December 2014

Dear APS AVC member

We wrote to you in June 2014 to explain that the Equity Biased Fund (EBF) and Short-dated Gilts Fund (SGF) are now classed as 'cash balance' or 'non-money purchase' benefits for the purposes of certain pension legislation, whereas the Mixed Portfolio Fund (MPF) remains a 'money purchase' benefit.

We explained that there would be no immediate adverse impact as a result of this change, but that EBF and SGF Accounts would be treated with lower priority should the Scheme wind up at any stage in the future.

A copy of our June letter is available here.

The purpose of writing to you again is:

1. to tell you about a change we are making to the Scheme rules to allow you to transfer your AVCs, whether these are held in the SGF, EBF or MPF, to an external provider should you wish to do so;
2. to give you some information about new rules introduced by the Government regarding flexible access to defined contribution (DC) benefits; and
3. to give you some further information about the treatment of your AVCs should the Scheme wind up at any stage.

The only purpose for writing to you now is to give you further information and not because we are aware of any consideration being given to winding up the Scheme.

1. New AVC Only Transfer Option from April 2015

A new AVC only transfer option will be available from the Scheme from April 2015.

The new AVC only transfer option will enable members, including those concerned about the change in status of their EBF and SGF AVC Accounts, to transfer their AVC Accounts to an arrangement outside of the Scheme if they wish to do so. It will also allow members to utilise the new DC flexibility rules that have been introduced by the Government and which are discussed further below.

Under the new transfer option, members will have one opportunity before they draw or defer their main Scheme pension, to transfer either part or all of their total AVC Account balances (SGF, EBF and MPF) and must then draw or transfer the remainder when they commence their main Scheme benefits. Members can carry on paying AVCs after they have transferred out their AVC Accounts while they remain an active member of the Scheme.
Members who previously chose to leave their AVC balances in the Scheme will also be eligible to transfer out their AVC balance.

2. What are the new Government rules?

From April 2015, defined contribution (DC) benefits held in schemes that adopt the new Government rules can be accessed flexibly as cash usually from minimum pension age (generally age 55*); either by taking the whole pot as a lump sum or a series of smaller lump sums (known as uncrystallised funds pension lump sums (UFPLS)) or by transferring funds to

*although in APS the minimum pension age is protected as age 50, where benefits are transferred this protection is usually lost

a drawdown arrangement (known as flexi-access drawdown). Each of these options has a different structure for allowing a quarter (25%) of the total DC benefits to be taken tax-free with the remainder taxed at the member's marginal tax rate. Individuals must have all or part of their lifetime allowance available in order to access UFPLSs.

Schemes are not required to introduce the new flexibilities. They do not apply to your main Scheme pension as this is a defined benefit (DB) pension rather than DC. Confusingly, the definition of a DC benefit for the purposes of the new Government rules on DC flexibility is different to that of a money purchase benefit. The DC flexibilities could potentially apply to all three of the in-house AVC Funds; SGF, EBF and MPF and the new AVC transfer option explained above allows you to transfer these out to access the flexibilities from an external provider.

3. Treatment of AVCs on winding up

We mentioned last time that, if the Scheme were to be wound up in future with insufficient assets to pay all the benefits in full, EBF and SGF Accounts would be treated with lower priority than previously. There is a potential risk that members could lose the benefit of part or all of these AVCs, although the exact impact would depend on the circumstances at the time of any wind up.

For example, if upon wind up the Scheme were to enter an assessment period for the Government's Pension Protection Fund (PPF), EBF and SGF Accounts would be converted by the PPF into a pension, called an 'annuity'. This would be added to the value of your main Scheme pension and the total would be compared to the PPF compensation cap, which is derived according to the member's age at the time but is currently £36,401 for a 65 year old, £32,428 for a 60 year old and £29,524 for a 55 year old. Active members, deferred pensioners and pensioners in receipt of their pension who had not yet reached "normal pension age" for PPF purposes – which, broadly, will generally be their relevant Scheme Normal Retirement Age (NRA) in relation to that benefit - would be entitled to 90% of the compensation cap.

In addition, the cash lump sum that could be drawn whilst the Scheme was in an assessment period and were the Scheme to be accepted into the PPF would be restricted to 25% of the PPF level of benefits.

Although APS is unlikely, currently, to be accepted into the PPF in an insolvency situation (for example, at present it is over 100% funded on the PPF basis), upon any future scheme wind up APS could, in certain circumstances, enter a PPF assessment period. Whilst in this assessment period the limits described above would apply. If the Scheme were not accepted into the PPF, benefits would be paid out in accordance with a statutory priority order, with EBF and SGF benefits having a lower priority than MPF AVCs.

This is different to previous treatment (prior to the change in MP definition and which still applies to MPF AVCs) whereby AVC benefits would not have been transferred to the PPF but instead would have been used to purchase an 'annuity' for the member which may or may not have included an option to exchange pension for cash.

It is worth noting that an 'annuity' purchased from within the Scheme after 6 April 2015, including an 'annuity' purchased using MPF AVCs, will also be classed as a non-money purchase benefit and so would be subject to the compensation cap and PPF payment level restrictions if the Scheme were accepted into the PPF upon wind up and would be treated with lower priority than previously under any statutory priority order.

AVC Switches
Since we last wrote, the Government has confirmed in draft regulations that transfer payments can continue from defined benefit schemes to defined contribution (DC) schemes. We had been monitoring this point in case restrictions were to be imposed upon transfers of AVC monies between the in-house AVC funds. Switching EBF and SGF Accounts to the MPF and vice versa can currently continue although we are awaiting final regulations.

It is worth noting that if a Scheme wind up were triggered, it is unlikely that members would be permitted to continue to switch AVC monies between the in-house AVC Accounts from the point the wind up was triggered. It is not possible to confirm whether there would be any notice period were the Scheme to enter a wind up, as this would depend upon the circumstances of any wind up.

What action should I take?
You should consider the information provided in this letter to decide if there is any further action you might wish to take. The Trustees are not aware that any consideration is being given to winding up the Scheme, however members concerned about the change in definition may wish to read more about the 'MPF' AVC Account here or refer to the 'AVC Plan Information Leaflet'. We strongly recommend that you take financial advice before making any decisions about your pension savings and especially if you are considering transferring your AVCs out of the Scheme from April 2015. A list of independent financial advisers can be found on www.unbiased.co.uk or via www.moneyadviceservice.org.uk

For and on behalf of the APS Trustees