

# GUIDE <sup>PRU</sup>



MEMBER'S BROCHURE  
AVC FACILITY

# **A GUIDE TO ADDITIONAL VOLUNTARY CONTRIBUTIONS**

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# THIS BROCHURE

THIS BROCHURE EXPLAINS SIX IMPORTANT POINTS ABOUT YOUR PENSION BENEFITS:-

- 1** As a member of the ITB Pension Funds (Open Fund) 'the Scheme' you will receive a lifetime income during your retirement. This will be very valuable – but it may not be high enough to maintain your lifestyle.
- 2** If you would like to boost your pension you can pay Additional Voluntary Contributions. These are often referred to as AVCs, for short.
- 3** AVCs are one of the most effective ways of building up extra pension for your retirement. You get the benefit of group terms; you enjoy important tax advantages; and you gain the added convenience of having the contributions deducted directly from your pay.
- 4** Your AVCs will be invested by Prudential in their With-Profit Deposit funds and a selection of unit-linked funds through the leading fund managers; Prudential, M&G and Aberdeen Fund Management
- 5** The sooner you start paying AVCs the less it will cost you to make up the shortfall in your pension.
- 6** You can also use your AVCs to provide an extra pension for your spouse or dependants.

**Joining the AVC facility could hardly be more simple or easy to arrange. Please read this brochure carefully. It will only take a little time but it could make a big difference to your peace of mind and future prosperity.**

## WHY PRUDENTIAL?

FOUNDED IN 1848, TODAY PRUDENTIAL MANAGES MORE THAN £150 BILLION ON BEHALF OF 10 MILLION CUSTOMERS WORLDWIDE, MAKING THE COMPANY ONE OF THE LARGEST PROVIDERS OF PENSIONS AND LIFE ASSURANCE IN THE UK.

# KEY FEATURES

THIS IS AN AT-A-GLANCE SUMMARY OF THE REST OF THIS BROCHURE. IF YOU READ NOTHING ELSE, PLEASE STUDY THE NEXT THREE PAGES.

## ITS AIMS

To provide a flexible, tax-efficient way for you to top-up your company pension scheme benefits.

## YOUR COMMITMENT

To make additional regular and/or lump sum contributions expressly to achieve improved retirement benefits – and to periodically review your level of investment.

## RISK FACTORS

- All pensions payable from this facility depend on our investment performance and pension rates in force when you retire and so could be less than you expect. Ceasing contributions, or retiring early will almost certainly generate a lower return.
- Be aware that charges could rise in the future – and money encashed from the With-Profits Fund, except at your normal retirement date or earlier death, may be affected by a Market Value Reduction designed to reflect the then current value of the underlying assets.
- AVC benefits are subject to HM Revenue & Customs regulations like all other registered pension schemes.

## SOME COMMON QUESTIONS

### HOW DOES THE AVC FACILITY WORK?

It is a savings arrangement designed exclusively for you to accumulate a pot of money to provide additional pension for your retirement and is subject to the rules of your company pension scheme. Gross AVCs are deducted from your salary before tax and passed to Prudential for investment.

Although the facility is operated separately, it is legally part of your company pension scheme and is subject to its rules.

### WHAT IS THE TAX SITUATION?

All contributions get income tax relief at your highest marginal rate and the investment fund grows free of income and capital gains taxes, although dividend income from UK equities will already have been subject to corporation tax.

All pensions are taxed as earned income.

### WHAT HAPPENS AT RETIREMENT?

You will be able to choose from a wide range of pensions – perhaps one that escalates, or reverts to your spouse on your death. The more costly the option, the lower the initial pension, but the "Open Market Option" (OMO) where you may have the option to move your account to another company, will allow you to shop around for the best deal at that time.

Further details can be found later in this brochure under the heading "What happens when I retire?".

### WHAT PENSION WOULD I GET?

Uncertain. Your AVC account size (referred to as a "fund") depends on how much you've paid in, over how long and on how well it's been invested and performed. The amount of pension per £1,000 of your fund will be set by the rates on offer when you retire; influenced by factors like interest rate levels, your age and the type of pension you want.

### WHAT IF I DIE BEFORE I START RECEIVING MY PENSION?

The full value of your AVC account will be paid to your spouse, nominated representative or legal representative.

Any benefits payable, if you die after retirement, will depend on either the type of pension selected, or, if you have deferred taking your AVC pension, the rules of your main employer's pension scheme.

## WHAT HAPPENS IF I LEAVE?

If you leave your main employer's pension scheme, your contributions will stop and your AVC account will remain invested (you can restart contributions after a career break when you rejoin the main scheme). Alternatively, you may transfer your AVC account, together with the main scheme benefits to another pension scheme, an appropriate personal pension or to a "buy-out" contract (often referred to as a "Section 32" transfer), or where your employer has provided you with a refund of main scheme contributions, your AVC account will be refunded.

## HOW MUCH CAN I PAY?

You can start, increase, decrease or stop your AVCs at any time. You can contribute either a monetary amount per month – or a percentage of your earnings, in which case the amount deducted will vary, in line with your salary. You can pay up to a maximum of 20% of your pensionable earnings in any one Scheme year (1 April - 31 March) as AVCs.

## WHAT HAPPENS IF I STOP MAKING CONTRIBUTIONS?

You can stop making contributions to your account at any time. However you must bear in mind that we will continue to invest the fund you have already built up and our charges will continue to be deducted from your account. This could reduce the pension you receive when you come to draw your final benefits.

## WHAT ARE THE CHARGES?

Although most of your money will be used to secure AVC benefits, some will go to cover our expenses for administration and investment management. Our current charges are:–

**With Profits Fund:** No explicit charges are taken; the bonuses declared allow for all costs associated with managing your plan and investments. It is our intention to operate a bonus structure that reflects a charge on your investment funds of 1% a year.

**Unit-linked Funds:** With the unit-linked funds, there is an initial investment charge, usually 5%, which is the difference in prices at which units are bought (the offer price) and sold (the bid price). Contributions are allocated at a rate of 105.27%, which cancels out the effect of the 5% initial investment charge. An annual management charge is also applied to the value of each unit-linked fund before declaring unit prices.

**Deposit Fund:** 100% of money is invested to earn a "net of charge" interest rate.

## WHERE ARE THE CONTRIBUTIONS INVESTED?

You may choose to invest your contributions in one or more of the With-Profits Fund, the Deposit Fund or a range of Unit-linked Funds. Those that are available to you are identified later in this guide and also in the Schemes's brochure '[AVCs - The Facts](#)'. Within these, the money is invested in a wide range of shares and, where applicable, government stocks, and commercial property in the UK and abroad. Full details of the investment funds available are described later in this brochure, under the heading "Time to choose your funds".

Past performance is not necessarily a guide to the future. For Unit-linked Funds the value of units can go down as well as up. The future rate of bonuses in the With-Profits Fund is not guaranteed, nor therefore is the rate of growth of your investment. Terminal bonus can be reduced or removed retrospectively without notice.

## WHAT IS A MARKET VALUE REDUCTION?

- If money is taken out of the With-Profits Fund at any time other than your normal retirement date or on your death, the amount payable may be reduced to reflect the value of the underlying assets at that time. This is known as a Market Value Reduction (MVR).
- Our current practice, which we may review, is not to apply MVRs to members of this arrangement who retire or take a transfer value to another pension arrangement.
- We can change this practice at any time but would only expect to do so in the event of asset values falling significantly, or in the event of a significant increase in the number of individual group scheme members taking money out from the With-Profits Fund.

## FURTHER INFORMATION

### TAX

The tax situation described in this brochure is based on our understanding of the current tax law and HM Revenue & Customs practice, both of which may change. Also, the personal value of current tax privileges will vary with your financial circumstances.

### LAW

In legal disputes, the law of England and Wales will apply. The Prudential Assurance Company Limited is part of Prudential plc, a public company limited by shares.

## QUERIES AND COMPLAINTS

For further information, or to complain about any aspect of our service, please contact Prudential. If you are not satisfied with our response, you may be able to take your complaint to:

The Pensions Advisory Service,  
11 Belgrave Road,  
London SW1V 1RB.

The Financial Ombudsman Service,  
South Quay Plaza,  
183 Marsh Wall,  
London E14 9SR.

The Pensions Ombudsman,  
11 Belgrave Road,  
London SW1V 1RB.

These are free services.

## COMPENSATION

If Prudential is declared bankrupt, or is unable to meet its financial obligations in full, you may be entitled to help from the Financial Services Compensation Scheme. Further information is available from:

Financial Services Compensation Scheme,  
7th Floor, Lloyds Chambers,  
1 Portsoken Street,  
London E1 8BN.

## PERSONAL QUOTATION

These "**Key Features**" should be read in conjunction with any personal quotation provided. The expenses and other deductions used in the illustrations are our best estimates based on current experience and could vary in the future.

## ADDRESS FOR CORRESPONDENCE

Prudential Group AVC Area,  
PO Box 2734,  
Reading RG1 3UG.

# WILL I REALLY RECEIVE LESS PENSION THAN I NEED?

MOST EXPERTS CONSIDER THAT FOR EVERY £3 YOU EARN IN THE YEAR BEFORE YOU RETIRE, YOU WILL NEED AN ANNUAL INCOME OF AROUND £2 TO LIVE COMFORTABLY IN RETIREMENT.

- It is likely that your company pension scheme will provide you with less than this ideal. To see how much pension you are likely to receive, you should look at the latest annual statement you received.
- You may of course also receive a previous employer's pension scheme – or from a personal pension plan.
- Finally, you will also receive a pension from the State. The real value of the basic "old age" pension is steadily being reduced and the state

earnings-related pension (SERPS ) has, with effect from 6th April 2002, been replaced by the State Second Pension (S2P). If you complete form BR19 at your local Benefits Agency office, they will provide a forecast of your State pension.

**If, when you add up all of these possible pensions, they come to less than the recommended level described previously, you may need to take urgent action to make up the shortfall.**

## WHAT EXACTLY ARE AVCs?

IF YOU WISH TO TOP UP THE BENEFITS YOU ARE ALREADY ENTITLED TO FROM YOUR COMPANY PENSION SCHEME, YOU MAY PAY ADDITIONAL CONTRIBUTIONS, OVER AND ABOVE YOUR STANDARD PENSION CONTRIBUTIONS. THESE EXTRA PAYMENTS ARE CALLED ADDITIONAL VOLUNTARY CONTRIBUTIONS – AND THEY HAVE A NUMBER OF IMPORTANT ADVANTAGES:-

- They qualify for tax relief in the same way as the contributions that you pay to your company pension scheme. So a significant part of the cost is met by the tax man.
- Your AVCs are invested in a fund that is largely tax-free – so they should grow much faster than they would if the fund was subject to tax.
- They benefit from the economies of scale of a group arrangement – and overall provide excellent value-for-money.
- They are held in your own personal account, so you can see exactly how your extra benefits are growing, year by year.
- You have the freedom to adjust the contributions to your changing circumstances as time goes by – increasing them, reducing them, or even stopping them altogether for a while.
- If you leave your employer's service, you can normally leave your AVC account invested or take it with you, either to your new employer's scheme or into an individual arrangement. There are other options too, as explained under "What happens if I leave service?" on page 21.



# HOW MUCH DO AVCs COST?

YOU CAN PAY AS MUCH OR AS LITTLE AS YOU LIKE, SUBJECT TO THE MAXIMUM CONTRIBUTIONS SET OUT BELOW. WHAT'S MORE, YOU HAVE THE FREEDOM TO CHANGE YOUR CONTRIBUTIONS IF YOU WISH, AS TIME GOES BY.

## MAXIMUM CONTRIBUTIONS

- You can pay up to a maximum of 20% of your pensionable earnings in any one Scheme year (1 April - 31 March) as AVCs.
- You can also join - and make contributions to - other registered pension schemes outside of the ITB Scheme's arrangements, such as a personal pension. Across all your pension schemes you can make tax-free contributions of up to 100% of your earnings in any one tax year.
- You should bear in mind the implications of the Lifetime Allowance (LTA) and the Annual Allowance (AA) when planning extra saving for retirement. More information on this is available in the Member Booklet.

## FLEXIBILITY YOU CAN ENJOY

- As you prefer, you can pay fixed contributions (say, £50 a month) or a set percentage of your earnings (say, 5%).
- You can increase or reduce your contributions at any time.
- You can even take a "contribution holiday" – stopping your payments altogether for a while, then starting them up again later.
- You can invest single amounts as one-off payments whenever you choose, subject to the 20% maximum previously mentioned.

## STOPPING YOUR CONTRIBUTIONS ALTOGETHER

- You can stop your contributions at any time – leaving the money in your AVC account invested until the benefits become payable.

# SO HOW MUCH SHOULD I INVEST?

IT IS UP TO YOU TO SET YOUR OWN FINANCIAL PRIORITIES:-

- You may want to plan ahead for a specific amount of pension and Prudential will be pleased to prepare for the Trustees a personalised illustration to show you what it would cost.
- Alternatively, you can simply contribute as much as you can afford. Here, a personalised illustration can indicate the extra pension this might provide.

Obviously, the more you pay into the AVC facility, the higher your pension will be. Remember, if you find it difficult to keep paying your contributions, you can always reduce them.

## THE SOONER YOU START, THE BETTER

The longer your contributions are invested, the greater the opportunity they will have to grow:-

- So, the sooner you begin, the more affordable you will find it to provide yourself with the extra pension you need.
- The longer you delay starting your contributions, the smaller your pension will be, or the more it will cost you to provide yourself with the same level of pension.

# TAX BENEFITS

THERE ARE TWO IMPORTANT TAX BENEFITS. BETWEEN THEM, THEY MAKE AVCs A VERY ATTRACTIVE WAY OF BUILDING UP THE EXTRA PENSION YOU WILL NEED.

## 1. INCOME TAX RELIEF

- Your AVCs will be deducted from your pay before your salary is paid to you and before tax is collected.
- Under the PAYE system you only pay tax on your reduced earnings, after your AVCs have been deducted.
- You therefore get full income tax relief on your contributions immediately – at your highest marginal rate of tax.
- The procedure is automatic: you don't have to make any separate claims or returns to HM Revenue & Customs.

## 2. TAX-FREE BUILD UP

- Your contributions will be put into a pension fund which holds investments such as shares, cash deposits and other assets.
- If you were to buy these investments yourself, your returns would normally be taxable – but, because they are held in a registered pension scheme, they can grow free from most UK taxes.
- The pension fund does not pay tax on any increase in the value of the investments. Neither does it pay tax on the income it receives from the investments (although it is unable to claim back the tax already deducted from the dividends earned on UK shares).
- With this freedom from tax, money in a pension fund should grow much faster than in most other forms of investment.

# BALANCING THE RISKS AND REWARDS

YOUR CONTRIBUTIONS BENEFIT FROM BEING INVESTED BY PRUDENTIAL IN THEIR WITH-PROFITS AND DEPOSIT FUNDS, AND A SELECTION OF UNIT-LINKED FUNDS THROUGH THE FOLLOWING RANGE OF LEADING FUND MANAGERS.

## PRUDENTIAL M&G

Prudential's fund management business in the UK is conducted under the umbrella of Prudential M&G. Prudential M&G are one of Britain's leading fund managers with more unit trust investors than any other UK company.

Prudential manages total funds of more than £150 billion and controls around 3% of all the shares listed on the London stockmarket.

## PRUDENTIAL ABERDEEN FUND MANAGEMENT LIMITED

Prudential Aberdeen Fund Management Limited is an international investment management group, managing assets for both institutional and retail clients from offices around the world.

You can choose from this range of funds over the next few pages. But before you do so, you should consider your attitude to investment risk.

## RISK AND REWARD

- When it comes to investment, risk and reward are usually inseparable. You cannot have one without the other.
- The more risk you are prepared to take with your money, the greater the chance that it will bring you substantial rewards.
- The more cautious you are with your money, the lower your returns are likely to be.
- The ideal solution is probably to be somewhere between the two extremes – but exactly how much risk you are prepared to accept is up to you.

## FOLLOWING THE PROGRESS OF YOUR ACCOUNT

- Once a year, Prudential will send you, via the trustees, a statement to show how the value of your account is building up.

# THE FUNDS

THERE ARE THREE DIFFERENT TYPES OF FUND TO CHOOSE FROM, WITH-PROFITS, UNIT-LINKED AND DEPOSIT FUNDS. YOU SHOULD CONTACT YOUR EMPLOYER TO IDENTIFY THOSE THAT ARE AVAILABLE TO MEMBERS OF YOUR COMPANY PENSION SCHEME.

## THE WITH-PROFITS FUND



### **M** MEDIUM RISK

THE WITH-PROFITS FUND SHOULD PROVIDE A HIGHER RETURN THAN THE DEPOSIT FUND – AND, WHILE IT INVESTS IN THE SAME SORT OF AREAS AS A UNIT-LINKED FUND, SMOOTHS OUT MOST OF THE PEAKS AND TROUGHS. THIS IS A MEDIUM RISK FUND – AND A POPULAR CHOICE WITH PEOPLE PAYING AVCs.

#### OBJECTIVE:

To secure the highest possible returns while maintaining security and stability.

#### METHOD:

A large part of the Fund is invested in the shares of companies around the world and commercial property which we believe will give the best return over the longer-term, but the returns on these assets can be volatile and so a significant proportion of the Fund is also invested in bonds, alternative assets and cash. The special feature of this fund is that the returns are added to your AVC account by way of a bonus system, which smooths out the ups and downs of investment performance.

A "reversionary" bonus, which is calculated on a daily basis, is added to your account every year. In addition, a "terminal" bonus may be added when you retire, if you transfer your account to another provider or employer's scheme, or if you die before retirement. If money in the With-Profits Fund is taken out at any time other than your normal retirement date or on your death, the amount payable may be reduced to reflect the value of the underlying assets at that time. This is known as a Market Value Reduction (referred to in this brochure as a "MVR").

KEY TO THE FUNDS' RISK	
<b>L</b>	LOW RISK FUND
<b>M</b>	MEDIUM RISK FUND FUND
<b>H</b>	HIGH RISK FUND

# 2

## THE UNIT-LINKED FUNDS

THE UNIT-LINKED FUNDS OFFER A DIRECT STAKE IN A RANGE OF COMPANY SHARES, GOVERNMENT SECURITIES OR COMMERCIAL PROPERTIES – OR IN A COMBINATION OF THESE. YOUR CONTRIBUTIONS BUY UNITS IN YOUR CHOSEN FUND – AND THE DAY-TO-DAY PRICE OF THE UNITS, AND THUS THE VALUE OF YOUR HOLDING, CAN GO DOWN AS WELL AS UP IN LINE WITH THE VALUE OF THE FUND'S INVESTMENTS. EACH FUND HAS ITS OWN RISK PROFILE.

### PRUDENTIAL M&G

#### **L** FIXED INTEREST FUND – RELATIVELY LOW RISK

##### OBJECTIVE:

To achieve medium to long-term growth, ideal for the cautious investor.

##### METHOD:

The fund invests in a carefully selected range of fixed interest securities issued by the British Government, local authorities and leading UK companies. The medium to long-term nature of the investment means that there could be significant upwards or downwards movement in their capital value. The returns should be highest when the general level of interest rates is falling.

Annual management charge: 0.75%

#### **L** RETIREMENT PROTECTION FUND (PASSIVE) – RELATIVELY LOW RISK

##### OBJECTIVE:

To provide returns through a combination of income and capital growth.

##### METHOD:

The fund invests in British Government securities, generally known as gilt-edged securities or "gilts", with over 15 years to run before they mature. Gilts pay a guaranteed income, but their prices fluctuate with long-term interest rates. If the general level of interest rates rises, the guaranteed income from the gilts is less attractive, so the price falls.

On the other hand, if the general level of interest rates falls, people are prepared to pay more for the high guaranteed income – so the price rises.

Annual management charge: 0.75%

## **H** OVERSEAS EQUITY (PASSIVE) – RELATIVELY HIGH RISK

### OBJECTIVE:

To give you the prospect of long-term returns ahead of inflation by investing in shares of overseas companies.

### METHOD:

The fund invests in the shares of companies quoted on the North American, European, Japanese, Pacific Basin and other stockmarkets outside the UK. The split between the main economic regions may vary from time to time in the light of major economic changes.

Annual management charge: 0.65%

## **H** UK EQUITY FUND (PASSIVE) – HIGH RISK

### OBJECTIVE:

To achieve a return consistent with the return on the UK FTSE All-Share Index, which the fund tracks.

### METHOD:

The fund invests in shares of UK companies. The index is made up of the companies quoted in the UK stockmarket and includes leading companies such as British Telecom, Glaxo-Wellcome and Vodafone, plus other smaller companies which offer the potential for long-term growth.

Annual management charge: 0.65%

## **H** SOCIALLY RESPONSIBLE FUND – HIGH RISK

### OBJECTIVE:

To achieve long-term growth, investing in the shares of companies which meet specified ethical and environmental standards.

### METHOD:

The fund invests in the shares of carefully selected UK companies. Investment guidelines have been drawn up for the fund, reflecting the ethical and environmental concerns of many pension scheme members.

Annual management charge: 0.75%

## **PRUDENTIAL ABERDEEN FUND MANAGEMENT LIMITED**

## **M** ABERDEEN LIFE BALANCED FUND - MEDIUM RISK

### OBJECTIVE:

To invest mainly in world stockmarkets, which offer the prospect of growth ahead of inflation over the long-term. The balance is invested in other types of assets to reduce the effect of day-to-day stockmarket movements.

### METHOD:

The fund invests your savings in a portfolio of UK and overseas shares, bonds and cash. This fund doesn't invest in property.

Annual management charge: 0.85%

**Passive Funds** – Passively-managed funds are designed to mirror the performance of a particular index. They invest a certain amount in each share or bond according to the value of that investment compared to the total value of a particular index. For example, if a company was valued at 6% of the FTSE All-Share Index, then the fund would aim to invest 6% of its assets in this company.



# 3

## THE DEPOSIT FUND

### **L** LOW RISK

THE DEPOSIT FUND, WHICH LIKE A BUILDING SOCIETY ACCOUNT, EARNS A VARIABLE RATE OF INTEREST. THE MONEY IN THIS FUND IS TOTALLY SECURE – BUT IT WILL NEVER ACHIEVE SIGNIFICANT RETURNS. THIS IS THE LOWEST RISK FUND, PARTICULARLY SUITED TO PERIODS WHEN YOU ARE WORRIED ABOUT UNCERTAINTY IN THE STOCKMARKET – OR DURING THE LAST YEAR OR TWO BEFORE RETIREMENT, WHEN YOU MAY WISH TO PRESERVE PAST INVESTMENT GAINS FROM THE RISK OF ANY SUDDEN FALLS IN VALUE.

#### OBJECTIVE:

To provide rates of interest which are competitive with building societies, while keeping the value of investments safe.

#### METHOD:

Our current practice, which will be reviewed each year, is to set the interest rate on the first of each month, in line with the Bank of England base rate at that time.

# FUNDS' RISK AT A GLANCE

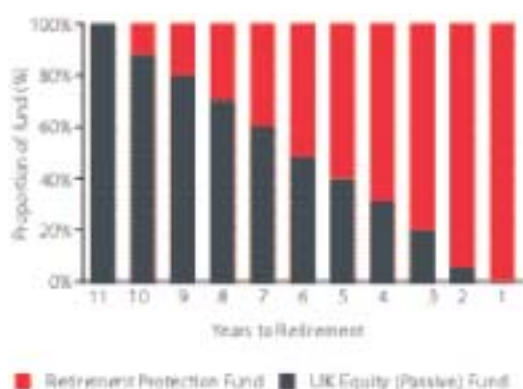
FUND MANAGERS	FUND	RISK RATING
PRUDENTIAL	<b>L</b> DEPOSIT FUND	low risk
	<b>M</b> WITH-PROFITS FUND	medium risk
PRUDENTIAL M&G	<b>L</b> FIXED INTEREST FUND	relatively low risk
	<b>L</b> RETIREMENT PROTECTION FUND	relatively low risk
	<b>H</b> OVERSEAS EQUITY	relatively high risk
	<b>H</b> UK EQUITY FUND (PASSIVE)	high risk
	<b>H</b> SOCIALLY RESPONSIBLE FUND	high risk
PRUDENTIAL ABERDEEN FUND MANAGEMENT LIMITED	<b>M</b> ABERDEEN LIFE BALANCED FUND	medium risk

# 4

## LIFESTYLE OPTION

LIFESTYLING IS A POPULAR WAY FOR MEMBERS OF AVC SCHEMES TO STAY INVESTED IN GROWTH ASSETS, SUCH AS EQUITIES, THROUGHOUT THEIR WORKING LIVES, WHILST GAINING AN ELEMENT OF PROTECTION FROM FALLING INTEREST RATES AS RETIREMENT APPROACHES.

### EXAMPLE PROFILE 10



### OBJECTIVE:

This investment option aims to provide long-term growth with automatic switching into a low risk fund as retirement approaches.

### METHOD:

This is designed to provide some protection to the value of your fund and against changes in the cost of purchasing your pension in the period leading up to your retirement.

### LIFESTYLE 'PROFILE 10'

The options work like this. To begin with, all your contributions would normally be invested in a relatively high risk fund. Then ten years before your normal retirement date, your investment is gradually switched to a relatively lower risk fund so the value of your fund is protected.

For instance, under Profile 10, initially your contributions would be invested in the UK Equity (Passive) Fund, then ten years from your Normal Retirement Age your investments would be automatically switched in pre-set proportions at monthly intervals to the Retirement Protection Fund.

These switches are free of charge and illustrated in the examples.

Please note that Prudential reserves the right to change the terms of the Lifestyle Option, subject to certain restrictions in respect to existing investments in the Lifestyle Option.

**Please note:** In the example, switches take place each year. Actual switches will automatically be made each month.

## LIFESTYLING – THE RIGHT OPTION FOR YOU?

LIFESTYLING NOT ONLY REFLECTS YOUR CHANGING ATTITUDE TO RISK AS YOU APPROACH RETIREMENT BUT ALSO PROVIDES THE FOLLOWING BENEFITS:

- It allows direct investment in Equity markets to maximise potential return.
- It provides some security by switching the value of this fund into a relatively low risk fund as you near your Normal Retirement Age.
- It provides you with the option of individual investment strategy in the early years.
- There is no need for you to take pro-active investment decisions.
- You are also able to switch out of the Lifestyling option at any time.

Please understand that as with any Unit-Linked Fund, unit prices are not guaranteed and can go down as well as up.

### WHEN CAN I RETIRE WITH THE LIFESTYLING OPTION?

The default age on a Lifestyle option will be identical to that under your main pension scheme (normally 65 years of age).

# CAN I CHANGE MY CHOICE OF FUND?

AS TIME GOES BY, YOU MAY PREFER TO INVEST YOUR AVCs IN A DIFFERENT FUND.

The plan is very flexible, at any time you may:-

- Direct all your future contributions to a different fund.
- Switch all or part of your account to a different fund.
- Make both of these changes.

These options may be of benefit to you in a number of different circumstances. For example:-

- You may develop a different attitude to risk and reward – becoming either more cautious or more adventurous.
- You may expect stockmarket investments to perform particularly well – or particularly badly – over the next few years.
- You may have seen your AVC account grow significantly – and want to safeguard your profits from the risk of any future falls.

If you want to change your choice of fund, the following charges will apply:-

- For re-directing future contributions to a different fund: no charge at all.

- For switching all or part of your AVC account to a different fund: no charge at all for the first switch in any scheme year.
- For any additional switches in the same scheme year, a charge of £25 will be deducted from the value of your account.
- The minimum value which may be switched from any one fund is £250 and the balance left, if any, in a fund must be at least £250.
- If you switch from the Deposit Fund, the full value of your account will be applied to the fund of your choice.

While switches between and to Unit-linked funds normally take place at their bid prices, if you switch from the With-Profits Fund, we will add any terminal bonus to your With-Profits account as if you had retired on the day of the switch. In this situation, a "MVR" may be applied.

## NOTIFYING US OF A CHANGE

If you wish to change your choice of fund please ask your employer for a supplementary form. Simply complete this, then hand it back to your employer.

# WHAT ARE THE CHARGES?

- In the With Profits Fund, no explicit charges are taken; the bonuses declared allow for all the costs associated with managing your plan and investments. It is our intention to operate a bonus structure that reflects a charge on your investment funds of 1% a year.
- If money is taken out of the With-Profits Fund at any time other than your normal retirement date or on your death, the amount payable may be reduced to reflect the value of the underlying assets at that time. This is known as a Market Value Reduction (MVR).
- With the Deposit Fund we invest 100% of your money and declare an interest rate net of our charges.
- Each of your contributions into the Unit-linked funds will have an allocation rate of 105.27%. This means, for example, for each £100 you contribute, we will invest £105.27 to buy units in the funds you have chosen.
- With the Unit-linked funds, you buy units at the "offer" price – and, when you eventually sell them, you receive their value at the prevailing "bid" price. Provided we do not need to sell assets, the bid price is 5% less than the offer price, and so represents an initial investment charge of 5%. There may also be a rounding adjustment which will not be more than 0.1p. (If we have to sell assets, we will base the unit prices on the highest ascertainable market bid price of the underlying securities, reduced by the cost of selling them.)
- The allocation rate available to you (105.27%) cancels out the effect of the initial investment charge (5%).
- Finally there is an annual management charge (shown under each unit-linked fund) which we apply to the value of each unit-linked fund before declaring unit prices.

All the funds are valued daily and you can look up the price of the units you hold at any time in the financial press under the heading "Prudential Corporate Pension Funds – Pensions Series 1".

# WHAT HAPPENS WHEN I RETIRE?

THE FOLLOWING INFORMATION PROVIDES AN OVERVIEW OF THE CHOICES THAT YOU MAY HAVE WHEN YOU RETIRE. FOR MORE DETAILS OF HOW AND WHEN YOU MAY RETIRE UNDER THE AVC FACILITY PLEASE CONTACT YOUR EMPLOYER.

## PROVIDING YOUR BENEFITS

At retirement your AVCs are used to provide additional pension or tax-free cash. If you wish to buy additional pension you can do this through Prudential or another insurance company of your choice.

- You can buy your pension benefits from Prudential – on the rates that we offer at the time – or, if you can obtain better rates elsewhere, you may have the option to move your AVC account to another company. This is known as an "Open Market Option" and is only available on retirement.

## ADDITIONAL FLEXIBILITY

You can make other important choices too:-

- You can choose a pension with a guaranteed minimum payment period – usually 5 years. Then, if you die during the first 5 years of your retirement, the balance of any pension payments, to the end of the guaranteed period, will normally be paid as a lump sum to your estate.
- You can choose a pension that increases annually, to provide some protection against the effects of inflation.
- You can also arrange for your spouse's pension to increase annually.

Whatever you decide, all pensions are taxed as earned income.

## FINANCING EARLY RETIREMENT

If you plan to retire early, there is an even greater need for you to pay AVCs. Both you and your employer will have paid less into the company pension scheme than if you had carried on working until your normal retirement date. What's more, because your pension will start earlier, it will have to be paid longer.

For both these reasons your company pension scheme will provide you with a lower pension – and AVCs are one of the most effective ways for you to plan ahead and make up the difference.

# THE MAXIMUM BENEFITS

You should bear in mind the implications of the Lifetime Allowance (LTA) and the Annual Allowance (AA) when planning extra saving for

retirement. More information on this is available in the Member Booklet.

## WHAT HAPPENS IF I LEAVE SERVICE?

IF YOU LEAVE YOUR EMPLOYER'S SERVICE, YOU MUST STOP PAYING YOUR AVCs IMMEDIATELY. HOWEVER, YOU WILL STILL BE ENTITLED TO THE FULL VALUE OF YOUR AVC ACCOUNT – IN WHICHEVER OF THE FOLLOWING WAYS YOU CHOOSE:-

- You can leave your account invested until you retire – when it will be used to provide you with extra benefits.
- Where your employer has provided you with a refund of main scheme contributions, your AVC account will be refunded less an appropriate tax charge.
- You may transfer it, together with your main scheme benefits, to your new employer's pension scheme, an appropriate personal pension plan or an individual "buy-out bond" (often referred to as a "Section 32" transfer). Your company pension scheme will offer you the same options – and you must take your benefits for both schemes in the same form.



# WHAT IF I DIE BEFORE RETIREMENT?

IF YOU DIE BEFORE RETIREMENT, THE FULL VALUE OF YOUR AVC ACCOUNT WILL BE PAID TO YOUR SPOUSE, ANY OTHER PERSON(S) WHOM YOU HAVE NOMINATED, OR TO YOUR LEGAL REPRESENTATIVE.

# WHAT ELSE DO I NEED TO KNOW?

IF ANYTHING IS UNCLEAR – OR IF THERE ARE ANY QUESTIONS THAT YOU WOULD LIKE TO ASK ABOUT THE AVC FACILITY, PLEASE REFER TO THE [AVCS - THE FACTS](#) BROCHURE, OR CONTACT THE ITB PENSION FUNDS OFFICE HELPLINE ON 01923 801528.

The tax situation described in this brochure is based on our understanding of current tax law and HM Revenue & Customs practice, both of which may change. In addition, the value of the current tax privileges described will vary according to your individual circumstances.

You should note that, whilst the trustees of your company pension scheme have selected Prudential for the investment of any AVCs you make under the scheme, the AVC funds will remain subject to the full terms and conditions of the company pension scheme, along with the other assets of the scheme.

# HOW DO I JOIN?

FIRST, READ THE BROCHURE CAREFULLY. THEN, WHEN YOU FULLY UNDERSTAND THE SCHEME – AND YOU HAVE SEEN WHAT EXCELLENT VALUE-FOR-MONEY IT CAN PROVIDE – DECIDE HOW MUCH YOU WOULD LIKE TO PAY IN AVCs.

You should then complete the application form, which is in the pocket at the back – and hand it in to your employer.

Prudential reserves the right to vary from time to time, the terms, conditions and expense charges described in this brochure. The full current terms and conditions are available on request – from either Prudential or your Financial Adviser.

# PRUDENTIAL

[www.pru.co.uk](http://www.pru.co.uk)

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