

# The Genome Research Limited Pension Plan - April 2009

## Additional Voluntary Contributions (AVCs)

### A guide to your AVCs

#### Mapping out your future

##### What are AVCs?

Additional Voluntary Contributions (AVCs) are a method of boosting your pension and paying less tax while you are doing it. AVCs are deducted directly from your salary and will be invested for you in a fund or funds of your own choice. When you retire, you may be able to take some or all of the money held in your AVC fund as a tax-free cash sum. Alternatively, your AVC fund can be used to purchase extra annual income for you.

##### Why pay AVCs?

Even though the standard Pension Plan has a good level of benefits, you may wish to provide yourself with a larger pension for a number of reasons. You may, for example, wish to retire early, or you may have earnings such as a bonus, which do not qualify for pension. Or you may wish to take advantage of the tax rules that allow you to make additional tax-effective contributions towards your retirement and subsequently take some (or maybe even all) of your AVC's as a tax-free cash sum.

##### What are the tax advantages?

Under current UK tax rules, any AVC's you make qualify for full tax relief at your personal rate of Income Tax. Contributions are deducted from your pay before any tax is calculated.

So, every £100 paid into your AVC fund costs you far less than you might think:

Tax rate	22%	40%
Actual amount deducted from your gross pay and invested in AVC fund	£100	£100
Tax relief provided	£22	£40
Effective cost to you	£78	£60

Another tax advantage of AVC's is that under current rules, no tax is payable on the majority of your AVC investments.

##### Can I pay AVCs?

Yes, if you are an active member of the Plan, i.e. someone who is in employment and building up benefits within the Plan.

##### How much can I pay?

The taxman allows you to pay up to 100% of your taxable earnings in pension contributions. If you are a contributing Plan member, this means that you could, in theory, pay up to 95% of your total earnings into the AVC arrangement. Non-contributory Plan members could pay all their earnings as AVCs. While this may not seem practical, it does offer you the potential to

make substantial extra pension savings if you wish (and can afford) to do so and save on tax at the same time.

### **Can I vary the level of my contributions?**

Yes. You can change the amount of AVC's you are paying at any time, to suit your own financial commitments.

In fact, AVC's are very flexible. You may increase, reduce or suspend the rate of AVC's you are paying whenever you choose. You may also pay AVC's as a fixed monthly amount, a single or annual amount, or a percentage of your earnings each month.

If you wish to vary the amount of your AVC's, with effect from the first day of any month, you can do so by providing the appropriate authorisation to: Rosemary Caldwell, The Wellcome Trust Sanger Institute, Wellcome Trust Genome Campus, Hinxton, Cambridge CB10 1SA. Telephone: (01223) 494882.

### **How can I make AVC's?**

To start paying AVC's, simply complete and sign an AVC application form (available from Rosemary Caldwell) and return it to the above address. Deductions from your pay will start from the next available payday following receipt of your application.

### **What happens to my AVC's?**

An AVC account is set up in your name and your contributions will be paid to this account.

You can choose to invest your AVC account in a range of different funds and you can even spread your investment between funds.

### **Can I switch investment funds?**

Yes. If you choose to switch between the investment funds, you effectively sell units in one fund and buy units in another. There is no charge for switching funds

In making a decision to switch from one fund to another, there is always a risk of a sudden fall in the value of your investments on the day the switch occurs. Therefore, you may wish to consider a gradual switch into any new fund(s).

### **Charging structure**

There will be an annual management charge (amc) levied by the AVC provider which covers all costs. A typical amc is around 0.55% per annum and is deducted from your AVC's, usually as a small reduction in the value of any units purchased

No commission is payable to any broker.

All other administration costs are met by Genome Research Limited. This includes the quarterly pension surgeries offered to staff.

### **Additional charges/expenses**

A number of funds may be subject to additional charges/expenses.

### **How will I know what my AVC account is worth?**

Once a year, you will receive a personalised benefit statement showing the value to date of your own AVC account and an estimate of the amount of pension that it could buy for you at retirement.

You can also arrange on line access if you wish to have it.

### **Is there an alternative to the Genome AVC arrangement?**

Yes, you can contribute to your own separate pension arrangement with the provider of your choice and continue to be a member of the Plan.

You should be aware that the charges under any external contract could be higher than those under the Plan AVCs. The reason for this is that the Trustees of the Genome AVC Plan are able to obtain better rates from the providers on policies for a group of individuals.

### **What happens at retirement?**

When you retire, you can choose to take at least 25% of your AVC account as tax-free cash. In some circumstances you may be able to take more tax-free cash (perhaps even your whole AVC account). Alternatively, you can use the value of your individual account to purchase an additional pension benefit.

### **If I take pension, how much extra will I get?**

The amount of extra pension you might receive will depend on the following:

- The value of your individual account at retirement. This in turn will depend on the amount of AVC's you have paid and the growth in value of your investments.
- The type of pension you choose at retirement. For example, you may choose a pension for yourself to be paid during your lifetime only, or a pension for yourself and an additional pension for your dependant to be paid when you die. You may also choose a pension with or without a guaranteed annual increase.
- The market rate at the time of your retirement. Annuity rates are used to determine the cost of buying each £1p.a. of pension. These rates can go up or down depending on interest rates and are also affected by the age of the person retiring and how long their pension might be in payment.

Please note that you will not have to decide what benefits you wish to receive when you start paying AVCs. You decide shortly before you retire exactly how (and which) benefits you wish to be paid.

It is not possible to accurately predict what extra pension you will be able to purchase. However, we can help you estimate the amount. Please see the example AVC calculation on page 9, which allows you to calculate your estimated annual pension from your AVC's.

### **Can I take my AVCs in cash?**

As mentioned earlier, you may take some or all of your AVC's as a tax-free cash sum.

### **What happens if I die before retirement?**

If you die before reaching retirement, the value of your AVC's will be refunded to your nominated beneficiary or beneficiaries. This lump sum may be free of tax.

### **What happens if I leave the Company before taking benefits?**

If you leave the Company, you will be issued with a statement showing the value of your AVC's at the date of leaving.

If you have been a member of the Plan for less than three months, you will be entitled to a refund of your AVC's less tax.

If you were a Plan member for between three months and two years, you will have the choice of a refund of AVC's less tax (or option 2 or 3 below if you have completed two or more years' service).

If you have been a Plan member for two or more years, you will have the following additional options:

- 1. You may leave your AVC account in the Plan. Even though no more contributions will be made to your account, it will continue to attract future investment returns and will be available to secure additional pension (and/or tax-free cash) for you at retirement.
- 2. You may be able to transfer all the money in your AVC account, along with the value of your main Plan benefits, into your new employer's pension scheme. Full details of this option can only be given when the details of the new scheme are known.
- 3. You may be able to transfer the amount in your AVC account, along with your main Plan benefits, to another HM Revenue and Customs registered pension arrangement. Details of these options will also only be supplied nearer the time.

As you can see, there are a number of options available to you on leaving the Company. You are strongly advised to seek independent financial advice before you decide what to do.

### **How do I apply to start paying AVC's**

Please contact Rosemary Caldwell at the address below who will provide an application form together with details of the AVC provider and an overview of the various funds available for investment

### **Any questions?**

This leaflet is intended to describe in simple terms, the arrangements for making AVC's under The Genome Research Limited Pension Plan . The Company runs regular pension surgeries and you may wish to use these if you are thinking of paying AVC's. If you still have any questions about AVC's or any part of this leaflet, please contact: Rosemary Caldwell, The Wellcome Trust Sanger Institute, Wellcome Trust Genome Campus, Hinxton, Cambridge CB10 1SA. Telephone: (01223) .494882

## **AVC investment options ~ what choice of funds do I have?**

There are important differences between how each fund is invested and the risks they carry. You should make sure you understand these before selecting your fund(s). Some guidance as to the risk element of each group of funds is given below.

. Any additional charges payable are illustrated in the fund brochure provided on application

Risk classification is given to each fund by the provider. Each classification is based on historic volatility and the specific objectives of the fund. Within the range of funds they offer.

The Trustees monitor their chosen provider and regularly review all aspects of the provider to ensure continued suitability, but in making the facility available, are not suggesting the specific vehicle is suitable for any individual member/investment. You are strongly recommended to seek Independent Financial Advice before you decide to invest.

### **LOW (CASH)**

Invests in short-term deposits managed actively in UK money markets, thus achieving higher potential returns than those available via normal deposits. This fund aims to achieve a higher rate of return from the money markets than that achievable by an individual investor.

### **LOW + (MINIMAL RISK)**

The funds in this category offer minimal risk in that their underlying investments are generally subject to little or no volatility. They endeavour to provide a steady rate of return and are particularly suited to short-term investment where security is the main aim. Over the longer term such funds are unlikely to deliver high levels of return.

### **MEDIUM- (BELOW AVERAGE RISK)**

The underlying investments of these funds will generally experience some volatility but the movements will not be large. They endeavour to provide longer-term prospects for real growth.

### **MEDIUM (AVERAGE RISK)**

The funds in this category are classed as average risk on the basis that their underlying investments will be subject to 'average' levels of volatility. They offer good growth potential – achieved in most cases through the benefits associated with a diversified spread of assets – and are well suited for medium-term investment

### **MEDIUM + (ABOVE AVERAGE RISK)**

These funds offer very good long-term growth potential. They are likely to be subject to greater levels of volatility. On this basis, they are best suited for longer-term investment, and are particularly useful as part of a balanced portfolio.

### **HIGH- AND HIGH (HIGHER RISK)**

The funds in this category are associated with higher degrees of risk, in that they may invest in areas which experience wider fluctuations in return. They offer excellent growth potential over the longer term and therefore are best suited for long-term investment. As with the previous category, these funds are particularly useful as part of a balanced portfolio.

## **INVESTMENT PERFORMANCE**

While the Trustees monitor the general performance of AVC investment providers, there is no guarantee on the performance of any particular investment. As with any investment, the value

of your AVCs may go down as well as up (including the cash fund) and the Trustees cannot provide you with any financial advice. If you have any doubt about your AVC investment choice you should seek independent financial advice.

**Can I work out how much pension I could get from my AVCs?**

Yes, you can calculate a rough estimate by following the steps below. The table below will give you an approximate indication of the amount of additional pension that your AVCs might provide.

It must be stressed however that the figures are very sensitive to the assumptions made, especially if you are many years away from your intended retirement age, and you have chosen investments in the average, above average or higher risk categories. The eventual amount of pension may therefore potentially be quite different from this estimate.

If you are making planning decisions, you are recommended to seek Independent Financial Advice before acting on the figures produced in this table.

The Trustees appreciate the subject can be complicated and have tried to make the table as easy to follow as possible.

If you need assistance however, you can always attend one of the regular pensions surgeries to get more help.

**Example**

Below, we have worked out an example for a member – leaving room for you to work out what your own estimated pension could be.

	<b>Details assumed</b>	<b>Your details</b>
Male member now aged	31 years	Your age:
Preferred retirement age is	60	Preferred retirement age:
Paying regular monthly AVCs of	£80	Regular AVCs:
Has an existing AVC fund of	£2,500	Existing fund:

How to use the table (overleaf):

**Step 1 Using table 1**

Select the number of complete years until your retirement date (column A). and then moving across the row choose the corresponding amount dependent on whether you make regular or lump sum payment (Column B or C)

Step 3a If making monthly payments - , multiply the figure in column B (which is based on a monthly payment of £1 per month) by your actual payment. This will give you an estimate of the value of your future AVC payments at retirement.

Step 3b If you already have an existing AVC fund, - multiply the value of this by the figure in column C and divide by 1,000. This gives you an estimate of your existing AVC fund at retirement.

Note: If you make monthly payments and you have an existing fund add the results of steps 3a and 3b together. This will give you an estimate of the value of your AVC account at retirement.

#### Step 4 - Using table 2

To convert the value of your projected account into annual pension, divide the figure you have already calculated by the conversion factor of your intended retirement age.(i.e. Column A)

The conversion factor will vary according to whether you are male or female, even at the same age

The result is the estimated additional pension your AVCs could buy you when you retire at your chosen retirement age.

Example	Your estimated pension	
Step 1	$60 - 31 = 29$ years	Step 1
Step 2	£552	Step 2
Step 3	$£80 \times £552 = £44,160$	Step 3
Step 4	$£2,500 \times £2,460 \div 1,000 = £6,150$	Step 4
Step 5	$£44,160 + £6,150 = £50,310$	Step 5
Step 6	$£50,310 \div 28.53 = £1,763$ per annum	Step 6

All figures are in today's terms allowing for inflation.

#### Table 1

The figures given in the table below are based on a number of assumptions. The most important one is about the investment return achieved. After allowing for management charges, this is assumed to be 3.5% per annum higher than inflation until you start to approach retirement. Over the last 7 years before you retire, the assumed return falls so that it is 1% higher than inflation in your final year before retirement. This is on the basis that you may wish to move to lower risk investments to protect your AVC fund as you approach retirement.

All figures are in today's terms allowing for inflation.

Complete years to expected retirement age	Estimated fund from regular AVCs of £1 per month	Estimated fund from an initial fund of £1,000
A	B	C
40	£952	£3,592
39	£909	£3,470
38	£867	£3,353
37	£827	£3,239
36	£789	£3,130
35	£751	£3,024
34	£715	£2,922
33	£680	£2,823

32	£647	£2,727
31	£614	£2,635
30	£583	£2,546
29	£552	£2,460
28	£523	£2,377
27	£494	£2,296
26	£467	£2,219
25	£440	£2,144
24	£415	£2,071
23	£390	£2,001
22	£366	£1,934
21	£343	£1,868
20	£321	£1,805
19	£299	£1,744
18	£278	£1,685
17	£258	£1,628
16	£239	£1,573
15	£220	£1,520
14	£202	£1,468
13	£184	£1,419
12	£167	£1,371
11	£151	£1,324
10	£135	£1,280
9	£120	£1,236
8	£105	£1,195
7	£91	£1,154
6	£77	£1,119
5	£63	£1,089

**Table 2**

Expected retirement age

Conversion factor

(A)	Males	Females
50	36.36	35.61
51	35.60	34.85

52	34.83	34.07
53	34.05	33.29
54	33.28	32.51
55	32.49	31.73
56	31.71	30.94
57	30.92	30.14
58	30.12	29.34
59	29.33	28.54
60	28.53	27.74
61	27.73	26.94
62	26.93	26.13
63	26.12	25.33
64	25.32	24.52
65	24.52	23.72

The conversion factors shown in table 2 assume that your AVCs will purchase you a pension for your lifetime and on your death, a dependant's pension of 2/3 of your pension. Also, pensions in payment are assumed to increase at 5% per annum or by the increase in the Retail Prices Index, if less.

The factors are estimates of what an insurer might charge to buy an annuity, and assume that the rate of interest available to buy annuities will be 0.75% per annum higher than the level of inflation, and that mortality experience will be in line with tables known as PMA92(C=2030) for men and PFA92(C=2030) for women.

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