Royal Mail Pension Plan

Guide to Additional Voluntary Contributions

You'll find this guide useful if you:

- Are considering joining the AVC plan;
- Want to understand more about the investment funds available under the AVC plan; **or**
- Are an existing member of the AVC plan and want to review your fund choices.

This guide is intended to be a summary of the provisions of the Plan as they relate to Additional Voluntary Contributions. The Plan is governed by formal legal documents known as the Trust Deed and Rules and is managed by Royal Mail Pensions Trustees Limited ("the Trustee"). If there is a conflict between the Trust Deed and Rules and this guide, the Trust Deed and Rules will prevail. This guide reflects tax laws as at 6 April 2010.

looking after **your** pension

Contents

Terms explained

Throughout this guide the following terms have been used, which are defined as follows:

- **AVC** – Additional Voluntary Contribution
- **we/us/our** – the Trustee of the Royal Mail Pension Plan AVC plan
- **you/your** – the member
- **the Company** – Royal Mail Group (including Royal Mail, Parcelforce Worldwide, Post Office Limited) and any other companies admitted to the Royal Mail Pension Plan
- **the AVC plan** – Royal Mail Pension Plan AVC plan arranged by the Trustee and provided by Zurich Assurance Ltd
- **AVC account** – money you have built up under the AVC plan
- **payments/your payments/future payments** – payments made to your AVC account by you and, if applicable (under Bonusplan), by the Company
- **selected retirement age** – the age which you have chosen for the annual projections of AVC benefits and, if applicable, Lifestyle switching (minimum age 55, maximum age 75)
- **Zurich** – Zurich Assurance Ltd which is the provider of the AVC plan
- **Pensions Service Centre** – the administrators of the Royal Mail Pension Plan, appointed by the Trustee

Other terms, such as contributory pay, reckonable service, Lower Earnings Deduction (for Section C members), and CSDB pensionable pay (for Section C members)/CSDB pensionable salary (for Section A/B members) are explained in the booklet "Royal Mail Pension Plan – A Guide to Benefits" which is available from the Pensions Service Centre or from the website **www.royalmailpensionplan.co.uk**.

Introduction to AVCs

The AVC plan is a tax efficient way to add extra contributions to increase your existing pension benefits. Saving through the AVC plan is in addition to ordinary contributions to the Royal Mail Pension Plan.

This guide is intended to be a helpful summary of the AVC plan and has been designed to help you make the most of these extra contributions by investing them wisely.

If you join the AVC plan, you need to:

- Make regular payments or at least one single payment into your AVC account;
- Keep your AVC account invested until you take your main benefits; and
- Make decisions about where to invest your AVC account. Your choice of investment funds will affect the value of your AVC account and the level of benefits it can provide at your selected retirement age. The levels of risk and potential investment performance differ depending on the funds you choose and the final value of your AVC account could be higher or lower than expected at the time you take your benefits. This guide will help you to understand these issues.

You should consider taking financial advice if:

- Your circumstances change or, for example, you are nearing your selected retirement age;
- You are considering making a transfer payment out of the AVC plan; or
- You are unsure whether to make AVC payments or how to choose from the investment options available.

See page 33 for information about financial advice.

Payments made to the AVC plan buy units in your chosen investment fund or funds. The aim is that the units in your chosen fund or funds will increase in value. However, as no one can accurately predict how investments will perform, the final benefits you will receive from the AVC plan cannot be known in advance. The value of the fund units can fall as well as rise with the ups and downs of the financial markets. So the value of your AVC account can go down as well as up, and the final value of your AVC account cannot be guaranteed.

You may wish to monitor the value of your AVC account by using the online facility that Zurich will make available to you.

When you take your main Plan benefits, you can use the value of your AVC account to provide a tax-free cash sum (within limits) and/or a pension to be paid to you.

Please note: If you're unsure whether paying AVCs is right for you, please speak to a financial adviser. The Trustee, Zurich or Royal Mail Group and its employees are not authorised to give you financial advice about whether paying AVCs is the right choice of savings for you, or about the selection of investment options.

You may be charged for the work that a financial adviser carries out for you. IFA Promotion Ltd is an independent body which provides contact details for independent financial advisers (IFAs). You can find a local IFA by visiting their website at **www.unbiased.co.uk**.

Who should consider making AVCs?

You might want to consider making AVCs if:

- You started a pension late in your career;
- You wish to retire (or take your pension benefits) early;
- Some of your normal earnings are not pensionable, such as overtime; and/or
- You wish to use pension saving alongside other forms of investment to supplement your retirement income.

The advantages of paying AVCs are that:

- Contributions are deducted directly from your pay;
- You get immediate tax relief on your contributions, generally at your highest rate;
- Your AVC fund benefits from certain tax reliefs;
- The AVC plan's investment management charges are competitive; and
- When you take your pension benefits you can use your AVC account to take a tax-free cash lump sum (up to a total cash lump sum of 25% of the total value of your main Royal Mail Pension Plan benefits and AVC plan benefits combined).

A disadvantage of paying AVCs is that:

- Pensions saving is a long-term commitment and generally you cannot take any pension benefits until age 55 at the earliest.

The AVC plan offers a choice of investment funds for you to invest in; however, there are other non pension savings options to consider for your retirement savings which grow tax-free and are not taxed when you withdraw your money and you can also generally get hold of your money at short notice. Some other savings options include normal building society savings accounts, National Savings products, shares and unit trusts, to mention just a few. If you wish to find out more about these savings options, please speak to a financial adviser.

You may want to split your savings between short-term saving and long-term saving and organise the amount you save accordingly between the various types of savings options available.

Step by step...

Your pension savings are likely to be one of the biggest investments you will make over your lifetime. They will provide an income when you stop working so getting them right is vital for your future. The following section will help you to understand the steps you need to take to help you decide how to make your AVC investment choices.

We appreciate that investing can seem quite daunting, but the choices you make can have a big impact on the AVC benefits you will ultimately receive. There are many important things for you to think about before you decide whether to make AVC payments and, if so, how you want to invest your AVC account. To help you through this process we have broken this guide into seven easy steps:

Regardless of the decisions you make now, you should review your level of overall pension saving, fund choices and estimated pension at least once a year. The Pensions Service Centre will send you an annual benefit statement in respect of your main Royal Mail Pension Plan benefits and Zurich will send you an annual benefit statement in respect of your AVC account to enable you to carry out this review. This will give you the opportunity to review your projected benefits and to make changes to provide you with the income you want when you retire.

Step 1: Understand how the AVC plan works

In addition to your pension from the Royal Mail Pension Plan, you can use your AVC account to provide a larger cash lump sum and/or pension income when you choose to take your pension benefits (this includes taking pension benefits under the flexible retirement options).

Saving through the AVC plan will not affect payments towards your main Royal Mail Pension Plan benefits and, just like the Royal Mail Pension Plan, AVCs benefit from tax relief so are generally a tax efficient way of saving. There are limits set by HMRC regarding the maximum amounts you can save tax efficiently within a pension scheme. These limits only affect those who accrue (or have accrued) substantial pension benefits. For further details, please refer to your Guide to benefits.

At the point at which pension benefits are taken, most people use all of the money from their AVC account to provide a larger cash lump sum (subject to certain HMRC limits). Alternatively, you could use some or all of your AVC account to buy an annuity (a pension), which will provide an income for the rest of your life. The amount of income you will receive from an annuity will depend on your age, health, sex, the type of pension income you choose and the annuity rates available (the rate at which your AVC account is converted to a pension) at the time you take your benefits.

The value of your AVC account will be determined by:

- When you start saving;
- The length of time you pay contributions;
- How much you and the Company, if applicable (under Bonusplan) pay in;
- The investment growth on your AVC account; and
- The charges deducted from your AVC account.

The AVC plan has two sections:

- Flexiplan; and
- Bonusplan (available to Section C members of the Royal Mail Pension Plan).

With Flexiplan and Bonusplan:

- There is a range of fund choices; and
- You can move your AVC account between the different fund choices at any time.

The third option, Addplan, closed to new requests in 2008. More information for existing Addplan members can be found on page 34 of this guide.

Key features of Flexiplan:

- A minimum regular payment amount of £1 per week or £5 per month;
- The maximum payment, when aggregated with your other contributions to the Royal Mail Pension Plan, is 100% of your salary or pensionable pay;
- Payments can be increased, reduced or stopped (with due notice) at any time – note that you cannot do this for Bonusplan AVCs; and
- You can also make lump sum payments.

Key features of Bonusplan:

- An advantage of Bonusplan is that the Company will pay additional contributions into your AVC account if your basic annual earnings are below £30,563;
- Bonusplan is only available to Section C members of the Royal Mail Pension Plan (generally only those who joined Royal Mail Group service after 1 April 1987);
- You can make payments based on the Lower Earnings Deduction (LED), which is not included in either your contributory pay or your CSDB pensionable pay. The LED is currently frozen by Royal Mail Group at the 1998/99 level of £3,328 a year;
- Your payments are fixed at 4.5% of the LED (£149.76 a year), or a proportion of this if you work part-time. If you wish to pay more than the fixed amount required, you can contribute to Flexiplan as well as Bonusplan; and
- Bonusplan contributions must stop when your NRA65 pension comes into payment. If you put your Bonusplan benefits into payment when your NRA60 pension comes into payment, you can continue to make AVC payments to Bonusplan whilst you remain in service.

The amount the Company will pay depends on your earnings; examples are shown below:

Basic annual earnings (including contributory allowances)	Your gross annual payment (i.e. 4.5% of the LED)	The Company's annual payment
Up to £15,282	£149.76	£149.76
£19,000	£149.76	£113.36
£22,000	£149.76	£83.98
£25,000	£149.76	£54.60
£28,000	£149.76	£25.22
Over £30,563	£149.76	Nil

A key requirement of Bonusplan is that you cannot reduce or stop your payments before you take your pension benefits or you leave reckonable service, whichever event occurs first.

You can choose the type of AVC payment you make:

- It could be a one-off (single) payment;
- Regular payments; or
- You could make both regular and one-off payments.

Note: It is not possible to make a one-off (single) payment to Bonusplan.

When you start making AVC payments into the AVC plan, an AVC account is set up in your name.

The key decisions you will need to take are:

- How much you need and can afford to save into your AVC account; and
- Where you want your AVC payments invested.

These decisions are important as they will affect how much you will eventually receive from the AVC plan – this guide will help you think through these decisions.

Your AVC plan benefits will also depend on what happens in the future.

If you leave reckonable service, or stop paying AVCs, your AVC account will remain invested until you take your pension benefits. You also have the choice to transfer your AVC account to another pension scheme.

If you take your main pension benefits from the Royal Mail Pension Plan, you have a number of choices. The most common option is to take all of your AVC account value as a tax-free cash lump sum (subject to certain HMRC limits). Alternatively you may:

- Convert all or part of your AVC account value into an annuity (an income for the rest of your life – your pension); or
- Defer taking your AVC account – i.e. leave it invested (up to age 75).

Under the flexible retirement options you can normally start to take your pension benefits any time between age 55 and 75.

If you die before you take your pension benefits, the Trustee will use the value of your AVC account for the benefit of your dependants. These benefits could include a cash lump sum and a dependant's pension – in accordance with the rules of the Royal Mail Pension Plan.

Step 2: Think about your retirement goals

Before you decide whether payments are to be made to the AVC plan, you should first consider your personal circumstances and think about your retirement goals. This will involve answering questions about your financial position and future plans such as:

- What age do you plan to retire, or take your pension benefits?
- What do you plan to do during your retirement?
- How much money will you need to live off in retirement?
- Will you have any other savings or investments?
- Will you have any other sources of income?
- What are your family commitments?
- How much can you afford to pay into your AVC account now?
- What are the tax consequences?
- Do you have any personal beliefs which might affect the types of investments that you would wish to make?

Throughout your working life you should always try to be comfortable that you are saving enough, investing appropriately and that you are building up the level of additional benefits you want. The AVC plan can help you to achieve these goals.

A key question at this stage is when will you plan to retire, or take your pension benefits if earlier?

The answer you give will have a direct impact on your AVC fund investment choices (and will also determine the selected retirement age that you choose). For example, if you have many years to go until you take your pension benefits then you might decide to invest your AVC payments in higher risk funds which have traditionally produced greater growth over the long term. However, if you only have a few years left until you are planning to take your pension benefits, then protecting the value of your AVC account in lower risk funds is likely to be a higher priority. Further details on investment risk are set out in Step 3.

Once you have a firm understanding of your retirement goals (and have chosen your selected retirement age), you must then establish your attitude to risk (see Step 3). Also, you should consider whether you want to invest in shares, in cash, or a mix of investments (see Steps 4 and 5) and then decide what type of benefit you want (a tax-free cash lump sum, a pension from a pension provider, or both). This is dealt with in Step 6.

Step 3: Establish your attitude to risk

There is a clear link between the level of risk you are prepared to take and the potential long-term growth that the AVC funds in which you choose to invest your AVC payments will achieve. All investments carry an element of risk. As a general rule:

- **Low risk** – usually associated with lower potential growth prospects and lower volatility.
- **High risk** – usually associated with higher potential growth prospects and higher volatility.

When you select or review your AVC funds you need to make sure that you are clear about the different types of risk involved. Each AVC fund has a different level of risk and potential future investment performance, so you need to choose your funds carefully depending on your attitude to risk and your personal circumstances.

The main types of risk you need to consider when saving for your retirement are:

1. Inflation risk

This is the risk that your investments won't grow quickly enough to keep up with the increase in the cost of living (inflation). Over time, inflation may reduce the buying power of money. The table below illustrates the effect of inflation on some everyday items over a ten year period between 1999 and 2009:

Impact on	1999 price	2009 price	Annual % increase
Pint of milk	£0.34	£0.45	2.8%
Loaf of bread	£0.51	£1.26	9.5%
Sugar (1kg)	£0.61	£0.88	3.7%
Pint of beer	£1.93	£2.79	3.8%
Cigarettes	£3.37	£5.39	4.8%
Unleaded petrol (litre)	£0.64	£0.91	3.6%

Let's put it another way, if annual inflation is 2.5%, then a purchase costing £1,000 today would cost £1,639 in 20 years time.

If you do not seek a high enough level of growth then it is possible that the value of your investments could fall behind price and salary inflation. This risk is likely to be more of a concern if you have many years to go until you are planning to take your pension benefits and could reduce the eventual buying power of your AVC account.

2. Investment risk

This is the risk that your AVC account may drop in value. This is because the size of your AVC account when you take your pension benefits will depend partly on the performance of the funds into which you invest your AVC payments and how much risk you are prepared to take with your choice of funds. Generally, the more risk you take, the greater the potential reward.

Some investments (for example shares – also known as equities) are likely to be more volatile than others. This means their prices can change in value more quickly and by larger amounts than other investments. While this volatility may be suitable for some members, as you approach your selected retirement age you might wish to ensure that you reduce your exposure to volatile investment funds to avoid sharp falls in the value of your AVC account with little time for the value to recover. As a general rule, the longer the period over which you invest, the more risk you may be willing to take. It may be beneficial to be predominantly invested in the following funds:

- Equity funds for long-term growth (perhaps four years or more).
- Bond funds as you get closer to your selected retirement age (perhaps two to four years).
- Cash funds for short-term investment (perhaps less than two years).

3. Lost opportunity risk

This is the risk that you invest too cautiously (i.e. in funds with a low investment risk). Volatility is the rate at which the price of an investment moves up and down. Over the long-term, less volatile investments tend to produce lower growth. If you are investing in a low risk fund, then you may see smaller changes in the day to day value of your AVC account than you would in a more volatile fund, but the value of your AVC account is likely to be smaller at your selected retirement age in a less volatile fund. There will also be a greater risk of the value of your AVC account being eroded by inflation in a less volatile fund.

4. Annuity risk

When you take your pension benefits, you may use part or all of your AVC account to provide a pension to be paid to you for the rest of your life (also called an annuity). The cost of converting your AVC account to an annuity (the annuity rate) varies from time to time depending on, amongst other things, the prices of Government and corporate bonds. As you approach your selected retirement age you should be aware of annuity rates (unless you will be taking your entire AVC fund as a cash lump sum), because any changes in annuity rates could result in you receiving less income than you had previously anticipated.

5. Currency exchange risk

If you choose a fund that invests in overseas assets, changes in exchange rates between currencies may also cause the value of your AVC funds to fall or rise.

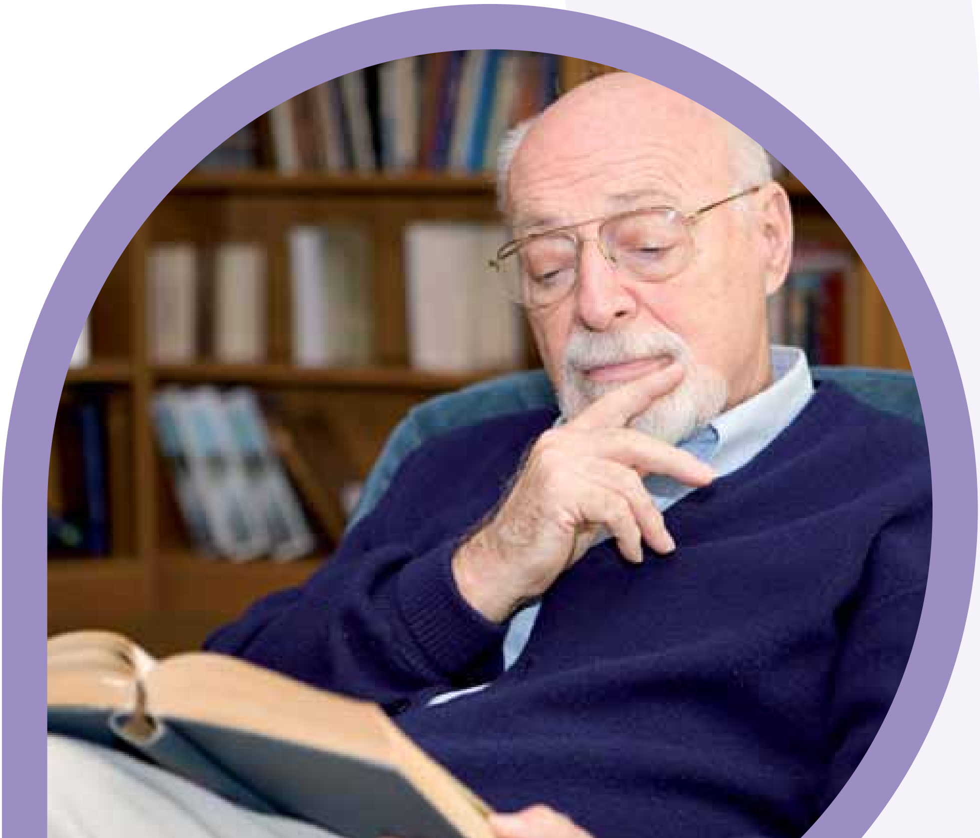
6. Short-term holding risk

Certain funds, typically invested in bonds, tend to be more suited for a shorter-term investment or as part of your fund mix designed to achieve an overall balance of risk and potential return.

7. Specialist fund risk

Funds which specialise or concentrate their investments in specific regions or sectors (such as smaller companies or emerging markets) or in a smaller number of equities can produce greater fluctuations in value. Funds which are managed in line with ideological or ethical principles tend to invest in a restricted range of equities and therefore can see greater fluctuations in value than a fund without these restrictions.

Put simply, this means having a good mix of different types of investment (such as equities, bonds and cash) in your AVC funds to help reduce the overall volatility (‘ups and downs’) of your AVC account. This is because at any time, if one investment type is performing poorly, another may be performing strongly.



Step 4: Understand the different investment asset types

Having thought about your retirement goals and the amount of risk you are prepared to take, the next step is to familiarise yourself with the different investment asset types. In general, funds tend to be made up of three main types of investment and these are described in more detail below:

Equities

Equities are shares in companies. In the past they have grown in value more than bonds, gilts or cash over longer periods. However, they can go up and down in value, sometimes significantly.

Equities are likely to carry the most 'investment risk' (see page 15). A member might want to choose a fund that invests mainly in equities if they are aiming for higher long-term returns and can accept the risks of loss of capital and fluctuating value.

You may be more willing to invest mainly in equities if, for example, your retirement is still some way off or you have other secure investments or your AVCs are only a small part of your retirement savings.

Bonds and gilts

Bonds are loans to a Government, company or other organisation. UK Government bonds are called 'gilts'. The level of investment risk falls somewhere between cash and equities.

Assuming the bond issuer does not default, the return on your investment over the lifetime of the bond is the interest you receive on the loan. This interest can either be 'fixed' (for example 5%) or 'index-linked' (which means it varies in line with inflation). Bonds and gilts are traded on the stock market so their value can go down or up, although probably by less than the value of equities.

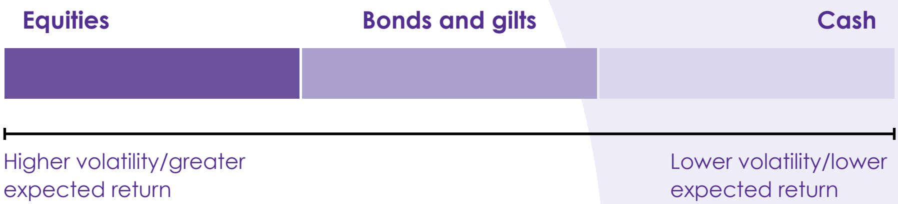
Bonds generally have a maturity date (when the loan is repaid) and bond funds usually hold a mix of bonds with different maturity dates. Bond prices usually fall when interest rates rise (and vice versa).

Investing in bonds closer to retirement might help protect the buying power of your AVCs. This is because the cost of buying a pension depends partly on the price of bonds and gilts. In the past, bonds and gilts have given lower returns over the longer period than equities, but they are generally less volatile – i.e. they are not so prone to large short-term fluctuations in value.

Cash

Cash funds invest in short-term interest bearing investments, short-term bonds and other money market instruments. The value of an investment in cash can occasionally fall in the short term, although cash investments typically have the lowest capital risk of the main asset classes.

Returns on cash funds over the longer term may not keep pace with inflation, so the buying power of your investment may reduce. They can provide good security for your pension savings if you are about to retire, but may not provide good long-term returns.



You're probably already familiar with warnings that the value of investments can go down as well as up. The tendency of a particular fund to rise and fall in value is reflected in its 'volatility'. A more volatile fund (one with higher investment risk) will tend to see frequent and sometimes sharp rises and falls while a less volatile fund (one with lower investment risk) is likely to rise and fall in value more slowly.

Step 5:
Review your options

Now that you are familiar with the different types of investment asset and you understand the concept of investment risk, you need to choose one or more AVC funds to invest your AVC payments in.

When deciding on where to invest your AVC payments, you have two basic choices – do you opt for the Lifestyle option or make your own fund choices? You cannot mix Lifestyle and your own choices.

Bonusplan members can only invest in the Lifestyle option or a single AVC fund.

The Lifestyle option – Lifestyle is an investment strategy for members who do not wish to actively manage their AVC investments. How your AVC account is invested will change over time and is based on how close you are to your selected retirement age. Future AVC payments and existing funds held in your AVC account are invested and moved into less volatile funds as you get closer to your selected retirement age. Lifestyle aims to move the value of your AVC account, as your selected retirement age approaches, from the AVC funds containing higher-risk assets – with potentially higher growth prospects – like equities, to those funds with a lower risk, containing assets such as Government bonds or short-term deposits. The Lifestyle option may, however, not be suitable for your circumstances and you should think carefully about whether it meets your needs.

Your own fund choices – If you want to manage your AVC account more actively, you can choose from one or more of the AVC funds we have arranged, to create your own investment mix under the AVC plan. You will need to monitor the performance of your chosen AVC funds and regularly review the investment mix – especially as you get closer to your selected retirement age. You will, therefore, have to make any decisions to move all or part of your AVC account from one fund to another, by yourself.

Both of the above investment approaches are explained over the following pages and you can find more information on the funds available through the AVC plan in the fund fact sheets, available on the website www.royalmailpensionplan.co.uk.

Fund management

Funds can be managed on either an 'active' or 'passive' basis.

- **Active management** is when a fund manager tries to beat the market investment growth by choosing individual investments that they think will out-perform the market. Funds managed on this basis tend to have higher investment management fees than passive funds but the manager is aiming to achieve a higher growth through their skill, knowledge and experience.

- **Passive management** is when a fund manager tries to produce investment growth that follows (tracks) the performance of a specific investment index, such as the FTSE All-Share Index. They normally do this by buying investments in the same proportions as the market index they are trying to track.

The funds available under the AVC plan

The Trustee, after consultation with its advisers, has provided funds which are available exclusively to members of the Royal Mail Pension Plan AVC plan.

These AVC funds have been selected to provide access to a range of investment assets and to meet the needs of members with different attitudes to risk and reward. Flexiplan members can invest in the Lifestyle option, a single AVC fund or in a number of funds to provide a mix of investment assets. Bonusplan members can invest in a single AVC fund or the Lifestyle option.

The AVC funds currently selected could change in the future if the Trustee and their advisers feel that alternative funds or investment managers should be made available.

The choice of AVC funds currently available is:

- **RMPP AVC Growth Fund**
- **RMPP AVC Balanced Fund**
- **RMPP AVC Cautious Fund**
- **RMPP AVC Cash Fund**
- **RMPP AVC Ethically-focussed Fund**
- **RMPP AVC Shariah Law Fund**

Further information about each of these AVC funds is contained on the following pages and there are also separate fund factsheets available online at **www.royalmailpensionplan.co.uk**.

Total annual fund charges

There are charges associated with each of the AVC funds on offer.

The total annual fund charges shown over the following pages are made up of a number of different types of charge which go to meet Zurich's administration and the investment managers' costs:

Fund based-charge – this is calculated and taken once a month by Zurich by selling units in your chosen AVC funds. The fund-based charge could change in the future.

Annual management charges – these charges are taken by the underlying fund managers (currently Legal & General Investment Management and HSBC Sinopia). They are deducted from the AVC funds every day before the unit prices of the funds are calculated. These charges could change in the future.

Fund expenses – these are deducted from the AVC fund assets before the unit prices of the funds are calculated. They are additional expenses in the day-to-day management of the AVC funds' activities. Fund expenses are not fixed charges and are estimates based on what the fund expenses have been in the past. The actual fund expenses charges therefore fluctuate in amount.

The total annual fund charges for each of the AVC funds are shown in the tables overleaf. For example, a charge of 0.350% a year means that the charge is equivalent to 35p a year for each £100 you have invested in that fund.

Core funds

RMPP AVC Growth Fund

Objective	To give a higher growth over the longer term (compared to the other core AVC funds available), but is likely to be subject to a higher level of volatility in value in the shorter term.
Asset types the fund invests in	Equities split equally between UK and overseas companies (80%) and Government bonds (20%).
Fund approach	The fund aims to give long-term growth through investment in equities in the main, with the holding in bonds helping to reduce the impact of shorter-term volatility in stock markets. This AVC fund may be appropriate for members some years from their selected retirement age who are looking for a higher rate of growth on their AVC account and who can accept the value of their AVC account varying on a day to day basis.
Other points to consider	Investment risk, annuity risk and currency exchange risk.
Fund management category	Passively managed.
Charges	0.350% a year.

RMPP AVC Balanced Fund

Objective	To give a moderate to higher growth over the longer term (compared to the other core AVC funds available), but is likely to be subject to a moderate to higher level of volatility in value in the shorter term.
Asset types the fund invests in	Equities split equally between UK and overseas companies (50%) and Government bonds (50%).
Fund approach	The fund aims to give long-term growth through a balanced mix of equities and bonds, with the holding in bonds helping to reduce the impact of shorter-term volatility in the fund's value. This AVC fund may be appropriate for members some years from their selected retirement age who are looking for a moderate to higher rate of growth on their AVC account, but who do not want to see the value of their AVC account fluctuating too much on a day to day basis.
Other points to consider	Investment risk, lost opportunity risk, annuity risk and currency exchange risk.
Fund management category	Passively managed.
Charges	0.350% a year.

RMPP AVC Cautious Fund

Objective	To give a moderate to lower, more stable growth over the longer term (compared to the other core AVC funds available). It is likely to be subject to a lower level of volatility in value in the shorter term.
Asset types the fund invests in	Equities split equally between UK and overseas companies (20%) and Government bonds (80%).
Fund approach	The fund aims to give a lower, but less volatile growth through investments in bonds in the main, with the holding in equities aiming to improve growth in the longer term. This AVC fund may be appropriate for members approaching their selected retirement age who do not want to see much variation on a day to day basis in the value of their AVC account, and who in return accept a moderate to lower growth in their pension savings. This type of fund may also help provide some protection against changes in annuity rates (the cost of buying a pension) in the approach to their selected retirement age for members planning to take their AVC benefits as a pension.
Other points to consider	Inflation risk, lost opportunity risk and currency exchange risk.
Fund management category	Passively managed.
Charges	0.350% a year.

RMPP AVC Cash Fund

Objective	To give a higher degree of stability in value, which is likely to result in lower growth over the longer term (compared to the other core AVC funds available). The value of the Cash fund can go down in certain financial conditions if the values of short-term deposits reduce.
Asset types the fund invests in	A range of short-term deposits.
Fund approach	The fund invests in short-term deposits with quality financial institutions which are expected to give growth in line with short-term interest rates. This AVC fund may be appropriate for members close to their selected retirement age who are more concerned with shorter-term stability in the value of their AVC account, because they are planning to take their AVC benefits as a lump sum, or for temporary protection against falling investment asset values at other times.
Other points to consider	Inflation risk, lost opportunity risk, annuity risk and short-term holding risk.
Fund management category	Actively managed.
Charges	0.300% a year.

Additional funds

RMPP AVC Ethically-focussed Fund

Objective	To achieve long-term growth by investing in line with the FTSE4Good UK Index.
Asset types the fund invests in	Equities in UK companies.
Fund approach	The fund invests in UK companies which operate in line with the socially responsible guidelines laid down by the investment manager. This AVC fund may be appropriate for members who wish to invest over the long term in a fund where the investments take account of certain ethical, environmental or social principles.
Other points to consider	Investment risk, annuity risk and specialist fund risk.
Fund management category	Passively managed.
Charges	0.380% a year.

RMPP AVC Shariah Law Fund

Objective	To provide long-term growth in line with growth on the Dow Jones Islamic Titans Index.
Asset types the fund invests in	Equities in UK and overseas companies.
Fund approach	The fund invests in companies worldwide which are compliant with Islamic Shariah principles. This AVC fund may be appropriate for members who wish to invest in line with Islamic religious beliefs.
Other points to consider	Investment risk, annuity risk, currency risk and specialist fund risk.
Fund management category	Passively managed.
Charges	0.582% a year.

The Lifestyle option

The Lifestyle option has been chosen for members who do not wish to actively manage their AVC investments. A lifestyle investment strategy generally works by allocating payments to funds which are mostly invested in equities whilst you are a number of years from your selected retirement age and gradually moving your AVC account into less volatile funds as you get closer to your selected retirement age. This approach can help to manage investment risk and annuity risk to protect your AVC account from falls in fund prices and buying power close to your selected retirement age. However, it also means you could miss out on some growth potential in the years shortly before retirement, as a result. You should consider whether this is right for you and even if you decide it's the right option for you today, you should review your fund choices regularly to make sure the way your AVC account is being invested continues to meet your investment views and needs.

Please note that the Lifestyle option does not invest in either the RMPP AVC Ethically-focussed Fund or the RMPP AVC Shariah Law Fund.

The Lifestyle investment strategy for the AVC plan gradually moves AVC accounts into less volatile funds when members are within eight years of their selected retirement age as shown in the table and graph on the following page.

Please note that no additional charge is levied for the operation of the Lifestyle option. The charge for investing in the Lifestyle option is the same as for the underlying funds in which Lifestyle is invested.

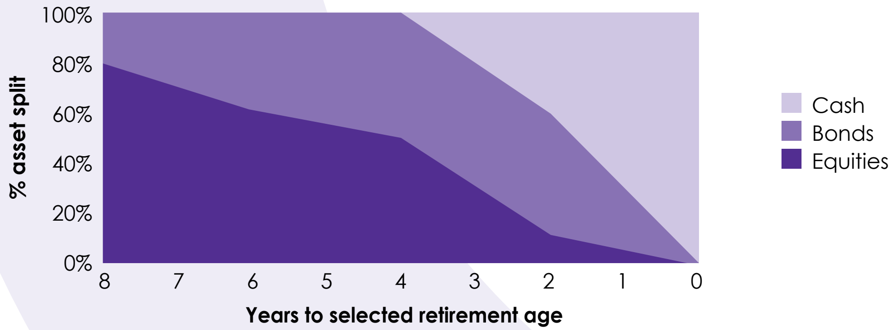
Years to selected retirement age	RMPP AVC Growth Fund %	RMPP AVC Balanced Fund %	RMPP AVC Cautious Fund %	RMPP AVC Cash Fund %	E/B/C overall split %
8+	100	0	0	0	80/20/0
7	70	30	0	0	71/29/0
6	40	60	0	0	62/38/0
5	20	80	0	0	56/44/0
4	0	100	0	0	50/50/0
3	0	50	30	20	31/49/20
2	0	0	60	40	12/48/40
1	0	0	30	70	6/24/70
0	0	0	0	100	0/0/100

If you do not take your benefits at your selected retirement age, your AVC account will continue to be invested 100% in the RMPP AVC Cash Fund.

Key: E/B/C means the three asset classes 'Equities/Bonds/Cash'.

For example, when you are seven years from your selected retirement age your funds will be invested 70% in the Growth Fund and 30% in the Balanced Fund. When you are two years from your selected retirement age this will have shifted so that 60% will be invested in the Cautious Fund and 40% in the Cash Fund.

The following graph shows how the mix of the three asset classes changes as you approach your selected retirement age:



Step 6: Make your decision or request an illustration

You are nearly there! Hopefully, having read through this guide you now have a good idea about your attitude to risk and the importance of selecting an AVC investment strategy to match your individual circumstances.

The overall level of benefits payable from the Royal Mail Pension Plan, including the value of your AVC account, is checked against the Lifetime Allowance when your benefits come into payment. Provided the value of those benefits is within the Lifetime Allowance at that time then there is no excess tax charge to pay. The Lifetime Allowance is explained in the 'Royal Mail Pension Plan – A Guide to Benefits'. You can request a copy from the Pensions Service Centre or download one from the Royal Mail Pension Plan website – details below.

In order to obtain a no-obligation illustration and application form, please contact the Pensions Service Centre using the contact details below.

Please also contact the Pensions Service Centre if you want to make any changes to the amount you are paying in AVCs or to make any changes to your AVC fund choices.

You can:

- Phone the Pensions Service Centre on **Postline 5456 4545** or **0114 241 4545** – please have a pen and paper ready; or
- E-mail them at **pensions.helpline@royalmail.com** or via the website **www.royalmailpensionplan.co.uk**.

Or you can write to:

Pensions Service Centre
PO Box 500
CHESTERFIELD
S49 1WX

Step 7: Review your progress

You may well be saving for your retirement for many years and it's likely that things will change over that time. Your attitude to risk, your personal circumstances and the economic situation could all be different in years to come, and that means it's important to regularly review your fund choices and level of savings.

Each year Zurich will send you a statement showing how your AVC account is performing. By using these yearly statements you can take a long-term view and get a good idea of how fund prices and the value of your pension savings are changing. You can also check the value of your AVC account at any time by using the online facility that Zurich will make available to you.

At any time you can choose to change your investment options, for example you may decide to:

- Change from the Lifestyle option to your own fund choices (or the other way round);
- If you are making your own fund choices, switch your existing pension savings and/or future payments into different investment funds; and/or
- Amend your selected retirement age.

If you're thinking about switching your existing pension savings and/or future AVC payments into different funds, take time to weigh up all of the factors you considered when making your original fund choices. Also, if you're comparing the growth of two different funds it's important to make sure that you're comparing like-for-like – for example, a fund invested in short-term cash deposits is unlikely to offer the same long-term growth potential as one invested in equities. If you decide to make any changes, please contact the Pensions Service Centre.

Reviewing and changing your selected retirement age

Your selected retirement age is the age which you have chosen for the annual projections of AVC benefits and, if applicable, for Lifestyle switching.

If you change your selected retirement age having selected the Lifestyle option once you are within eight years of your (old or new) selected retirement age, your AVC funds will be immediately adjusted to your new selected retirement age. You should carefully consider the implications of this – there may be a significant reallocation of units across the four funds underlying the Lifestyle option.

If you wish to change your selected retirement age, please contact the Pensions Service Centre.

If benefits are not taken at your selected retirement age, unless you give instructions to the contrary, the following actions will occur:

- If you are in the Lifestyle option, your AVC account will continue to be invested 100% in the RMPP AVC Cash Fund; and
- Your selected retirement age will be increased.

Information about Zurich

Zurich makes the investment funds available to AVC plan members and is responsible for most aspects of the AVC plan administration. However, Zurich is not a fund manager and is not responsible for the management of the funds available. Instead, Zurich provides links to the underlying specialist fund managers – Legal & General Investment Management and HSBC Sinopia.

The fund managers and the funds being offered are subject to review by the Trustee from time to time and may be changed by the Trustee – for both existing and future AVC savings. The Trustee will consult with their advisers and will inform you if any changes are planned.

Financial advice

The Guide to Additional Voluntary Contributions has been prepared as a guide for Royal Mail Pension Plan members about the AVC options available to them. The Guide to Additional Voluntary Contributions should not be seen as recommending a particular course of action. It is your responsibility to choose investment funds and options which suit your own needs and circumstances.

The Trustee of the Royal Mail Pension Plan, Royal Mail Group and their respective employees are not authorised to give you advice on choosing your investment options. Zurich is also unable to provide financial advice to you.

If you are not sure about making decisions about your investment options, you may want to take advice from an independent financial adviser to help you decide on whether to join and the investment approach best suited to your own personal circumstances. You can find a local financial adviser by visiting **www.unbiased.co.uk**.

Addplan

The following information only applies to members who started making payments to Addplan arrangements on or before 30 June 2008. New Addplan arrangements or changes to existing Addplan arrangements (other than cancelling regular contributions) are no longer available.

Addplan arrangements already entered into will continue. Payments to existing Addplan arrangements will therefore continue to be paid to age 60 (or, if earlier, the date of leaving service or requesting to stop contributing). Addplan provides added years on the basis agreed at the time the Addplan arrangement was entered into, although in general fewer added years will be purchased if you leave service or stop contributions before age 60.

How do I stop my payments to Addplan?

You can stop your Addplan contributions by contacting the Pensions Service Centre.

As the terms of your Addplan contract are set at the time you started your contributions, it is not possible to re-negotiate those terms. So it is not possible to reduce (or increase) your contributions – you can only stop your Addplan contract. However, as no new Addplan contracts are possible, if you stop your Addplan contract you will not be able to start another contract at a lower contribution rate.

If you do stop your contributions to your Addplan contract, the amount of service you have purchased will be calculated and treated as reckonable service earned prior to 1 April 2008.

Notes

June 2011