June 2014

Dear AVC member

We are writing to AVC members because of an important change to legislation which affects whether the APS and NAPS AVC schemes are classed as money purchase benefits or not. We have previously alerted members to the possibility of this change, in our December 2012 and February 2014 In Focus newsletters.

The change in legislation affects monies invested in the Equity Biased Fund (EBF) and the Short-dated Gilts Fund (SGF) but members with Mixed Portfolio Fund (MPF) Accounts also need to be aware of the changes in case of any potential impact to future AVC investment decisions and benefits payable.

The change is due to come into force in July this year but, in summary and based on our analysis of the (fairly final) draft regulations, will only have a negative impact for members with EBF or SGF Accounts (or who buy an AVC pension after 5 April 2015) if the Scheme ever terminates or winds up in the future without enough assets to meet all the promised benefits.

This letter is based on our current understanding of the complex changes to the legislation and we will write to you with more detail in due course.

Money Purchase (MP) Benefits

The new legislation will restrict what can be treated as a 'money purchase benefit' within a pension scheme. Historically, the BA AVC Accounts have been classed as money purchase benefits – essentially a fund of cash which builds up as a result of contributions paid in, and investment returns achieved, over time and which is drawn down as cash or converted to a pension when you retire.

Under the new law, EBF and SGF Accounts (but not MPF Accounts) will no longer be classed as money purchase benefits, and instead will be classed as 'cash- balance' or 'non-money purchase', which are defined benefit in nature. This is because both EBF and SGF have an element of investment return that is guaranteed; in other words there is a promise built into the EBF and SGF about the return that will be applied to your Account:

- The return for the Equity Biased Fund (EBF) has a specific guaranteed return element based on the average of the annualised daily interest rates on a 7 days' notice Local Authority Account during a given month. The EBF, although mainly invested in equities, has therefore never had a negative return.

- The return for the Short-dated Gilts Fund (SGF) is guaranteed as the average of the three highest yielding UK fixed interest securities with a maturity date of less than five years. The Scheme may not hold the relevant securities in any year, leading to a potential element of guarantee.

What effect does this have on my AVC account prior to retirement?

The change means that EBF and SGF Accounts will become subject to the various aspects of the pensions legislation that apply to defined benefit schemes. In summary, the change will only negatively affect EBF and SGF Accounts were the Scheme to ever wind up with insufficient assets to pay all benefits in full. Currently money purchase benefits are paid out as one of the first benefits in the event of Scheme wind up and so would usually be fully protected. However, if the Scheme were ever to wind up with insufficient funds to pay all of the promised benefits in full, the reclassification of EBF and SGF Accounts as non-money purchase benefits could mean there is a risk that these AVC Accounts might be used partly or wholly to make good other promised Scheme benefits. The exact impact would depend on the funding position in the Scheme at the time it wound up.

What effect does this have on my AVC benefits at retirement?
If you use your AVC Account to purchase an AVC pension (also known as an AVC annuity) within APS or NAPS at retirement, the Trustees will continue to be able to classify your AVC pension as a money purchase benefit as long as it was purchased before 6 April 2015. The option to purchase an AVC pension within NAPS is restricted to balances of less than £1,000 for those who left after April 2007, although members with balances greater than this can still purchase an AVC pension on the open market and we can help to arrange this for you. AVC pensions purchased after 6 April 2015 will now be non-money purchase benefits even if they are purchased using an MPF AVC Account, which means that the AVC pension would be subject to the aspects of the legislation that apply to defined benefits. AVC Accounts which have already been drawn at retirement as a cash lump sum are not affected by the change.

What do I need to do?
You need not take any immediate action. The change comes into effect from July 2014 and will only negatively affect you if the Scheme were to wind up at some point in the future with insufficient assets to pay all benefits in full; and only if you had monies in the EBF and SGF at that time (or had purchased an AVC annuity after 5 April 2015). The option for members to switch monies out of the EBF or SGF into the Mixed Portfolio Fund (MPF) remains available should you wish to consider this. The MPF will still be classed as money purchase and so would be expected to be protected in the event of a scheme wind up. Further information about the MPF and the form for switching Accounts can be found on our website under the 'AVC' and 'Forms' sections.

We are completing further analysis on how the change to the MP definition impacts individual members and will write with further detail in due course.

Finally …
Following its March 2014 Budget announcement, the Government is currently consulting on whether to disallow transfers from occupational pension schemes, such as APS and NAPS, (known as 'defined benefit' (DB) arrangements) to DC arrangements. The outcome is expected over the next few months. We will continue to work with our advisers to monitor any impact to the APS and NAPS Schemes including internal switches of AVC Accounts and will update you as soon as we can.

For and on behalf of the APS Trustees and the NAPS Trustees