

WEST MIDLANDS



PENSION FUND


Retirement has more potential with

PRUDENTIAL



the more flexible
you are now...





...the more
you'll benefit
later.

Great news about additional voluntary contributions (AVCs)

You will have read in the enclosed booklet that the Local Government Pension Scheme (LGPS) is to undergo significant changes in April 2008. The amendments are aimed at ensuring the LGPS is a modern, sustainable and flexible pension scheme that meets the needs of its members.

One of the changes is the way in which members will be able to increase the benefits they purchase under the in-house top-up arrangements. The purchase of added years will be replaced with a

simplified system where members can buy blocks of pension up to the value of £5,000pa. The contribution rates that will apply to this new arrangement are still awaited, but it is likely to be on a similar basis to that operated by the Teachers' Scheme which introduced a similar facility some time ago.

How does this affect AVCs?

In short, it doesn't. AVCs will continue as an integral part of the LGPS provision, but now that the Her Majesty's Revenue and

Customs (HMRC) will allow you to take all your AVC fund as cash (within certain limits), AVCs are seen as an extremely efficient way of saving for your retirement.

Previously, the focus has been on retirement income, and the blocks of additional LGPS pension mentioned above will provide this exact facility, but many LGPS members have always looked at increasing their pension payments now to increase their lump-sum payment at retirement. AVCs can do this very effectively and efficiently.

Changes to the rules concerning AVCs now mean that saving for retirement is more flexible than ever before. Even if you have previously discounted saving for retirement through an AVC, these changes are significant enough for you to consider it again.

As you will be aware from the previous information you may have received, the new HMRC rules are much more generous than before and allow members to pay more (and receive tax relief at either 22%* or 40%*) to improve their benefits, including the tax-free cash sum at retirement.

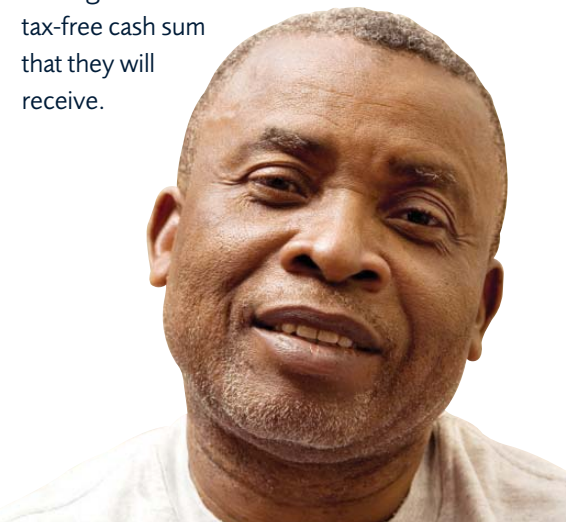
The previous standard LGPS lump-sum represented approximately 15 per cent of a member's overall HMRC fund value, but the new HMRC rules permit up to 25 per cent of overall fund value to be taken as tax-free cash. This means that by simply paying AVCs, a member can now increase his/her lump-sum without having to give up any of their LGPS pension to do so.

*Tax relief rates apply to the 2007/2008 tax years

Many LGPS members like yourself have asked for further information, as this simply seems too good to be true. They have been pleasantly surprised to see how much they can save towards an AVC and then, at retirement, take (subject to certain HMRC limits) the entire AVC account as tax-free cash, despite full tax relief being given on the contributions paid and any growth in value due to investment. Before the changes were made, members paying AVCs had to elect to purchase a pension with their AVC fund at retirement.

The option to take the entire fund as a tax-free cash sum (subject to certain HMRC limits) provides additional flexibility for members, even for those on target to achieve 40 years' service.

More and more LGPS members are looking at their retirement plans much more closely, especially if they wish to retire early. The tax changes are helpful in that respect as the AVC facility may be of interest even to those with only a short time to retirement, if looking to boost the tax-free cash sum that they will receive.



Local Government Pension Scheme

Are you a taxpayer?

If you are, there is an immediate benefit from your pension contributions. You receive tax relief through your pay, which means the Government makes a contribution to your savings.

For example:

- **If you pay tax at 22%, £100 of extra saving/investment through AVCs only costs you £78.**
- **If you pay tax at 40%, £100 of extra saving/investment through AVCs only costs you £60.**
- **If you want to increase your tax-free lump-sum on retirement, an AVC can, subject to certain limits, be taken up to 100% tax-free cash, which means in the above examples, £100 would be returned to you as the value of your fund – even though, because of tax relief, you will have paid significantly less than this, meaning the more you save, the more you benefit from your AVC investment.**

How much can you pay?

Following earlier speculation the 100% maximum pension contribution has been removed, although any contributions paid prior to the current tax year will remain unaffected. It is now only possible to pay up to the equivalent of 50% of your earnings in any given tax period/year.

How can I apply?

If you would like any further information on the in-house AVC facility with Prudential, please telephone the **Pension Connection™** on **0845 607 0077*** (please quote Source Code: 000748).

Applying for an AVC is easier than you'd expect. In fact, it should only take you about 15 minutes. You can now apply direct over the telephone and we will even fill the forms in for you. You can, of course, apply online by downloading the forms from: <http://www.westmids-pensions.com/avcs>

If you want to apply or need any help, you can call the **Pension Connection™** on **0845 607 0077***. The sooner you apply, the bigger the difference it could make to the rest of your life. Lines are open 9am to 7pm weekdays, and 9am to 1pm on Saturdays. *Calls are charged at local rate and may be monitored or recorded for quality and security purposes.



Mike Woodall

Chief Pensions Officer
West Midlands Pension Fund



Richard Harrison
Account Director
Prudential