

A guide for members of AVC Extra (this does not apply to Network Rail members)

AVC Extra is the second contribution top-up arrangement available to members of the Railways Pension Scheme. This guide covers:

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What is AVC Extra?

AVC Extra is an Additional Voluntary Contribution (AVC) arrangement which is available to members of the Railways Pension Scheme who want to make additional savings towards their pension pot for retirement, aside from what they already contribute to the Scheme.

- You can make regular contributions which are deducted straight from your pay, or you can make a single lump-sum payment, through your payroll.
- Contributions are usually tax-free and are used to buy units in one or more of your chosen AVC Extra investment funds. These units will make up your Personal Retirement Account (PRA).
- Over the period of your membership, the value of your PRA will change according to the amount of contributions that you pay in, how your investments perform, and any charges applied.
- When you come to take your benefits the following options are available under current legislation:
 - Usually up to 25 per cent of your PRA can be taken as a tax-free lump sum.
 - The remaining value of your PRA can then be used to buy a regular income from an insurance company (an annuity) which is usually payable for life.
 - You can transfer your whole PRA to an external pension provider and use the funds as a flexible source of retirement income, withdrawing funds as and when you need them and leaving the rest invested (the payments will be subject to income tax). This is known as a drawdown arrangement.
 - You can take all of your PRA as a single lump sum. Usually, 25 per cent will be paid tax-free and the rest will be taxed at your marginal rate of income tax.
- The Trustee is responsible for managing AVC Extra and for choosing the funds that are available to you.

When can you join AVC Extra?

You can join AVC Extra if:

- you are already a contributing member of the Scheme;
- you are a contributing member of BRASS, the Scheme's main Additional Voluntary Contribution Arrangement, and are already contributing the maximum level allowed to BRASS.

How can you join AVC Extra?

If you would like to join AVC Extra, you will need to contact your employer/payroll office and they can start the deductions.

We recommend that you get independent financial advice before making any important decisions about your pension arrangements.

How do you make contributions?

You pay contributions into your Personal Retirement Account. Your employer will not make any contributions to AVC Extra.

Regular AVC Extra contributions deducted from your pay by your payroll department, like your contributions to the Scheme and to BRASS, benefit from tax relief through what is referred to as a 'Net Pay Arrangement' where pension contributions are collected before income tax. This means for taxpayers, full tax relief at the highest rate is automatic and no income tax is paid on the money being contributed to a pension. As a rule, you will get tax relief on these contributions up to 100 per cent of your gross earnings or the current Annual Allowance, whichever is lower (you can find more information on the Annual Allowance later in this guide).

As with BRASS, you are able to make occasional payments into AVC Extra if you wish. This can be in addition to or instead of regular payments, for example, to take full advantage of the tax allowances on contributions at the end of each tax year. You will need to contact your employer/payroll office if you would like to do this.

Changing your contributions

You can increase, reduce or stop your AVC Extra contributions at any time by contacting your employer/payroll office.

Family leave

If you take maternity, paternity or adoption leave, your contributions will stop if your pay reduces to zero. You will need to make sure that your employer restarts deductions from your pay for AVC Extra when you return to work.

Transferring benefits into AVC Extra

You cannot transfer funds into AVC Extra from an occupational scheme outside of the Scheme, or from a personal pension.

Transferring benefits from another section of the Scheme

If you change railway employer and your new employer has a section in the Railways Pension Scheme (RPS), you could transfer your RPS benefits. If you do this, your Personal Retirement Account from AVC Extra can be transferred into the AVC Extra arrangement for your new participating employer upon request. You will need to contact your new employer to start your contributions. Once this is processed, you will receive a new pension reference number.

Transferring benefits from AVC Extra

You are allowed to transfer your AVC Extra funds to a separate arrangement, even if you want to keep your Scheme benefits and BRASS benefits in the Railways Pension Scheme. However, we recommend that you get independent financial advice before transferring your AVC Extra funds to another arrangement.

Investing your contributions

Choosing where your contributions are invested is a very important part of being a member of AVC Extra.

After each pay period, your contributions are used to buy units in the investment fund(s) you have chosen, or the ones you were invested in by default if you didn't make a choice. Throughout your membership in AVC Extra, these units remain invested and are revalued. The value of your Personal Retirement Account is therefore not guaranteed.

The investment options available are chosen by the Trustee and include a range of different funds. You need to decide which fund, or combination of funds, is the best for you both now and in the future. This will depend on the length of time you have until your planned retirement date and your attitude to investment risk. To ensure that members have access to appropriate investment funds, the Trustee may change the range of funds available to you from time to time.

If you don't make a choice then your contributions will be invested in the default fund.

If you choose one of the Lifestyle funds, it is important that you tell Railpen when you are planning to retire (known as your 'Target Retirement Age' or TRA) so that your investments are switched into lower-risk funds at the right time. Your TRA can be earlier or later than when you would normally take your pension. If you do not choose one, it will default to your Normal Retirement Age.

More information on the investment funds is available to you at railwayspensions.co.uk.

You should regularly review where your contributions are invested to make sure that your choices are still appropriate for you. If you are invested in a Lifestyle fund, you should also review your Target Retirement Age in case your plans have changed.

You can change where your funds are invested at any time by either logging into your secure myRPS account and completing this online or by filling in a Change of Investment form, which you can get from railwayspensions.co.uk in the Resources section.

Please note that any information provided is not investment advice from the Trustee or its subsidiary companies and is intended only as a general guide. If you need investment advice, please get in touch with an independent financial adviser. Details of independent financial advisers in your local area can be found at unbiased.co.uk.

Charges and prices

For all funds, there is a yearly administration charge and a small investment charge. These are met from fees built into the dealing prices of the units in each investment fund. For more information on charges, please visit railwayspensions.co.uk.

Your yearly statement

Your Personal Retirement Account (PRA) is made up of all of your units across all of your chosen funds. The value of your PRA depends on the price of each fund on any particular day. The higher the value of your PRA when you take your benefits, the higher your potential benefits could be. Each year, you will receive a statement which will include:

- Confirmation of the amount you have contributed to your PRA in the last 12 months.
- The number and value of units in each of the investment funds held in your PRA at the date of your statement.
- The current value of your PRA.
- An estimate of the benefits that you can expect to receive at pension age, shown in today's money. This helps you to compare your potential pension with your present income. The estimate is based on an annuity which would provide yearly increases to your pension in line with the Retail Price Index, a spouse's pension of half your own if you die before your spouse, and a five-year guarantee period.
- Information about how we have worked out your estimate.

You will continue to receive an annual statement from AVC Extra until you take your benefits.

Tax limits

You can contribute any amount each tax year towards all of your pension arrangements of up to 100% of your earnings. There are no other limits on the amounts which may be paid, only on the amount that qualifies for tax relief.

There are limits on the amount of pension benefits you can build up and receive from the Scheme before you will face additional tax charges, known as the Annual and Lump Sum Allowances.

Annual Allowance

This is the most you can save tax-free towards your pension in a tax year. It takes into account any registered pension arrangements that you are a member of and all Additional Voluntary Contributions you make (such as AVC Extra and BRASS).

If your pension savings go over the Annual Allowance, you will have to pay tax on the amounts over the limit, unless you have sufficient unused allowance from the previous three years that you can carry forward.

From 6 April 2023, the Annual Allowance increased to £60,000 (although this could change in the future). However, this will be reduced for people whose taxable income is more than £200,000 and who have an “adjusted income” of over £260,000. This is called the Tapered Annual Allowance.

A reduced Annual Allowance, called the Money Purchase Annual Allowance (MPAA) applies to those who flexibly access any defined contribution (DC) funds, such as your benefits in AVC Extra. The MPAA is £10,000 for the 2023/2024 tax year. It does not replace the standard Annual Allowance – it works alongside it so you may still be able to save up to £60,000 in total if you are paying in to a defined benefit scheme too.

Find out more about the Annual Allowance in our Read As You Need guide in the Resources section at railwayspensions.co.uk

Lump Sum Allowance

The Lifetime Allowance was abolished from 6 April 2024 and new Lump Sum Allowances were introduced. There are 3 new allowances which limit the amount of tax free lump sums you can get from your pension savings. They're called:

- The Lump Sum Allowance (LSA)
- The Lump Sum and Death Benefits Allowance (LSDBA): and
- Overseas Transfer Allowance (OTA)

The Lump Sum Allowance is a cap on the amount of tax-free lump sum you can receive from all your pension arrangements.

The most you can take as a tax-free lump sum from all your pension arrangements is £268,275 unless you hold a valid LTA protection, in which case it will be 25% of the value of the protected amount. If the only pension arrangement you are a member of is the Railways Pension Scheme, you will only need to consider whether the total tax-free lump sum you want to take from all your scheme pension benefits is more than the limit. Any lump sum that is paid in excess of the available LSA is liable for tax at your marginal rate of income tax. This excess amount is called a Pension Commencement Excess Lump Sum (PCELS). Alternatively, the excess can be converted to additional annual pension.

If you have previously taken pension benefits from either the Railways Pension Scheme or another scheme, it will be taken into account and will reduce the available LSA for future retirements. More information is available on both the Annual Allowance and the Lump Sum Allowances at railwayspensions.co.uk in the Resources section.

What benefits will be available when you retire?

If you are under age 55, then your benefits from AVC Extra must be taken at the same time as your benefits from the Scheme and BRASS. However, they will be paid separately.

If you are over age 55 then you don't have to take your benefits from AVC Extra at the same time and can choose to leave them in the Scheme if you wish. You must take your AVC Extra benefits by your 75th birthday.

You can transfer your AVC Extra benefits out independently of your main Scheme benefits.

Your lump sum

You have several options when taking your Personal Retirement Account (PRA):

- Subject to the your available (or remaining) Lump Sum Allowance cap, up to 25 per cent of your PRA can usually be taken as a tax-free lump sum.
- The remaining value of your PRA can then be used to buy a regular income from an insurance company, called an annuity, which is usually payable for life.

OR

- Transfer your whole PRA to an external pension provider and use the funds as a flexible source of retirement income, withdrawing funds as and when you need them and leaving the rest invested (the payments will be subject to income tax). This is known as a drawdown arrangement.

OR

- Take all of your PRA as a lump sum with 25 per cent being paid tax-free, subject to the Lump Sum

Allowance cap and the rest being taxed at your marginal rate of income tax.

You can find more information about all the options available to you at railwayspensions.co.uk in the Resources section.

What happens to your benefits when you leave work?

If you leave work before you take your benefits, you stop being a contributing member of AVC Extra. Your Personal Retirement Account (PRA) will remain invested until you take your benefits. When you take your benefits, you will use your PRA to provide you with a pension and/or lump sum.

You can still switch your investment funds once you have stopped contributing to AVC Extra and you should review your investment choices regularly to make sure that your chosen funds continue to meet your investment needs.

Incapacity benefits

If you have to leave work because of ill health you may be eligible to receive incapacity benefits from your Section of the Scheme. If you are granted incapacity benefits then you can use your AVC Extra Personal Retirement Account to provide benefits to you at the same time. The benefits you receive from AVC Extra will depend on your funds available and, in the case of an annuity purchase, the terms available from the annuity provider.

What happens to your benefits when you die?

Death in service

At the discretion of the Trustee, the value of your AVC Extra Personal Retirement Account will be used to provide one or more of the following:

- a lump sum equal to the value of your PRA, providing it doesn't exceed the available Lump Sum and Death Benefits Allowance
- an annuity for your spouse and/or one or more named dependants
- a combination of lump sum and annuity

This will be in addition to the lump sum death benefit and any dependants' pensions that are paid from the Railways Pension Scheme and BRASS.

Death before you have taken your benefits

If you die after leaving work but before you have taken your benefits and have not transferred your AVC Extra Personal Retirement Account (PRA) to another provider, the value of your PRA will be paid to your beneficiaries at the discretion of the Trustee.

Death after you have bought an annuity

The benefits from AVC Extra if you die after buying an annuity will depend on the features of the annuity that you buy.

You may choose options that provide benefits for your spouse or one or more named dependants if you die, as well as a guaranteed payment period (normally five years) in case you die shortly after you buy your annuity.

More information on this will be provided when you contact Railpen for an annuity quotation. You should remember that generous dependants' benefits are already provided from your section of the RPS.

Nomination form

If you have already completed a Nomination form for your lump-sum death benefit from your Section of the Railways Pension Scheme, the same form will cover any lump sum payable from AVC Extra.

You should ensure that your Nomination form is kept up to date if your personal circumstances change. Your most recent Nomination Form will cover all your benefits in the Railways Pension Scheme, including any benefits in other Sections.

Pension scams

If you are thinking of transferring your benefits to another pension provider, then you should be aware of scams.

In particular, beware of people contacting you out of the blue wanting to discuss your pension, adverts offering 'free pension reviews' or promises of better returns on your savings, upfront cash. Once you have transferred your benefits to one of these organisations, it is often too late to do anything about it. You could lose your entire pension savings and be asked to pay a large tax bill as well.

For further information about pension scams, visit thepensionsregulator.gov.uk/pension-scams.

All firms offering financial products or advice should be registered with the Financial Conduct Authority (FCA). If you are unsure about a firm that has contacted you, use the FCA's online register to check if the firm is registered at fca.org.uk/register or call 0800 111 6768.

Contact us

If you have any questions about AVC Extra, you can:

- email csu@railpen.co.uk
- visit railwayspensions.co.uk
- call the Helpline on 0800 012 1117

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