

# Additional Voluntary Contributions Explanatory Leaflet

Methodist Ministers' Pension Scheme

## 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 AVC arrangements set up by the Trustee of the Scheme and the investment strategies available.

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.

### **Pensions Office**

Methodist Church House  
25 Tavistock Place  
London WC1H 9SF

**Email:** [pensionshelp@methodistchurch.org.uk](mailto:pensionshelp@methodistchurch.org.uk)

**Telephone:** 020 7487 5287

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.

## How do AVCs work?

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

AVCs are invested in funds managed by Aviva and operate 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 Her Majesty's Revenue & Customs (HMRC) limits) or to convert it into an additional pension paid in addition to your main MMPS pension. Please note that the conversion rate set by the Actuary for this extra pension is a pure rate, neither a profit margin nor expenses are taken into account.

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.

From April 2015, the Government introduced new 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.

Each pension provider will offer different options in relation to how these flexible benefit rules can be utilised under their arrangements. Each provider determines how their particular flexible arrangement will operate. These will include differences in the options available, their features, their rates of payment, their charges and how these will affect an individual's tax position. In particular, 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 (including state pension benefits).

To assist you in understanding these options and deciding whether to take your AVC fund in a fully flexible way, you can receive free, impartial guidance from a Government service called Pension Wise. For more information on the guidance and how to access this, go to the dedicated website [pensionwise.gov.uk](https://pensionwise.gov.uk). The guidance may be accessed on the internet, by phone or face-to-face. You should also consider taking independent financial advice at retirement to help you decide which option is suitable for you.

## How do I check my pension?

It's quick and easy to check your pension online. You can log on through a computer, a tablet or on your phone.

Visit [aviva.co.uk/myworkplace](https://aviva.co.uk/myworkplace) and log into your online account.

In order to register, you'll need some details to hand — you can find these in your Aviva welcome documents.

You will receive an annual benefit statement from Aviva 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 in value as well as rise.

## How are my AVCs invested?

The Trustee has chosen two lifestyle investment strategies for AVCs. These are 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. This means your AVC fund will be less exposed to a sudden drop in the stock market closer to your retirement, which could otherwise disrupt your retirement plans.

Your contributions will purchase units in the Aviva lifestyle investment strategies set out below. The number of units bought will be dependent upon the prevailing cost of the units at the point of purchase.

It's important to review your investments regularly to check whether they're on track to meet your retirement needs.

You will either be invested in the Default Lifestyle (where all of your AVC fund ends up invested in cash in anticipation that you will take additional tax-free cash at retirement) or the Alternative Lifestyle option (where most of your AVC fund ends up invested in a fund which closely matches a pension at retirement).

Your current lifestyle investment choice will depend on whether you made an active investment choice, based on how you planned to use your AVCs when you retire. **If you did not make an active choice, you will automatically be in the Default Lifestyle.**

The lifestyle investment strategies are designed to gradually reduce investment risk as you get nearer to retirement and automatically put your investments in the most appropriate funds for when you retire. You should note that a Lifestyle Strategy assumes that you will receive your benefits from the Scheme at your state pension age.

Unfortunately the Lifestyle Strategy cannot anticipate unexpected events such as early retirement or ill health which may affect the date that you ultimately retire.

## Aviva's My Future Focus investment strategies

The arrangement with Aviva offers a choice of two lifestyle investment strategies:

- Default Lifestyle - My Future Focus Target Cash Lump Sum; or
- Alternative Lifestyle - My Future Focus Target Annuity

One anticipates taking the AVCs as a cash lump sum at retirement, and the other anticipates taking this as an additional pension.

Unless you tell us you'd like to invest your money in a different way, we'll invest it in the **Default Lifestyle – Aviva's My Future Focus Target Cash Lump Sum investment strategy.**

### How it works

<b>More than 15 years to retirement</b>	If you're more than 15 years from your selected retirement date, Aviva invest your money in the Aviva Pension My Future Long Term Growth fund, which aims to grow your pension pot over time.
<b>15 years to retirement</b>	Between 15 years and 10 years from your selected retirement date, Aviva gradually move your money into the Aviva Pension My Future Growth fund, which aims to grow your pension pot while reducing the risk you're exposed to.
<b>10 years to retirement</b>	From 10 years to your selected retirement date, Aviva gradually move your money into funds aligned to how you plan to take your pension pot at retirement.

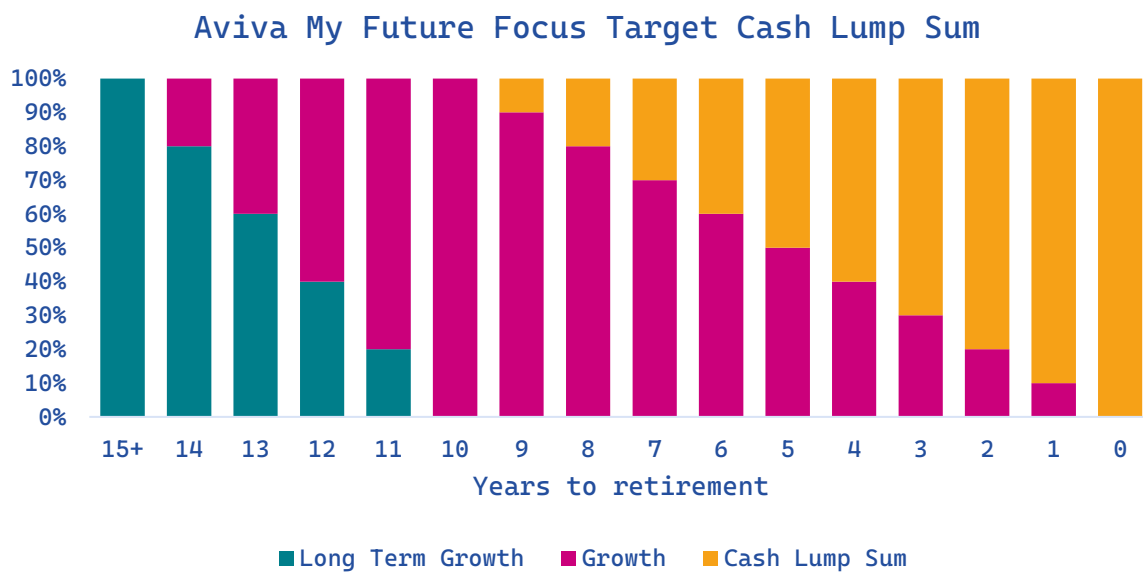
## Aviva My Future Focus Target Cash Lump Sum

The Aviva My Future Focus Target Cash Lump Sum strategy aims to grow your money while retirement is a long way off, then to prepare it for you to take it as a cash lump sum as part of your overall tax-free cash in MMPS when you retire.

The My Future Focus funds have been designed to manage the risks that your money might be exposed to as you travel through your journey to retirement.

This strategy and the My Future Focus funds within it are monitored to ensure that they adapt to changes in financial markets, regulations and member preferences. Aviva may therefore make changes to them from time to time.

The graph below shows how your AVCs are invested over the life of your pension. Fund switching begins at 15 years before retirement.



The Cash Lump Sum fund invests in short-term deposits, usually held with a financial company for less than 12 months. Please note they're not deposit accounts with banks or building societies. Although these investments are less risky than other investments, they can sometimes fall in value, for example if an organisation is unable to pay back money it has borrowed. Their value can also be gradually affected over time by inflation and the effect of charges.

## Aviva My Future Focus Target Annuity

If you are planning to convert your AVC fund at retirement to provide you with an additional pension, the alternative Lifestyle Strategy is available.

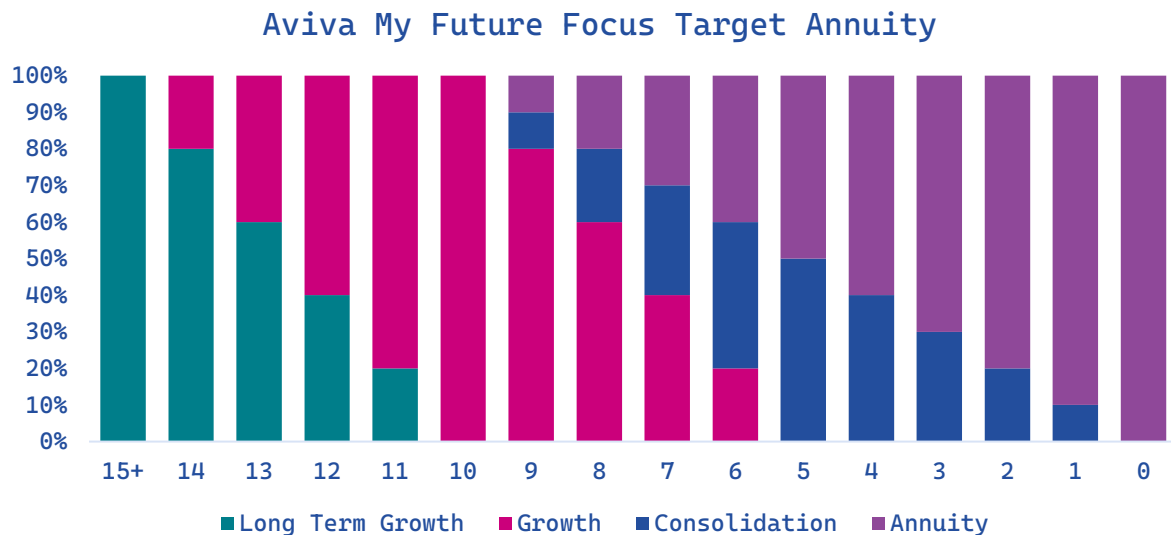
The **Aviva My Future Focus Target Annuity** strategy aims to grow your money while retirement's a long way off, then to get it ready for you to use the AVCs to buy additional pension when you retire.

Investment in this strategy is better suited to those who wish to target a pension income at retirement as the price of the underlying investments is more closely linked to the cost of purchasing a pension (or annuity).

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

The graph below shows how your AVCs are invested over the life of your pension. Fund switching begins at 15 years before 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 80% 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?

The charges for both Aviva strategies are 1% of any regular or single contribution plus **0.37% per annum** (£3.70 per £1,000 invested each year).

## **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:

- 1) A refund of your AVC fund less tax
- 2) A pension or lump sum payable upon retirement
- 3) A transfer of your AVC fund to an external 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.

Recycling will occur if you use a tax-free lump sum received upon retirement from one pension arrangement and directly invest this in another pension arrangement.

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.

## Glossary of Terms

Term	Definition
<b>Annuity</b>	A pension income for life.
<b>Bonds</b>	A type of loan made either to a Company (Corporate Bonds) or a Government (called Gilts for the UK government).
<b>Corporate Bonds</b>	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 mitigated by only investing in companies with good credit ratings.
<b>Inflation Linked Bonds</b>	Bonds linked to a measure of inflation aiming to maintain both the real value of the asset and the income generated by it.
<b>Equities</b>	Equities (also known as stocks and shares) represent an ownership position in a company. UK equities are invested in UK listed companies whereas overseas equities invest in those companies listed on an overseas stock market.
<b>Cash/Money market investments</b>	<p>Money-market investments are also known as cash investments. They're short-term deposits of cash amounts, usually held with a financial company for less than 12 months. Please note they're not deposit accounts with banks or building societies.</p> <p>Although these investments are less risky than other asset classes, they can sometimes fall in value, for example if an organisation is unable to pay back money it has borrowed. Their value can also be gradually affected over time by inflation and the effect of charges.</p>
<b>Risk (volatility)</b>	The chance that your investments may gain or lose value. The higher the risk, the higher potential gain or loss.

## Fund Descriptions

Aviva's lifestyle strategies invest in a series of Funds (set out below). The Funds invest in four main asset classes: equities, fixed interest/bonds, cash and property:

Fund	Description
<b>My Future Focus Long Term Growth</b>	This fund aims to grow the value of members' savings over the long term via exposure to various asset classes including equities, cash and property.
<b>My Future Focus Growth</b>	This fund aims to grow the value of members' savings, but with a lower level of risk than the Long Term Growth Fund through exposure to asset classes such as equities, fixed interest, cash and property.
<b>My Future Focus Consolidation</b>	This fund aims to reduce the level of risk to which members' savings are exposed, while continuing to provide the opportunity for growth through exposure to equities, fixed interest, cash and property.
<b>My Future Focus Cash Lump Sum</b>	This fund aims to preserve the value of members' pension savings and lower the risk from inflation. Targets positive returns by investing mainly in fixed interest and money market instruments. Designed for members intending to withdraw their pension savings as a cash lump sum (or sums).
<b>My Future Focus Annuity</b>	This fund is designed for members approaching retirement and considering buying an annuity. Invests mainly in UK Government and corporate bonds. It aims to track changes in the cost of buying an annuity.

## 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.

<p><b>Single Payment AVC</b></p> <p>Amount of payment £ ..... (minimum amount £100)</p>
<p><b>Regular AVCs – fixed amount</b></p> <p>Amount of payment per month £ ..... (minimum amount £4 per month)</p> <p>Date AVCs to commence .....</p>
<p><b>Regular AVCs – fixed percentage of Stipend</b></p> <p>Contribution rate ..... % of stipend per annum (minimum 1%)</p> <p>Date AVCs to commence .....</p>

**Investment choice (tick box)**

- Aviva My Future Focus Target Cash Lump Sum
- Aviva My Future Focus Target Annuity

**Signature** ..... **Date** .....

**Please send this completed application form to:**  
Pensions Office, Methodist Ministers' Pension Scheme,  
Methodist Church House, 25 Tavistock Place, London WC1H 9SF



The **Methodist** Church 

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