

DMGT AVC PLAN With-profits fund

How the with-profits fund works

The with-profits fund is so-called because members share in any profits generated by the investments held by the plan; investments that have been acquired using contributions paid into the fund. 'Profits' means any money that is above the level required to pay for pension benefits that comes from investment returns.

The with-profits fund was closed to further contributions following the reclassification of the fund from "defined benefit" to "money purchase" leading to profound regulatory and financial implications for the company.

Contributions that were paid by members were converted into a yearly pension to be paid at normal retirement age (62) using conversion rates taken from a table of factors supplied by the plan actuary.

The table of factors takes account of the following:

1. The member's age at the date the contribution was made.
2. The assumed life expectancy of all plan members.
3. The assumed long-term investment income returns.

As the above assumptions can change over time, the table of factors was updated accordingly. This means that conversion rates have not always remained the same, year on year.

If the fund's investments perform particularly well, it may be possible for the trustees to use these extra profits to grant a bonus in a particular year, or number of years, that would increase the pension entitlement at retirement age. Hence, member's pension benefits would have these extra profits added.

Once a conversion rate or bonus has been applied in any particular year, it cannot be withdrawn. For this reason, the trustees must be careful not to award bonuses in respect of profits generated by short-term market returns that might be unsustainable over the longer-term, or might be offset by market falls.

At the same time, the trustees try to apply a fair distribution of profits so that younger past contributors are not advantaged at the expense of older past contributors. When considering whether bonuses can be awarded the trustees take advice from the plan actuary.

Have AVC contributions been converted into pension at the same rate throughout the whole of the contribution period?

No. The amount of pension into which AVC payments have been converted depended on the age at the time the contribution was made - the younger the member, the more pension their AVC contribution would buy.

For example, at age 21 the contribution would have bought about four times as much pension as someone aged 60 who contributed the same amount. This is because the money invested at age 21 has many more years to earn income and grow before the pension is eventually paid out, compared with that invested at age 60.

Why have there not been any additional bonuses in recent years?

There have been two main reasons why it has not been possible for the trustees to award additional bonuses for some time.

Firstly, a good level of investment performance in the past few years has been offset by the very poor returns at the beginning of this decade. This has prevented the trustees from maintaining the level of bonus awarded in the past. This situation has not just affected this plan, but reflects a general trend of reduced returns on investments compared with the past.

Secondly, increased life expectancy among people generally (which is something to be welcomed, of course), has meant that pension schemes are having to pay pensions for longer than could have been anticipated when the plan was first established. Furthermore, this trend looks set to continue, so any increased investment returns in recent times, over and above those included in the conversion rate, have been absorbed by the increased cost of paying pensions for longer.

Even paying a pension for one year longer than was anticipated has a huge detrimental impact on the amount of potential bonus available.

There is now only a limited expectation that bonuses will be declared in the future. However, any bonuses granted in the past remain a permanent part of the pension entitlement.

How often does the plan actuary review the bonuses that can be paid?

The actuary reviews the financial health of the plan each year to see whether interim bonuses can be awarded, as well as carrying out a full valuation of the plan every three years.

What happens if I want to retire before age 62?

Early retirement is available from the age of 50 onwards. However, the pension that is paid would be reduced compared with that which would have been paid at age 62.

It is not possible to take pension from the plan without also taking pension from the Harmsworth Pension Scheme.

If you are thinking about taking early retirement, DMGT Pensions will be pleased to provide you with a quotation of the pension you may expect to receive when you retire.

Can I transfer the value of my pension entitlement in the with-profits fund into the Friends Provident funds offered in the Harmsworth Pension Scheme?

Yes. DMGT Pensions can provide you with a quotation of the value that would be transferred.

If you are considering whether to make such a transfer, we suggest that you seek independent financial advice to find out whether or not it is in your interests. You can find an adviser near you at www.unbiased.co.uk.

DMGT Pensions is not regulated to provide financial advice.

Can I pay AVCs to the with-profits fund to top up my pension?

No. The with-profits fund was closed with effect from 31st March 2006 following a decision by the trustees to accept no further AVC contributions after this date.

However, you can pay AVCs into a range of unit-linked funds provided in the Harmsworth Pension Scheme. Contact DMGT Pensions for further information on the options available.