



**LOCAL PENSION BOARD – 26 APRIL 2023**  
**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**  
**ADDITIONAL VOLUNTARY CONTRIBUTIONS**

**Purpose of the Report**

1. The purpose of this report is to inform the Local Pension Board of the Fund's Additional Voluntary Contribution (AVC) arrangements, the choice of investments offered to members and oversight of the provider's performance.

**Background**

2. The Local Government Pension Scheme has a regulatory requirement to provide an Additional Voluntary Contribution scheme. Active contributors may opt to pay extra pension contributions, known as AVCs. Prudential have provided the Leicestershire Fund's AVC scheme since 1996.
3. AVCs are used to increase scheme member benefits. Whilst they can be used to increase the annual pension, they are often used to increase a scheme member's tax-free lump sum. Less commonly the AVC can be transferred to another pension scheme or arrangement which may increase the options available to them. Pension Wise, a free impartial service sponsored by the Government, is available should members wish to discuss their options.
4. There are currently 867 active contributors paying Prudential AVCs and 1,975 pensioners who have additional LGPS benefits having paid into an AVC.

**Shared Cost AVC Scheme**

5. There is a provision within the regulations to allow an employer to also contribute to their employee's AVC. This is known as a 'Shared Cost' AVC which can be provided through a salary sacrifice arrangement. The decision to offer a Shared Cost AVC lies with individual employers, not the Pension Fund, and there are currently four employers within the Leicestershire Fund that offer this to their members.

6. Under the Shared Cost AVC scheme, an employer will agree to pay an employee's chosen contribution amount to their AVC fund and in return, the employee agrees to enter a salary sacrifice arrangement under which they accept a reduction in their gross salary, which is equal to the contribution amount. In addition, the employee is required to pay a fixed £1 a month as their individual contribution to the Shared Cost AVCs arrangement. This contribution is deducted from the employee's gross salary and paid into the AVC fund in addition to the contribution from the employer under the salary sacrifice arrangement.
7. For employees, the advantage is that they will not pay tax or national insurance contributions (NICs) on the amount of salary sacrificed. As a result, operating Shared Cost AVCs through a salary sacrifice arrangement provides an opportunity for employees to save NICs in addition to the usual tax savings, thus increasing take-home pay. In addition, the employer will benefit from a reduction in the employer national insurance contributions.

### **Investment Choices**

8. AVC's are invested by Prudential into the fund choice of each scheme member, who can choose to split their contributions into multiple funds if they wish.
9. There is an annual management charge deducted from the contributions and in some cases other charges may apply.
10. There are 18 different fund choices available to Fund members. 16 are non-lifestyle fund choices that vary from higher risk to minimal risk investments. There are 2 Lifestyle Fund choices which track a members age and de-risk the investment as the member nears retirement age.
11. The Default Investment Option is the Prudential With-Profits Fund.
12. Further information on the choices available can be found in the Prudential Leicestershire County Council Pension Fund AVC Fund Guide (see Appendix A attached to this report).

### **Non-Lifestyle Fund Choices**

13. The charge stated below is made up of the Annual Management Charge plus any further costs that may apply. More information can be found in the Fund Guide.

	<b>Fund Name</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	0.66%
2	UK Equity Passive Fund	Higher	Equities	Passive	0.56%

3	Global Equity Fund	Medium/Higher	Equities	Active	0.66%
4	International Equity Fund	Medium/Higher	Equities	Active	0.68%
5	Positive Impact Fund	Medium/Higher	Equities	Active	0.66%
6	Discretionary Fund	Medium	Equities	Active	0.67%
7	Dynamic Growth IV Fund	Medium	Multi-Asset	Active/Passive	0.63%
8	Dynamic Growth V Fund	Medium	Multi-Asset	Active/Passive	0.63%
9	Index-Linked Fund	Medium	Bond	Active	0.66%
10	Long-Term Gilt Passive Fund	Medium	Equities	Passive	0.56%
11	Dynamic Growth I Fund	Lower/Medium	Multi-Asset	Active/Passive	0.64%
12	Dynamic Growth II Fund	Lower/Medium	Multi-Asset	Active/Passive	0.64%
13	Dynamic Growth III Fund	Lower/Medium	Multi-Asset	Active/Passive	0.64%
14	Fixed Interest Fund	Lower/Medium	Bond	Active	0.66%
15	With Profits Fund	Lower/Medium	Multi-Asset	Active	See note*
16	Cash Fund	Minimal	Deposits	Active	0.55%

\*The charge will depend on the investment returns achieved and the expenses incurred by the Fund (higher investment returns will be associated with a higher charge and lower investment returns will be associated with a lower charge). The charge is currently expected to be approximately 0.80% a year if the investment return in the With-Profits Fund is 5% a year.

### Lifestyle Fund Choices

	Fund Name	Investment Risk	Asset Class	Active or Passive	Charge each year
17	Prudential Dynamic Growth IV Lifestyle	Lower/Medium (moving to Minimal)	Equities / Bonds	Active	Dependant on which fund member is

	targeting 100% cash				in at any given point
18	Prudential Dynamic Growth IV Lifestyle targeting retirement options	Lower/Medium	Equities / Bonds	Active	Dependant on which fund member is in at any given point

14. The Prudential Dynamic Growth Funds may invest in a range of assets which include equities, bonds, property and cash.
15. The Lifestyle Fund choices are made up of three funds:
- Dynamic Growth IV Fund (medium risk)
  - Dynamic Growth II Fund (lower/medium risk)
  - Cash Fund (minimal risk)
16. The ‘targeting 100% cash’ choice is aimed at those intending to take their fund as a lump sum. The ‘targeting retirement options’ lifestyle is for those that want a lifestyle option but are unsure how they might want to access their pension savings when they take their benefits.

### **Service Standards**

17. Prudential have been Leicestershire’s AVC provider since 1996 and historically, service delivery has been good. However, from the end of 2020 Prudential experienced service-related problems that affected the timeliness of benefit payments to scheme members. The issues were:
- Delays in disinvesting members AVC pots, thereby delaying the Pension Section calculating and paying member retirement benefits.
  - Delays in tracking payments from Fund employers and investing members contributions in a timely manner.
  - Delays in providing scheme members and the Fund with communications on individual cases.
18. These were national issues and affected all LGPS AVC Funds, but the Prudential ensured that no AVC payer was financially disadvantaged by these issues.
19. Prudential met with the Leicestershire Pension Board in May 2021 to discuss improvements. Since then there has been a marked improvement in service. However, the Prudential recognise further improvements are still necessary and are working positively with Funds to achieve these.

## AVC Framework

20. As part of good governance, officers have decided to review the provision of the Fund's AVC scheme. The Fund has been with the Prudential for many years and a review will provide the opportunity to establish if there are more favourable options for the Administering Authority and the Fund's AVC payers.
21. In the event that a new provider is appointed the existing provider may possibly be closed to any new members signing up for an AVC. Existing members could remain with Prudential, though the option to move to the new provider could be available.
22. The review will take the form of a procurement exercise and though the option to conduct an independent exercise was considered, officers determined that adopting a national procurement framework would be preferable as this provides a consistent approach that LGPS Funds are able to use. The aim is to conclude the exercise by the end of 2023.

### Timeline

23. **October 2021:** Hymans Robertson were commissioned to 'test the market' and establish whether there were credible alternatives to Prudential in the AVC market. This exercise was also conducted on behalf of some other local authorities who were in the same position as Leicestershire.
24. **March 2022:** Hymans Robertson concluded their investigations and submitted a report advising that there are alternative suppliers that could be considered to deliver the Fund's AVC arrangement.
25. **September 2022:** Made initial contact with National LGPS Frameworks, based at Norfolk County Council about the possibility of developing a Framework for LGPS Funds to review their AVC provider. It was established that the National Framework would be happy to develop a framework, subject to confirmation that there was interest in using such a framework, and that several Funds were prepared to collaborate on the development. Leicestershire confirmed that they are willing to participate.
26. The Framework would include AVC providers for Funds. There will be also an element covering Shared Cost AVCs for individual employers (however, this element is not in scope at Fund level).
27. **December 2022:** National LGPS Frameworks discussed the matter at their annual meeting and agreed to issue a bulletin asking for volunteers from local authorities to assist with setting this up.
28. Meanwhile Leicestershire raised the possibility of the AVC Framework at the National Technical Group to establish the likelihood of other Funds using this and how many would be prepared. This item was then taken back to the

regional Pension Officer Groups for further discussion, and it has been established that several Funds wish to use this.

29. **February 2023:** Leicestershire met with National LGPS Frameworks and whilst some Funds have already agreed to participate, they are continuing to request that any other interested parties come forward. They are also looking for employers who would be prepared to work on the Shared Cost element. Officers have informed the Prudential about the Fund's decision to review LGPS AVC providers and made them aware of the work taking place on a National LGPS Framework.
30. When the National LGPS Framework is set up and work has progressed on the tender, Officers will present a further report to the Board

### **Recommendation**

31. It is recommended that the Board notes all areas of the report.

### **Equality Implications**

32. There are no equality implications arising from the recommendations in this report.

### **Human Rights Implications**

33. There are no human rights implications arising from the recommendations in this report.

### **Appendix**

Appendix A – Prudential Leicestershire County Council Pension Fund AVC Fund Guide

### **Officers to Contact**

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