

AVC Guidance Notes

This leaflet describes the facility for paying additional voluntary contributions (AVCs) into the Final Salary Scheme. It is provided for information only and does not constitute advice. The AVC facility is only available to employees under the Existing Members Regulations or New Members Regulations.

You are recommended to seek professional financial advice before considering to pay AVCs.

What are AVCs?

The AVC arrangement allows you to purchase additional years and days of Pensionable Service which are then added to your actual Pensionable Service which is then used in the calculation of your pension on retirement.

What will my AVCs buy?

The benefits from your AVCs include:

- an increase in your pension at retirement; and
- a greater spouse / civil partner / dependant / child's pension in the event of your death.

Note that AVCs buy extra **pensionable** service only and **not** extra **qualifying** service. Pensionable service counts towards the calculation of your pension; qualifying service counts towards the period of service required to qualify for pensionable benefits in the Final Salary Scheme. Your Normal Retirement Age will not change as a result of paying AVCs.

Should I pay AVCs?

Before entering into an arrangement to pay AVCs you need to consider the following points very carefully.

Your age

You should be aware that the cost of purchasing added years with AVCs depends on your age. Generally, the older you are the more expensive it can be to purchase added years and days through AVCs.

Your Pensionable Service

There are limits in the Final Salary Scheme Regulations with regard to the Pensionable Service that can be counted towards your pension.

If your potential Pensionable Service (which would include any extra service credited to you if you have completed a transfer from another pension arrangement) is close to these limits, the scope for purchasing Pensionable Service with AVCs may be limited.

Survivor benefits

The additional pensionable service purchased through AVCs also counts towards any benefits that may be payable to a spouse / civil partner / dependant / child, in the event of your death.

The alternatives

AVCs can be an efficient way of increasing your benefit in retirement. However, you will also need to consider any other forms of savings which may provide more valuable benefits in the long term.

If you are interested in looking at alternative forms of savings, it is recommended that you seek independent financial advice before considering entering into an AVC arrangement.

Change in terms

The current terms for purchasing AVCs may be amended from time to time following advice from the Scheme's Actuary. You will be advised of any changes to the factors used in the calculation of AVCs. Any change will not affect AVCs already purchased, but will affect future AVCs.

Can I make private arrangements for a personal pension outside Final Salary Scheme?

If your retirement benefits from the Final Salary Scheme are not as much as you believe you would require in retirement, you may wish to pay into a personal pension in addition to contributing to the Final Salary Scheme. Personal pensions normally operate on a money purchase basis, i.e. your contributions are accumulated to retirement and the resulting fund is then used to buy a pension.

If you are interested in paying into a personal pension you should consult a financial adviser. The Public Employees Pension Team cannot give financial advice.

How are benefits from AVCs calculated?

Your AVCs are used to purchase an appropriate number of added days of Pensionable Service. The Actuary has set out the terms for purchasing added days in tables which show how many days are purchased in a calendar year for every 1% of salary. You should bear in mind that in the Final Salary Scheme, the total cost of your pension is met by contributions from both your employer and yourself as employee; however, in the case of AVCs, the employee meets the total cost.

Can I vary the amount of AVCs I pay?

You may start, change or cease your AVC payments at any time. To commence, vary or stop your payment you should complete the online form available on the pension website – www.gov.ie/yourpension.

In order to comply with payroll deadlines you should ensure that you complete and submit the form before the 10th of every month.

If this deadline is not met your adjustment may not take effect until the following month.

How are payments made?

AVCs are made by deductions from your salary at the rate specified on your application form. The minimum level of AVC is ¼% of salary and AVCs may only be paid in multiples of ¼% of salary. You can only pay a maximum of the earnings you receive after any other deductions have been taken out.

One-off lump sum AVC payments are not permitted.

If you are an employee with more than one pensionable employment contract you will need to state on the online form which post number you want the AVC deducted from. If you do not advise which post you want the AVC deducted from, the deduction will be made against each pensionable employment contract.

What about income tax relief and liability?

Under the current tax rules there is no limit on the amount of contributions a member can pay into a Scheme. However, there are limits on the amount of contributions that qualify for tax relief. For contributions to qualify for tax relief the contributions cannot exceed, in a year of assessment, whichever is the lower of:-

- (i) £50,000 less the member's "excess income" if any; and
- (ii) the members "relevant earnings" in the year of assessment less the members' "excess income", if any

"excess income" means the amount by which a member's "income" for a year of assessment exceeds £150,000. "Income" means the member's total income for a year of assessment before the deduction of any of the following:

- (i) Interest in respect of which the member is entitled to a marginal income deduction under Article 90AA of the Income Tax (Jersey) Law 1961 (as amended) ; and
- (ii) The member's total approved pension contributions

It is recommended that you consult the Taxes Office to establish whether your payment of additional contributions will qualify for tax relief. You may also wish to contact an independent financial adviser to evaluate the additional cost of your contributions and the effect on your pension expectations.

Are there any limits on benefits from AVCs?

Your total pensionable service must not exceed the limits set out in the Regulations governing the Scheme. Added years and days purchased with AVCs count towards this limit. You may wish to contact the Public Employees Pension Team to establish if you may exceed this limit and whether the rate at which you pay AVCs should be reduced or discontinued.

Does service purchased under these arrangements acquire normal benefits?

Yes, added years purchased by AVCs rank equally with other Pensionable Service in the Scheme.

This means that any added years purchased through AVCs will:-

- increase any spouse/dependant/civil partner pension payable on your death;
- be affected by any changes to Scheme benefit; and
- be affected by any adjustment to your normal pensionable service

What happens if I die before retirement?

The added years which you have purchased up to the date of your death will be added to the service which is used to calculate any spouse's, civil partner's, children's or dependant's pensions that may be payable. Added days purchased by contributions paid for part of a year will be calculated on a pro-rata basis.

What happens if I leave and take a refund of contributions?

If a refund of contributions is payable, your AVCs up to your date of leaving will also be refunded with interest at 3% a year (less tax at one-half of the standard rate of Jersey Income Tax).

What happens if I leave with a deferred pension?

The added years purchased by your AVCs up to the date of leaving will be included in the computation of any deferred pension entitlement.

What happens if I leave and take a transfer payment?

The added years purchased by your AVCs up to the date of leaving will be included in the computation of any transfer payment.

Note: It is not permitted to opt for your AVC benefits to be treated differently from your Scheme benefits if you leave.

What happens if I retire early?

The added years purchased by your AVCs up to the date of your early retirement will be included in the calculation of your early retirement pension.

What happens if I exchange part of my pension for a cash sum?

The added years purchased by the additional contributions will be included in the calculation of your Scheme pension meaning that your pension on retirement will be increased. At present you may commute up to 30% of your pension at retirement into a cash lump sum, meaning that if you pay AVCs you would receive a lump sum of greater value as it will be based on the increased pension.

How do I keep track of what my AVCs have purchased?

Your annual benefit statement will provide details of additional pensionable service purchased under the AVC arrangement.

Are my AVC Pension benefits guaranteed?

No, your benefits are not guaranteed. If the scheme is in deficit and the benefits package is unaffordable your AVC pension may be increased by less than Jersey RPI whilst in retirement or deferment.

How do I join the AVC arrangement?

You will need to complete the online form available on www.gov.je/yourpension.

Terms Used

Civil Partnership is a relationship between two people of the same sex which is formed when they register as civil partners of each other. In accordance with the provisions of the Civil Partnership (Jersey) Law 2012.

Dependant is normally any adult person who, in the event of your death, is considered by the Committee of Management to have been financially dependent on you; but a child (other than a child entitled to a child's pension under the Scheme rules) may also be eligible for benefit as a dependant in appropriate circumstances.

Normal Retiring Age differs according to the category of membership

- For Category A members (other than those employed in the prison service) it is 55 years
- For Category A members employed in the prison service it is 60 years (for most purposes)
- For Category B members it is 60 years
- For Category C members it is 60 years
- For all other members, it is 65 years.

Pensionable Service is your length of Scheme membership measured in years and days. It can also include extra service credited to you following a transfer from another pension arrangement, and extra years purchased by AVCs.

Qualifying Service is your length of Scheme membership measured in years and days, including service as a member of other pension schemes from which a transfer value has been received. It does not include extra years purchased by AVCs.

Salary is your basic salary or wage, together with any regular payment or allowance which is specified as being pensionable. Your Salary does not include payments in respect of untaken leave, overtime payments or any other emoluments of a fluctuating or temporary nature.

Scheme is the Jersey Public Employees Contributory Retirement Scheme often referred to as the Final Salary Scheme.