



BCSSS

Members' fact sheet
For members of the British Coal Staff Superannuation Scheme

Additional Voluntary
Contribution (AVC) Funds

Your retirement choices

Additional Voluntary Contribution (AVC) Funds – Your retirement choices

This fact sheet gives you information about your Prudential AVC options. It has been written by the BCSSS trustee's office to help inform your decision making process. **It is not advice.** If you are not sure what action to take, we recommend that you consider taking independent financial advice based on your own circumstances. You should consider your overall financial situation and your expected future financial needs when making your pension choices.

The BCSSS administration office will write to you with details of your benefit options six months before your earliest retirement date and will obtain details of your AVC fund(s) from the Prudential. It may be possible for you to take all or part of your AVC fund in the form of a cash payment. Where cash is not taken those AVC funds must be used to buy an annuity, which will provide you with a pension income for the rest of your life. Please read this information carefully and ask us, or your financial adviser to explain anything you do not understand.

The Open Market option

You will be provided with annuity quotations by the Prudential, however, you have the option to shop around to see what rates or arrangements other insurance companies can offer – this is called the 'open market' option. You may find it difficult to obtain an annuity with a provider other than the Prudential if your total AVC fund is less than £5,000.

Across we briefly explain some of the different types of annuity. Choosing the best one can be a difficult process, so you may want to get financial advice to help you decide which one is best for you. You can also find out where to get more information at the end of this fact sheet.

What is an annuity?

An annuity converts a savings fund into income – the income you will be paid for the rest of your life. Annuities are usually provided by insurance companies. You will have to pay tax on your pension income from your annuity in the same way as you pay tax on your BCSSS pension.



What types of annuity are there?

There are different types of annuity to suit your needs and circumstances. The basic types are:

Single life annuity or joint life annuity

A single life annuity is an annuity just for you. In the event of your death, your annuity will cease and nothing else will be payable to your family or dependants.

A joint life annuity is an annuity that will pay out to your spouse, partner or dependant when you die. If you are not married, you should check with your annuity provider that your partner is eligible to receive the annuity. Joint life annuities pay out a lower starting income than a single life annuity. Some joint life annuities will pay a reduced income to your spouse, partner or dependant, for example half or two-thirds.

A level annuity or an escalating (increasing) annuity

The pension income you receive from a level annuity will stay the same throughout your life. You will get a higher starting level than with an escalating annuity, but it will not increase over time.

The pension income you receive from an escalating annuity will change each year in line with inflation (for example the Retail Price Index), or will increase at a fixed rate (for example 3% or 5%) each year throughout your life. The starting level will be lower than with a level annuity, but it

will increase each year. If inflation stays low it could take as long as 20 years or more for an escalating annuity to pay out as much as a level annuity; however, if you don't have an escalating annuity even low levels of inflation can, over time, lower the buying power of your income.

A Guaranteed annuity

Your pension income can be guaranteed for a set number of years, usually five or ten, so that it will continue in payment (usually to your spouse, partner or estate) for the rest of the guarantee period if you die before the period ends. If you do not include a guarantee period, and your annuity is set up on a single life basis, the income payments will stop when you die, irrespective of the length of time it has been in payment.

An enhanced annuity

An enhanced annuity, which pays a higher income, may be available if you are overweight, a smoker, or have done certain manual jobs or live in a particular part of the country.

An impaired life annuity

An impaired life annuity, which pays a higher income, may be available if you have a health problem that threatens to shorten your life.

How is an annuity worked out?

A number of factors will affect the level of income you will get from your annuity, the most important are:

- The amount of money in your AVC fund when you retire.
- The amount of tax free cash lump sum you decide to take (if any), as this will reduce the amount left in your fund with which to buy an annuity.
- The annuity rate offered by the insurance company (rates will vary from one company to another).
- The type of annuity you choose (ie joint or single life, escalating or level, guaranteed or not guaranteed).
- Your age.
- Your sex (annuities for women cost more as women are on average expected to live longer than men).
- Your health (some companies will pay higher annuities to people in poor health).
- Your lifestyle (some companies will pay higher annuities to people with a certain lifestyle ie smokers).

How do I shop around for the best deal?

When your benefit options are sent to you six months prior to your retirement we request a quotation from the Prudential of your AVC fund value and annuity options. You can use these figures to shop around and compare the income offered by other insurance companies. You can do this by using the Financial Services Authority's comparative annuity tables on the internet at: www.fsa.gov.uk/tables.

You can then ask insurance companies for a personalised quotation – remember to compare similar annuities, and look at quotations that fit your circumstances. It is also important to remember that annuity rates can change over time. They are usually fixed for a limited number of days, usually between 7 and 28 days. The insurance company

will also tell you whether you have the right to cancel the contract if you decide not to go ahead with it and, if so, how long you have to do this.

Not all companies will deal with you direct and you may wish to consider asking a financial adviser to look at the annuity rates on offer. Some advisers specialise in annuities, and it may be worthwhile going to one that does. If you use the open market option, the adviser may be paid by commission. The insurance company will pay this and the cost will have been taken into account when determining the amount of annuity offered to you. Remember to ask the adviser if you will have to pay any other charges.

Where to get more information

Insurance companies who are regulated by the Financial Services Authority (FSA) usually provide annuities. The Government set up the FSA as an independent watchdog to regulate financial services, including annuities, and to protect your rights.

The FSA has produced two publications you might find useful: 'Retiring Soon', and 'Retirement Options'.

You can order these free of charge by calling the FSA Consumer Helpline on 0845 6061234. You can also get the publications, and other independent information, on the FSA's website at www.moneymadeclear.fsa.gov.uk. The website also has tables of different annuity rates so that you can shop around for the best deal.

Department for Work and Pensions

For advice on preparing for your retirement see the Pensions Service website at www.thepensionservice.gov.uk. The Pension Service is part of the Department for Work and Pensions.

The Pensions Advisory Service

If you have any questions about pensions in general you can contact the Pensions Advisory Service. This is an independent organisation that can help with your pension and annuity enquiries.

Telephone: **0845 6012923**

E-mail: enquiries@pensionsadvisoryservice.org.uk

Website: www.pensionsadvisoryservice.org.uk

The BCSSS Administration Office

If you have any specific questions about your pension from BCSSS contact the administration team.

Address

The Administration Office
BCSSS, 5th Floor, The Fountain Precinct,
Balm Green, Sheffield S1 1JA

E-mail: bcsss.enquiries@aonconsulting.co.uk

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Please remember to quote your **National Insurance Number/Scheme Membership Number**.