



A guide to additional voluntary contributions (AVCs) in the LGPS

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This leaflet is for employees in England or Wales and reflects the provisions of the LGPS and overriding law at the time of publication. The government may make changes to overriding law and, after consultation with interested parties, may make changes in the future to the LGPS. This leaflet cannot cover every personal circumstance. In the event of any dispute over your pension benefits, the appropriate law will prevail. This leaflet does not confer any contractual or statutory rights and is provided for information purposes only.

Section 1 – What are AVCs?

AVCs allow you to pay more to build up extra savings for your retirement.

When you save AVCs you pay money into a separate AVC plan, in addition to the main Local Government Pension Scheme (LGPS). You build up a pot of money which is then used to provide additional benefits to your main LGPS.

All local government pension funds have an arrangement with an AVC provider (often an insurance company or building society) in which you can invest money in funds managed by the provider. These arrangements are known as in-house AVCs and called AVCs in this guide. The in-house provider for Shropshire County Pension Fund is Prudential.

If you're interested in paying AVCs, you should contact us for more information. Our contact details can be found at the end of this guide.

Section 2 – How do AVCs work?

How much can I pay in?

You can pay up to 100 percent of your pensionable pay (subject to other deductions made by your employer) into an AVC.

Flexible contributions

You can choose to pay a fixed amount or a percentage of your pay, or both, into an AVC – if it doesn't exceed 100 percent of your pay.

AVCs are taken from your pay, just like your normal pension contributions. Deductions start from the next available pay period after you set up the AVC. You may change your contributions or stop paying AVCs at any time while you are paying into the LGPS.



You can pay an AVC if you're in either the main or 50/50 section of the LGPS.

AVCs and extra life cover

You can also pay AVCs to provide extra life cover. Your membership of the LGPS gives you cover of three times your assumed pensionable pay if you die in service. But, you can pay AVCs to increase this and provide additional benefits for your dependants. Any extra cover will stop when you take your LGPS benefits or leave the scheme.

Get tax relief

Your LGPS and AVC contributions are taken before your tax is worked out. So, if you pay tax you receive tax relief automatically through payroll.

Although most people will be able to save as much as they wish into an AVC the amount of pension tax relief they can receive is limited. See the 'Tax controls and your pension' section for more information.

How the tax relief works:

AVCs are taken from your pay before tax. Any money you would normally pay as income tax automatically goes into your AVC pot instead as you can see below. If you pay tax at a higher rate, your tax savings will be higher. If you don't pay tax, you won't benefit from tax savings.



How you save with an AVC?

Prudential will set up your own personal account. Your account builds up over time with your contributions and any investment returns you make.

The amount in your account will depend on how long you pay AVCs for, the impact of charges and how well the fund(s) you invest in perform.



You choose how the money in your AVC plan is invested. The investments on offer will have different risk levels – the higher the risk, the higher the potential rewards. You may be able to spread your investments (and risks) over several investment areas such as equities (shares), bonds, property and cash. Each have their own risk and potential rewards.

As with all investments, the value may go up or down and you may not get back what you put in.

Section 3 – What can I do with my AVC?

This section explains how you can use your AVC plan in the LGPS. It also covers transferring your AVC plan to a different pension arrangement.

When you take your main LGPS benefits, you can use your AVC to:

1. Buy a regular income that's guaranteed to be paid for the rest of your life

You can use your AVC plan to buy a lifelong, regular income, also known as an annuity, that's guaranteed to be paid for as long as you live. This annuity offer different features which may be of interest to you, such as improved terms if you're in poor health and annual increases to keep up with the cost of living.

When you buy an annuity, you can usually take some of your AVC plan as a tax-free lump sum at the same time. An annuity is paid separately from your LGPS benefits.

The amount of annuity depends on several factors, such as interest rates and your age. As a rule of thumb, the older you are when you take out an annuity, the higher the income you will get. You also have some choice over the type of annuity, for example, whether you want a level annuity that provides a higher income to start with, or the payments stay the same for life, or an escalating annuity that will start at a lower rate but will increase over time to keep up with the cost of living. You can also choose whether you want to provide for dependants' benefits in the event of your death.

You don't have to buy an annuity from Prudential – it is important that you shop around to get the best 'annuity rate' based on your personal circumstances and the annuity features you're looking for.



You'd normally buy an annuity at the same time as you take your main LGPS benefits. However, if you left the LGPS before 1 April 2014, you can leave your AVC plan invested and use it later.

2. Buy a top-up LGPS pension

If you paid into the LGPS on or after 1 April 2014 you can use some or all your AVC plan to buy extra pension from the LGPS. The extra pension you buy will increase in line with the cost of living.

Your dependents will automatically get extra pension when you die.

3. Take some or all your AVC as a tax-free lump sum

You can take some or all your AVC plan as a tax-free lump sum, if:

- The total tax-free lump sum is not more than 25 percent of the overall value of the benefits you're taking. The total lump sum is any lump sum you take from your main LGPS benefits plus the AVC lump sum.
- The total tax-free lump sum is not more than 25 percent of the lifetime allowance or 25 percent of your remaining lifetime allowance, if you've already taken payment of any benefits. From 6 April 2020, 25 percent of the lifetime allowance is £268,275. It will stay the same until April 2026.

4. Buy extra membership in the LGPS

This only applies if you started paying into your AVC plan before 13 November 2001. If this was the case, you may be able in certain circumstances (such as flexible retirement, retirement on ill-health grounds, or on stopping payment of your AVCs before retirement) to convert your AVC plan into extra LGPS membership to increase your LGPS benefits. The extra membership will attract a pension of 1/60th of your final pay for each year of membership bought.

5. Leave your AVCs invested and use them later, but only if you left the LGPS before 1 April 2014

If you left the LGPS before 1 April 2014, you can choose not to take your AVC plan when you take your main LGPS benefits. You can leave your AVC plan invested and use it later; however, you must take it by age 75.



If you don't take your AVC plan at the same time as your main LGPS benefits, your options will be different when you do take it. You will only be able to take a maximum of 25 percent of your AVC plan as tax-free cash. You must use the remainder to buy an annuity.

If you paid into the LGPS on or after 1 April 2014, you must take your AVC plan at the same time as you take your main LGPS benefits.

6. You may be able to transfer your AVC fund to another pension scheme or arrangement

You can transfer your AVC plan to one or more different pension arrangements even if you're still an active member of the main LGPS scheme. You must stop paying AVCs in any LGPS employment you hold before you can transfer your AVC plan. If you hold more than one AVC plan you must transfer all your plans (even if they are held with different LGPS funds).

Different pension providers offer different options as to what you can do with your AVC. By transferring out to one or more different pension arrangements, you may be able to access options that aren't available under the LGPS rules, such as:

- Take several lump sums at different stages – usually the first 25% of each cash withdrawal from your pot will be tax-free with the rest subject to tax
- Take the entire pot as cash in one go – usually the first 25% will be tax-free with the rest subject to tax. Remember, it's possible to take all your LGPS AVC plan as a tax-free lump sum, subject to certain conditions, if you leave it in the LGPS and take it at the same time as your main LGPS benefits.
- To provide a flexible retirement income – this is known as flexi-access drawdown. You are normally allowed to take a tax-free lump sum of up to 25% then set aside the rest to provide taxable lump sums as and when, or a regular taxable income.

There may be tax implications associated with accessing your benefits in all the ways described above. The income from a pension is taxable; the rate of tax you pay depends on the amount of income that you receive from a pension and from other sources.

The different options mentioned above have different features, different rates of payment, different charges and different tax implications.



Get some advice...

Deciding how to use your AVC plan is one of the most important financial decisions you're likely to make. We recommend you get guidance and/or independent financial advice to help you decide which option is most suitable for you.

- **Pension Wise** is a free, impartial service offered by the Government. If you are over 50, Pension Wise can help you understand your defined contribution pension options (e.g. AVCs). You can find out more at www.pensionwise.gov.uk or by calling **0800 138 3944** to book a **phone** or **face-to-face appointment**.
- **Independent financial advice** You can get help choosing a financial adviser at www.moneyadviceservice.org.uk
- **The Money Advice Service** offers free and impartial money advice, including pensions and retirement information www.moneyadviceservice.org.uk
- **The Financial Conduct Authority** is the regulatory body for independent financial advisers www.fca.org.uk
- **The Personal Finance Society** is the professional body for financial advisers. It provides access to appropriately qualified members who commit to the highest professional and ethical standards www.findanadviser.org
- **Unbiased** is a website listing regulated and independent financial advisers, mortgage brokers, solicitors and accountants. It checks that everyone is registered with the Financial Conduct Authority (FCA). www.unbiased.co.uk

Section 4 – Other considerations

What happens to my AVC if I take flexible retirement?

If your AVC plan started before 13 November 2001, your AVC contract will stop when you flexibly retire. You will have to use your entire AVC plan in one of the ways set out earlier in this leaflet when you take your flexible retirement.

If your AVC plan started after 13 November 2001, you take none, some or your entire AVC plan when you take flexible retirement. If you wish, you can continue paying AVCs.

What happens to my AVC if I leave before retiring?

If you leave before retirement, your contributions will stop when you leave. The value of your AVC plan will continue to be invested until it's paid to you. Your AVC plan can be



transferred to one or more different pension arrangements or taken at the same time as your LGPS benefits.

What happens to my AVC if I die before taking it?

If you die before taking your AVC plan, it will be paid as a lump sum. Your AVC provider will pay the amount to your LGPS administering authority who will then make payment in line with the scheme rules.

If you've chosen to pay AVCs to buy life cover, a death in service lump sum and/or dependents' pension will be due.

I have previous AVCs with the LGPS. Can I transfer them if I re-join the LGPS?

If you've paid AVCs to the LGPS in England or Wales, the value of your AVCs must normally be transferred to an AVC arrangement offered by your new LGPS administering authority if you combine your main scheme benefits.

Shared cost AVCs (SCAVC)

A shared cost AVC is an AVC plan arranged through the LGPS (i.e. an in-house AVC) that both you and your employer contribute to. Your employer can choose if they wish to offer SCAVCs.

Section 5 – Other ways to increase your pension benefits

Buy extra pension in the LGPS – additional pension contributions (APCs)

If you're in the main section of the LGPS, you can pay additional contributions to buy up to £7,352 (for 2022/2023) of extra pension. You can pay the extra pension by spreading payment of the APCs over complete years, or by paying a lump sum.

See the national LGPS member website for more information on APCs –

www.lgpsmember.org

If you pay tax, you get tax relief on all pension contributions up to 100 percent of your taxable earnings.



Freestanding additional voluntary contributions (FSAVCs)

These are like in-house AVCs but aren't linked to the LGPS. With FSAVCs, you choose a provider, usually an insurance company. You may want to consider their different charges, alternative investments and past performance when you do this.

You choose how much to pay into an FSAVC arrangement. You can pay up to 100% of your UK taxable earnings, less your normal pension contributions.

How much income your FSAVC will provide depends on how long you pay AVCs for, the impact of charges and how well the fund(s) you invest in perform. Your AVC plan is an investment and the value can go down as well as up, so you may not get back what you put in. You can choose which investment route you prefer. You can usually take up to 25% of the value of your FSAVC fund as a tax-free lump sum.

You can also pay FSAVCs to provide additional life cover. Your LGPS membership already gives you cover of three times your assumed pensionable pay if you die in service. You can increase this amount using an FSAVC or use the FSAVC to give additional dependants benefits on your death in service. This may be subject to satisfactory completion of a medical review.

Personal or stakeholder pensions

You can make your own arrangements to pay into a personal pension plan or stakeholder pension scheme at the same time as paying into the LGPS. With these arrangements, you choose a provider, and again, you need to consider their charges, alternative investments and past performance when you do this.

It's advisable to get financial advice before taking out any form of additional pension saving.

Section 6 – Tax controls and your pension

The amount of pension tax relief you can receive is restricted by Her Majesty's Revenue and Customs (HMRC). Most people will be able to save as much as they wish as their pension savings will be less than the allowances. However, if you are thinking of making additional pension savings, such as AVCs, it is important that you are aware of the restrictions.



Limits on how much you can pay

Whilst there is no overall limit on the amount of contributions you can pay, tax relief will only be given on contributions up to a total of 100 percent of your taxable earnings in a tax year. A different limit may apply if a 'tax relief at source' arrangement, such as a personal pension or stakeholder pension scheme.

Limits on how much pension you can build up

The two controls set by HMRC are the annual allowance and the lifetime allowance.

1) Annual allowance

This is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge. For the 2022/2023 tax year, the standard annual allowance is £40,000. If you're a high earner your annual allowance could be lower due to 'tapering'.

For money purchase arrangements, such as AVC schemes, the annual allowance you use is the total contributions paid by you, or on your behalf, over the tax year.

For defined benefits arrangements, such as the main LGPS scheme, the amount of annual allowance is the growth in the value of your pension scheme over the tax year.

Your LGPS pension fund will tell you if your LGPS pension savings exceed the standard annual allowance in any year by no later than 6 October of the following year.

You can find out the value of the increase in your pension savings for each of the last three years by asking your administering authority for a pension savings statement.

For more information about the annual allowance, including information on 'tapering' for high earners and the implications if you've taken defined contribution benefits flexibly on, or after 6 April 2015, see the annual allowance fact sheet available at www.lgpsmember.org/ats/abouttax.php.

2) Lifetime allowance

This is the total value of all pension benefits you can have without triggering an excess benefits tax charge. The lifetime allowance limit is currently £1,073,100.



For more information on the lifetime and annual allowances, including tools to check your allowances, visit: www.lgpsemer.org/ats/abouttax.php

Terms used in this guide

Pensionable pay - This is the pay you normally pay pension contributions on. It usually includes your normal salary or wages; bonuses, contractual overtime and non-contractual overtime maternity, paternity, adoption and shared parental pay; shift allowance and additional hours payments if you work part-time.

Assumed pensionable pay - This gives a notional pensionable pay figure to make sure your pension isn't affected if your pay reduced during a period of sickness or injury, or relevant child related leave or reserve forces leave.



Contact details

The Shropshire County Pension Fund is a data controller under data-protection law. This means we store, hold and manage your personal information in line with statutory requirements to enable us to provide you with pension administration services. To enable us to carry out our statutory duty, we must share your information with certain bodies, but will only do so in limited circumstances. For more information about how we hold your information, who we share it with and what rights you have, you can ask for this information from the fund, please visit www.shropshirecountypensionfund.co.uk.

If you can read this but know someone who cannot, please contact us on 01743 252130 so we can provide this information in a more suitable format.

Office hours

Monday to Thursday 8.45am to 5.00pm
Friday 8.45am to 4.00pm

Contact details

Email: pensions@shropshire.gov.uk

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