

PENSIONS BOARD

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REF : 25/D

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Falkland Islands Pensions Scheme allows each member to pay 'Additional Voluntary Contributions' (AVCs) to the Scheme. The purpose of AVCs is to increase the size of a member's individual pension account. The balance of the member's pension account is used at retirement to purchase a pension (otherwise known as an annuity), which pays regular income to the member throughout their retirement until their death. The greater the retiring member's individual pension account, the larger the regular annuity payments to the member will be.

The Falkland Islands Pensions Scheme is a *defined contributions scheme*. The size of each member's individual pension account at retirement, and the amount of the annuity which it purchases, cannot be accurately predicted, but depend on a number of factors including:-

- ◆ The age at which the member joins the Pension Scheme
- ◆ The age at which the member chooses to take their retirement benefits (members can use their individual pension accounts to purchase annuities anytime between the date of their retirement and age 75)
- ◆ The member's contribution pattern (eg. regular; intermittent; long breaks)
- ◆ The total amount of contributions paid by or on behalf of the member, including AVCs
- ◆ The investment performance of the Pension Scheme assets
- ◆ Annuity rates at the date the member chooses to take their retirement benefits

Each member should regularly review their pension account against their pension objectives and expectations. A member who wants a larger income in retirement, or who wants to retire early, or who has not contributed consistently to a pension scheme throughout their working life, may need to pay AVCs if they are to achieve a pension which meets their expectations. AVCs can be made as one-off lump-sum payments or as regular contributions from income or a combination of both.

Since the value of a member's pension account depends on investment performance, it is not possible to determine the exact effect that the payment of AVCs has on the member's eventual pension. However, in every case AVCs result in a higher pension than would otherwise have been the case. The higher the level of AVCs, and the earlier they are made within a member's working life, the greater the benefits will be.

The following table indicates the potential effect of a single £1,000 contribution made at different ages and depending upon the average long-term investment performance of the Pension Scheme.

AGE AT TIME OF INVESTMENT	EXPECTED BALANCE AT AGE 60 OF AN INVESTMENT OF £1,000				
	WEIGHTED AVERAGE INVESTMENT RETURN				
	2%	4%	6%	8%	10%
25	£2,000	£3,946	£7,686	£14,785	£28,102
30	£1,811	£3,243	£5,743	£10,063	£17,449
35	£1,641	£2,666	£4,292	£6,848	£10,835
40	£1,486	£2,191	£3,207	£4,661	£6,727
45	£1,346	£1,801	£2,397	£3,172	£4,177
50	£1,219	£1,480	£1,791	£2,159	£2,594
55	£1,104	£1,217	£1,338	£1,469	£1,611
60	£1,000	£1,000	£1,000	£1,000	£1,000

Modest amounts can achieve proportional benefits, particularly for members who follow a strategy of making regular AVCs to the Pension Scheme.

All calculated figures are based on assumptions – the effects are not guaranteed

The pension payable to a member will depend not only on the size of their individual pension account at retirement, but also on the annuity rates available at that time. Annuity rates offered by insurance companies depend upon life expectancy tables. These tables are revised periodically in line with current mortality statistics. As life expectancy increases, the cost of purchasing a pension annuity will also increase. Annuity rates are also heavily dependent upon long-term interest rates at the date the annuity is purchased. The lower the interest rate, the higher the cost of purchasing an annuity. Because the life expectancy of women is longer than that of men, annuity rates for women at any given age or date are higher than for men at the same age.

The following table gives an indication of the additional annual pension that might be expected as a result of the increased balance in an individual’s pension account if they retired and purchased a pension annuity with their pension account at age 60.

Additional Balance at Age 60	Expected Additional Annual Pension				
	Annuity rate at retirement at age 60				
	21	22	23	24	25
£1,000	£48	£45	£43	£42	£40
£5,000	£238	£227	£217	£208	£200
£10,000	£476	£455	£435	£417	£400
£15,000	£714	£682	£652	£625	£600
£20,000	£952	£909	£870	£833	£800
£25,000	£1,190	£1,136	£1,087	£1,024	£1,000
£30,000	£1,429	£1,364	£1,304	£1,250	£1,200
£35,000	£1,667	£1,591	£1,522	£1,458	£1,400
£40,000	£1,905	£1,818	£1,739	£1,667	£1,600
£45,000	£2,143	£2,045	£1,957	£1,875	£1,800
£50,000	£2,381	£2,273	£2,174	£2,083	£2,000

Subject to certain limits, AVCs made by a member to the Pension Scheme are tax deductible if declared on their annual tax return. Further information is available from the Taxation Office.

AVCs are not refundable but remain invested in the Pension Scheme until retirement. Members who emigrate from the Falkland Islands may choose to transfer the value of their individual pension account (including any AVCs) to another pension scheme offering equivalent benefits upon retirement to the Falkland Islands Pensions Scheme. The Falkland Islands Pensions Scheme has not been granted Inland Revenue approved status, which means that UK pension schemes may be forced under current Inland Revenue rules to refuse a transfer.

Members who wish to make AVCs should complete the enclosed form and return it to the Pensions Board. Employees of the Falkland Islands Government can arrange for AVCs to be deducted directly from their pay each month and forwarded directly to the Pensions Board. Members who are not employees of the Falkland Islands Government can either:

- a) arrange with their employer a deduction from pay for payment to the Pensions Board; or
- b) arrange a standing order with Standard Chartered Bank for a regular payment to be transferred to the Pensions Board's Standard Chartered Bank account (*account number 002/007240/000*); or
- c) forward a cheque direct to the Pensions Board at the above address. All cheques should be made payable to 'The Pensions Board'.

AVCs will be invested together with regular pension contributions made by you or your employer in accordance with any instructions which you have given using the Investment Instruction Form advising how you want your pension contributions to be invested. If you fail to complete an Investment Instruction Form, your AVC's together with regular pension contributions by you or your employer will be invested in accordance with the 'LifePlan' investment option, which is explained in the Investment Instruction Form.

Any questions regarding AVCs should be addressed to the Secretary to the Pensions Board, Mr Nigel Dodd. Members should always consider taking independent investment advice from a person unconnected with the Pensions Board (ie. not Mr Dodd) when making any important decisions regarding their pension arrangements.