

**Methodist
Ministers'**
Pension
Scheme

The **Methodist** Church 



May 2023

Additional Voluntary Contributions
Explanatory Leaflet

Introduction

If you are a member of the Methodist Ministers' Pension Scheme (MMPS) you may elect to pay Additional Voluntary Contributions (AVCs) to enhance your retirement benefits. This booklet describes the current AVC arrangements set up by the Trustee of the MMPS.

This booklet also provides a glossary of some of the investment terms to aid your understanding.

You should note that the information presented in this booklet relates to the AVC arrangements provided by the Trustee only and does not cover the option that you have to contribute to external arrangements to top up your pension provision.

The Pensions Office is happy to help regarding any questions that you have on the AVC arrangements of MMPS. You should note that they are unable to give you any financial advice, or advise on details of alternative arrangements, for which you should contact an Independent Financial Adviser who is authorised by the Financial Conduct Authority.

Pensions Office
The Methodist Church
Methodist Church House
25 Tavistock Place
London WC1H 9SF

Email

pensionshelp@methodistchurch.org.uk

Telephone

020 7467 5287

How do AVCs work

The AVC arrangement operates differently to the way your main scheme benefits build up under MMPS.

The AVC arrangement operates on a defined contribution basis; that is, the contributions that you pay accumulate with investment returns to provide a fund on your retirement or earlier death.

The value of your AVC Fund is dependent upon the amount of contributions paid and the investment returns on your fund. You should note that the value of your AVC fund cannot be guaranteed.

What benefits will I receive at retirement?

At retirement you have the option to receive your AVC fund either as a tax-free cash lump sum (subject to His Majesty's Revenue & Customs (HMRC) limits) or converted into an additional pension and paid in addition to your main MMPS pension.

Alternatively, you can take the value of your AVC fund at retirement and purchase benefits with a provider of your own choice on the open market.

The Government introduced flexibilities for defined contribution pension pots (including AVCs). The flexibilities allow members to draw their defined contribution pension pots in a variety of ways including drawing down the pension, flexible lump sums and annuities. If you wish to take advantage of the flexibilities you will need to transfer your AVC fund to one or more providers offering the flexibilities. Different pension providers will offer different options in relation to what you can do with the flexible benefits. Different options have different features, different rates of payment, different charges and different tax implications. You should be aware that there may be tax implications associated with accessing flexible benefits. Income from a pension is taxable and the rate at which income from a pension is taxable depends upon the amount of income that you receive from your pension and other sources.

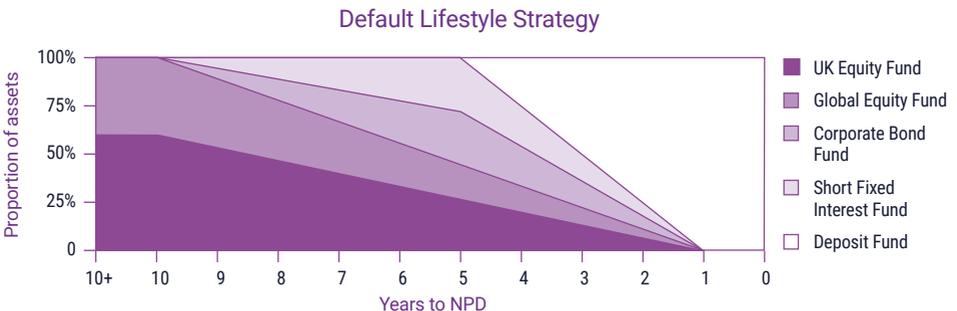
To assist you in understanding your options and deciding whether to take your AVC fund in a fully flexible way, you can receive free, impartial guidance.

MoneyHelper is a service provided by the Money & Pensions Service.

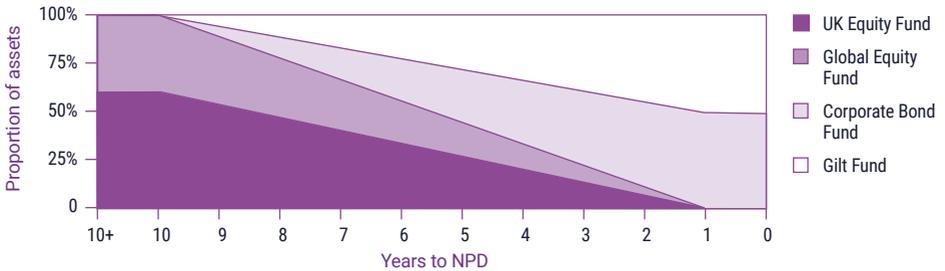
MoneyHelper provides a free service which helps individuals understand their options when making decisions about their pension pots. For more information on the guidance and how to access this call MoneyHelper on 0800 111 3797. You should also consider taking independent financial advice at retirement to help you decide which option is suitable for you.

How are my AVCs invested?

The AVC funds are invested in accordance with the Trustee's Responsible Investment Policy and in line with its ethical investment stance. The investment funds are credited to an account set up for you within the Scheme and managed by Epworth Investment Management Limited, a subsidiary of the Central Finance Board (CFB).



Alternative Lifestyle Strategy



You will receive an annual Statutory Money Purchase Illustration so that you can see how your AVC fund is building up. You should note that due to the nature of the investments, your account can fall as well as rise.

The Trustee has chosen a lifestyle investment strategy for AVCs. This is designed to make your investment decisions as easy as possible. Your AVC fund will automatically be switched from growth investments to less volatile lower risk investments as you near Normal Pension Date. Your contributions will purchase units in the CFB funds managed by Epworth. The number of units bought will be dependent upon the prevailing cost of the units at the point of purchase.

You should note that a Lifestyle Strategy assumes that you will receive your benefits from the Scheme at Normal Pension Date. Unfortunately the Lifestyle Strategy cannot anticipate unexpected events such as early retirement or ill health which may affect the date that you ultimately retire.

Earlier in your working life and up to 10 years prior to your Normal Pension Date, your AVCs will be invested in both UK and Global Equities to enable you to benefit from the growth potential offered by these investments.

As you get closer to retirement, your fund will gradually switch out of the higher risk equity investments into lower risk corporate bond, fixed interest and deposit funds. This means that you will not be so at risk of a sudden drop in the stock market as you near retirement.

By default you will be invested in the Default Lifestyle Strategy, which assumes that you will receive your AVC fund as cash at retirement. In this situation your AVC fund will ultimately switch from a mixture of Equity, Corporate Bond and fixed interest investments into the Deposit Fund. You should note that the maximum amount of tax-free cash that you can receive at retirement is subject to HMRC limits.

However, if you are planning to convert your AVC fund at retirement to provide you

with an additional pension the Alternative Lifestyle Strategy is available.

The alternative strategy will mean that your AVC fund will ultimately switch into an equal investment in the Corporate Bond and Gilt funds, with no Deposit Fund investment. Investments in these funds are better suited to those who wish to target a pension income at retirement as the value of the underlying investments is more closely linked to the cost of purchasing a pension. Please note that switching to this investment strategy does not mean that you cannot change your mind at retirement. You will still have the option to take all or part of your AVC fund as tax free cash at retirement dependent upon HMRC limits.

If you plan to convert your AVC fund at retirement to additional pension and wish to switch your investments to the Alternative Lifestyle Strategy, please contact the Pensions Office. This does not mean that you cannot convert all or part of your AVCs to cash at retirement.

How much can I pay?

Any AVCs that you choose to pay to the Scheme will be deducted from your stipend (in the same way as your contributions to MMPS) before you pay tax, so you will automatically receive tax relief on these contributions at your highest marginal rate.

His Majesty's Revenue and Customs (HMRC) allows you to pay contributions up to 100% of your annual earnings, or £3,600 per annum if higher, to any number of pension arrangements and receive tax relief on those contributions.

If you wish to pay the maximum contributions allowable, you would still need to receive a nominal stipend to cover deductions such as National Insurance and PAYE. For practical reasons the maximum level of contributions (both ordinary and AVCs) that the Scheme can accept is 75% of ministerial taxable earnings. You may wish to seek independent advice about topping up your contributions to the maximum permitted by HMRC.

How can I pay?

You have the option to have AVCs deducted from your stipend as either a fixed amount or as a fixed percentage.

In addition, or as an alternative, you also have the option to make single lump sum AVC payments.

What are the charges?

Administrative charges

1% of your contributions will be deducted for administrative charges and the remainder invested within your account. You should remember that you will receive tax relief on your contributions at your marginal rate as follows:

Gross AVC contribution £100 per month

Administration charge £1 per month

Amount invested in AVCs £99 per month

Net cost after tax relief
(assumes tax relief at 20%) £80 per month

In this example an investment of £99 per month in the AVC fund will cost you £80.

Investment Management Charges

Annual charges are levied on the funds held with the Central Finance Board. These are detailed below:

| Fund | Annual investment charge (%) |
|---------------------------|------------------------------|
| UK Equity Fund | 0.76 |
| Global Equity Fund | 0.89 |
| Corporate Bond Fund | 0.47 |
| Gilt Fund | 0.46 |
| Short Fixed Interest Fund | 0.21 |
| Deposit Fund | 0.29 |

Transaction Charges

| Fund | CFB Transaction Charges |
|---------------------------|-------------------------|
| UK Equity Fund | 0.17 |
| Global Equity Fund | 0.05 |
| Corporate Bond Fund | 0.35 |
| Gilt Fund | 0.05 |
| Short Fixed Interest Fund | 0.13 |
| Deposit Fund | Nil |

What benefits are available if I die before retirement?

If you die prior to retirement your fund value will be available to provide either a lump sum or an additional pension to your dependants.

What benefits are available if I leave the Scheme?

If you leave the Scheme before Normal Pension Date and dependent upon the option that you choose in respect of your main Scheme benefits, you will be entitled to one of the following:

- (i) A refund of your AVC fund less tax

- (ii) A pension or lump sum payable upon retirement
- (iii) A transfer of your AVC fund to an external pension arrangement

from one pension arrangement and directly invest this in another pension arrangement.

Recycling lump sum payments

HMRC are concerned about members “recycling” their tax free cash sums and you should be aware of their policy.

Consequently, you are not able to use the cash from your AVC fund to invest in an alternative pension arrangement, nor can you invest any cash sum received from an external pension arrangement to increase your AVC fund. If you have any queries regarding “recycling” you should seek independent financial advice.

Recycling will occur if you use a tax free lump sum received upon retirement

| Glossary of terms | |
|-------------------|--|
| Term | Definition |
| Annuity | A pension income for life. |
| Bonds | A type of loan made either to a Company (Corporate Bonds) or a Government (Gilts). |
| Corporate Bonds | A loan made to a company. There is an agreed date (maturity date) by which the company must repay the loan at its face value plus a guaranteed rate of interest paid regularly over the life of the bond. Capital gains and losses are made when the Bond is traded before its maturity date. They are sometimes viewed as less secure than gilts because of the danger that the company could cease to trade. This risk is managed by only investing in companies with good credit ratings. |
| Equities | Equities (also known as stocks and shares) represent an ownership position in a company. UK equities are invested in UK listed companies whereas global equities invest in both foreign and domestic investments. |
| Risk (volatility) | The chance that your investments may gain or lose value. The higher the risk, the higher the potential gain or loss. |

| Summary of CFB Funds | |
|-----------------------------|--|
| Fund | Description |
| UK Equity Fund | Investment mainly through a portfolio of UK equities, seeking a total return equal to or in excess of the UK equity market over a rolling five year period. |
| Global Equity Fund | Investment mainly through a portfolio of global equities and inflation linked securities, seeking a total return equal to or in excess of non-UK equity markets over a rolling five year period. |
| Corporate Bond Fund | Investment mainly through a portfolio of sterling denominated corporate and sub sovereign fixed interest securities, seeking a total return equal to or in excess of the UK corporate bond market over a rolling five year period. |
| Gilt Fund | Investment mainly through a portfolio of long-dated sterling denominated UK Government securities, seeking a total return equal to or in excess of the UK Government fixed interest market over a rolling five year period. |
| Short Fixed Interest Fund | Investment mainly through a portfolio of short-dated sterling denominated fixed interest securities, seeking a total return equal or in excess of the short-dated UK Government fixed interest market over a rolling five year period. |
| Deposit Fund | Monies are placed on deposit with banks. Monies received by CFB are pooled together and invested mainly in the London Money Market. |

Application to pay Additional Voluntary Contributions (AVCs)

Full Name

Address

.....

.....

Stipend No

- Type of AVCs (tick box)
- Single payment
 - Regular – fixed amount
 - Regular – fixed percentage of Stipend

Fill in the section below appropriate to the type of AVCs you wish to pay.

Single Payment AVC

Amount of payment £ (minimum amount £100)

Regular AVCs – fixed amount

Amount of payment per month £ (minimum amount £4 per month)

Date AVCs to commence

Regular AVCs – fixed percentage of Stipend

Contribution rate % of stipend per annum (minimum 1%)

Date AVCs to commence

- Investment Choice (tick box):
- Default Lifestyle Strategy – target lump sum
 - Alternative Lifestyle Strategy – target pension

Signature Date

Please send this completed application form to:

Pensions Office, The Methodist Church,
Methodist Church House, 25 Tavistock Place, London WC1H 9SF



10 Methodist Ministers' Pension Scheme Additional Voluntary Contributions

The **Methodist** Church 

Registered charity no. 1132208

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