



LOCAL PENSION BOARD - 24 MAY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ADDITIONAL VOLUNTARY CONTRIBUTIONS

Purpose of the Report

1. To inform the Board about the Pension Fund's in-house Additional Voluntary Contribution (AVC) provider the Prudential, AVC options and service delivery.

Background

2. Leicestershire Local Government Pension Scheme is required to provide an Additional Voluntary Contribution (AVC) scheme where active contributors may elect to pay extra pension contributions, known as AVCs, to provide additional benefits at retirement or in the event of death in service.
3. AVC contributions are deducted directly from scheme members pay before tax is worked out, so if a member does pay tax then they receive tax relief automatically. Such additional contributions do not form part of the Pension Fund and do not require an employer's contribution.
3. The Prudential Assurance Company Limited (the Prudential) has been the Leicestershire Pension Fund's in-house AVC provider since 31 March 1996. The Pensions Manager has an annual review with the Prudential covering their service delivery and last reviewed their investment options in 2019. This partnership has worked well until recently. Since the start of 2021 there have been several service delivery failings that are impacting on the Fund's AVC payers.

The Prudential AVC Scheme

4. Of the scheme members within Leicestershire Pension Fund there are currently 988 active contributors paying Prudential AVCs and 1,522 pensioners who have additional LGPS benefits as a result of previous Prudential AVCs.
5. There are 19 different fund choices which are set out in more detail below. 17 are Non-Lifestyle Fund choices that vary from higher risk to minimal risk investments. There are 2 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”. AVCs are invested by the Prudential into the scheme member’s fund choices. When a scheme member retires the AVC is used to increase their pension benefits.

6. Administration charges are applied to member’s individual AVC fund pots and vary slightly between the 19 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. Members participating in this arrangement receive an annual statement confirming amounts held to their account and movements in the year.
7. The Pensions Manager has reviewed the current fund choices and remains confident they continue to provide a sufficient package of options for Leicestershire Local Government Pension Scheme members with satisfactory annual charges.

AVC Fund Options

8. An AVC plan is an investment thus the value could increase or decrease dependent on performance, meaning that unlike the Local Government Pension Scheme, returns from AVC contributions are not guaranteed. It is the scheme member’s individual choice which investment fund or funds they choose and each AVC fund is given a risk rating by Prudential based on their expectation of future volatility (the chance of short-term fluctuations up and down in the value of a fund). Risk ratings do not take into account other types of investment risk such as the effects of inflation. Further detail on Prudential’s risk ratings and the objectives of each fund can be found in Appendix A.
9. Scheme members using the information attached within the Fund Guide can make the choice on what is the most appropriate fund for their needs and circumstances. Leicestershire Pension Fund’s default fund for scheme members that do not make a choice is the ‘With Profits Fund’.
10. Neither the Prudential nor the Pension Section can offer advice to members on which fund to invest in, if scheme members are unsure they should speak with an external financial adviser.

Details of the 17 Non-Lifestyle Fund choices are listed in the table below

	Fund Name (Non-lifestyle)	Investment Risk	Asset Class	Active or Passive	Charge each year %
1	UK Equity Fund	Higher	Equities	Active	0.65
2	UK Equity Passive Fund	Higher	Equities	Passive	0.55
3	Prudential Positive Impact Fund	Higher/Medium	Equities	Active	0.65

4	Prudential Long-Term Gilt Passive Fund	Medium	Equities	Passive	0.55
5	International Equity Fund	Medium/Higher	Equities	Active	0.65
6	Global Equity Fund	Medium/Higher	Equities	Active	0.65
7	Fixed Interest Fund	Medium	Bond	Active	0.65
8	Index Linked Fund	Medium	Bond	Active	0.65
9	Discretionary Fund	Medium	Multi Asset	Active	0.65
10	With Profits Fund	Lower/Medium	Multi Asset	Active	See note*
11	Prudential Cash Fund	Minimal	Deposits	Active	0.55
12	Deposit Fund <i>(closed to new members)</i>	Minimal	N/A	Active	N/A**
13	Prudential Dynamic Growth I	Lower/Medium	Multi-asset	Active/Passive	0.62
14	Prudential Dynamic Growth II	Lower/Medium	Multi-asset	Active/Passive	0.62
15	Prudential Dynamic Growth III	Lower/Medium	Multi-asset	Active/Passive	0.62
16	Prudential Dynamic Growth IV	Medium	Multi-asset	Active/Passive	0.62
17	Prudential Dynamic Growth V	Medium	Multi-asset	Active/Passive	0.62

* 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

	Fund Name (Lifestyle)	Investment Risk	Asset Class	Active or Passive	Charge each year %
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18	Prudential Dynamic Growth IV (targeting cash)*	Lower /Medium (moving to Low)	Multi asset moving to cash	Active	**
19	Prudential Dynamic Growth IV (targeting retirement options)*	Lower/ Medium (moving to Low)	Multi asset moving more slowly to cash	Active	**

* 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

Service Delivery

11. Since the start of 2021 the Prudential has experienced a number of service related problems that have affected the speed of benefit payments to scheme members. However, the Prudential remains committed to resolving these problems.
12. The Prudential migrated its corporate pensions administration to a new system in November 2020. Although the migration itself was a success, there have been some operational challenges in terms of new processes being adopted. This has been compounded by Covid lockdowns. This has impacted upon AVC payers, the Pension Section and the Prudential.
13. The issues are summarised as follows;
 - Delays on 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.
14. The Pensions Manager has been liaising with the Prudential on an improvement plan. Several of the longest outstanding cases have been resolved but the delays continue, and the Prudential recognise their failings and are determined to resolve these fully, and as quickly as possible. The Prudential have a full recovery plan in place which benefits from executive level oversight. The Prudential has informed The Pensions Regulator of the challenges that are being managed.

15. The Prudential have confirmed that any late investments of members contributions will be backdated to the date the contributions were received, so no member will be negatively financially impacted by their delays.
16. The Pensions Manager has received several complaints from scheme members about the Prudential's service. The Pensions Manager has written to all active members with AVCs detailing the situation. The letter is included as Appendix B.
17. The Pensions Manager agreed with the Chair of the Local Pension Board to report the Fund's delays in processing retirement benefits for members with AVCs to The Pensions Regulator as a material breach. This was done prior to the Board meeting on the 24 May 2021.
18. Given the long-standing positive relationship the Fund has had with the Prudential for many years, and the recent downturn in service received, the Prudential are invited to attend the Pension Board's meeting to speak to the Board directly.
19. The Prudential are keen to take this opportunity and to provide a presentation to the Board, including their service delivery improvement plan.

Recommendation

20. Members of the Board note the report.

Equal Opportunities Implications

None specific

Appendix

Appendix A – Prudential Fund Guide -
<http://www.pru.co.uk/pdf/LAVS379702.pdf>

Appendix B – Letter to active scheme members with AVCs

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