

Additional Voluntary Contributions (AVCs)

Increasing your benefits by paying AVCs.

Maximum benefits

The Universities Superannuation Scheme (USS) Final Salary section provides very valuable benefits and is designed to allow you to build up a pension of 1/80th of your pensionable salary for each year of pensionable service plus three times this pension as a tax-free lump sum, as standard.

Many members may not build up enough pension through normal contributions for a variety of reasons; they may have joined the scheme later in their career, had a career break or plan an early retirement.

If you wish to increase your retirement benefits there is a way that you can pay extra contributions (called Additional Voluntary Contributions (AVCs)) which is tax efficient and easy to set up.

The big attraction of any AVC is that you receive tax relief on your contributions at the highest rate for which you are liable, so it's a very attractive way to save tax and build up greater retirement benefits, including a tax-free lump sum on retirement.

There are limits though, on how much retirement benefits you can build up each year, called the Annual Allowance and on the final value of your retirement benefits, called the Lifetime Allowance.

Annual Allowance (AA)

This limit is expressed as a capital value, and for 2011/2012 the limit is £50,000. It is not clear at the time of printing how or if the limit will be increased in the future. Updates will be available on the USS website www.uss.co.uk

To work out the AA for yourself, you first need to work out the value of your pension on the 1 April and increase that value by the rise in the Consumer Prices Index (CPI) for the previous year. Then work out the value of your pension on the following 31 March (this is the pension input period in USS) and work out the difference between the two. Then multiply this figure by 19. This is your AA for that particular tax year.

How does it work?

Pension at start of year:	£10,000
CPI increase:	3%
Pension at end of year:	£11,000
= £11,000 – (£10,000 x 1.03) x 19	
= £13,300	

In the example above the AA is well within the £50,000 limit, therefore this member would have considerable scope to pay AVCs.

If you exceed the AA, there is scope to utilise unused allowances from up to the previous three years. If you are still in excess of the limit then anything over the £50,000 is added to your gross taxable pay and taxed under the PAYE system, meaning that the tax charge could be 20%, 40% or perhaps 50%, depending on the level of your taxable pay.

The £50,000 limit is however generally only of concern to members with long service and higher than average salaries.

Lifetime Allowance (LTA)

This limit is the maximum amount of retirement benefits you can build up at retirement. Again it is expressed as a capital value. For the tax years up to April 2012 it is £1.8 million, reducing from April 2012 to £1.5 million.

To exceed the £1.5 million limit you would need to have 40 years' service in USS and be earning around £130,000 a year.

For more information, please see the 'Limits to tax relief and tax-free benefits' factsheet.



Additional Voluntary Contributions (AVCs)

You have the option to pay AVCs in USS, you can also set up any number of your own personal arrangements outside the scheme. Any contributions you pay will attract tax relief at your highest marginal rate so long as they do not exceed your relevant UK earnings for income tax purposes or (if higher) the basic amount set by the Treasury (£3,600 a year at the time of printing).

Within that limit, if you were paying 40% tax, a £100 monthly AVC would cost only £60 a month from your net pay and only £80 a month if you were paying 20% tax (based on rates of tax at the time of printing).

You should remember that any pension secured by an AVC would be taxed in payment at the prevailing rate at the time you retire.

Tax relief on contributions is given against income for the year of payment and cannot be transferred from one year to another. This is especially relevant if you are considering high levels of AVC, including a lump sum contribution. Moreover, high levels of contribution might cause the value of your benefits to increase in the year by more than your Annual Allowance and give rise to a tax charge on the excess. Contributions to USS may not exceed the amount of that Annual Allowance and your overall benefits at retirement should be within the Lifetime Allowance to avoid further tax charges.

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 having been a member less than two years.

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

Added Years AVC

This is administered by Universities Superannuation Scheme Ltd (the Trustee Company) 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/civil partner's/dependant's pensions).

The Added Years AVC is part of the Final Salary section of the 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 to buy service to retire early.

There is a limit to the contributions you can make to the added years facility of an additional 15%, over and above the ordinary USS contribution.

You can find out the cost of buying service using the AVC modeller which can be found on the USS website at www.uss.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 to set it up with USS.

Money Purchase AVC

This is administered by 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 extra retirement benefits. You can buy an extra pension (called an annuity). If you do this, this can be purchased at retirement from Prudential or another annuity provider. Or you may be able to use the fund at retirement to purchase extra service in USS.

This forms part of the main scheme from that point. Importantly, since 6 April 2006, your Money Purchase AVC fund can be taken as tax-free cash. You are allowed to take up to 25% of the capital value of your benefits in USS (including the USS Money Purchase AVC) as tax-free cash. Therefore if your Money Purchase AVC is less than 25% of the overall value of your USS benefits, you could opt to take your entire USS Money Purchase AVC fund as cash and take less cash from the main scheme, receiving a higher USS pension. However, tax regulations may change, so you cannot altogether guarantee that you will be able to take all or part of your Money Purchase AVC fund as tax-free cash when you retire. Full details will be provided at the time of retirement.

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

USS does set a limit to how much you can pay in total each year in to the Money Purchase AVC. The limit is:

The Annual Allowance for that year, currently £50,000, or your annual salary if lower

Less your normal 7.5% USS contribution

Less any payments you make to the USS Added Years AVC

So, if your salary for USS purposes was £40,000 pa and you are paying 5% into Added Years contracts your maximum Money Purchase payment for that year would be:

£40,000 pa

Less normal USS contribution ($£40,000 \times 7.5\%$)
= £3,000 pa

Less Added Years payments ($£40,000 \times 5\%$) = £2,000 pa

Balance that could be paid to the Money Purchase AVC
= £35,000 pa for that year.

You would of course have to check with your employer to ensure that statutory and other deductions (for example National Insurance) are covered before agreeing to make large payments of this nature.

Tax relief is limited to the amount of tax you have paid in the current tax year. This is especially relevant if you are considering high levels of contributions or a lump sum contribution that were not matched by relevant UK earnings, other than that salary, for the employment from which your USS contributions are deducted.

You must also take account of the Annual Allowance limit if you are considering larger AVC contributions.

Full details can be obtained from your pensions office or you can contact the Universities AVC team at Prudential on 0800 515 914. Details are also available on the Prudential website at www.pru.co.uk/uss

Large AVC payments and 'recycling'

Due to the increased scope to pay contributions to pension schemes and therefore to take tax-free cash, HM Revenue and Customs (HMRC) has introduced rules to limit any perceived abuse of the more generous rules with regard to tax-free cash.

Recycling is generally thought to only occur where there has been a previous pension benefit brought into payment and the tax free cash is used to fund a secondary scheme in order to increase the subsequent lump sum. However, the rules are more far reaching than this.

The greater concern for USS members is with regard to large additional contributions paid shortly before retirement which will in turn increase a member's tax-free cash. There would seem less of an issue with USS Added Years AVCs as the 15% limit on contributions means that there is very little scope to boost tax-free cash via added years. However, there is more opportunity within the Annual Allowance restriction for recycling to be an issue with regard to the Prudential AVC.

The HMRC guidance does indicate, although no actual advice is given, that increasing contributions prior to retirement can be considered as recycling, even if the additional funds have not been received from a prior retirement. It would seem however that HMRC would wish to determine your motive in paying that money before deciding whether your actions constitute recycling.

This could mean that should you receive a bonus, an inheritance or some other unexpected payment which is then paid to the scheme, that payment may not be deemed as recycling as there was no pre-planning of the payment. Essentially, the guidance would deem that the payment has been made due to the windfall, rather than because of the potential lump sum.

However, if you increase the amount of tax-free cash available to you:

- by taking out a loan;
- receiving a pre-retirement payment from your employer; and/or
- by using personal savings

and all of the above will be replenished or paid off following receipt of the increased lump sum, then this could be seen as recycling.

If this were the case, the tax-free lump sum may be subject to a 55% tax charge, payable by you, and a scheme sanction charge of 35%, payable by USS.

Despite the uncertainty about how these rules may apply in practice, it is important that you are aware of the potential consequences of large payments made shortly before retirement. Further information is available from the HMRC website at www.hmrc.gov.uk

It should be noted that in the event of a dispute between HMRC and a member, the onus would be on HMRC to prove that there has been pre-planning in the use of the retirement lump sum.

It is your responsibility to inform the Trustee Company that the recycling rules have been breached within 30 days of the breach occurring.

How can I pay AVCs?

There are two methods of paying AVCs to USS:

- **By monthly instalments**

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 does not exceed contribution limits when aggregated with your normal USS contributions, USS monthly AVCs, Prudential AVCs and contributions to other registered schemes made since the beginning of the tax year in which it is paid. 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. It should be noted however that the latest age at which a monthly AVC contract can begin is age 64.

Other options

The AVC arrangements offered by USS are only one way of providing extra retirement benefits. There are other forms of retirement 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 financial advisers, please go to the 'maximising your pension' section of the USS website at www.uss.co.uk. The Trustee Company 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 and/or Money Purchase options and/or other pension schemes, in addition to the contributions that you must make under the rules of USS (your 'ordinary contributions').

Added Years AVCs	Money Purchase AVCs
Predictable benefits in line with main scheme	Benefits dependent on investment return and annuity cost (if you choose to buy a pension)
Low risk	Choice of investment option determines risk
Contribute up to 15% on top of your ordinary contribution	Contribute up to 92.5% of salary (assuming the normal rate of ordinary contributions, no Added Years AVC contract and a salary below the Annual Allowance)
Favourable treatment in event of death in service or retirement due to ill-health	No specific provisions in the event of death in service or ill-health
Commitment to pay agreed amount of monthly AVCs – changes would require new contract	Flexibility to vary amount of contribution
Monthly contributions are of a specified proportion of the salary on which ordinary contributions are based and buy a predetermined amount of pensionable service	Contributions can be any amount, subject to the Annual Allowance limit
Spouse's, civil partner's, dependant's and children's pensions provided automatically	Subject to the limits on lump sum benefit, you choose the benefits you want and by how much they increase

Frequently asked questions

Can I vary or stop the contributions?

Added Years AVCs	Money Purchase AVCs
<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 and so could be more expensive. 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?

Added Years AVCs	Money Purchase AVCs
<p>You can arrange for your AVCs to provide extra benefits at any time from your 55th birthday. Please refer to the 'Retirement' factsheet for full details of the USS early retirement terms. 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.</p>	<p>You can arrange to pay an amount that will provide you with your targeted benefits at your selected retirement age.</p>

What if I am part-time?

Added Years AVCs	Money Purchase AVCs
<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?

Added Years AVCs	Money Purchase AVCs
<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. 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 are paid salary from which to deduct them.</p>

What if I go on absence due to sickness or any other cause beyond my control?

Added Years AVCs	Money Purchase AVCs
<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 to suspend them until you return to work. If you continue them, you may also continue your monthly AVCs.</p> <p>If an AVC contract is not maintained, you may commence a new contract upon return to work (providing the break exceeded one calendar month).</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?

Added Years AVCs	Money Purchase AVCs
<p>Please refer to the 'Maternity and family leave' factsheet.</p>	<p>Please refer to the 'Maternity and family leave' factsheet.</p>

What if I leave USS for any reason?

Added Years AVCs	Money Purchase AVCs
<p>Please refer to the 'Options on leaving' factsheet.</p>	<p>Please refer to the 'Options on leaving' factsheet.</p>

What if I retire early due to ill-health or die in service?

Added Years AVCs	Money Purchase AVCs
<p>For death benefits and total incapacity benefits, 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 3/5ths of the total service you would have bought will be added to the total service used to calculate your benefits. If you are eligible for partial incapacity, the additional service from your added years contract will simply be the service you have purchased up to the point of retirement, on a pro-rata basis, with no enhancement for future service. Of course, if you later qualify for total incapacity benefits the full enhancement will then be given.</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>On death in service the full value of your accumulated fund would be paid to your beneficiaries, in accordance with your wishes detailed on the USS Expression of Wish form. If you have advised Prudential separately of your wishes, you should note that any lump sum paid on your death may be subject to Inheritance Tax.</p>

What if I retire early in other circumstances?

Added Years AVCs	Money Purchase AVCs
<p>If you are paying AVCs by monthly instalments and the contract commenced before April 2006 and you retire early, the Trustee Company will calculate the amount of pensionable service purchased by your monthly AVCs (on a pro-rata basis) 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>Additionally, if you paid a lump sum AVC at any time or set up a monthly contract from April 2006, then the standard tables on which the cost is based assume that you will retire at Normal Pension Age, or on the earlier date on which you planned to retire. (This is only applicable to contracts started before 1 October 2011). Benefits bought by AVCs in these cases are actuarially reduced if you retire before you reach that age. The reduction, which applies to both the pension and the lump sum, is approximately 4% for each year your retirement is in advance of your planned retirement date.</p>	<p>Your full accumulated fund is used to secure additional benefits.</p>

What if I retire later than planned?

Added Years AVCs	Money Purchase AVCs
<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.</p> <p>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>

Pensions TV

To learn more, please visit the USS website at www.uss.co.uk to watch the Pensions TV programme called 'Increasing your retirement benefits'.



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