

Increasing your benefits by paying Additional Voluntary Contributions (AVCs)

Maximum benefits

USS provides very valuable retirement benefits and is designed to allow you to build up a pension of $\frac{1}{80}$ th of your pensionable salary for each year of contributions, plus a tax-free lump sum of three times your pension. The maximum service you can build up is 40 years.

Many members will not achieve the maximum possible benefit from the scheme for a variety of reasons; you may have joined the scheme later in your career, you may have had a career break or you may wish to plan for an early retirement. Whatever the reason, a large percentage of members will not achieve 40 years' of USS service.

Additionally, even those who can achieve 40 years' service in USS may be able to increase their retirement income.

If you wish to increase your retirement benefits there is a way that you can pay extra contributions which is tax efficient and easy to set up.

Additional Voluntary Contributions

Under USS you have the option to pay Additional Voluntary Contributions (AVCs) subject to an overall contribution limit. You can pay in total up to 15% of your salary into a scheme like USS. You already pay a standard contribution of 6.35% of salary therefore you can pay up to an additional 8.65% of salary into AVCs.

The cost of AVCs is generally calculated as a percentage of your salary. However, Inland Revenue calculations relating to your AVCs are based on your total remuneration below the permitted maximum (see 'Inland Revenue limits' section), not your salary. Total remuneration includes, for example, taxable benefits in kind and non-pensionable honoraria from your USS employer, as well as your salary. All further references to salary in this factsheet assume that salary and total remuneration are the same.

Any AVCs you pay will attract tax relief at your highest marginal rate. Therefore, for a higher rate tax payer a £100.00 monthly AVC would cost only £60.00 per month from your net pay and only £78.00 per month for a lower rate tax payer (based on rates of tax at the time of printing). You should remember that any pension secured by an AVC contribution would be taxed in payment at the prevailing rate at the time you retire.

AVCs must be used to provide additional retirement benefits; you cannot withdraw any funds prior to retirement for any reason, unless you receive a refund of your USS contributions when you leave USS within the first two years.

USS offers two separate AVC options, one that allows you to buy extra service in USS and a money purchase facility.

Added years AVC

This is administered by USS Ltd and allows you to buy extra years' and days' service in USS, which will increase your USS benefits (pension, tax-free cash sum, spouse's/dependants pensions), subject to the maximum possible USS service of 40 years.

The added years AVC is part of the main scheme and is a final salary type arrangement. This means that the benefits you receive are linked directly to your service and pensionable salary at retirement or leaving.

You can choose to pay to maximise your benefits at your normal retirement age or in fact to retire early.

You can obtain an estimate of the cost of buying service from the AVC modeller which can be found on the USS website at www.usshq.co.uk. When you have decided that you would like to start up an added years AVC please contact the pensions administrator at your institution.

Money purchase AVC

This is administered by the Prudential and allows you to pay additional contributions that are invested for you by Prudential to provide a fund at retirement to be used to buy an extra pension only (no additional lump sum). This extra pension (called an annuity) can be purchased at retirement from Prudential, another annuity provider or, you may be able to use the fund at retirement to purchase extra service in USS that would count towards pension only. Again, this forms part of the main scheme.

Under any money purchase type facility the benefits you receive depend on how much you pay in, the type of investment fund you choose and the cost of buying your pension at retirement.

Even if you can achieve 40 years' USS service you can still pay into the money purchase AVC. If a member achieves 40 years in USS the combined pension and the pension equivalent of their lump sum would equate to approximately 62% (varies depending on age and sex) of salary. The Inland Revenue will allow you to receive benefits from a pension scheme like USS that in total are worth up to 66.67% of salary and you can pay into the money purchase facility to achieve this.

Additionally, you may have income from your employment that is not pensionable under USS; you can pay AVCs on these earnings to the money purchase AVC.

Full details can be obtained from your pensions office or you can contact the Universities AVC team at Prudential on 0845 070 0007 and details are also available on the Prudential website www.pru.co.uk/universitiesavc

How can I pay AVCs?

There are two methods of paying AVCs to USS.

- **By monthly instalments**

If you pay by this method payments will be deducted by your employer from your salary each month through the PAYE system and you will get full and immediate tax relief on these contributions at the highest rate of Income Tax for which you are liable, provided that the amount of your income that is subject to that rate is at least as much as the gross amount of AVCs.

- **By lump sum**

A single payment which when aggregated with your normal USS contributions, USS monthly AVCs, Prudential AVCs and FSAVCs made since the beginning of the tax year in which it is paid, does not exceed 15% of the salary you have received since then. You will be entitled to tax relief on the lump sum payment through the PAYE system although the gross amount is paid to the trustee company by your employer.

If you are over the age of 65, you can pay AVCs to the added years scheme only by lump sum.

Inland Revenue limits

The Inland Revenue impose limits on what you can pay in to, and draw from, an approved pension scheme like USS. When you make an enquiry regarding AVCs you will be asked to give details of your 'retained benefits' so that a check can be made to ensure that your total benefits at retirement (USS plus any other pension benefits you may have) do not exceed the overall Inland Revenue limit. You will be advised if the limits affect the amount of AVC you can pay.

What are retained benefits?

They are benefits which are being or have been paid to you, or to which you are entitled in the future, arising from membership of schemes of previous employment and from self-employment. The retained benefits may take the form of a pension or lump sum.

Other options

The AVC arrangements offered by USS are only one way of providing extra retirement benefits.

For example, you can set up a Free Standing AVC (FSAVC). This is a money purchase type arrangement that you arrange independently with an external provider, the same contribution and benefit limits apply to an FSAVC, as do the tax relief rules.

Additionally, for members who earn below £30,000.00 pa (current limit), Stakeholder pensions are available. You can pay up to £3,600.00 pa into these schemes and receive tax relief, in addition to the maximum you can pay into a scheme like USS.

You should note that the options described above are alternative forms of additional saving for retirement. There are other forms of saving open to you as an individual and you may wish to consider these before deciding to contribute to the USS AVC options. If you are in any doubt as to your decision you should consider taking appropriate financial advice. To obtain a local list of IFAs you can contact the Independent Financial Advisor Promotions Helpline on 0800 085 3250 or at www.ifap.org.uk. USS Ltd is unable to provide any financial advice to members regarding these options.

Which AVC is for me?

You can pay into a combination of the added years, money purchase or FSAVC so long as your total contributions do not exceed 15% of your annual remuneration.

Added years	Money purchase
Predictable benefits in line with main scheme	Benefits dependent on investment return and annuity cost
Low risk	Choice of investment option determines risk
Favourable treatment in event of death in service or retirement due to ill-health	No specifically advantageous treatment
No reduction if monthly AVC benefits paid early due to permitted early retirement	No reduction applies to AVC fund (although discretion to do so). Fund used to buy annuity based on age related rates
Commitment to pay agreed amount of monthly AVCs – changes would require new contract	Flexibility to vary amount of contribution
Provides additional tax free lump sum as well as pension on retirement	Cannot provide tax free lump sum
Does not increase death lump sum payable	Can be used to increase death lump sum
Contributions and benefits based on pensionable salary only	Contributions can be based on non-pensionable earnings from institution
Pensionable service restricted to 40 years	Aggregate benefits may exceed 40 years in value but must not exceed Inland Revenue maximum
Spouse's, dependant's and children's pensions provided automatically	You choose the benefits you want and how much they increase by

Frequently asked questions

Added Years	Money Purchase
Can I vary or stop the contributions?	
<p>Under the added years facility (monthly contributions) you are entering into a contract to pay contributions over a set period to purchase a pre-determined amount of service. You can stop your contributions and receive full credit for the service purchased to date. You can re-start contributions by setting up a new contract but the cost of buying service will be based on your age at that time. You can decide to pay in more by starting a fresh contract on top of the existing one. You cannot however reduce your contributions unless you stop your existing contract and set up a new contract for the lower amount.</p>	<p>You can vary the amount you pay, the only restriction is the upper limit on the amount you can pay in. You can stop and start whenever you wish.</p>
Can I pay AVCs to plan for an earlier retirement?	
<p>You can arrange for your AVCs to provide up to the maximum benefits allowed by the Inland Revenue at any time from your 50th birthday. If you plan to retire before your contractual retirement date you should discuss with your employer whether it will be possible to do so without losing the right to an immediate pension from USS.</p> <p>The cost of buying additional pensionable service either by monthly instalments or by lump sum is based on the normal AVC rates which are increased to take account of the expected earlier retirement date. If you remain in service beyond the date you planned to retire and have not yet achieved the maximum benefits allowed you may be able to continue paying AVCs until age 65 or the date you achieve the maximum benefits if earlier.</p>	<p>You can arrange to pay an amount that will provide you with your maximum estimated benefits at your selected retirement age.</p>
What if I am part-time?	
<p>The additional pensionable service you have bought by paying AVCs will be reduced by your part-time service fraction appropriate at the time the AVCs are paid e.g. if your part-time service fraction is 40% then you will purchase 146 days rather than one year. If you change your part-time service fraction whilst you are paying AVCs the amount of additional pensionable service bought by the AVCs will change accordingly.</p>	<p>You can choose how much you pay in, subject to the maximum possible based on your actual part-time salary.</p>
What if I go on voluntary leave of absence or secondment?	
<p>If you wish to continue with your AVC contract and intend to continue paying normal contributions you must continue your monthly contributions at the level that would have applied if your absence had not occurred. If you decide to stop paying normal contributions your AVC contract will be terminated.</p> <p>The normal pensionable service credit will be given for all AVCs paid under these arrangements.</p>	<p>You can continue to pay in so long as you maintain your ordinary contributions.</p>
What if I go on absence due to sickness or any other cause beyond my control?	
<p>If you are not receiving any pay or if you are receiving only Statutory Sick Pay you have the choice of continuing your normal monthly contributions at the same level, or of suspending them until you return to work. If you continue them you must also continue your monthly AVCs at the same level.</p>	<p>You can continue to contribute but the contributions may need to be adjusted if your pay falls to ensure you do not exceed the contribution limits.</p>
What if I go on maternity leave?	
<p>Please refer to factsheet five.</p>	<p>Please refer to factsheet five.</p>

Added Years	Money Purchase
What if I leave USS for any reason?	
Please refer to factsheet eight.	Please refer to factsheet eight.
What if I retire early due to ill-health or die in service?	
<p>If you have contributed to the Added Years contract for five years or more the full amount of service you would have bought at the end of the contract will be included in the pensionable service used to calculate the benefits (please refer to the relevant factsheet). If you have paid into the contract for less than five years you will receive a pro-rata amount of the total service. For example, if you had paid into the contract for three years then $\frac{3}{5}$^{ths} of the total service you would have bought will be added to the total service used to calculate your benefits.</p> <p>If you paid a lump sum AVC more than a year before death or retirement you receive the full credit, the credit will be reduced if the lump sum AVC was paid less than a year before death or retirement.</p>	<p>If you paid into the money purchase facility then the accumulated fund would be used to buy an annuity in the case of ill-health retirement.</p> <p>On death in service the full value of your accumulated fund would be paid to your beneficiaries.</p>
What if I retire early in other circumstances?	
<p>If you are paying AVCs by monthly instalments and you retire with an immediate pension before age 65, or any earlier date on which you planned to retire, the trustee company will calculate the amount of pensionable service purchased by your monthly AVCs up to the date of your retirement and you would be entitled to a pension and lump sum deriving from that period of additional pensionable service.</p> <p>If you paid a lump sum AVC then, the standard tables on which the lump sum cost is based assume that you will retire at age 65, or on the earlier date on which you planned to retire. Benefits bought by lump sum AVCs are actuarially reduced if you retire before you reach that age. The reduction, which applies to both the pension and the lump sum, is (for anticipated retirement at age 65) approximately 6% for each year your retirement is in advance of that date.</p>	<p>Your full accumulated fund is used to secure additional retirement pension, under present arrangements.</p>
What if I retire later than planned?	
<p>If you retire having completed an AVC contract, or after the retirement age which was assumed when you paid a lump sum AVC, the amount of pensionable service paid for will be credited to you in full. If your retirement is after the age of 65 the benefits derived from that additional pensionable service will be increased in the same way as benefits derived from normal contributions are increased, but if your planned retirement was to have been before that age, no such increase applies.</p> <p>After age 65 you cannot pay monthly AVCs, but you can pay further lump sum AVCs. The increase granted to benefits derived from pensionable service bought in this way would be smaller than that applicable to lump sum AVCs paid prior to age 65, to reflect the fact that the money has been held by the trustee company for a shorter period.</p>	<p>You can continue to contribute subject to the usual limits applying to the amount you can pay in and draw out (you will be advised by Prudential of these limits).</p>

