



LOCAL PENSION BOARD

16 JUNE 2016

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ADDITIONAL VOLUNTARY CONTRIBUTIONS

Purpose of the Report

1. To inform the Board about changes to the Additional Voluntary Contribution (AVC) fund choices.

Background

2. The Leicestershire Local Government Pension Scheme is required to provide an Additional Voluntary Contribution (AVC) scheme. Active contributors may opt to pay extra pension contributions, known as AVCs, to the Prudential who provide the Leicestershire Fund's AVCs.
3. AVCs are invested by the Prudential into the scheme member's fund choices. When a scheme member retires the AVCs is used to increase their pension benefits.
4. There are currently 1,270 active contributors paying Prudential AVCs and 1,418 pensioners who have additional LGPS benefits as a result of previous Prudential AVCs.
5. There are 14 different fund choices. 13 are Non-Lifestyle Fund choices that vary from higher risk to minimal risk investments and 1 is a Lifestyle Fund choice. In the Lifestyle Fund, investments are moved into lower risk funds automatically as a scheme member approaches their chosen retirement age. This is known as "de-risking". The de-risking terms for the Lifestyle Fund choice is either six, eight or ten years.
6. The Pension Section has not reviewed the AVC fund choices for some years.
7. Administration charges slightly vary between the 14 funds depending on whether the fund is actively or passively managed. Actively managed funds have a higher charge because they require extra investment management resources to generate enhanced investment returns.

The details of the 14 fund choices are listed in the table below.

Fund Name (Non-lifestyle)	Investment Risk	Asset Class	Active or Passive	Charge each year %
UK Equity Fund	Higher	Equities	Active	0.75
UK Equity Passive Fund	Higher	Equities	Passive	0.65
Socially Responsible Fund	Higher	Equities	Active	0.75
International Equity Fund	Medium/Higher	Equities	Active	0.75
Global Equity Fund	Medium/Higher	Equities	Active	0.75
Fixed Interest Fund	Medium	Bond	Active	0.75
Index Linked Fund	Medium	Bond	Active	0.75
Discretionary Fund	Medium	Multi Asset	Active	0.75
Property Fund	Medium	Property	Active	0.75
Retirement Protection Fund	Medium	Bond	Passive	0.65
With Profits Fund	Lower/Medium	Multi Asset	Active	0.8*
Prudential Cash Fund	Minimal	Deposits	Active	0.75
Deposit Fund	Minimal	N/A	Active	N/A**

Fund Name (Lifestyle)	Investment Risk	Asset Class	Active or Passive	Charge each year %
Lifestyle Option~	Higher/Medium	Equities/ Bonds	Active/ Passive	0.65

*The With-Profits Fund management charge depends on the performance of the Fund, in particular the investment return and expenses. Based on a current assumption that future investment returns from the With-Profits Fund will be 5% per year the charge is expected to be 0.8% per annum.

** The Deposit Fund interest rate is set on the first of each month in line with the Bank of England base rate. There are no explicit charges.

~ Three Lifestyle de-risking terms; six years, eight years and ten years.

8. There are a number of factors why the Pension Fund is reviewing its AVC Fund options which are detailed below;
- More investment options should be offered at lower risk.
 - To ensure it is fit for purpose for member investment needs.
 - A change in risk ratings of some government and corporate bond funds from low to medium risk means that the current Lifestyle option no longer provides a low risk option. This increases the risk of a sudden fall in value just before benefits are taken.

- To ensure that members have access to new style funds such as Dynamic Growth Funds.
9. To provide more opportunity for scheme members and to increase the lower risk fund options the Director of Finance and Pension Manager have agreed the following fund changes;
- Close the Lifestyle Option to new contributors. The 69 people already in the Lifestyle Option will be offered the chance to move funds if they wish.
 - Offer a new Lifestyle Option, the PDG Lifestyle – Targeting 100% Cash. This has a de-risking term of 10 years.

The PDG Lifestyle – Targeting 100% Cash is made up of three fund options;

- Prudential Dynamic Growth II (new)
- Prudential Dynamic Growth IV (new)
- Prudential Cash Fund (already available)

These three Fund choices will also be available to scheme members not in the PDG Lifestyle – targeting 100% Cash.

- Introduce three new Fund Choices.
 - Prudential Dynamic Growth I
 - Prudential Dynamic Growth III
 - Prudential Dynamic Growth V

Details of the new Fund choices are in the table below;

Fund Name (Non-lifestyle)	Investment Risk	Asset Class	Active or Passive	Charge each year %
Prudential Dynamic Growth I	Lower/Medium	Multi-asset	Active/Passive	0.72
Prudential Dynamic Growth II	Lower/Medium	Multi-asset	Active/Passive	0.72
Prudential Dynamic Growth III	Lower/Medium	Multi-asset	Active/Passive	0.72
Prudential Dynamic Growth IV	Medium	Multi-asset	Active/Passive	0.72
Prudential Dynamic Growth V	Medium	Multi-asset	Active/Passive	0.72

Fund Name (Lifestyle)	Investment Risk	Asset Class	Active or Passive	Charge each year %
PDG Lifestyle – Targeting 100% Cash	Medium moving to Lower	Multi Asset moving to Cash	Active/ Passive	0.72 (PDG) / 0.75 (Cash)

10. All active AVC contributors will be informed of the new Fund choices. Members of the Board are reminded that the choice fund is down to the individual pension fund member, who may seek suitable external financial advice if they feel it necessary. The Pension Fund cannot provide any financial advice to members.

Recommendation

11. Members of the Board note the report.

Equal Opportunities Implications

None specific

Appendix

Appendix A – Prudential Lifestyling Options and Funds

Officers to Contact

Ian Howe – Pensions Manager Tel. (0116) 305 6945
Chris Tambini – Director of Finance Tel. (0116) 305 6199