



## **LOCAL PENSION BOARD**

**4 MARCH 2019**

### **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 Prudential who provide the Leicestershire Fund's AVCs.
3. AVCs are invested by Prudential into the scheme member's fund choices. When a scheme member retires the AVC is used to increase their pension benefits.
4. There are currently 1,045 active contributors paying Prudential AVCs and 1,822 pensioners who have additional LGPS benefits as a result of previous Prudential AVCs.
5. There are 20 different fund choices. 18 are Non-Lifestyle Fund choices that vary from higher risk to minimal risk investments. There are two Lifestyle Fund choices. In the Lifestyle Funds, investments are moved into lower risk funds automatically, as a scheme member approaches their chosen retirement age. This is known as "de-risking".
6. The Pension Section last reviewed the AVC fund choices in June 2016.
7. Administration charges are applied to member's individual AVC fund pots and vary slightly between the 20 funds, depending on whether the fund is actively or passively managed. Actively managed funds tend to have a higher charge because they require extra investment management resources to generate enhanced investment returns.
8. The 1% exit charge for members accessing their AVC within three years of the first contribution being received ended on the 3 December 2018.

Details of the 18 Non-Lifestyle Fund choices are listed in the table below

	<b>Fund Name (Non-lifestyle)</b>	<b>Investment Risk</b>	<b>Asset Class</b>	<b>Active or Passive</b>	<b>Charge each year %</b>
1	UK Equity Fund	Higher	Equities	Active	0.65
2	UK Equity Passive Fund	Higher	Equities	Passive	0.55
3	Socially Responsible Fund (ethical fund)	Higher	Equities	Active	0.65
4	International Equity Fund	Medium/Higher	Equities	Active	0.65
5	Global Equity Fund	Medium/Higher	Equities	Active	0.65
6	Fixed Interest Fund	Medium	Bond	Active	0.65
7	Index Linked Fund	Medium	Bond	Active	0.65
8	Discretionary Fund	Medium	Multi Asset	Active	0.70*
9	Property Fund	Medium	Property	Active	1.21**
10	Retirement Protection Fund	Medium	Bond	Passive	0.55
11	With Profits Fund	Lower/Medium	Multi Asset	Active	***
12	Prudential Cash Fund	Minimal	Deposits	Active	0.55
13	Deposit Fund (closed to new members)	Minimal	N/A	Active	N/A****
14	Prudential Dynamic Growth I	Lower/Medium	Multi-asset	Active/Passive	0.62
15	Prudential Dynamic Growth II	Lower/Medium	Multi-asset	Active/Passive	0.62
16	Prudential Dynamic Growth III	Lower/Medium	Multi-asset	Active/Passive	0.62
17	Prudential Dynamic Growth IV	Medium	Multi-asset	Active/Passive	0.62
18	Prudential Dynamic Growth V	Medium	Multi-asset	Active/Passive	0.62

\* 0.65 plus 0.05 property expenses = 0.70

\*\* 0.65 plus 0.56 property expenses = 1.21

\*\*\* 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 closed to new members on the 31 May 2017. Interest rate is set on the first of each month in line with the Bank of England base rate. There are no explicit charges.

**Detail of the two Lifestyle Fund choices are listed in the table below**

	<b>Fund Name (Lifestyle)</b>	<b>Investment Risk</b>	<b>Asset Class</b>	<b>Active or Passive</b>	<b>Charge each year %</b>
19	Lifestyle* Option (optimiser fund) – <i>closed to new members</i>	Higher/ Medium	Equities/ Bonds	Passive	0.55
20	Prudential Dynamic Growth IV ( <b>targeting cash</b> )**	Lower /Medium (moving to Low)	Multi asset moving to cash	Active	***

\* Lifestyle option (optimiser fund) closed to new members on the 16 June 2016.

\*\* Made up of three funds

- Prudential Dynamic Growth II
- Prudential Dynamic Growth IV
- Prudential Cash Fund

\*\*\* 0.62 for the Prudential Dynamic Growth Funds and 0.55 for the Cash Fund

9. On the 22 July 2019 the Prudential are ending the Lifestyle option (optimiser fund) that closed to new members on the 16 June 2016. There are 61 scheme members with AVCs in this fund. Unless members decide otherwise, the Prudential will move these members AVCs to the Dynamic Growth IV Fund (targeting 100% cash).

10. To provide more opportunity for scheme members the Director of Finance and Pension Manager at Prudential have agreed the following Fund changes;
- Introduce a new fund designed for members who still desire a Lifestyle option but may not wish to target 100% cash.
  - **The new Lifestyle option** is the Dynamic Growth IV Fund (**targeting retirement options**). The fund management charge each year is 0.62% to align with the other Dynamic Growth Funds. This reduces to 0.55% when the fund switches to Cash.
  - Offer the 61 people already in the Lifestyle option (optimiser fund) opportunity to move their funds to any of the existing Funds, including either the new Lifestyle option – Dynamic Growth IV Fund (targeting retirement options), or the Dynamic Growth IV Fund (targeting 100% cash). If they make no option, be default, they will move to the Dynamic Growth IV Fund (targeting 100% cash).
11. All new AVC contributors will be informed of the new Lifestyle Fund choice. 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**

12. Members of the Board note the report.

### **Equal Opportunities Implications**

None specific

### **Appendix**

Appendix A – Prudential Fund Guide

### **Officers to Contact**

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