New Pension Arrangements for Staff in Grades 1 to 5
Information for Active PAS members

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Steve Palmer, FriendsLife
Introduction

- Following the recent consultation exercise the University has now confirmed it’s decision to close PAS to future benefit accrual as from March 2016.

Aims of this presentation...

- To explain what will happen when the PAS closes to future benefit accrual
- To provide you with information about the University’s Stakeholder Pension Scheme (offered by FriendsLife)
On 31st March 2016

- PAS will **close to future benefit accrual**
- Active PAS members will become **Deferred Members**.
- A **deferred pension** will be calculated based on
  - Years of Service @ 31/03/2016 and
  - Final Pensionable Earnings
- Where **Final Pensionable Earnings** are the HIGHER of -
  - average pensionable earnings over the best consecutive 12 months for the period April 2013 to March 2016
  - the average of the best consecutive three years over the last 13 years.
- You will receive a **statement of your deferred pension** from Aon Hewitt in the spring of 2016 following the closure of the PAS to future benefit accrual
On 1st April 2016

- You will be auto-enrolled into the University’s Stakeholder Pension Scheme (offered by FriendsLife)

- In addition, as part of your Stakeholder scheme membership you will benefit from:
  - Life Assurance Cover equal to FIVE times pensionable salary
  - Permanent Ill-Health Cover of half pensionable salary (net of any additional state benefits) payable up to age 65, payable after 52 weeks of illness
Safeguarded PAS Benefits
Safeguarded PAS Benefits

- The **PAS Trustees** will continue to manage the Scheme investments and safeguard the funds.

- The University will continue to make payments into the Scheme in line with the agreed Recovery Plan in order to remove the current Scheme deficit.

- Actuarial Valuations will continue to take place every 3 years (next AV will take place in August 2016) and the outcome will determine the level of payments the University will make to bring the PAS into balance.
When can I take my PAS pension?
- Ordinary Members

- The normal retirement age for the PAS is 65.

- As a deferred member
  - from age 65 you will be able to access your pension unreduced.
  - You can access your pension after age 55 (i.e. a fixed 10 years under the state pension age) if you flexibly retire under the University’s policy (reduce your hours by at least 20%) but your pension will be reduced for early payment. This will require University and PAS Trustee consent.
  - You can transfer to another pensions provider in order to benefit from the Government’s pension freedoms and access your pension as cash or drawdown, but you are required to take independent financial advice before you do this.

- You may give up part of your pension to take a tax free cash lump sum. The maximum amount of cash that HMRC will allow you to take and the amount of pension you give up will be calculated when you reach retirement.
When can I take my PAS pension?
– Special Members (& potential Special Members)

- **Special Member** – someone who joined PAS before July 1991 and has 25 years continuous service (or the potential to achieve 25 years service before retirement)

- **Special Member Rights**
  - May retire from age 60 and access benefits on an **unreduced basis**
  - or
  - May retire from age 55 with benefits only reduced for period between age at retirement and 60

- **Special Member Rights will continue**- albeit with service only to 31\textsuperscript{st} March 2016

- **Special member rights built into flexible retirement**
Retirement – Your PAS pension

- When you take your pension, your actual pension will be based on the **HIGHER** of

<table>
<thead>
<tr>
<th>Your years of service to 31st March 2016</th>
<th>X</th>
<th>Your final pensionable earnings at the point you decide to draw your pension</th>
</tr>
</thead>
</table>
| OR
| Your years of service to 31st March 2016 | X | Your deferred pension as at March 2016 revalued each year by the PAS’ revaluation factors |

- Details of your position in terms of the impact of the revaluation impact was provided in the one to one sessions.
What is revaluation and how does it work?

- Your deferred pension will be calculated at 31st March 2016 when the PAS closes to future accrual.

- At each subsequent year, until you retire, this deferred pension will be increased in line with a set of revaluation factors.

- Different revaluation factors apply to different periods of your accumulated service in the PAS due to changes in the PAS rules over time

- This is especially important for PAS members who joined the Scheme prior to 1st February 1998
# Revaluation Factors

(pre 1 Feb 1998 starters)

<table>
<thead>
<tr>
<th>Period of Service</th>
<th>Revaluation Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>For service built up prior to 5 April 1997</td>
<td>the excess pension built up above the GMP is revalued at a <strong>fixed rate of 5% pa.</strong></td>
</tr>
<tr>
<td>For service built up between 6 April 1997 and 31 October 2006</td>
<td>All pension built up is revalued at a <strong>fixed rate of 5% pa.</strong></td>
</tr>
<tr>
<td>For service built up between 1 November 2006 and 5 April 2009</td>
<td>All pension built up is revalued in line with <strong>CPI</strong> (capped at 5% pa.)</td>
</tr>
<tr>
<td>For service built up between 6 April 2009 and 31 March 2016</td>
<td>All pension built up is revalued in line with <strong>CPI</strong> (capped at 2.5% pa.)</td>
</tr>
</tbody>
</table>

Best explained by way of an example…
Example - Assumptions

- Male age 55 at 31/3/2016
- Salary at 31/3/2016 - £19,000
- 25 years pensionable service at 31/3/2016
- Assumes CPI of 3% from 2016 to 2026
- Deferred pension at 31/3/2016
  - £7,828 pa \((18/60 \times £19,000 + 7/62.5 \times £19,000)\)

**Made up of:**

<table>
<thead>
<tr>
<th>Made up of</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GMP</td>
<td>£650</td>
</tr>
<tr>
<td>Excess over GMP pre 5/4/97</td>
<td>£1,250</td>
</tr>
<tr>
<td>Accrued 6/4/97 - 31/10/06</td>
<td>£3,035</td>
</tr>
<tr>
<td>Accrued 1/11/06 - 5/4/09</td>
<td>£765</td>
</tr>
<tr>
<td>Accrued 6/4/09 - 31/3/16</td>
<td>£2,128</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£7,828</strong></td>
</tr>
</tbody>
</table>
## Example - Application of Revaluation Factors

<table>
<thead>
<tr>
<th></th>
<th>Pension at 31/3/2016</th>
<th>Annual Revaluation rate 1/4/16 - 31/3/26</th>
<th>Cumulative Revaluation factor</th>
<th>Pension at 31/3/26</th>
</tr>
</thead>
<tbody>
<tr>
<td>GMP</td>
<td>£ 650</td>
<td>4.75%</td>
<td>1.59</td>
<td>£ 1,034</td>
</tr>
<tr>
<td>Excess over GMP pre 5/4/97</td>
<td>£ 1,250</td>
<td>5.00%</td>
<td>1.63</td>
<td>£ 2,036</td>
</tr>
<tr>
<td>Accrued 6/4/97 - 31/10/06</td>
<td>£ 3,035</td>
<td>5.00%</td>
<td>1.63</td>
<td>£ 4,944</td>
</tr>
<tr>
<td>Accrued 1/11/06 - 5/4/09</td>
<td>£ 765</td>
<td>3.00%</td>
<td>1.34</td>
<td>£ 1,028</td>
</tr>
<tr>
<td>Accrued 6/4/09 - 31/3/16</td>
<td>£ 2,128</td>
<td>2.50%</td>
<td>1.28</td>
<td>£ 2,724</td>
</tr>
<tr>
<td></td>
<td><strong>£ 7,828</strong></td>
<td></td>
<td></td>
<td><strong>£ 11,766</strong></td>
</tr>
<tr>
<td>&quot;Buying power&quot;</td>
<td>£7,828</td>
<td>3.00%</td>
<td>1.34</td>
<td>£10,520</td>
</tr>
</tbody>
</table>
Other PAS benefits retained as a deferred member

• If you die after 31 March 2016 your dependents will get
  – a refund of the contributions that you have paid (without interest)
  – a qualifying spouses pension equal to 50% of your deferred pension—revalued as appropriate
  – A qualifying children's pension equal to 25% of your deferred pension—revalued as appropriate (a max of 2 children’s pensions are payable)

• If you are forced to retire through ill-health after 31 March 2016
  – you will be able to access a PAS incapacity pension but this will be reduced for early payment
  – However, the PAS Trustees / University will have to discretion to remove the reduction if you do not have other University ill health benefits.
How do pensions increase once in payment?

- Indexation factor is CPI for service after August 2012
- RPI for service prior to this
- Indexation cap set at 5%
University of Leicester Stakeholder Pension Scheme

Your journey to a brighter future

FriendsLife
A quick look at who we are......

5 million customers

Over 200 years’ heritage

£117 billion assets

One of UK’s biggest Workplace Benefits providers

Acquisition of Friends Life Group Limited by Aviva plc.
Friends Life is now part of the Aviva group. To find out more please visit www.aviva.com.

Figures as at 31.12.2013
Important information

• Please note that the following presentation should not be regarded as giving any form of financial or investment advice. You should not make your decision on the basis of this presentation alone. If you have any doubts whether the product is suitable for your needs, you should contact a financial adviser for advice.

• This presentation is based on our interpretation of present law and HM Revenue & Customs practice for the tax year 2015/2016. The tax benefits may change at any time and their value depends on your personal circumstances.

• The value of an investment can fall as well as rise and it is not guaranteed. You may get back less than you invest.
How the Group Stakeholder Scheme works…..

- Contributions are deducted from pay
- The University’s contributions are added to them
- The combined amount is paid into your individual pension pot
- Your pension pot is then invested aiming to generate growth
- An annual management charge is taken to cover costs such as setting up the plan, fund management and plan administration.
- You can access your pension pot from age 55 onwards
- Flexibility at retirement as to how you access your pension pot

The value of an investment can fall as well as rise and it is not guaranteed. You may get back less than you invest.
Contributions

- You will initially be automatically enrolled into the highest tier of the Scheme paying 6% of pensionable pay as highlighted in below, to which the University will contribute 11% of pensionable pay.
- If you wish you can choose to amend your level of contributions moving to one of the other tiers.

<table>
<thead>
<tr>
<th>Your contribution (as a % of pensionable pay)</th>
<th>Tax Relief Added</th>
<th>Total Employee contribution</th>
<th>University contribution (as a % of pensionable pay)</th>
<th>Total Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.4%</td>
<td>0.6%</td>
<td>3.0%</td>
<td>5.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>3.2%</td>
<td>0.8%</td>
<td>4.0%</td>
<td>7.0%</td>
<td>11.0%</td>
</tr>
<tr>
<td>4.0%</td>
<td>1.0%</td>
<td>5.0%</td>
<td>9.0%</td>
<td>14.0%</td>
</tr>
<tr>
<td>4.8%</td>
<td>1.2%</td>
<td>6.0%</td>
<td>11.0%</td>
<td>17.0%</td>
</tr>
<tr>
<td>More than 6%</td>
<td></td>
<td></td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

Based on basic rate tax in 2015/16
Figures are based on pensionable pay. You can pay additional personal contributions if you wish. For details of minimum additional regular and single contributions, please refer to the relevant product literature.
Contributions

Example - Based on 6% employee, 11% employer contribution

<table>
<thead>
<tr>
<th>Gross salary per month</th>
<th>£1,000</th>
<th>£1,250</th>
<th>£1666.67</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax per month</td>
<td>£23.33</td>
<td>£73.33</td>
<td>£156.67</td>
</tr>
<tr>
<td>National Insurance per month</td>
<td>£39.40</td>
<td>£69.40</td>
<td>£119.40</td>
</tr>
<tr>
<td>Net monthly cost of pension contribution</td>
<td>£48.00</td>
<td>£60.00</td>
<td>£80.00</td>
</tr>
<tr>
<td>Net monthly income after pension contributions</td>
<td>£889.27</td>
<td>£1,047.27</td>
<td>£1310.60</td>
</tr>
</tbody>
</table>

Pension Contributions per annum

<table>
<thead>
<tr>
<th>Annual employee pension contributions (inc tax relief)</th>
<th>£720</th>
<th>£900</th>
<th>£1,200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual employer pension contribution</td>
<td>£1,320</td>
<td>£1,650</td>
<td>£2,200</td>
</tr>
<tr>
<td>Total Annual Pension Contribution</td>
<td>£2,040</td>
<td>£2,550</td>
<td>£3,400</td>
</tr>
</tbody>
</table>

Based on basic rate tax and National Insurance 2015/16
Figures are based on pensionable pay. This is basic pay (determined by a nationally negotiated scale) plus contractual overtime plus any contractual allowances.
You can pay additional personal contributions if you wish. For details of minimum additional regular and single contributions, please refer to the relevant product literature.
Important information

- You get tax relief on contributions of up to 100% of your earnings
- However, there is an annual allowance of £40,000 across all pensions for the 2015/16 tax year
- If your pension savings exceed the annual allowance, you may be liable to a tax charge at your highest marginal rate
- Tax benefits are subject to change and their value depends on your individual circumstances
Salary Sacrifice

- Contributions can be paid through the University’s Pension Salary Sacrifice scheme - saving on National Insurance contributions
- If you are currently in the salary sacrifice scheme for PAS you will be automatically enrolled into salary sacrifice for the Friends Life scheme
- If you are not currently in salary sacrifice and are considering joining please contact Rashida Vora, Pensions Manager
Investment choices

- You can choose how you wish to invest your pension pot
- A large range of funds to choose from
- Each fund has an annual management charge starting from 0.43%
- There is a default fund, i.e. a fund selected by the University for people who do not wish to choose their own fund(s)

The value of an investment can fall as well as rise and it is not guaranteed. You may get back less than you invest.
Investment choices

Each fund invests in one or more of the following Investment types

- Shares
- Fixed interest
- Property
- Money markets
Please note: These investment risk ratings are based on our interpretation of investment risk and are only meant as a guide. These levels of investment risk are not guaranteed and may change in the future. The colours in this table may be different to those used online: however, the ratings and approach to investment risk remain the same.

### Investment choices – Risk ratings

<table>
<thead>
<tr>
<th>Risk rating</th>
<th>Risk rating description</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Highest volatility</td>
<td>The historical performance of funds with this risk rating has typically experienced the highest volatility of all the funds Friends Life has rated. This means that these funds have the highest potential for substantial changes in value compared with other Friends Life funds.</td>
</tr>
<tr>
<td>6 High volatility</td>
<td>The historical performance of funds with this risk rating has typically experienced high volatility compared with other funds Friends Life has rated. This means that these funds have a high potential for substantial changes in value compared with other Friends Life funds.</td>
</tr>
<tr>
<td>5 Medium to high volatility</td>
<td>The historical performance of funds with this risk rating has typically experienced medium to high volatility compared with other funds Friends Life has rated. This means that these funds have a medium to high potential for substantial changes in value compared with other Friends Life funds.</td>
</tr>
<tr>
<td>4 Medium volatility</td>
<td>The historical performance of funds with this risk rating has typically experienced medium volatility compared with other funds Friends Life has rated. This means that these funds have a medium potential for substantial changes in value compared with other Friends Life funds.</td>
</tr>
<tr>
<td>3 Low to medium volatility</td>
<td>The historical performance of funds with this risk rating has typically experienced low to medium volatility compared with other funds Friends Life has rated. This means that these funds have a low to medium potential for substantial changes in value compared with other Friends Life funds.</td>
</tr>
<tr>
<td>2 Low volatility</td>
<td>The historical performance of funds with this risk rating has typically experienced low volatility compared with other funds Friends Life has rated. This means that these funds have a low potential for substantial changes in value compared with other Friends Life funds.</td>
</tr>
<tr>
<td>1 Lowest volatility</td>
<td>The historical performance of funds with this risk rating has typically experienced the lowest volatility of all the funds Friends Life has rated. This means that these funds have the lowest potential for substantial changes in value compared with other Friends Life funds.</td>
</tr>
</tbody>
</table>
Investment choices - Default fund

- **My Future Fund** -
  - A profile for those that have not yet decided how they wish to take their pension benefits (the default option)
  - Also allows you to choose between options that have different consolidation profiles depending on your retirement plans
    - My Future Target Annuity Option
    - My Future Target Cash Lump Sum Option
    - My Future Target Drawdown Option

- The **My Future Fund** has an annual management charge of 0.43%
My Future investment programme – default option

The lifetime investment programme fund names are not an indicator of future performance or investment return and should not be used as a basis for your decision to invest.
Planning for retirement

- The Plan’s normal retirement age is 65
- You can normally take your benefits as early as age 55
Choices at retirement

- This is an area of significant change as a result of the new pension freedoms
- You can buy an annuity with your pension pot – which will deliver an income for life
- You can take up to 25% of your pension pot as tax free cash and then buy an annuity
- You can take your entire pot as a single lump sum – you will pay tax on 75% of this at the marginal tax rate
- You may be able to draw down your pension pot in portions, subject to any restrictions applied
- Or finally... you can transfer your pension pot back into the PAS in order to minimise the amount of PAS pension you would need to give up in order to take tax free cash
Decisions you need to make...

- Whether you wish to participate in the Salary Sacrifice Scheme (if you do not already do so)
- Whether you are content to leave your contribution rate at the 6% tier
- Whether you are happy to invest in the default fund option or wish to make your own investment decisions
Online support available from Friends Life

Why not have a look at our forecaster and risk profiler tool, eValuate, at www.friendslife.co.uk/membersite