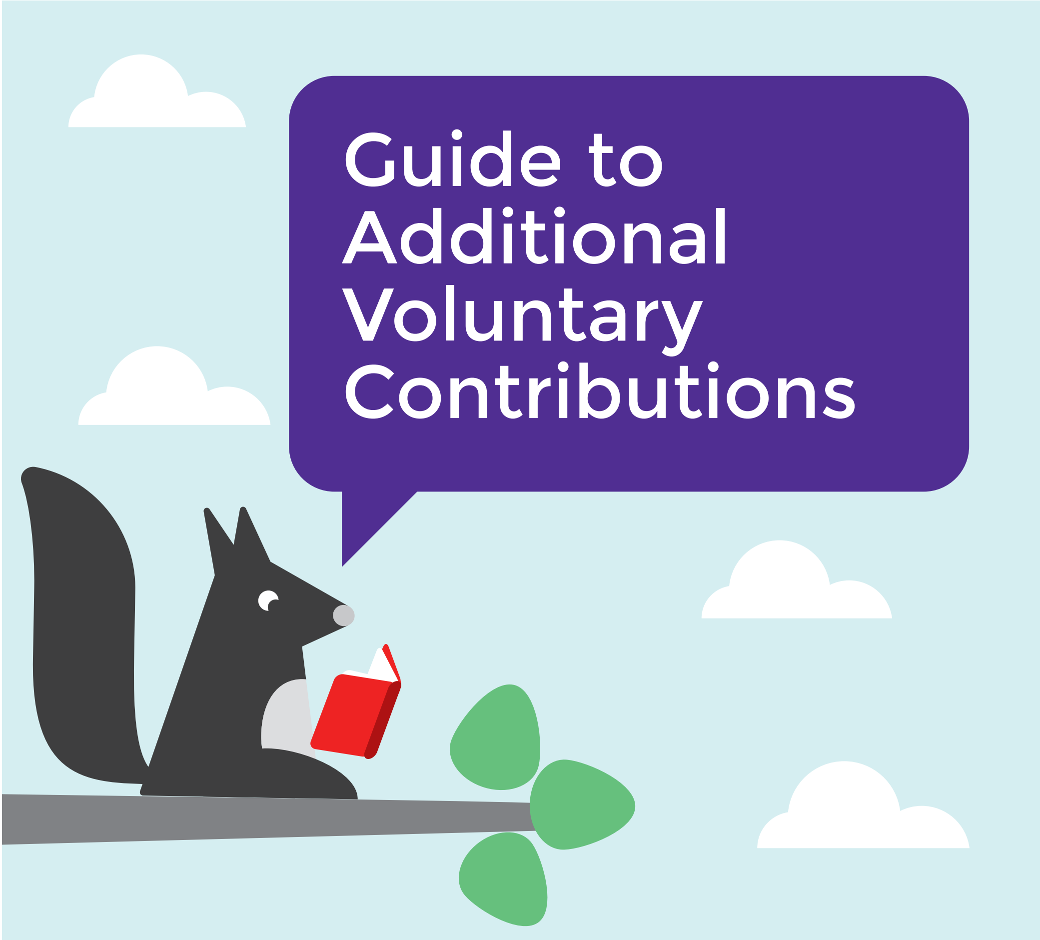
Guide to Additional Voluntary Contributions



This guide explains how you can make extra contributions towards your retirement savings and contains further information you should consider in connection with these savings. We refer to these as Additional Voluntary Contributions (AVCs for short).

You'll find this guide useful if you're:

- considering making extra contributions;
- wanting to understand more about the funds available under the AVC arrangements; and/or
- an existing member of the AVC arrangements and want to review your fund choices or the level of your contributions.

Royal Mail Pension Plan

Contents

Glossary

Although we have tried to avoid jargon where possible, we have had to use some technical terms in this guide. We have provided an explanation of these terms below.

Guide to	Comment
AVC	Additional Voluntary Contribution
AVC account	Money that you have built up under the **AVC** arrangements
AVC funds	The investment fund choices available, for example the Growth Fund and the Cash Fund
AVC plan	Royal Mail Pension Plan **AVC** arrangement provided by **Scottish Widows**
Company	Royal Mail Group and any other companies admitted to the Royal Mail Pension Plan
Contributions	Savings made to your **AVC** fund by you and, if applicable (under Bonusplan), by the **Company**
Pensions Service Centre	The administrators of the Royal Mail Pension Plan, appointed by the Trustee
Selected retirement age	The age (between age 55 and 75) that you have chosen for the annual projections of **AVC** benefits and, if applicable, Lifestyle switching.
We / Us / Our	The Trustee of the Royal Mail Pension Plan (including the **AVC** arrangements)
Scottish Widows	Scottish Widows Ltd which is the provider of the **AVC plan**

Other terms (which are more widely used) are explained in the "Member Guide" which is available from the **Pensions Service Centre** or from **royalmailpensionplan.co.uk**.

Introduction to AVCs

AVCs are a tax efficient way to increase your existing pension benefits. Saving through one (or more) of the **AVC** arrangements is in addition to ordinary **contributions** that you make to the **RMPP**.

This guide is intended to be a helpful summary of the AVC arrangements 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 **contributions** (or at least one single contribution) into your **AVC account**;
- Keep your **AVC account** invested until you take some or all of your main **RMPP** benefits, or until you take your **AVC account** separately; and
- Make decisions about where to invest your **AVC account**. Your choice of funds will directly affect the value of your **AVC account** and the level of benefits it can provide. The risks and the potential investment performance differ depending on the funds you choose. At the time you take your benefits, the final value of your **AVC account** could be higher or lower than expected. This guide will help you to understand these issues so that you can make the right choices based on your circumstances and preferences.

You may wish to monitor the value of your **AVC account** periodically by using the online facility that **Scottish Widows** has made available – this can be accessed via **royalmailpensionplan.co.uk**. When you take your main benefits from the **RMPP**, you can use the value of your **AVC account** to provide a tax-free cash sum (within limits under the **RMPP** Rules) and/or a pension (a regular income).

Who should consider paying AVCs?

You might want to consider paying AVCs to increase your pension benefits if:

- You started a pension late in your career (or for some other reason you have periods where you were not in pensionable employment);
- You wish to retire early; and/or
- Some of your normal earnings are not pensionable – for members of Section C and members of Section F (i.e. members who joined the **RMPP** on or after 1 April 1987) this will include earnings up to the Lower Earnings Deduction and (depending on your earnings) you may be eligible for a matching contribution from the **Company** under Bonusplan (see page 8).

AVCs – advantages and disadvantages	
Contributions are deducted directly from your pay.	🙂
You get immediate tax relief on your **contributions**, generally at your highest rate.	🙂
Depending on your earnings, you may be eligible for a **contribution** from the **Company** under Bonusplan.	🙂
Whilst invested, your **AVC account** benefits from certain tax reliefs.	🙂
The **AVC plan**'s investment management charges are competitive.	🙂
When you take your main **RMPP** benefits, you can use your **AVC account** to take a tax-free cash sum (up to a total cash lump sum of 25% of the total value of your main **RMPP** benefits and **AVC account** combined, subject to the Rules of the **RMPP**).	🙂
Generally you cannot take your **AVC plan** benefits until age 55.	☹️

The **AVC plan** offers a choice of funds for you to invest in. However, outside the **RMPP** there are non-pension options such as ISAs to consider as an alternative to, or in addition to, **AVCs**. You may wish to split your savings between short-term saving and long-term saving. Before deciding on the most appropriate method for you, consider issues such as tax and investment returns and consequently you may wish to contact an independent financial adviser (IFA). Information on how to contact an IFA is on page 26.

Step by step...

Your retirement savings are likely to be one of the biggest investments you will make over your lifetime. They will provide cash and 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 choices about how your AVC account is invested.

Investment choices can seem 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 **contributions** to the **AVC plan** and, if so, how you want to invest your **AVC account**. To help you through this process, **we** have broken down this guide into seven easy steps:

Step 1 Understand how the AVC arrangements work

You can use your AVC account to provide a larger cash lump sum and/or regular pension payments when you choose to take your main RMPP benefits (this includes taking benefits under the flexible retirement options) or you can take the benefits from your AVC account separately.

Saving through the **AVC** plan will not affect **contributions** towards your main **RMPP** benefits. **Additional Voluntary Contributions** benefit from tax relief so are generally a tax efficient way of saving. There are limits set by HM Revenue and Customs (HMRC) regarding the maximum amounts that you can save tax-efficiently within a pension scheme. These limits only affect those who pay substantial **contributions** and/or build up substantial benefits. For further details, please refer to your Member Guide or visit **royalmailpensionplan.co.uk**.

When taking their main **RMPP** benefits, most people use all of the money in their **AVC account** to provide a larger cash 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 life. You also have the option to transfer the value of your **AVC account** to another provider who may be able to offer you different choices. Note that **RMPP** does not allow the full range of pensions flexibilities, so you may not necessarily be able to take all your **AVC account** as cash, or be able to take income drawdown from your **AVC account**. You may, therefore, have to transfer to another provider if you want greater flexibility.

The value of your **AVC account** will depend on:

- When you started saving;
- The length of time you pay **contributions**;
- How much is paid in;
- The investment growth of your **AVC funds**; and
- The charges deducted from your **AVC account**.

There are two AVC arrangements – Flexiplan (available to members of all sections of the RMPP) and Bonusplan (available to Section C members and to Section F members).

Key features of Flexiplan:

- A minimum regular contribution of £1 per week or £5 per month;
- You can also pay one-off **contributions** from time to time, although these have to be deducted through the **Company's** payroll system – **payment by cheque is no longer accepted;**
- A maximum **contribution**, when aggregated with your other contributions to the **RMPP** (and other deductions), of around 85%* of your pay; and
- **Contributions** can be increased, reduced or stopped (with due notice) at any time – note that Bonusplan does not have this flexibility.

*The limit of around 85% is necessary to allow for certain other deductions such as National Insurance **contributions** and pension **contributions** to be made from your pay.

Key features of Bonusplan:

- For members who only want to save a small additional amount, the maximum weekly contribution to Bonusplan for a full time employee is only £2.88 a week (and proportionately less for part timers), around £150 a year;
- An advantage of Bonusplan is that the **Company** will pay additional **contributions** into your **AVC account** if your basic annual earnings are less than a certain level (around £35,000 in 2019/20). For further details please visit the **RMPP** website;
- Bonusplan is only available to Section C members and to Section F members (i.e. those who joined the **RMPP** on or after 1 April 1987);
- Your **contributions** would be 4.5% of the unindexed Lower Earnings Deduction of £3,328;
- The **Company**'s **contributions** would be 4.5% of an indexed Lower Earnings Deduction but depend on your total earnings. For further details please visit the **RMPP** website;
- If you wish to pay more than £150 a year, you can join Flexiplan too;
- You cannot reduce or stop your Bonusplan **contributions** before you take your **Age65** benefits or leave reckonable service, whichever event occurs first; and
- Bonusplan **contributions** must stop when you take your **Age65** benefits.

Please visit **royalmailpensionplan.co.uk** for further details including the current employee contribution and the table of **Company contributions** available against total earnings.

Decisions that you'll make on your journey:

When you start paying **AVCs**, an **AVC account** is set up in your name. You will need to choose:

1. The type of **AVC contribution(s)** that you make (Flexiplan and/or Bonusplan):
   - A one-off (single) **contribution** (remembering that these must be made through the **Company** payroll);
   - Regular **contributions**; or
   - Both regular and one-off **contributions**.

Note: It is not possible to make a one-off **contribution** under Bonusplan and that your maximum **contribution** to Bonusplan is around £150 a year.

2. Whether your needs are best met by:
   - Paying into Bonusplan;
   - Paying into Flexiplan; or
   - Paying into both Bonusplan and Flexiplan.

Note: It is only possible to pay into Bonusplan if you are a Section C member or a Section F member – (i.e. you joined the **RMPP** on or after 1 April 1987).

3. In which funds you want your **AVCs** to be invested

    - This guide will help you make those decisions.

What happens to your **AVC** fund in various circumstances:

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

- **If you take your main RMPP benefits** you have a number of choices. The most common option is to take all of your **AVC account** as a tax-free cash sum (subject to certain HMRC limits). Alternatively, you may:

    - Delay taking your **AVC account** (in certain circumstances); or

    - Take your **AVC account** before your main **RMPP** benefits; or

    - Convert all or part of the value of your **AVC fund** into an annuity (an income for the rest of your life – a pension); or

    - Transfer the value of your **AVC account** to another provider who may be able to offer you different choices.

Note that **RMPP** does not allow the full range of pensions flexibilities, so you may not necessarily be able to take all your **AVC account** as cash, or be able to take income drawdown from your **AVC account**. You may, therefore, have to transfer to another provider if you want greater flexibility.

- **If you die before taking all of your main RMPP benefits**, the Trustee will use the value of your **AVC account** for the benefit of your dependants along with any other death benefits payable from the **RMPP**.

Please note that you will be told when you take your benefits whether any of your **AVC** account proceeds are subject to tax.

Step 2 Think about your retirement goals

Before you decide whether to contribute to the AVC plan, you should first consider your personal circumstances and think about your retirement goals. This will involve answering the following questions:

- At what age do you plan to take your benefits?
- How much money will you need to live off in retirement (taking into account your increased leisure time)
- What other savings and investments will you have available to you in retirement?
- Will you have any other sources of income? Remember that your State Pension may not start until after you take your **RMPP** benefits
- What are your family commitments likely to be – i.e. will anyone be financially dependent upon you?
- How much can you afford to pay into your **AVC account** now?
- Do you have any personal beliefs that might affect the type of investments that you would wish to make?

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

A key question at this stage is at what age you wish to take your benefits. The answer you give will have a direct impact on your **AVC** investment choices (and will determine the **selected retirement age** that you choose). For example, if you have many years to go until you take your benefits then you might decide to invest your **AVC contributions** in funds which have produced greater growth over the longer term but can be more volatile ('higher risk') in the short term. However, if you only have a few years to go before you expect to take your benefits then protecting the value of your **AVC account** by investing in funds which have lower growth prospects but are less volatile ('lower risk') is likely to be a higher priority. Further details on investment risk are set out in Step 3.

Once you have a good 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 and short-term deposits, or a mix of investments (see Steps 4 and 5) and then make a choice of which **AVC funds** to choose. You should also decide what type of benefit you want (a tax-free cash sum, a pension, or both). This is dealt with in Step 6.

Step 3 Work out 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 contributions will achieve.

<u>All</u> investments carry some risk:

- **Low risk** – By this, **we** tend to mean investments with low volatility (i.e. without large short-term movements in price). These investments have lower growth prospects over the long term.
- **High risk** – By this, **we** tend to mean investments with high volatility (i.e. with significant short-term movements in price). These investments have higher growth prospects over the long term.

When you select or review your **AVC funds** you need to understand the different types of risk involved. Each **AVC fund** has a different level of risk and different potential investment performance, so you need to choose your funds carefully depending on your personal circumstances.

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

1. Inflation risk

This is the risk that investments won't grow quickly enough to keep up with the increase in the costs of living (inflation). Inflation reduces the buying power of money. For example, if annual inflation is 2.5%, a purchase costing £1,000 today would cost £1,639 in 20 years' time. The risk of your investment return falling behind price and salary inflation is likely to be more of a concern if you have many years to go until you are planning to take your **AVC fund**.

2. Investment risk

This is the risk that your **AVC fund** may drop in value. **AVC funds** which invest mainly in shares (also known as equities) are likely to be more volatile than other funds and their prices can change more quickly and by a larger amount than other investments. In general, the longer the period over which you invest, the more risk you may be willing to take (in order to benefit from the greater growth prospects). It may be beneficial to invest in funds with high equity content for long-term growth and move to bond funds and/or a fund which invests in short-term deposits if you are within a few years of the date that you are planning to take your **AVC account**.

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 speed and the extent to which the price of an investment moves up and down over time. Over the long term, less volatile investments tend to produce lower growth. If you are investing in a low risk fund, you may see smaller changes in the day to day value of your **AVC fund** than you would in a more volatile fund, but the value of your **AVC fund** is likely to be lower when you take it than it would have been if you had invested in a high risk fund. Your **AVC fund** is more likely to be eroded by inflation in a less volatile fund.

4. Annuity risk

When you take your pension benefits, you might decide to use some or all of your **AVC account** to provide a pension to be paid to you for the rest of your life (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**, if you wish to use some or all of your **AVC account** to buy an annuity you should be aware of annuity rates because changes in annuity rates could result in you receiving less income than you had previously expected. If you are planning to take your **AVC account** as a cash sum, this risk will not affect you.

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. 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 ethical or faith based principles tend to exclude certain companies or industries as a result of these principles and therefore can experience greater fluctuations in value versus the relevant benchmark than a fund without these exclusions.

Having a good mix of different types of investment (such as equities, bonds and cash) in your **AVC funds** should help reduce the overall volatility.

Step 4 Understand the different types of investment

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 one or more of three main types of investment – these are described in more detail below.

Equities

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

Equities are likely to carry the most 'investment risk' (see page 11). You might want to choose a fund that invests mainly in equities if you 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 less volatile investments or your **AVCs** are only a small part of your retirement savings.

Gilts and other Bonds

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 that you receive on the loan. This interest can either be 'fixed' (for example 5%) or 'indexed linked' (which means that it varies in line with inflation). Bonds are traded on the stock market and 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 rates. 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** – particularly if you are going to use your **AVC account** to buy an annuity, because annuity rates depend on the prices of bonds. In the past, bonds have given lower returns over the longer period than equities, but are generally less volatile – i.e. they are not so prone to large short-term fluctuations in value.

Cash

Cash funds tend to be made up of short-term, lower risk investments. The value of an investment in cash can occasionally fall in the short term, although cash investments typically have the lowest capital risk of all 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 retirement savings if you are investing for the short term, but may not provide good long-term returns.

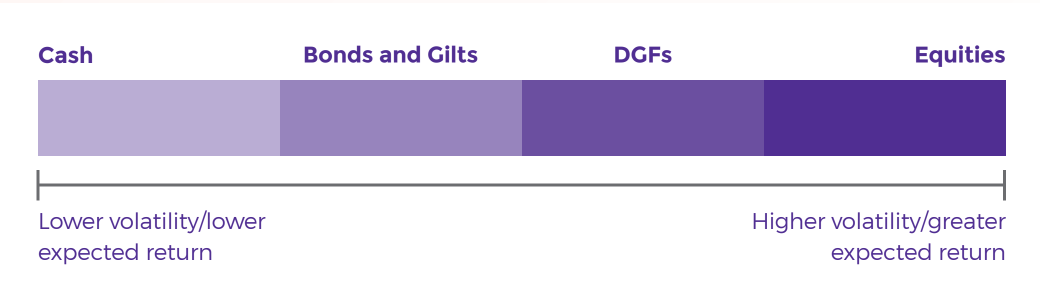
Diversified Growth Funds (DGFs)

DGFs are multi-asset funds that offer exposure to traditional and alternative asset classes. They have a target investment return such as inflation plus a specified percentage (rather than trying to outperform a certain market index). They seek to achieve this target return (which tends to be broadly in line with expected returns from equities over the long term) by investing in a mixture of growth asset classes (for example equities and property) and asset classes which are less volatile (for example corporate bonds and cash).

You might want to use a DGF if your retirement is some way off, but you are concerned about the risks inherent in investing solely in equities.

You are probably 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 being referred to as its 'volatility'. A more volatile fund (one with higher investment risk) will tend to see more 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 and less frequently.

The chart below illustrates the relative volatility and relative expected return of the three main asset classes and of DGFs.



Step 5

Review your options

Now that you are familiar with the main 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 contributions in.

When deciding on where to invest your **AVC contributions**, you have two basic choices – do you opt for the Lifestyle option or make your own choices, or both?

The Lifestyle option

Lifestyle is an investment strategy for members who do not wish to actively manage their **AVC funds**. 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 close 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 and DGFs, to those funds with a lower risk, containing assets such as corporate 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'll 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 fund** from one fund to another, by yourself.

You can choose a combination of Lifestyle and your own fund choices.

The above investment choices are explained over the following pages and you can find out more information on the funds available through the **AVC plan** in the fund factsheets on the website **royalmailpensionplan.co.uk**.

Fund management

Funds can be managed either on 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 or a stated level of return (such as inflation). 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 rate 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 provides a range of funds, some of which are available exclusively to members of the **RMPP**. 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. Members can invest in the Lifestyle option, a single **AVC fund**, or in a number of funds (either including or excluding Lifestyle) to provide a mix of investment assets.

The **AVC funds** currently selected could change in 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** Ethical Global Equity Fund
- **RMPP AVC** Shariah Law Fund

Further information about each of these **AVC funds** is contained on the following pages.

Please note that, in addition to the above funds, the Trustee uses a Corporate Bond Fund in its Lifestyle option during the de-risking phase. This fund fulfils a specific short-term role during the de-risking phase and it is not considered by the Trustee to be part of the core fund offering.

Fund factsheets for each of the **AVC funds** can be accessed through the website **royalmailpensionplan.co.uk**. These are published quarterly and they show the fund holdings, the fund performance
and other useful information.

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 **Scottish Widows**' administration and the investment managers' costs:

- **Fund-based charge** – this is calculated and taken once a month by **Scottish Widows** selling units in your chosen **AVC funds**. The fund-based charge could change in future.
- **Annual management charge** – these charges are taken by the underlying fund managers (currently Legal & General Investment Management and HSBC Global Asset Management). 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 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 will 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 0.272% a year means that the charge is equivalent to £2.72 a year for each £1,000 you have invested in that fund.

Core funds

RMPP AVC Growth Fund

Objective	To give a higher investment growth over the longer term (compared to other core **AVC funds** available). This will likely mean a higher level of volatility in investment value in the shorter term. More specifically, to deliver an annual return (after fees) greater than inflation plus 3.5% over rolling 7 year periods.
Asset types that the fund invests in	33% LGIM 30/70 Global Equity Index Fund (Currency Hedged) – i.e. 30% UK stocks and 70% Global (ex UK) stocks. 67% LGIM Dynamic Diversified Growth Fund – providing dynamic exposure to a diversified range of asset classes. (In addition to exposure to equities, bonds and cash, there is some exposure to property and to alternative assets such as infrastructure.)
Fund approach	The fund aims to deliver long-term growth but with lower volatility than a pure equity based approach.
Fund management category	A blend of both active and passive management.
Charges	0.552% a year.

RMPP AVC Balanced Fund

Objective	To give moderate to higher growth over the longer term (compared to the other core **AVC funds** available). Although the fund is likely to be subject to moderate to higher levels of volatility in value in the shorter term, the diversification across asset classes aims to provide some protection to members (compared with funds with a very high equity content) in market downturns. More specifically, to deliver an annual return (after fees) greater than inflation plus 3% over rolling 7 year periods.
Asset types that the fund invests in	90% LGIM Dynamic Diversified Growth Fund – providing dynamic exposure to a diversified range of asset classes. (In addition to exposure to equities, bonds and cash, there is some exposure to property and to alternatives.) 10% LGIM All Stocks Corporate Bond Fund.
Fund approach	An allocation to All Stocks Corporate Bonds alongside the Dynamic Diversified Growth Fund provides members with a prudent asset allocation that will be dynamically managed over time.
Fund management category	A blend of active and passive management.
Charges	0.631% 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 but negative returns (albeit more muted) may still be experienced due to the underlying mix of investments. More specifically, to deliver an annual return (after fees) greater than inflation plus 2.5% over rolling 7 year periods.
Asset types that the fund invests in	50% LGIM Dynamic Diversified Growth Fund – providing dynamic exposure to a diversified range of asset classes. (In addition to exposure to equities, bonds and cash, there is some exposure to property and to alternatives). 30% LGIM All Stocks Corporate Bond Fund. 20% LGIM Cash.
Fund approach	Tempering an exposure to a broad range of real assets and alternatives, via a 50% allocation to the Dynamic Diversified Growth Fund, with significant allocations to a Corporate Bond Fund and to a Cash Fund.
Fund management category	A blend of both active and passive management.
Charges	0.508% 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 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 highly rated financial institutions which are expected to deliver growth in line with short-term interest rates. This **AVC fund** may be appropriate for members who are: • close to their **selected retirement age** and who are concerned with short-term stability in the value of their **AVC fund** (because they are planning to take their **AVC** benefits as a lump sum), or • seeking temporary protection against falling investment asset values at other times.
Fund management category	Actively managed.
Charges	0.272% a year.

RMPP AVC Ethical Global Equity Fund

Objective	The fund aims to achieve long-term growth. It aims to track the FTSE4Good Global Equity Index less withholding tax (i.e. less tax deducted at source) to within plus or minus 0.50% pa, two years out of three.
Asset types that the fund invests in	The fund predominantly invests in securities which form part of the FTSE4Good Global Index.
Fund approach	Companies which manufacture the following products are excluded from the FTSE4Good Index Series; tobacco, weapons systems, and components for controversial weapons.
Fund management category	Passively managed.
Charges	0.362% 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 that 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 fund may be appropriate for members who wish to invest in line with Islamic religious beliefs.
Fund management category	Passively managed.
Charges	0.560% 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 **contributions** 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 fund** into less volatile funds as you get closer to your **selected retirement age**. This approach can help manage investment risk to protect your **AVC fund** from falls in fund prices as you get closer to your **selected retirement age**.

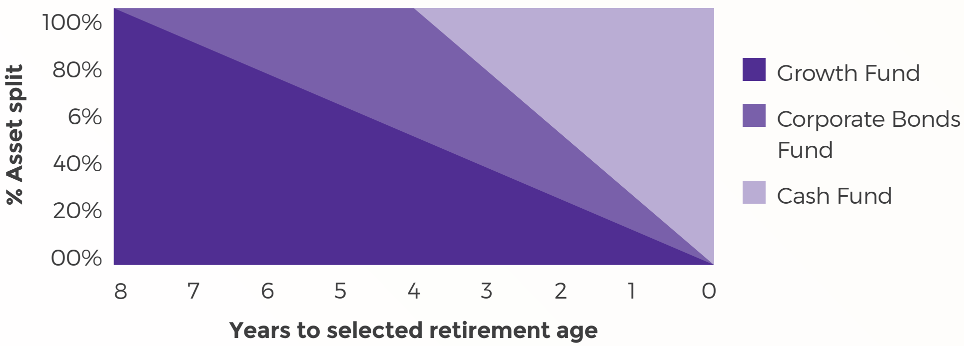
However, it also means that you could miss out on some growth potential in the years shortly before retirement, as a result. You should consider whether this is right for you and even if you decide it's the right decision for you today, you should review your fund choices regularly to make sure the way your **AVC account** is being invested continues to meet your investment views and needs.

The Lifestyle investment strategy for the **AVC plan** gradually moves **AVC funds** into less volatile funds when members are within eight years of their **selected retirement age** as shown in the table 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 the Lifestyle is invested.

Years to selected retirement age	RMPP AVC Growth Fund %	LGIM Investment Grade Corporate Bonds All Stocks Index Fund %	RMPP AVC Cash Fund %
8+	100.00	0.0	0.0
7	87.5	12.5	0.0
6	75.0	25.0	0.0
5	62.5	37.5	0.0
4	50.0	50.0	0.0
3	37.5	37.5	25.0
2	25.0	25.0	50.0
1	12.5	12.5	75.0
At retirement	0.0	0.0	100.00

For example, when you are seven years from your **selected retirement age** your funds will be invested 87.5% in the **RMPP AVC** Growth Fund and 12.5% in the Corporate Bonds Fund. The following graph shows how the mix of the three funds changes as you approach your **selected retirement age**.



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.

Step 6 Make your decision

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 annual increase in the overall level of benefits from the Royal Mail Pension Plan (including **contributions** paid to your **AVC account**), is checked annually against the Annual Allowance. Provided the increase is less than the Annual Allowance, there is no excess tax charge to pay.

The overall level of benefits payable from the Royal Mail Pension Plan (including the value of your **AVC account**), plus any benefits already in payment from other pension schemes, 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, there is no excess tax charge to pay.

The Annual Allowance and the Lifetime Allowance are set at a high level and it is unlikely that most members will be affected by either of them.

You can find out more information about the Annual Allowance and the Lifetime Allowance, including the current limits, on **our** website **royalmailpensionplan.co.uk**.

In order to obtain an application form, please contact the **Pensions Service Centre** using the contact details below. Please also contact the **Pensions Service Centre** if you wish to make any changes to the amount that you are paying in **AVCs**.

You can:

Phone the **Pensions Service Centre** on 0345 603 0043; or

Email them at **pensions.helpline@royalmail.com**; or

Write to:

Pensions Service Centre, PO Box 5863, Pond Street, Sheffield S98 6AB

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, you'll be sent 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 **Scottish Widows** has made available – this can be accessed via **royalmailpensionplan.co.uk**.

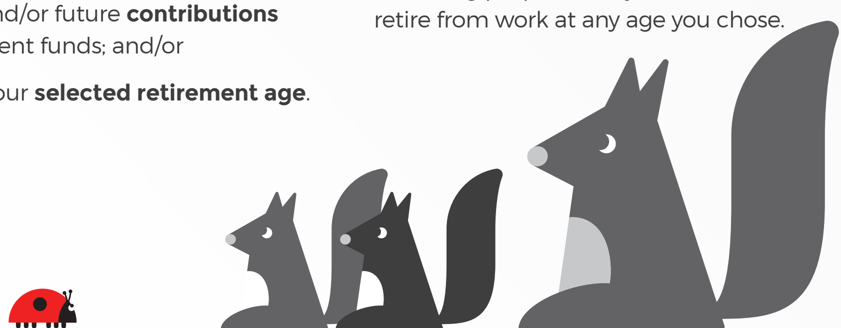
At the same time you can choose to change your investment options; for example you may choose to:

- 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 **contributions** into different funds; and/or
- Amend your **selected retirement age**.

If you're thinking about switching your existing pension savings and/or future **AVC contributions** 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 is important to make sure that you are 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 do so by using the online facility that **Scottish Widows** has made available – this can be accessed via **royalmailpensionplan.co.uk**. If you need any assistance, please contact the **Pensions Service Centre**.

Reviewing and changing your selected retirement age

Your **selected retirement age** is the age at which you have chosen for the annual projections of **AVC** benefits and, if applicable, for Lifestyle switching. You can choose an age between 55 and 75. The age you choose can be changed at any time and is for Lifestyle switching purposes only. You can still retire from work at any age you chose.



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 three 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 fund** will continue to be invested 100% in the **RMPP AVC** Cash Fund
- Your **selected retirement age** will be increased to 75.

Information about Scottish Widows

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

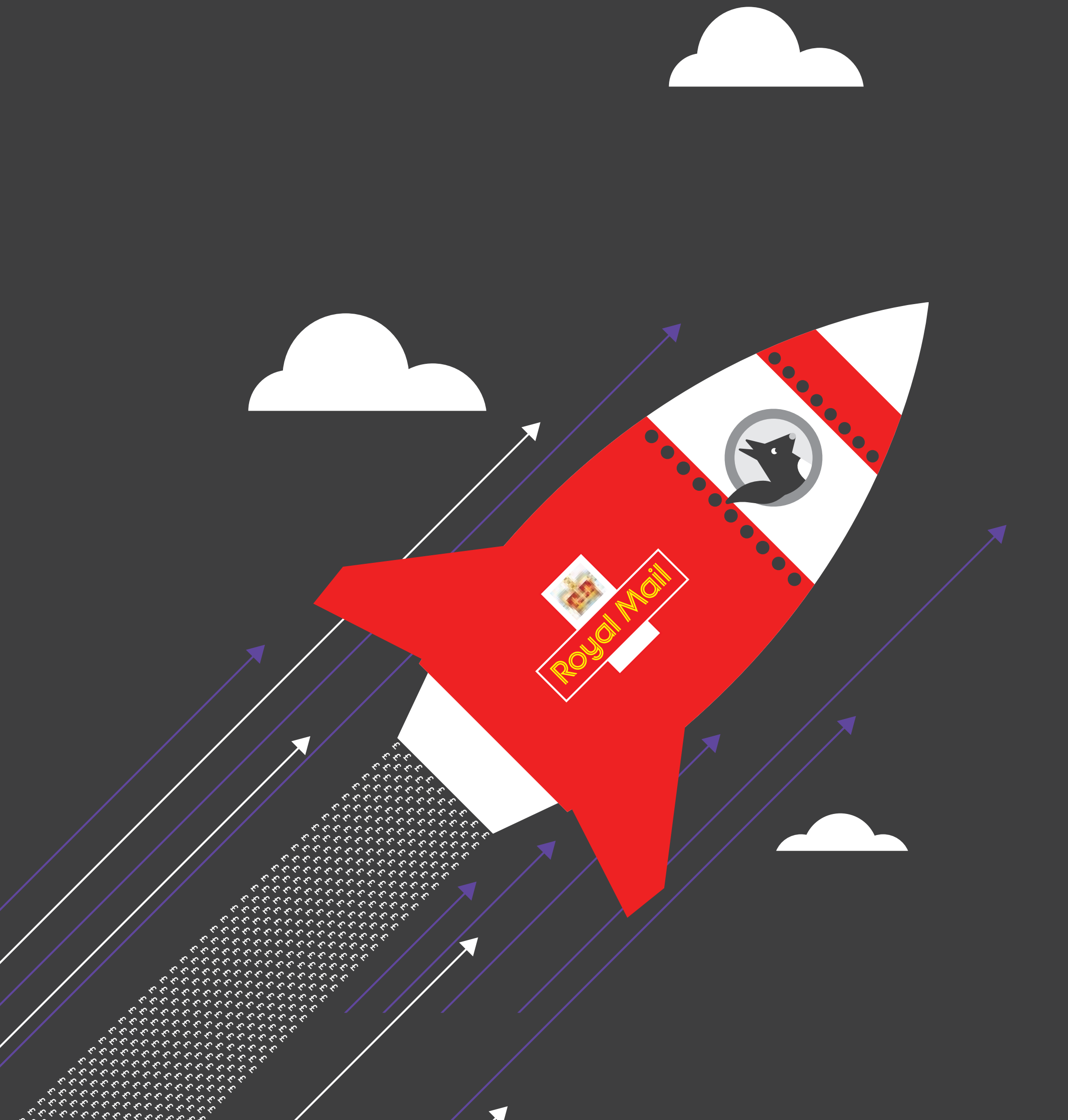
The fund managers and the funds being offered are subject to review by the Trustee from time to time and may be changed by the Trustee – for both existing and future **AVC** savings. The Trustee will consult with their advisers and will inform you if any changes are planned.

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 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. **Scottish Widows** is also unable to provide advice.

If you are unsure about making decisions about your investment options, you may want to take advice from an independent financial adviser (IFA) to help you decide whether to join and the investment approach best suited to your own personal circumstances. You can find a local IFA by visiting **unbiased.co.uk.**


Royal Mail

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