

More about...

Freedom and Choice with your AVC fund

If you have savings in a Defined Contribution (DC) AVC fund, pension freedoms that took effect from 6 April 2015 allow a wide range of options for how and when you use your savings.

How 'Freedom and Choice' affects your Abbott pension benefits

The Abbott Laboratories Pension Fund (1966) is a Defined Benefit (DB) pension arrangement. The options that are set out below do not apply directly to your main pension benefits within the Fund. However, they do apply to Additional Voluntary Contributions (AVCs). AVCs are extra contributions paid into a separate account held for you that increase the benefits you receive from the Fund when you retire. AVCs remain within the Abbott Laboratories Pension Fund (1966).

The current AVC provider is Aviva. Depending on when you first paid AVCs, you may also have AVC funds with other providers. Because AVCs operate on a Defined Contribution (DC) basis, the Trustees have been able to adopt some of the flexibilities permitted by the recent pension reforms. Please note that not all of the pension freedoms can be offered directly by any of our AVC providers at the time of writing.

Your options

From age 55, you will have a number of different options to choose from with regard to your DC AVC fund. There is no requirement to take your main scheme benefits from the Fund at the same time you take any benefits from your AVC fund.

Your options, and the rules that pertain if you wish to access your AVC fund **before or after** your main scheme pension, are as follows:

- **Buy an annuity**

This is a policy that gives you an agreed regular income for life. This option is currently available from both Aviva and Equitable Life but there is no guarantee that this will remain the case in the future. It is possible, and often gives a better outcome, to use the open market option to buy an annuity from an alternative provider. The scheme offers a broking facility to find you the best rate available, at no charge to you.

- **Uncrystallised Fund Pension Lump Sum (UFPLS)**

This allows you to take money directly from your AVC fund in the form of a lump sum. You can either partially or fully "cash in" your AVC account.

Both Aviva and Equitable Life allow members to fully "cash in" AVC funds from age 55. You do not need to transfer to another registered pension arrangement in order to exercise this option. 25% of the AVC fund is paid tax-free and the remaining 75% will normally be subject to income tax.

If you exercise the option to "cash-in" your AVC funds, when you come later to draw your main pension benefits you can still take a Pension Commencement Lump Sum (PCLS). The maximum amount of PCLS you can have is 25% of the value of the pension to be placed into payment. That value will include any AVC fund that may have been built up after the initial AVC fund was taken as cash.

Legislation allows you to take a series of lump sums from your AVC fund, but this option is not available through either Equitable Life or Aviva at the time of writing. So, currently, you can achieve this only by transferring to another registered pension arrangement offering the facility you require. Aviva does not impose a penalty or charge for transferring out.

For information regarding transfer of AVC funds held with Equitable Life, please refer to the separate announcement letters and the information shown on your annual benefit statement. Please be aware of charges that other pension arrangements may have when choosing where to transfer your AVC fund.

If you choose to keep your AVCs invested in your selected fund(s), please note that the value of those funds can fall as well as rise, so you could get back less than you invested.

- **Flexi-Access Drawdown Fund (FADF)**

This option is available via a transfer to a contract based arrangement on Aviva, My Savings, or via a transfer to another registered pension arrangement offering this facility. Equitable Life does not offer an income drawdown product.

Your money stays invested in funds within a product that allows you to take income of different amounts, and at different times to suit you (e.g. monthly, quarterly, yearly or irregularly). At retirement, you can take 25% of the money that you transfer into the Flexi Access Drawdown Fund as a tax-free lump sum, and from then on, withdrawals are taxed as income.

Other options may be available through an FADF product; for example, you may be able to use some of your money to purchase a deferred annuity – this would provide a fixed level of income for the rest of your life, starting from a pre-selected date in the future.

This is a summary of the options that are currently available, but these will be reviewed from time to time and could change. Visit www.pensionwise.gov.uk/pension-pot-options to find out more about these options.

- **Partial Vesting**

If you transfer to another registered pension arrangement, you may be able to use your AVC fund in a combination of ways to best suit your circumstances. For example, you could use part of your AVC fund to take UFPLS and/or buy an annuity, and leave the remainder of the fund invested.

- **Money Purchase Annual Allowance (MPAA)**

Individuals who have flexibly accessed money purchase pension savings in a registered pension scheme (this includes AVCs) will have a reduced MPAA, which applies to all future pensions savings in DC vehicles. Accessing flexibility under Freedom and Choice, for example UFPLS or FADF, both trigger the MPAA. The MPAA reduced to £4,000 starting from the tax year 2017/18, so employees who exercise freedom and choice options will have an Annual Allowance tax charge after the first £4,000 of any money purchase savings.

This would, for example, affect a member of a Defined Benefit (DB) arrangement, who had exercised an option to fully “cash in” a small personal pension arrangement, and wanted to pay AVCs available through the DB scheme. AVCs would then be subject to the MPAA.

How will my tax position differ if I take AVCs at the same time as my main scheme benefits?

If AVCs are taken at the same time as the main scheme benefit, up to 100% of the AVC fund can be taken as cash without deduction of tax, providing this value does not exceed 25% of the total value of the scheme benefits. The value of the retirement pension plus the value of the AVC fund are added together. If the AVC fund is less than 25% of this total, all of the AVC can be taken as cash. Where it is possible for the total AVC to be taken as cash, the amount of cash that can be taken from the main Fund is then calculated (the total lump sum cannot exceed 25% of the total value of the scheme benefits). Please refer to the estimates provided within your annual benefit statement.

Can I rejoin?

You can still make future AVC contributions having elected to take AVC benefits in full, providing you remain employed and continue to be an active member of the Abbott Laboratories Pension Fund (1966). In this scenario, a new account would need to be opened with Aviva.

Can I transfer my final salary pension benefits into AVCs to exercise Freedom and Choice?

No. However, it is possible to transfer your main pension benefits from the Fund to a registered pension arrangement to take advantage of FADF or UFPLS. Transferring your benefits out of the Fund is an important decision. The Trustees would strongly urge you to consider your options carefully and take independent financial advice before making any decisions. If the transfer value of your benefits is over £30,000, you will be required to provide written confirmation that you have received independent financial advice from a regulated adviser who is authorised by the Financial Conduct Authority (FCA) to give such advice, before any transfer can be made.

You can find out more, and get guidance or advice on what is available to you by contacting the organisations on the next page.

What if I don't want to exercise freedom and choice with my AVC fund? Can I still transfer the AVC fund?

Yes. You can transfer out the AVC fund in isolation from the main scheme benefit at any time.

Any questions?

If you are approaching retirement and have questions about the options available to you, please contact our Pensions Officer, on **01628 774613** or email **ukpensions@abbott.com**. Please note that we cannot give advice. Before deciding how to use your AVC fund, you should access the Government's free and impartial guidance service, Pension Wise, and consider taking independent financial advice to help you decide which option is most suitable for you.

Pension Wise

The website at **www.pensionwise.gov.uk** offers you guidance on your options or, if you'd prefer to talk to a specialist, you can arrange a telephone or face-to-face appointment.

Independent financial advice

An Independent Financial Adviser (IFA) will be able to give you advice in relation to your personal circumstances. You may be charged for this advice. You can find a list of financial advisers close to you by visiting **www.unbiased.co.uk**.

The Money Advice Service

The website at **www.moneyadvice.service.org.uk** provides guides to help improve your finances, as well as tools and calculators to help you budget and plan ahead.

