



AVC Guide

Information for members of the Magnox Group of the Electricity Supply Pension Scheme on the option to pay Additional Voluntary Contributions

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What is in this guidance?



This guide provides some key information if you are considering, or already making and overseeing your AVCs investments. The information is presented in four sections:

1. What you need to know before you sign up
 - General Information including Tax Allowances
2. What you need to do to start paying AVCs
 - Types of contribution and commitments, links to forms
3. What you need to do when holding AVCs
 - Managing Investments
4. What you can/need to do when accessing AVCs funds
 - Options and must dos

1. What you need to know before you sign up



NOTES:

- **Retirement planning is important, and you should be comfortable that paying AVCs through the Scheme is appropriate and affordable to your personal circumstances before commencing payment.**
- **This document is for information and education only; it isn't financial advice as neither any of the employers associated with this Scheme, The Trustee or Railpen, the Scheme administrator, are authorised to give financial advice.** If you need advice, please speak to a financial adviser; you can find one on unbiased.co.uk or moneyhelper.org.uk

1.1 General information

Can I pay AVCs?

The Magnox Group of the ESPS ('the Scheme') is a Defined Benefits (DB) arrangement, and whilst it already provides retirement benefits in the form of a pension and tax-free lump sum, you can also enhance the level of benefits you receive by electing to pay AVCs subject to the following:

- You can pay AVCs to the Scheme's AVC arrangement only if you are an ESPS Active Member.

You cannot therefore make contributions if you are a Deferred Member (which you are deemed to be if you are no longer contributing because you left employment or opted out of the Scheme) or a Pensioner (which you are deemed to be if you are in receipt of your Scheme pension).

How do AVCs allow me to enhance my ESPS benefits?

Your DB pension and Tax Free Lump Sum (TFLS) are determined by your length of service and your pensionable salary. You contribute towards the cost of providing these benefits and your employer pays for the balance; these contributions are pooled and invested by the Group Trustee. The final value of your benefits is therefore defined.

By contrast, AVCs are a Defined Contribution (DC) arrangement where any contributions you make are invested in funds you select and then manage directly. Their final value is unpredictable and will depend on both the amount of contributions you have made and the investment return achieved on those contributions (i.e. it is liable to increase or decrease due to market conditions over time).

You will have several options when you wish to access your AVC fund which are defined in section 4 below.

Do I have any alternative options to enhance my retirement income?

Paying AVCs via the Scheme's AVC arrangement is not the only way in which you can improve your retirement benefits; you could in principle do one or more of the following (instead of, or as well as, paying AVCs):

- **Within the Scheme**
 - **Buy Additional Years' Service in the Scheme** - It is no longer possible to do this, unless you already have a contract in place.
 - **Buy Additional CARE pension in the Scheme** - Every year you have the option to buy additional CARE pension.

- **External to the Scheme**
 - **Invest in another registered pension scheme**, such as a personal pension, with any provider you choose.
 - **Invest in any other non-pension related means of saving**, such as a Lifetime, Cash or Equities ISA, with any provider you choose.

Some key HMRC Rules on Pensions and Tax are outlined below but you should refer to [HMRC's website](#) for the full details. If you need advice, please speak to a financial adviser; you can find one on [unbiased.co.uk](#) or [moneyhelper.org.uk](#).

1.2 Tax Allowances/Limits

NOTE: The following is only intended as a brief summary of the current HMRC limits applicable to pension benefits. For more details visit the [HMRC website](#).

There are two main limits to consider when deciding to pay AVCs and both need to be monitored routinely.

- **The Annual Allowance /Tapered Annual Allowance.** This is the maximum amount of pension savings than can be made in a UK registered pension scheme, such as the ESPS Scheme, each year with the benefit of tax relief.
- **The Lump Sum Allowance and the Lump Sum Death Allowance.** These restrict how much benefit you can take as a tax free lump sum both at the time of drawing each pension you may have, and over the whole of your pension savings.

The Annual Allowance (AA) & Tapered Annual Allowance (TAA)

In assessing against the AA/TAA HMRC defines pension savings in any given year as the 'Pension Input Amount' (PIA), itself defined as follows:

- **PIA =** In broad terms, for a DB scheme this is the increase in the value of your pension and pension lump sum during the year, PLUS the amount of any AVCs paid and/or contributions made to other pension arrangements (excluding any investment gains or losses in any funds used) during the year. For this test the value of the increase in annual defined benefit pension is calculated by multiplying it by 16.

You can find the previous 3 years' worth of PIA by checking your previous 3 years annual Pension Benefit Statement, though note that whilst this already includes any AVCs paid (i.e. with Prudential or Aegon) **it does not include any other savings you may have made outside the Scheme. You will therefore need to add these in when assessing your position against HMRC Limits.**

The AA is set at £60,000 for the 2025/26 tax year but can change; for up to date details visit the [HMRC website](#). The standard AA can however vary in the following circumstances:

- For most people the Tapered Annual Allowance (TAA) will not apply, however, **if your 'adjusted income' (defined as your taxable income plus your employer contributions*) is £240,000 or more AND your taxable income is over £200,000 it will apply**. In these circumstances, the TAA effectively reduces the AA downwards by £1 for every £2 of 'adjusted income' over £240,000 to as low as £4,000.

*For a DB scheme, this is the PIA minus any employee contributions. Any salary sacrifice contributions are classed as employer contributions.

- If you have taken benefits from another pension plan, for example if you start drawing from a flexi-access drawdown, your AA may be reduced. This is known as the Money Purchase Annual Allowance, more details [here](#).
- You may be able to minimise or remove any single year AA/TAA tax charge by making use of any unused AA/TAA you may have from the 3 previous Tax Years. This is calculated on a rolling basis (known as the 'carry forward' rule).

Further details can be found on the [HMRC website](#).

If you exceed the AA/TAA despite the use of the 'carry forward' rule, you will be subject to income tax on the excess at your marginal tax rate, thus removing tax relief on the excess amount.

Lump Sum Allowance (LSA) and Lump Sum and Death Benefit Allowance (LSDBA)

The LSA is set at £268,275* and it is the maximum amount of tax-free cash you can receive from all your pension arrangements. When accessing each pension arrangement you are also limited in taking tax free cash to broadly 25% of the value of the benefits you are taking.

The LSDBA is set at £1,073,100* and it is the total amount of the tax-free part of lump sums and lump sum death benefits payable to and in respect of a member. This following lump sums are tested against the LSDBA: pension commencement lump sums, the tax-free element of an uncrystallised funds pension lump sum and that of a serious ill-health lump sum and the tax-free element of any authorised lump sum death benefit.

If the LSA or LSDBA are exceeded, then the recipient of the lump sum will pay income tax at their marginal tax rate on the amount above the allowances.

*Members with Lifetime Allowance (LTA) protections will have a LSA and LSDBA based on their protected LTA. Members may have a higher LTA because they have previously applied for protection. To check which, if any, you have please visit your HMRC account - [Check the protected allowances on your pension savings - GOV.UK](#)

NOTE: Specific tax considerations in the event of company severance arrangements applying to active members only:

- If you become entitled to a redundancy payment because of severance, the first £30,000 of such payment would usually be paid free of tax, irrespective of any pensions related tax free lump sum.
- If however your severance payment exceeds £30,000 it may be possible to opt for a lower redundancy payment by exchanging some or all for enhanced tax free lump sum. In this event, the relevant Employer will make a contribution to the Scheme equivalent to the redundancy payment reduction, in order to enable you to enhance your TFLS. In these circumstances, this contribution will need to be included in the relevant PIA for that Tax Year and therefore will be tested against the AA and LTA

2. What you need to do to start paying AVCs



Timing of contributions and ability to change contribution amounts

You can pay regular monthly contributions and/or single one-off 'lump sum' contributions.

The relevant form is on the Scheme website, under the "Boosting your benefits" section, [AVC documents](#).

All AVCs, once paid, cannot be refunded, and you will only be able to access them as defined in section 4 below. Therefore, make sure you contribute at a rate which is affordable to you.

How do I pay AVCs?

If you wish to pay AVCs, you should complete the application form on the, detailing the amount you would like to pay and which fund or funds you would like your AVCs to be invested in; the details of the funds available can be found via the links below. Make sure you have read the fund descriptions before making your choices, take financial advice if you need it.

Aegon funds

Fund/Strategy	Annual Management Charge (%p.a.) ¹	Factsheet link
BlackRock Lifepath Capital	0.31	www.aegon.co.uk/content/dam/ukpaw/documents/LIFEPATH_BYZSFD4.pdf
BlackRock Lifepath Retirement	0.31	www.aegon.co.uk/content/dam/ukpaw/documents/LIFEPATH_BTL26P4.pdf
BlackRock Lifepath Flexi	0.31	www.aegon.co.uk/content/dam/ukpaw/documents/LIFEPATH_BTL26C1.pdf
BlackRock MSCI World Index	0.26	www.aegon.co.uk/content/dam/ukpaw/documents/Standard_BRJMD17.pdf
Aegon HSBC Islamic Global Equity Index	0.67	www.aegon.co.uk/content/dam/ukpaw/documents/Standard_B0RXV19.pdf
BlackRock World ESG Equity Tracker	0.32	www.aegon.co.uk/content/dam/ukpaw/documents/Standard_BKJ9ZS0.pdf
BlackRock UK Equity Index	0.26	www.aegon.co.uk/content/dam/ukpaw/documents/Standard_B4KZBD2.pdf
BlackRock Dynamic Allocation	0.66	www.aegon.co.uk/content/dam/ukpaw/documents/Standard_BWX54Y7.pdf
BlackRock Corporate Bond All Stocks Index	0.26	www.aegon.co.uk/content/dam/ukpaw/documents/Standard_B62DYC8.pdf
BlackRock Over 15 Years Gilt Index	0.26	www.aegon.co.uk/content/dam/ukpaw/documents/Standard_B4KDR61.pdf
BlackRock All Stocks UK Index-Linked Gilt Index	0.26	www.aegon.co.uk/content/dam/ukpaw/documents/Standard_B7MLVW8.pdf
BlackRock Cash	0.28	www.aegon.co.uk/content/dam/ukpaw/documents/Standard_0576169.pdf

¹ This is the current total annual charge comprised of the annual management charge and additional expenses as at January 2024.

You can invest in as many of the funds listed above as you would like. Once completed return your form to Railpen at enquiries@railpen.com.

Lifepath funds are a type of investment which provides automatic switching of your pension savings into different fund(s) as you get closer to your target retirement age. To find out more about these funds please visit www.aegon.co.uk/customer/investment-choices/through-the-workplace/targetplan/targetplan-lifepath.

You should confirm your elected target retirement age on your AVC application form when you first start paying into a lifestyle fund. If you do not, it will default to the Scheme's normal retirement age. You can amend your target retirement age at any given time on Target plan (See the next section).

Note: if you are a new AVC payer and do not make a fund selection your AVCs will be invested in the default fund, BlackRock Lifepath Capital fund. You can amend your fund selection at any given time on target Plan (See the next section).

Legacy Prudential Funds

From 1st May 2022, the below funds are legacy funds in which members can no longer contribute to.

Fund/Strategy	Annual Management Charge (%p.a.) ²	Factsheet link
Lifestyle Cash	0.55 – 0.71	
Lifestyle Index-Linked	0.71 – 0.76	
Lifestyle Gilts	0.66 – 0.71	
Prudential International Equity	0.76	Interactive Factsheet - Prudential International Equity S3
Prudential Global Equity	0.76	Interactive Factsheet - Prudential Global Equity S3
Prudential UK Equity	0.72	Interactive Factsheet - Prudential UK Equity S3
Prudential UK Equity Passive	0.65	Interactive Factsheet - Prudential UK Equity Index S3
Prudential Discretionary	0.76	Interactive Factsheet - Prudential Discretionary S3
Prudential Long-Term Gilt Passive	0.66	Interactive Factsheet - Prudential Long-Term Gilt Passive S3
Prudential index-Linked	0.76	Interactive Factsheet - Prudential Index-Linked S3
Prudential Cash	0.55	Interactive Factsheet - Prudential Cash S3
Prudential With Profits ⁴	0.98 ⁴	mandg.com/dam/pru/shared/documents/en/btbq00068.pdf

Lifestyle funds are a type of investment which provides automatic switching of your pension savings into different fund(s) as you get closer to your target retirement age. To find out more about these funds please visit pru.co.uk/lifestyling

² This is the current total annual charge comprised of the annual management charge and additional expenses.

³ Only available to existing contributors; if you decide to stop contributing to Prudential's With Profits you will not be able to restart at a later date.

⁴ The charges on the Prudential With Profits Fund are not explicit, the charges shown above are an estimate provided by Prudential.

3. What you need to do when holding AVCs



How can I monitor my investments?

You will need to monitor your investments to ensure they are adequate to your circumstances and attitude to risk.

Aegon

Once your first contribution has been invested by Aegon, you will receive a welcome letter containing your account details to enable you to register to their online website, Target Plan lwp.aegon.co.uk/targetplanUI/login. Click on Activate to start your registration and access your online account.

Prudential

You can do this by creating/using an online account once you have set up your first AVC contributions, by logging on to Prudential's website login.pru.co.uk/Login/dialog/customer/Login/EnterUsername.

If you haven't registered yet, click register and complete the registration. You may need the Group number (which is AF24) to register.

How can I manage and modify my investments/allocation of contributions?

You can change your investment strategy at any time.

Aegon

If you wish to change how your contributions are invested, whether for past contributions/existing assets or for future contributions, the most efficient way to do this is to log into your Aegon AVC account and make your changes online. If you have not registered for online access to your Aegon AVC account, and do not wish to, you can contact Aegon by telephone, 0345 601 7720, or email, My.pension@aegon.co.uk.

Aegon's service level agreement for processing fund switches is one working day. Fund switches instructed online, by telephone or email before close of business will typically be processed the same day. You will receive confirmation of the fund switch the next day.

Online changes to fund selection for future contributions will take effect immediately after completing the change process online.

Prudential

From October 2025, you can change how your Prudential legacy funds are invested online.

If you wish to do this before the 15 September 2025, you will need to contact Railpen to action your request with Prudential.

If you wish to transfer your Prudential AVCs to Aegon, this can be done once a year in February/March where the application form will be made available on our website <https://www.my-magnox-pension.com/slc/active-reformed-slc-members/boosting-your-benefits>.

4. What you can/need to do when accessing your AVC funds



Accessing your AVC savings – When can I?

In order to access your AVC savings (what you choose to do with them is covered later) you must either:

- Put your Scheme benefits in payment, i.e. retire, OR
- Already be in receipt of your pension and have deferred accessing your AVC savings at the time you retired, OR
- Have left the Scheme, i.e. not be an active member, and transfer your whole AVCs to another registered pension provider.

Use of AVCs – What options do I have?

At retirement, i.e. when you decide to put your Scheme benefits into payment, you will have the following options with regards to your AVCs:

- i. **Use some or all of your AVCs to increase your TFLS.** Note HMRC limits the amount of TFLS a member can receive to the equivalent to 25% of your overall Scheme benefits (including AVCs) therefore you may not be able to take all of your AVCs as a TFLS.
- ii. **Use some or all of your AVCs for a taxed lump sum** this is available to ALL members and is subject to the LTA & Money Purchase Annual Allowance Tax Rules.
- iii. **Use some or all of your AVCs to increase your pension income* either:**
 - a. **Within the Scheme, i.e. buying extra scheme pension,** this is available only if you commenced paying AVCs BEFORE 6 April 2006 OR
 - b. **Buying a pension on the open market,** i.e. buying an annuity with an external pension provider.
- iv. **Transfer your entire AVC savings to another pension provider.** If used, all your AVC savings would need to be transferred to your chosen provider.
- v. **Defer taking your AVCs at a later date.** If you don't want to access your AVCs when you come to start taking your pension you can defer taking these until a later date but no later than your 75th birthday.

* Please note the rates for converting AVC funds into pension vary with market conditions and the additional benefits that can be purchased with AVCs can therefore not be accurately calculated until the time of retirement.

Whatever you decide you will need to advise Railpen of the option(s) you wish to take with your AVCs before the point of access.