how they would like to use their accumulated AVC plan, in accordance with the options on the right:

1. **Buy an annuity (Open Market Option)** — members can choose from an insurance company, bank or building society while taking their main scheme benefits at the same time. They can also buy more than one annuity if they wish.
2. **Buy a top-up LGPS pension** — members can use some or all of their AVC plan to buy a top-up pension from the LGPS but, for pre 2014 AVC plans, only if the member takes immediate payment of their main scheme benefits when they leave the scheme.
3. **Take a pension commencement lump sum** — members can take up to 100% of their AVC plan as a tax-free lump sum if taken at the same time as the main scheme pension provided, when added to any LGPS lump sum, it does not exceed 25% of the overall value of the LGPS benefits (including the AVC plan) or 25% of the member's available lifetime allowance.
4. **Buy extra membership in the LGPS** — if the member's AVC contract started before 13 November 2001 the member may be able, in certain circumstances (such as flexible retirement, retirement on ill-health grounds or on ceasing payment of AVCs before retirement) to convert the AVC plan into extra LGPS membership in order to increase their LGPS benefits. The extra membership will provide a pension of 1/60th of final pay for each year of membership purchased.
5. **Leave their AVC plan invested and use it at a later date** — if the member has a pre 2014 AVC plan they can elect to defer taking their AVC anytime up to the eve of their 75th birthday. However, members that take their AVC at a later date can normally only take up to 25% of the AVC plan as a tax-free lump sum and would be obliged to buy an annuity from an insurance company, bank or building society with the remainder.

   If a member defers taking their AVC when they take their main scheme pension, provided the conditions set out in the transfer section of this guide are met, they have a statutory right to transfer out their AVC plan up to the eve of their 75th birthday.

Note, members with post 2014 AVC plans or protected post 2014 AVC plans must take their AVC at the same time as they take their main scheme benefits (except for some flexible retirees, see below).

- It's possible for a member to take a combination of options one, two and three, if they're eligible for those options individually.
- If a member flexibly retires and their AVC contract started on or after 13 November 2001 they can choose to take some, all or none of their AVC plan in one of the above ways at the time they take their flexible retirement benefits, and, if they wish, continue paying AVCs. If the AVC contract started before 13 November 2001 the AVC contract will cease and the member will have to use all of the AVC plan in one of the above ways at the time they take their flexible retirement benefits.

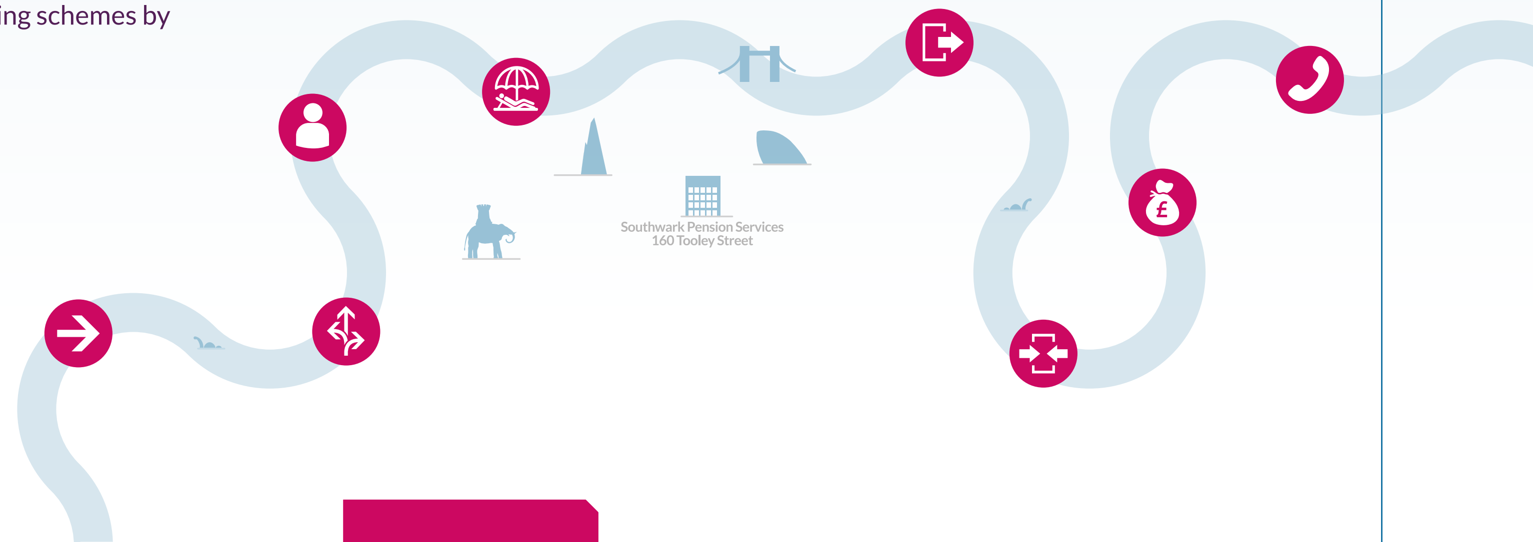
TRANSFERRING AVCS INDEPENDENTLY OF MAIN SCHEME BENEFITS

A member with an entitlement to a deferred benefit under the scheme (or who has met the vesting period required for an entitlement to a deferred benefit) who also has an AVC plan can transfer out their main scheme benefits and not their AVC plan, or vice versa.

In respect of AVC transfers the following conditions must all be met:

AVC transfers

- No crystallisation event has occurred in relation to LGPS AVC benefits in that or any other LGPS fund (other than Pension Credit rights derived from AVCs or a survivor's pension derived from AVCs). Note that a crystallisation event for this purpose is payment of a pension or annuity derived from the AVCs. If the member has previously taken an AVC plan wholly as tax-free cash, this (perhaps perversely) will not constitute a crystallisation event for the purposes of section 93(3) and (7) of the Pension Schemes Act 1993.
- The member is no longer actively contributing to an AVC in that or any other LGPS fund.
- If the member has more than one AVC plan in the scheme, they must elect to transfer them all, even if those AVC plans are in different LGPS funds. This is in accordance with section 96 of the Pension Schemes Act 1993.6. A transfer out can be made to one or more receiving schemes by virtue of section 96(1) of the Act.



- Regulation 17(11) of the LGPS 2013 Regulations requires that where an active member aggregates a deferred benefit account or deferred refund account with an active pension account, the realisable value in any deferred AVC account must be transferred to an arrangement under regulation 17 and the member may make an election to make further payments to the arrangement, if they so wish.
- However, for certain members who took out their AVC plan before 1 April 2014 the situation can differ. The table that follows summarises the position and has been aligned with the aggregation scenarios, as set out in the aggregation technical guide. All scenarios assume the member re-joins the scheme on or after 1 April 2014.

Aggregation scenario	Main scheme benefits	AVC plan prior to transfer	AVCs	Regulation
A1 — deferred refund with all post 31 March 2014 membership (or treated as if it were post 31 March 2014 membership)	Automatic aggregation	Post 2014 plan	Automatic aggregation	LGPS 2013 17(11)
A2 — deferred benefit with all post 31 March 2014 membership (or treated as if it were post 31 March 2014 membership)	Automatic aggregation unless member elects to keep separate within 12 months of re-joining or concurrent employment ceasing	Post 2014 plan	Automatic aggregation (where deferred benefit account is aggregated)	LGPS 2013 17(11)
B1 — deferred refund with mix of pre and post 1 April 2014 membership with a break of less than five years and active in the scheme on 31 March 2014 and 1 April 2014	Automatic aggregation	Protected post 2014 plan	AVC must be aggregated unless the member elects not to	LGPS 2013 17(11). Transitional regulations and 15(3)
		Post 2014 plan	Automatic aggregation	LGPS 2013 17(11)
B2 — deferred benefit with mix of pre and post 1 April 2014 membership with a break of less than five years and active in the scheme on 31 March 2014 and 1 April 2014	Automatic aggregation unless member elects to keep separate within 12 month of re-joining or concurrent employment ceasing	Protected post 2014 plan	AVC must be aggregated unless the member elects not to (where deferred benefit is aggregated)	LGPS 2013 17(11). Transitional regulations 15 (3)
		Post 2014 plan	Automatic aggregation (where deferred benefit account is aggregated)	LGPS 2013 17(11)
C1 — deferred refund with a mix of pre and post 1 April 2014 membership with a break of more than 5 years and active in the scheme on 31 March 2014 and 1 April 2014	N/A — refund should already have been paid			

Aggregation scenario	Main scheme benefits	AVC plan prior to transfer	AVCs	Regulation
C2 — deferred benefit with a mix of pre and post 1 April 2014 membership with a break of more than 5 years and active in the scheme on 31 March 2014 and 1 April 2014	Automatic aggregation unless member elects to keep separate within 12 months of re-joining	Protected post 2014 plan	Automatic aggregation (where deferred benefit account is aggregated)	LGPS 2013 17(11)
		Post 2014 plan	Automatic aggregation (where deferred benefit account is aggregated)	LGPS 2013 17(11)
D1 — deferred refund with pre 1 April 2014 membership only	Automatic aggregation	Post 2014 plan	Automatic aggregation	LGPS 2013 17(11)
D2 — deferred benefit with pre 1 April 2014 membership only with a break of less than five years	If member elects to be treated as if a member on 31 March 2014 and 1 April 2014 within 12 months of re-joining — benefits are aggregated with final salary protection	Pre 2014 plan	AVC must be aggregated unless the member elects not to (where deferred benefit is aggregated)	LGPS 2013 17(11). Transitional regulations 15(3)
	If member does not elect to be treated as if a member on 31 March 2014 and 1 April 2014 within 12 months of re-joining — can elect to aggregate as earned pension		Automatic aggregation (where deferred benefit is aggregated)	LGPS 2013 17(11)
D3 — Deferred benefit with pre 1 April 2014 membership only with a break of more than five years	May elect to aggregate	Pre 2014 plan	Automatic aggregation (where deferred benefit is aggregated)	LGPS 2013 17(11)

BENEFIT CRYSTALLISATION EVENTS (BCES)

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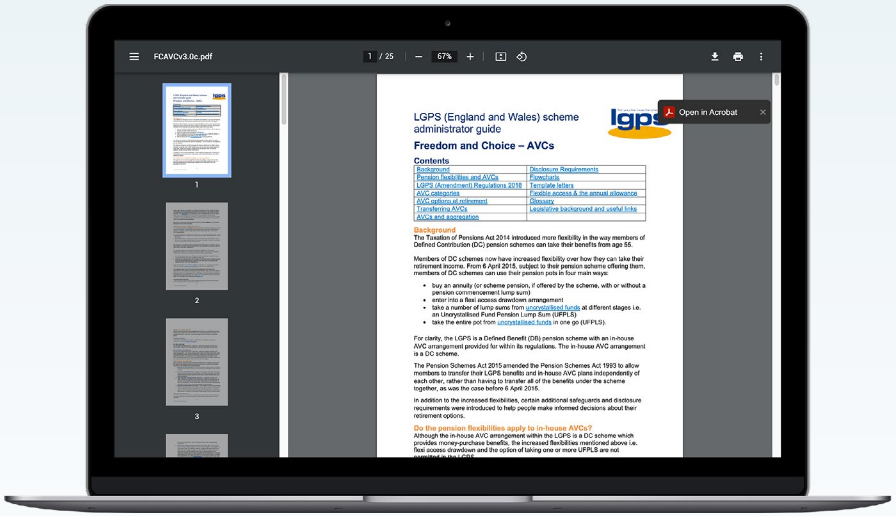
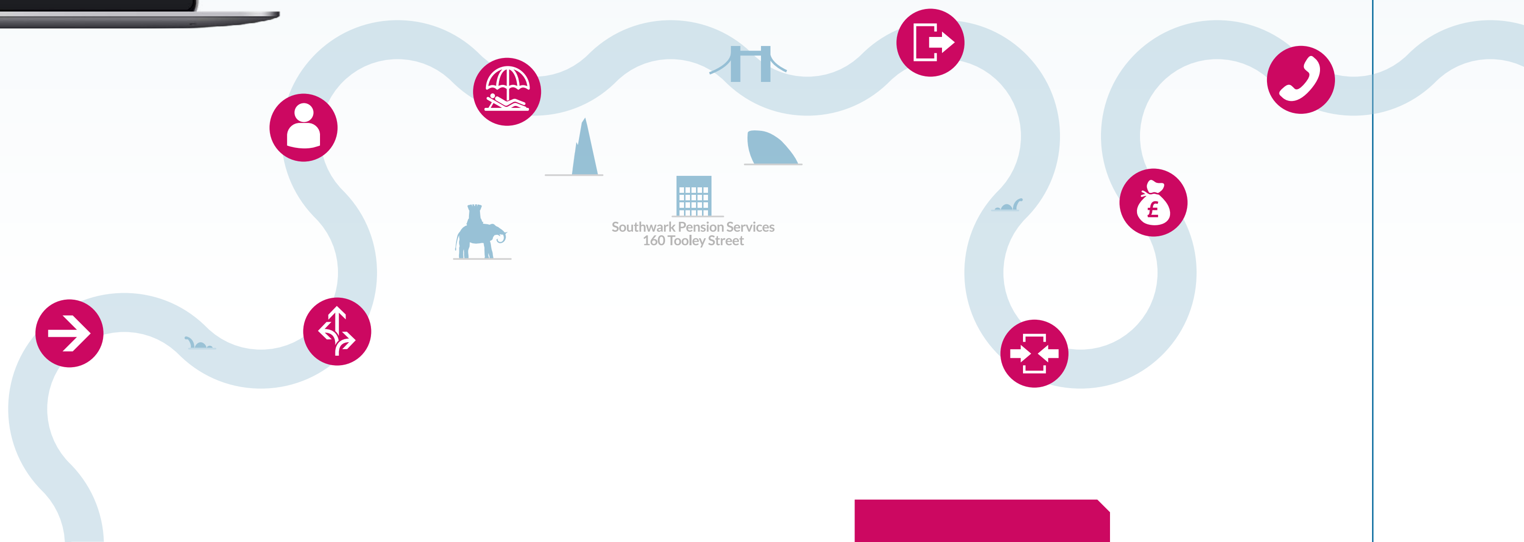
What is it?

The legislation specifies the occasions when a scheme administrator must check whether the pension benefits arising (crystallising) at that point exceed a member's available lifetime allowance. These occasions are known as BCEs.



AVC option documents and flowcharts are available from **www.lgpslibrary.org/assets/gas/ew/FCAVCv3.0c.pdf**



HELP AND ADVICE

SOUTHWARK PENSION SERVICES

Southwark Council southwark.gov.uk

There's more help out there if you need it. There are a number of organisations that can provide you with help and advice about your pension savings. Some of these are listed below:

The Pensions Advisory Service (TPAS)

TPAS is an independent voluntary body that provides free help and advice to members and other beneficiaries of occupational and personal pension schemes. TPAS is available at any time to assist members and beneficiaries with any pension query they may have or any difficulty they have failed to resolve with the trustees or administrators of a scheme.

0800 011 3797

You can complete an enquiry form at **www.pensionsadvisoryservice.org.uk/contacting-us/online-enquiry-form**

www.pensionsadvisoryservice.org.uk

lbspensions@southwark.gov.uk

The Pensions Ombudsman (TPO)

TPO deals with all complaints and disputes. If TPAS guidance cannot resolve your problem, you can make a formal application to TPO setting out your complaint. Please note, anyone using TPO's 'Early Resolution Service' will not be expected to have first used the LGPS' IDRP if the parties are happy with that.

TPO is impartial and looks at all the facts without taking sides. It has legal powers to make decisions that are final, and binding and enforceable in Court. There is no charge for using TPO as it is funded by grant-in-aid, paid by the DWP.

0800 917 4487

10 South Colonnade
Canary Wharf
London
E14 4PU

www.pensions-ombudsman.org.uk

Local Government Pension Scheme (LGPS) regulations

All LGPS regulations are available for inspection upon request.

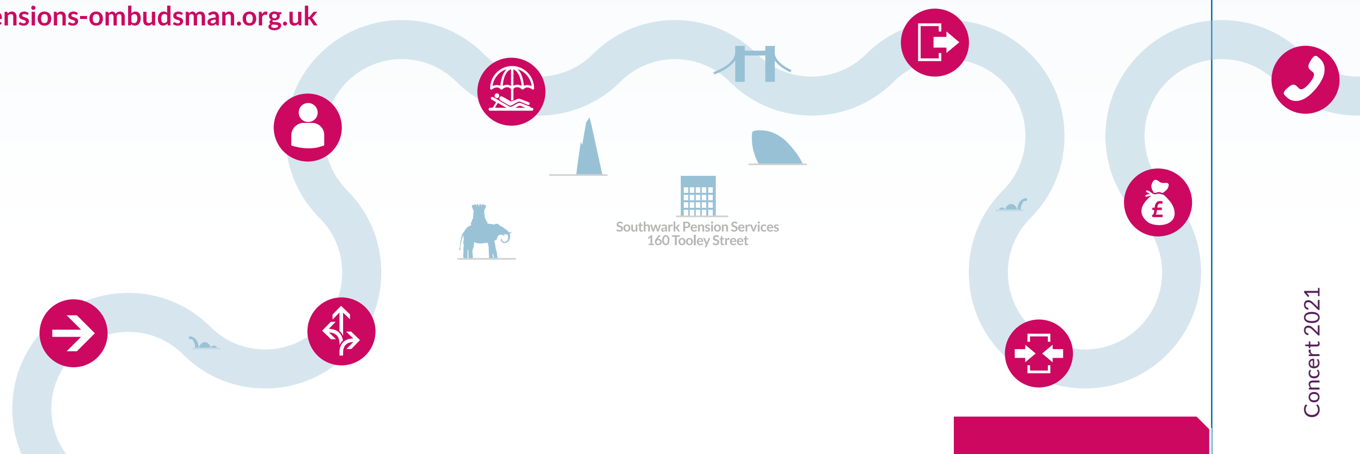
Pension Services
2nd Floor
160 Tooley Street
London
SE1 2QH

www.lgpsmember.org

Useful LGPS websites:

AVC option documents and flowcharts are available from

www.lgpslibrary.org/assets/gas/ew/FCAVCv3.0c.pdf



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