

The Local Government Pension Scheme

AN UPDATE FROM PRUDENTIAL



Tax-Free Cash

The Jewel In The Crown

7-Stage Retirement Journey

Crystallising your journey

AUTUMN 2008

Retirement has more potential with

PRUDENTIAL



› Tax-Free Cash

The Jewel In The Crown

Richard Harrison of Prudential provides a technical update on AVCs and their interaction with the new look LGPS.



As we have said on several occasions the commitment from the LGPS to continue with AVC facilities as an integral part of the New-Look Local Government Pension Scheme in England & Wales was an extremely positive move. With ever increasing levels of AVCs being invested, it looks as if they are here to stay.

- › Allowing up to 100% of the AVCs to be taken as tax-free cash (subject to an overall ceiling of 25% of all retirement funds) is consistent with the desire to encourage a more flexible approach to retirement & maximising member choice.
- › The overall attractiveness of AVCs is encouraging more Local Government employees to increase the levels of voluntary savings.
- › Arguably for a new joiner from April 08 AVCs could become the primary tax-free cash savings vehicle, reducing or possibly removing the need to commute any main scheme benefits.

Technical Update

FSAVC Transfers have always been transferable into the in-house AVC. From April 08 this is **no** longer possible. Similarly AVC arrangements apart from Local Government **cannot** be transferred into the in-house AVC. LGE Bulletin 52 (Page 7) covers this point.

Use of AVC Fund to Purchase ARC Pension

There is no provision in the regulations allowing this facility.

Pre November 2001 AVC Contract & Protection

Employees with AVC contracts that started before this date still have an extra option to consider, namely the purchase of "LGPS Service" in addition to an LGPS Annuity or Open Market Option. This facility is still available in the new look scheme.

Flexible Retirement And AVC Funds

It is now possible to have flexible retirement and exercise AVC options in the usual way.

Deferred Beneficiary With AVC Fund

There is no opportunity to use AVCs for an annuity within the LGPS. The only pension option is an annuity from the private sector through the AVC provider or the open market option route. Not forgetting the facility to take some if not all as tax-free cash.

AVC Life Cover

Prudential remains satisfied that its AVC Life Cover still qualifies for tax relief. This form of life cover can be highly tax efficient for members who wish to buy additional life assurance. Cover is restricted to 2 x salary and the minimum level of cover Prudential will accept is £5,000.

➤ **Helping** administering authorities with the retirement process

It is now essential that administering authorities have all the relevant AVC information in a timely and efficient manner.

Ultimately this ensures that the final lifetime allowance calculation including the AVC fund is treated as a single benefit crystallisation event (BCE). This helps the member especially if they wish to maximise their tax-free cash entitlement in the most effective way.

Going forward it is difficult to see why retiring members would not routinely take their AVC benefits at the same time as their main scheme benefits. However it is important to remember that any deferral would result in separate BCEs with the tax-free cash from AVCs limited to 25% of the fund value.

Through our LGPS User Groups Prudential has developed a 7 Stage Retirement Journey to assist administering authorities. We believe this crystallises the entire member journey and ensures maximum efficiency when dealing with retirees who have AVC funds.

➤ Planning for retirement has never been more **important**

Prudential believes that member communications are absolutely critical to the success of any pension scheme and the LGPS is no exception.

The main reason why staff don't make the most of what is their most significant employee benefit, is simply that they don't know enough about it. Employees need to make sure they do all they can to help themselves, but a responsible employer must also highlight what's available to staff and this often means working in partnership with one or more organisations. Employees need to know about their main scheme and the advantages – such as tax-relief and employer contributions. In addition, they need to know ways of plugging any shortfall.

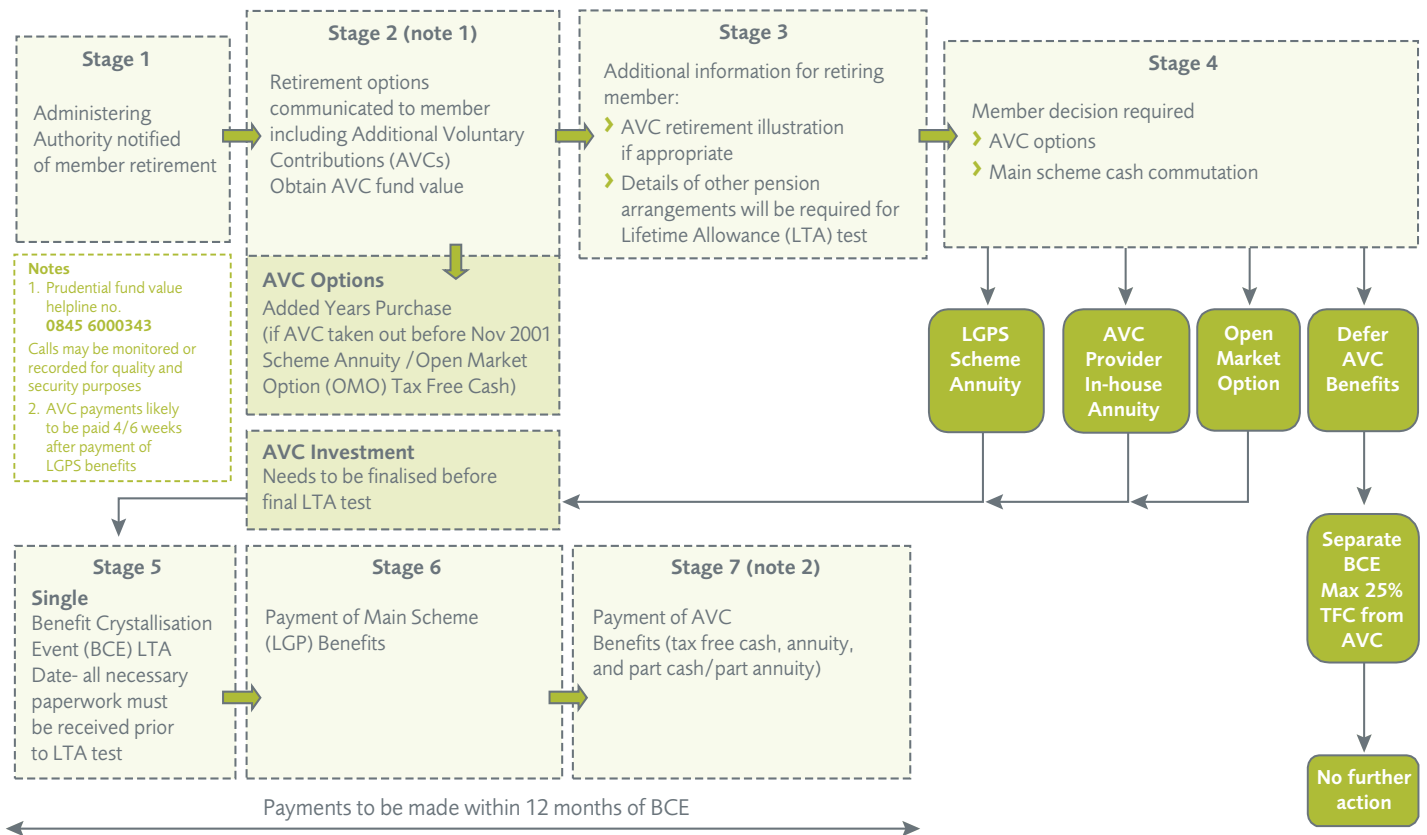
Once again a reminder to administering authorities

The increasing interest in retirement saving through AVCs highlight the obligation on all Local Government Administering Authorities to exercise due diligence in monitoring AVC providers' across a range of areas including investment returns, scheme administration, member support, member communication and look to change providers, if and when appropriate.

**Richard Harrison is the Account
Director responsible for Public
Sector Pensions at Prudential**

➤ LGPS: 7-Stage Retirement Journey

In addition to providing on-line AVC fund values, we have developed a 7-stage retirement process.



Stop Press – Single Crystallisation Event

Are you doing enough to ensure AVCs are taken in to account when calculating member's benefits to provide a single crystallisation event?

Do you ask your members if they have an AVC when they submit their retirement application? Are you routinely checking on-line if a record exists? Do you cross reference the members' details on the annual revision information with your main scheme records?

Following the Finance Act of 2007, you now have up to a year to settle all benefits to qualify for a single crystallisation event, payments outside this timescale will be treated as unauthorised with tax liabilities, don't let your members miss out!

Contact us

For further information or to discuss any matter raised by this update, please speak to your usual adviser, or contact our local government specialist, **Telephone Richard Harrison on 07876 791684**

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