Your DC Pension – FAQs – September 2019

1. What is DC?

Did you know that DC stands for Defined Contribution?

It's also often referred to as 'money purchase' and is a type of pension scheme.

The reason it's called this is because your core contribution to the Scheme is defined or fixed. Payroll deducts your contribution and pays it to Aegon who administer the Scheme for us. The benefits you receive at retirement depend on:

- how much you and your employer have paid;
- the length of time your contributions have been invested for; and
- how the investments have performed over this period.

2. What is Aegon?

Did you know that as your employer, Vaillant, is responsible for paying contributions into your pension for you, but Aegon administers the Scheme on our behalf?

If you have any questions about the Scheme you can call the Aegon member helpline on: **03456 100 072** (option 2).

3. Why is a workplace pension important?

No matter what your plans are when you retire, you'll need a regular income to replace your salary, not just for everyday essentials like food and bills, but also for those things like holidays and other treats you're probably looking forward to enjoying.

Whatever your goals, it's crucial to start saving for your retirement as early as possible. The earlier you start, the more time you have to build up your retirement fund.

Vaillant pays a percentage of your salary into your pension plan. You do too (this is called a contribution), and the Government gives you tax relief on your contributions. Together, this all adds up to make your total contributions.

What happens to your money?

When you join Vaillant, you are automatically enrolled into the Scheme, and your contributions will be automatically invested in the default fund by Aegon. This means you're invested from day one.

Your account is still yours when you leave Vaillant, though you can't actually take any money from it until you're ready to retire. The earliest age that you can access your account is currently 55.

If you leave Vaillant, you may be able to transfer benefits to a new scheme. We recommend you get independent financial advice if you need more information on transferring. You won't incur any charges from Aegon if you do decide to transfer.

4. Investment funds

Did you know that you have a choice of funds that you can invest in? If the answer is 'no', then you will be in the current default fund.

What is the default fund?

This is a fund that we make available for people who have either made no investment choice or want us to choose a fund for them. This is the fund that most of us are in.

There are actually three different choices when it comes to choosing your funds:

- **Choose for me** – default fund.
- **Help me choose** – visit our member website **www.vaillantpensions.com** for more information
- **Let me choose** – you can choose from a wide range of other investments. Head to Aegon's website at **www.aegon.co.uk/support/fund-prices-and-performance.html** and select Aegon Retirement Choices (ARC).

5. Why are you changing my pension?

Did you know that the pension itself isn't changing?

Your pension will still be with Aegon. However, we are changing the default fund and the range of 'Scheme favourite' funds that are available to you.

When we set up the DC pension in 2015, we took investment advice and chose a default fund that targeted cash. This was because we expected most members to take their pension pot as cash when they retired. The default fund that we chose was the Aegon Mercer Target Cash (ARC) fund.

Since then, there have been several changes:

- **More options** – since the Scheme was first set up, we have seen the introduction of pension freedoms so you now have more choice about what you can do with your pension pot at retirement.
- **Change of investment adviser** – we recently changed our investment adviser from Mercer to Buck. This means that we can no longer use Mercer funds with our Aegon pension Scheme. That's why the default fund must change.

After a recent review with Buck (our new investment adviser), we have chosen a new default fund which we feel best meets the needs of most of our employees. We have assumed that most employees will want to take advantage of pension freedoms and access their pension flexibly rather than target cash at retirement. The new default is therefore the **Aegon Growth Tracker (Flexible Target)** fund. This default fund also has lower charges than the old default fund, which is good news for us all.

6. What if I don't want to be in the new default fund?

Did you know that you don't have to be in the default fund?

If you would prefer to be in a fund that targets cash (like the old default fund) or would like to choose your own funds entirely that's not a problem. If you've contacted us to let us know that you wanted to 'opt out' of the new default fund, or picked your own funds online already, Aegon will not include you in the bulk switch to the new default fund.

- **What happens if I miss the deadline of 20th September?** If we haven't heard from you, your funds will automatically be switched into the new default fund. But don't panic, you can change the fund(s) that you are invested in at any time and as often as you want.
- There will be a **'blackout period'** which is when Aegon puts a temporary halt to any transactions whilst 'default members' are switched to the new default fund. This will happen from 23rd – 27th September 2019. After this, you can go online and make changes to your account whenever you want.

Top tip:
Whichever option you go for remember to regularly review how your investments are performing – it's easy to do on **retiready.co.uk**

7. What target funds does Aegon have?

Did you know that Aegon has over 4,500 funds that you can choose from?

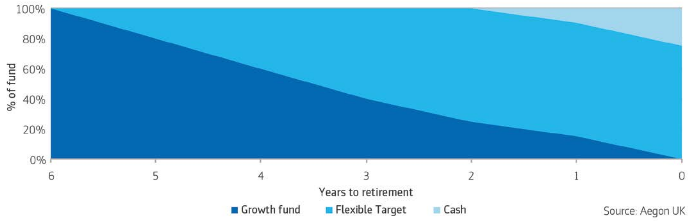
Amongst them are several target funds, such as our new default fund, the Aegon Growth Tracker (Flexible Target).

Opposite are just a few examples of how different strategies differ on the lead up to retirement. The intention of these different strategies is that by the time you reach retirement, your savings will be invested to match what you intend on doing with them when you retire.

Our default fund assumes that we'll all choose to take the maximum 25% as tax-free cash, but access the remaining 75% of the fund flexibly. This is what we call the 'Flexible Target' stage (see opposite). The Money Advice Service website provides you with an idea of the options you may have if you want to access your fund flexibly when you retire. Visit **www.moneyadviceservice.org.uk/en/articles/flexi-access-drawdown** to find out more.

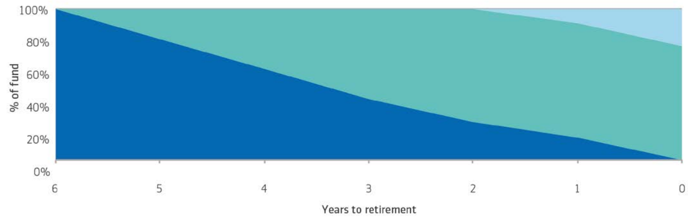
Flexible Target

In the six years before your target retirement year (the Flexible Target stage), we'll progressively move your account into less risky investments. We'll also move part of your investments into a cash fund in the final two years to cater for your maximum tax-free cash entitlement, which is currently 25% of your pension pot.



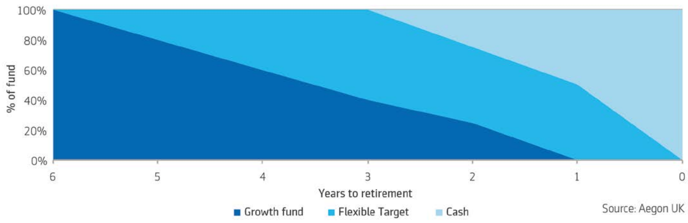
Annuity Target

In the six years before your target retirement year (the Annuity Target stage), we'll progressively move your investments into long gilts and cash with the aim of giving you more certainty about the size of annuity (pension) you'll be able to buy when you retire, and to cater for your maximum tax-free cash entitlement, which is currently 25% of your pension pot.



Cash Target

In the six years before your target retirement year (the Cash Target stage), we'll progressively move you into less risky investments and then into cash. On your selected retirement date, your account will be 100% invested in cash.



Depending on how adventurous you are with investments, there are also different levels of risk that you can take. You can find out more about the default fund and our shortlist of 'Scheme favourite' funds on our member website.

You can also see the full list of Aegon funds available by visiting the Aegon website at **www.aegon.co.uk/support/fund-prices-and-performance.html** and clicking on Aegon Retirement Choices 'ARC'.

Each fund is given a risk rating by Aegon which you'll find on the fund factsheet along with an indication of its performance. Unfortunately, nobody can predict how any fund will perform in the future, but the factsheets give background information on how each fund has performed in the past.

We've got factsheets for the current default and 'Scheme favourite' funds on our member website at **vaillantpensions.com/dc/newsletters**

You can also find out more about risk ratings on Aegon's website.

Aegon also has a 'risk profiler' tool available on at **retiready.co.uk** which can help you to decide whether you are a cautious or more adventurous investor.

8. Why is my account value dropping?

Did you know that your pension is considered a 'long term' investment?

Over time, the value of your account will change and its value at a point in time will depend on:

- how much has been paid into it;
- the length of time that each contribution has been invested;
- investment growth over this period; and
- the charges deducted.

While all investment funds are designed to produce investment returns over the medium to long term, the assets that a fund invests in will influence whether the fund's risk profile is low risk, medium risk or high risk.

Funds that invest in high-risk assets have the potential to produce higher investment returns over the longer term. However, they may lose value due to the volatility of the investment market. This means that they may be severely affected by market downturns and other factors.

Your account value could move up and down daily but it's the growth over the longer term that matters.

9. How can I tell how risky my investment fund is?

Did you know that the new default fund has been given an 'average risk' rating by Aegon?

So, what does that mean?

'Average risk' funds invest in a broad range of investment types and will typically hold a significant proportion in equities. Their daily price movements will therefore vary from day to day, both up and down, although not usually as much as funds that invest entirely in equities. These movements can lead to lengthy periods of negative returns. However, over the longer term, these funds would be expected to deliver significantly better growth prospects than a cash deposit.

10. Am I stuck with my investment funds if I haven't made a decision by 20th September?

Did you know that you can change your investment funds at any time?

The deadline of 20th September 2019 only applies to letting us know if you don't want to be included in the bulk switch to the new default fund. If you are happy with this, then you don't need to take any immediate action, we'll automatically switch your funds to the new default for you.

If you feel that you are better off staying in a cash-targeting default fund, or if you want to choose your own funds, then you can do this online at any time after 27th September.

With this type of arrangement, you are actively encouraged to review your investment choices on a regular basis. If you feel you want to change your investment funds at any time, you can do this online and Aegon will be able to guide you through the process.

11. What is my retirement age?

Did you know that although the State Pension Age (SPA) may be increasing, the assumed Normal Retirement Age (NRA) for the Scheme is still age 65?

Just because your SPA may be higher than 65, doesn't mean you are restricted to taking your DC account at this age too. You can access your DC pension account anytime you choose between the ages of 55 and 75. The choice is entirely yours. So, if you haven't already done so, you need to ask yourself:

- What age do I realistically think I'll stop work?
- If this age isn't 65, do I need to update my Aegon Retiready account?

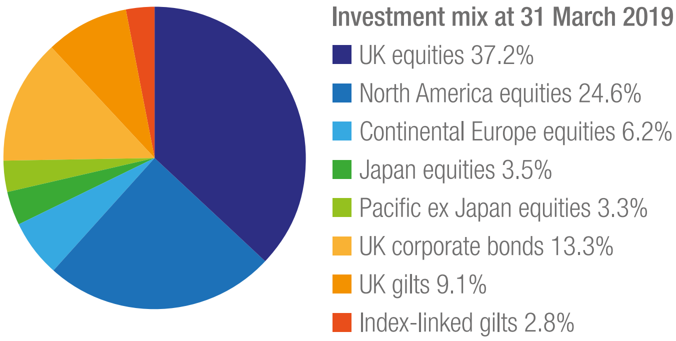
12. Why do I need to check my retirement age on Retiready?

Did you know that the default fund is what's referred to as a lifestyle fund?

Aegon has several Workplace Target funds that can be used as scheme default funds. We have chosen the **Aegon Growth Fund Tracker (Flexible Target fund)** as our new default fund. In the growth phase (before approaching retirement) all the target funds invest in exactly the same way, it's only as you get closer to retirement that the mix of funds changes depending on which target fund you have chosen.

The Aegon Growth Tracker fund is a 'balanced' fund with around 75% of the funds invested in global and UK equity markets, and the remaining 25% in lower-risk funds and bonds to balance the overall risk.

How the fund invests in the growth stage



The idea of a lifestyle fund is to invest in higher-risk funds in the early years to try and maximize your account's growth, and as you get nearer to retirement, to gradually start to move your funds into less risky investments to protect your fund ready for retirement.

A lifestyle fund goes from the 'growth' to 'protect' phase **six years before your chosen retirement age**. If you haven't changed your retirement age on Retiready, Aegon will assume the default age of 65.

It is important that you update your planned retirement age in Retiready so that your account is in the right phase of growth or protection to fit in with your own retirement plans.

You can see examples on page 2 of how some of the target funds differ in the six years before retirement.

13. How do I change my retirement age on Retiready?

Did you know that you need to register for Retiready?

If you haven't done this yet go to **retiready.co.uk/retiready.html**

If you are having problems registering or logging on, contact Aegon on **03456 100 072** and select option 2

Once you are registered, click on 'Your Profile' and you can select 'Goal Planner' to update your target retirement age.

By saving this as your new goal plan, your retirement age will be updated. This is the age that Aegon will use when deciding when to switch your funds on the lead up to your retirement.

Alternatively, you can call Aegon on the number above and ask them to change the retirement age on your Retiready account.

14. What can I do with my fund at retirement?

Did you know that with the introduction of pension freedoms (since April 2015) you now have more choices when you get to retirement?

Pensionwise has a good website for people over 50 which provides guidance in preparing for retirement. The link below details the choices you have at retirement when choosing what to do with your DC pension account: **www.pensionwise.gov.uk/en/pension-pot-options**

There are lots of resources online to help you prepare for retirement. We've provided a couple of links from the Money Advice Service website below that you might find useful:

- Information on taking benefits from a DC pension account: **www.moneyadviceservice.org.uk/en/articles/options-for-using-your-pension-pot**
- A video on preparing for retirement: **www.moneyadviceservice.org.uk/en/retirement-income-options/retirement-options**
- You also have several different tools available to you through your Aegon Retiready account. So, what are you waiting for? Register now! Find links to valuable tools at the back of this leaflet.

15. Do I need to know now what I want to do with my account when I retire?

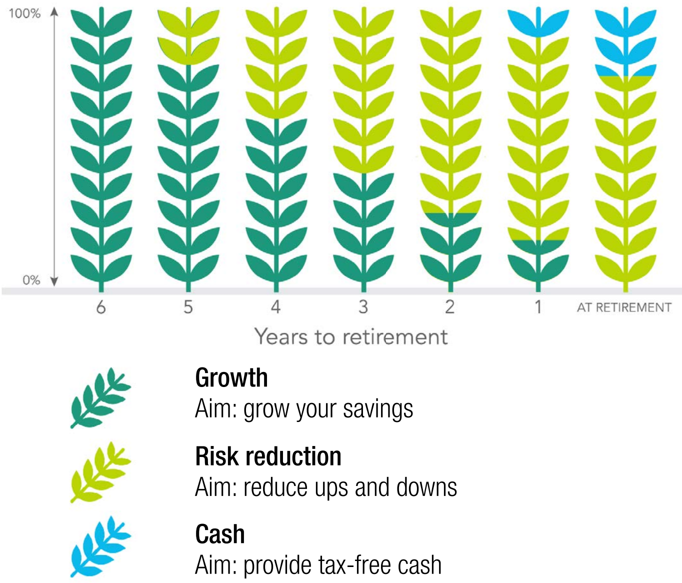
Did you know that you have total freedom over what you do with your pension pot when you retire?

However, it is a good idea to start planning for your retirement as soon as possible.

Take your time to understand your options and get help and advice – what you decide now will impact your retirement income for the rest of your life.

Reducing risk as you approach retirement

If you have a defined contribution workplace pension, it's a good idea to review your investment choices regularly, especially as you get closer to retirement. The graph below shows how risk levels change on the approach to retirement.



Reviewing your investment choices is something you should do whether your savings are invested in a default fund or you've chosen your own fund(s). This is important because you might be taking on too much risk.

Many pension funds invest in a range of assets such as stock market shares, bonds and cash. The value of shares can go up and down.

The more heavily your pension fund invests in shares, the more likely it is that the value of your pension account will go up and down in value too.

If you can leave your money invested in shares for a long time, say for ten years or more, then you should have long enough to cope with the ups and downs in the stock market.

However, if you need your pension money in a couple of years' time, there's a danger that the shares could lose value just as you plan to retire.

So, although you don't need to decide now what you are going to do with your account when you retire – it will help you make the best investment decision for you to prepare for your retirement.

If you are approaching retirement and are considering your options, you can talk to **Aegon Assist** who can give you guidance on the options available to you.

16. What does it mean if my fund is crystallised?

Did you know that the terms 'crystallised' and 'uncrystallised' simply refer to whether you have or haven't taken benefits from your pension?

So, for those who haven't accessed their account and are still contributing to the Scheme, funds will currently be classed as **'uncrystallised'**. This is because you haven't decided to take any pension benefits yet.

It's only when you want to take money out of your pension that you look at **'crystallising'** your pension. You can currently do this from age 55.

Taking money from your pension

Money in your pension is locked away until you're 55 (57 from 2028). But any time after that, you can start to withdraw money, even if you're still working.

The first thing that you can do with a crystallised pension is withdraw up to 25% of it as a tax-free lump sum. This can also be known as a Pension Commencement Lump Sum (PCLS), and is one of the main benefits of crystallising a pension. You can move the remaining 75% of your pension into a drawdown or buy an annuity.

You can either choose to crystallise your whole pension account or part of it:

- If you move your entire pension pot into drawdown, you'll receive all your tax-free cash in one lump sum payment.
- If you choose to move your pension into drawdown in stages, then you'll receive your tax-free cash in stages too (up to 25% of the portion you move each time).

You're in control of how much income you take and when. You might decide you don't need an income straight away, or even at all. You might just want to take your tax-free cash. You will not be subject to the Money Purchase Annual Allowance (MPAA) until you start drawing an income from the remaining 75% of your account.

If you do want an income, you can choose to take regular withdrawals or just dip into the pot as and when you need to – it's up to you.

Once you start drawing an income from your pension (either as a drawdown income, or annuity) you will be subject to income tax at the point of withdrawal. This is currently 20% for basic rate taxpayers, 40% for higher rate, and 45% for additional rate taxpayers. Like all other pension income, it will be taxable and added to any other income you receive that same tax year. Be particularly aware of this if you're planning on taking large withdrawals – **don't become a higher-rate taxpayer by mistake**.

17. Can I take money from my pension account and carry on contributing?

Did you know that you can take benefits from your DC pension account, and continue paying contributions to your pension whilst you are working?

But you do have to be careful, as what you do with your pension account can have an impact on how much you can contribute to your pension and still get tax relief.

Ordinarily you can contribute up to £40,000 a year to a money purchase arrangement (this includes both yours and your employer's pension contributions. However, if you access your pension pot it can trigger a lower limit of £4,000 in some circumstances.

The reduced contribution limit applies if you take more than 25% of your fund as cash, or as soon as you start to receive an income from your fund. Below are a couple of examples of how this would work:

- **I want to crystallise my account and just take 25% tax-free cash for now and leave the rest of the account to use at a later date** – you would be able to take 25% tax-free cash and the remaining 75% of your account would have to be used to purchase an income (either via drawdown or through an annuity).

  If you choose to wait till a later date to draw the income, you will still be able to pay £40,000 a year into your pension and get tax relief on any contributions you pay. If you are still paying contributions when you eventually start drawing an income from your fund, you will only be able to get tax relief on contributions up to £4,000 a year.
- **I want to crystallise my account and take 25% tax-free cash and start receiving an income** – again the cash will be tax-free, but as you are classed as receiving an income either via drawdown or through an annuity – you will have to pay tax on any income you receive. You would also be limited to £4,000 contribution limit for tax relief purposes.

Key facts

- The Money Purchase Annual Allowance (MPAA) is currently £4,000.
- Prior to 6 April 2017 it was £10,000.
- What are the main triggers for the MPAA?
  - taking an uncrystalised funds pension lump sum (UFPLS) (see page 6)
  - taking Flexi-access drawdown (FAD) income
  - taking more than maximum Government Actuary Department (GAD) income from a capped drawdown plan
- The MPAA does not apply to defined benefit accrual.

18. Why wouldn't I cash my whole pension account in at retirement?

Did you know that under current HMRC rules you can only take 25% of your pension pot as tax-free cash?

The remaining 75% of your fund would be taxed as income. So, if you receive a salary and have a large pension pot that you are going to cash in at retirement, you can soon find yourself getting into the higher-rate tax bracket of 40% when you take your whole pension pot as cash. This may not be a worry if you only have a small pension account.

Please note, if you were to take your entire fund as cash, this is classed as an Uncrystallised Funds Pension Lump Sum (UFPLS). This means that 25% of the lump sum would be paid as tax-free cash, and the remainder would be taxed as income.

If you were also wanting to continue contributing to your pension after taking an UFPLS, then you would only be able to get tax relief on pension contributions up to a maximum of £4,000 a year (see page 5 for more details).

You can speak to Aegon Assist on the number opposite to find out more about other options that you have at retirement, that may help you access your pension account in a more tax-efficient way. Aegon Assist can't give you financial advice, but they can give you guidance.

AEGON ASSIST

Taking all your fund as cash (see above) will also trigger the MPAA of £4,000.

If you are thinking about taking your pension benefits and carrying on contributions but aren't sure how this affects you, contact Aegon Assist who will be able to help you.

19. I don't understand pensions – how do I get financial advice?

Did you know that neither Aegon or Vaillant are qualified to give financial advice?

We give you guidance and point you in the right direction to find information, but we can't tell you what to do.

If you need that sort of help, then you need to speak to an Independent Financial Adviser (IFA) who will look at the bigger picture and help you to work out what's best for you.

If you don't have an adviser already, you can find one at **unbiased.co.uk** or find more information on the Money Advice Service website at **moneyadviceservice.org.uk**

You have several valuable resources at your fingertips, so you aren't alone.

- Vaillant Member Website – **vaillantpensions.com**

  Vaillant has its own member website which includes

  - Information on paying more;

  - Links to Retiready;

  - Quarterly newsletters;

  - Fund factsheets and more.

- Aegon Retiready – **retiready.co.uk**

  You have your own online account with Aegon.

  If you don't have one already, visit Retiready to receive your registration code and set up your account today.

  Aegon also has a useful retirement planner tool that can help you plan for your retirement.

- Aegon Assist

  Although Aegon Assist can't give you financial advice, they are able to give you guidance on the options you have as you approach retirement.

  You can contact them on 0345 603 0509 Monday to Friday between 8.30am and 5.30pm.

- Pension Tracing Service – **pensiontracingservice.com**

  If you have pensions elsewhere and have lost track of them, you can try to find them through the Pension Tracing Service.

- State Pension – **www.gov.uk/check-state-pension**

  If you want to get a forecast of your State Pension, and find out when it's payable, you can request one on the Government website.

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