



LOCAL PENSION BOARD – 25 JUNE 2025
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 outcome of the Fund's Additional Voluntary Contribution (AVC) tender and some improvements introduced for the Fund's AVC payers.

Background

2. The Local Government Pension Scheme has a regulatory requirement to provide members with access to a defined contribution Additional Voluntary Contribution scheme. Active contributors may opt to pay extra pension contributions, known as AVCs.
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 when they are taken at the same time as their LGPS benefits. Less commonly the AVC can be transferred separately from the LGPS to another pension scheme or arrangement which may increase the options available to them from this other pension arrangement.
4. Officers cannot provide financial advice, but the Money Helper service joins up several money and pension guidance services and is a free impartial service sponsored by the Government. Members can use Money Helper to discuss their AVC options.
5. In early 2025, Fund Officers concluded an external tender via the National LGPS Frameworks for the Leicestershire Fund's AVC provider. The successful bidder was Prudential. The Prudential has been the Leicestershire Pension Fund's AVC provider since 1996, so this extends the Fund's longstanding relationship with the Prudential.

Salary Sacrifice Shared Cost AVC

6. 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, often referred to as a Salary Sacrifice Shared Cost AVC (SSSCAVC). The decision to offer SSSCAVCs lies with individual Fund employers, not the Pension Fund, and there are currently only a small number of employers within the Leicestershire Fund that offer this to their members.
7. Under the SSSCAVCs, an employee agrees to enter a salary sacrifice arrangement under which they accept a reduction in their gross salary equal to their chosen AVC contribution amount and in return the employer pays the amount of the salary sacrificed into the AVC fund. In addition, the employee is required to pay an individual contribution into the SSSCAVC arrangement as the "shared cost element". This shared cost contribution must be at least £1 per month and 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.
8. 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.
9. In addition, the employer will benefit from a reduction in the employer national insurance contributions.
10. The Prudential can administer SSSCAVCs for Leicestershire Fund employers. Should other fund employers decide to implement SSSCAVCs in future, Prudential are willing to work directly with these employers when implementing and administering SSSCAVCs.
11. Employers may choose to work with third party providers to manage the salary sacrifice arrangement. The third-party providers must comply with the Prudential processes in dealing with the salary sacrifice contributions.
12. The Pension Fund can administer SSSCAVCs with the Prudential alongside normal employer and employee AVCs.
13. Officers will write to all the Fund employers informing them of the outcome of the tender and Prudential's ability to administer SSSCAVCs.

Investment Choices

14. AVCs and SSSCAVCs, are invested by Prudential into each AVC scheme payer's individual investment choice. The individual can spread their contributions across several investment funds if they wish.

15. The investment fund choices include - higher risk, medium/higher risk, medium risk, lower/medium risk, and minimal risk. This allows the Fund's AVC payers to make their own investment choice, based on their own risk appetite.
16. There are annual management charges deducted from the contributions and in some cases other charges may apply. The charges are shown in the table in point 25 below.
17. The charges are lower than the rates in place before the tender, thereby benefiting the Fund's AVC payers, by increasing the amount of their AVCs invested for retirement.
18. Currently the Fund offers 18 different fund choices to Fund members. 16 are non-lifestyle fund choices and 2 are lifestyle fund choices which track a members age and de-risk the investment as the member nears retirement age.
19. However, Prudential offer a HSBC Islamic Global Equity Index S3 Fund. This only invests in shares of companies that meet Shariah compliance principles.
20. The Director of Corporate Resources and the Pensions Manager have agreed to add this investment option to the Fund's AVC investment portfolio as there have been requests for this option from members as it provides a greater diversity for its AVC scheme payers.
21. Inclusion of this fund increases the investment choice to 19.
22. The Default Investment Option is the Prudential With-Profits Fund.
23. Further information on the choices available can be found in the proposed Prudential Leicestershire County Council Pension Fund AVC Fund Guide (see Appendix A attached to this report).
24. The change to the Fund's AVC investment portfolio will become active from the 1 July 2025.

Non-Lifestyle Fund Choices

25. The charge stated below is made up of the Annual Management Charge plus any further costs that may apply from 1 July 2025. More information can be found in the Fund Guide.

	Fund Name	Investment Risk	Asset Class	Active or Passive	Charge each year %
1	UK Equity Fund	Higher	Equities	Active	0.50
2	UK Equity Passive Fund	Higher	Equities	Passive	0.43

3	Global Equity Fund	Medium/Higher	Equities	Active	0.54
4	International Equity Fund	Medium/Higher	Equities	Active	0.54
5	Positive Impact Fund	Medium/Higher	Equities	Active	0.54
6	HSBC Islamic Global Equity Index	Medium/Higher	Equities	Passive	0.68
7	Discretionary Fund	Medium	Equities	Active	0.54
8	Dynamic Growth IV Fund	Medium	Multi-Asset	Active/Passive	0.51
9	Dynamic Growth V Fund	Medium	Multi-Asset	Active/Passive	0.51
10	Index-Linked Fund	Medium	Bond	Active	0.54
11	Long-Term Gilt Passive Fund	Medium	Equities	Passive	0.44
12	Dynamic Growth I Fund	Lower/Medium	Multi-Asset	Active/Passive	0.51
13	Dynamic Growth II Fund	Lower/Medium	Multi-Asset	Active/Passive	0.51
14	Dynamic Growth III Fund	Lower/Medium	Multi-Asset	Active/Passive	0.51
15	Fixed Interest Fund	Lower/Medium	Bond	Active	0.54
16	With Profits Fund	Lower/Medium	Multi-Asset	Active	*See note
17	Cash Fund	Minimal	Deposits	Active	0.43

*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 0.76% a year if the investment return in the With-Profits Fund is 5% a year.

Prudential previously offered the Prudential Deposit Fund, but this closed to new members on the 31 May 2017.

Lifestyle Fund Choices

	Fund Name	Investment Risk	Asset Class	Active or Passive	Charge each year
18	Prudential Dynamic Growth IV Lifestyle targeting 100% cash	Lower/Medium (moving to Minimal)	Equities / Bonds	Active	Dependant on which fund member is in at any given point
19	Prudential Dynamic Growth IV Lifestyle targeting	Lower/Medium	Equities / Bonds	Active	Dependant on which fund member is

	retirement options				in at any given point
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26. The Prudential Dynamic Growth Funds may invest in a range of assets which include equities, bonds, property and cash.
27. 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)
28. 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 and Communications

29. Officers have developed Key Performance Indicators with the Prudential to monitor their performance.
30. Officers recognise the benefit of AVCs for scheme members. Prudential will work with Fund Officers to drive an increase in the number of AVC payers and will provide access to a suite of new member promotional and educational materials to assist with this. Fund employers will also receive communication on AVCs.
31. As part of the contract review, Prudential have agreed lower annual management charges for the unit linked investment funds offered. These revised rates come into effect from 1 July 2025. Details are included in Appendix A.
32. Prudential will communicate the lower annual management charges to the existing AVC payers, and these come into effect on the 1 July 2025.
33. Officers have ongoing quarterly governance meetings with the Prudential that include the following areas: KPIs, communications, AVC take up and new employers implementing SSSCAVCs, value for money.

Pension Dashboards

34. To comply with the new National Pension Dashboards, the Fund must ensure AVC data is sent to the dashboard along with LG pension data.
35. It's proposed AVC data will be provided securely by the Prudential to the Fund every month and the Fund will capture this on the member's individual pension record. The AVC data will then be transmitted to the dashboard

alongside the member's LG pension data by the Fund using a secure ISP when required. This is known as the "single source" approach and enables the person to see their pension data together.

36. Officers have started work with the Prudential and the Fund's employers on monthly AVC data collection.

37. The Fund's deadline for the National dashboard is the 31 October 2025.

Recommendation

38. It is recommended that the Board notes the report and considers if it wishes to make any comments to the Local Pension Committee.

Equality Implications

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

Human Rights Implications

40. 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 (from 1 July 2025)

Officers to Contact

Ian Howe
Pensions Manager
Telephone: (0116) 305 6945
Email: Ian.Howe@leics.gov.uk

Simone Hines
Assistant Director of Finance, Strategic Property and Commissioning
Telephone: (0116) 305 7066
Email: Simone.Hines@leics.gov.uk