



Pension Board
13 June 2019

Report from the Chief Finance Officer

Review of Additional Voluntary Contributions

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Part Exempt – Appendix 1 is exempt as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
No. of Appendices:	1 – Review of AVC Arrangements
Background Papers:	▪ N/A
Contact Officer(s): (Name, Title, Contact Details)	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

1.0 Purpose of the Report

- 1.1 The purpose of this report is to review and recommend changes to current arrangements for Additional Voluntary Contributions (AVCs) which are provided in addition to the main Local Government Pension Scheme.

2.0 Recommendation(s)

- 2.1 That Members of the Committee approve the LGPS specific AVC lifestyle strategy following the closure of the current lifestyle option and changes to the self-select fund range outlined in paragraphs 3.6 – 3.8 of the report.

3.0 Detail

- 3.1 Additional Voluntary Contributions (AVCs) are potentially a tax efficient way to save money for your retirement in addition to the main Local Government Pension Scheme, allowing members to retire early or with a higher pension.

- 3.2 AVCs are a flexible way of saving for retirement and are invested in funds, so they have the potential to grow over time. It is important to note that AVC's are separate from the Brent Pension Fund and these investments are not assets of the Fund. The Fund has appointed Prudential as its AVC provider.
- 3.3 As of March 2019, there were 35 members with AVC investments with Prudential, of which 6 members had paid contributions in the period since 1 January 2019.
- 3.4 Prudential have announced the closure of the lifestyle option in 2019 and the Fund must decide on a new lifestyle strategy for those members currently invested and to be available for new members in future. In light of this announcement, the Fund commissioned its investment advisors, Hymans Robertson, to review the lifestyle option in place in light of the changes to lifestyle options being proposed by Prudential. This report is attached in Appendix 1.
- 3.5 It is recommended that the present lifestyle option, where AVCs are invested 100% in a passively managed UK equity fund up to 7 years to retirement and progressively switched from equities to gilts within 7 years of retirement, is discontinued.
- 3.6 It is recommended that the new lifestyle option outlined in Appendix 1 - Section 3, should be adopted as the new option available to members.
- 3.7 This is a LGPS specific AVC lifestyle strategy which better manages investment risks for the typical LGPS AVC member:
- AVC members often build-up large AVC savings by their 50s;
 - Most members will take their AVCs as 100% cash at retirement; and
 - Members' retirements may not take place on their normal retirement date.
- 3.8 In conjunction with this change in the lifestyle option, it is recommended to make the following changes to the self-select fund range in order to ensure the that choice of funds complements the lifestyle option and the range caters for members wanting to take a more active interest in where their AVCs are invested:
- Replace the Prudential Global Equity Fund with the Blackrock (30:70) Global Equity Index Fund used in the new lifestyle option;
 - The addition of the HSBC Islamic Global Equity Fund;
 - The addition of the Prudential/M&G UK Property Fund;
 - The removal of the long dated gilt fund;
 - The addition of the Prudential/M&G All-Stocks Corporate Bond Fund;
 - Replace the Discretionary Fund with the Prudential Dynamic Growth II and IV Funds used in the new lifestyle option.

Further information regarding these recommended change to the self-select fund range are outlined in Appendix 1 - Section 4.

- 3.9 All Prudential AVC members will be directly informed of the changes to the lifestyle and self-select funds. In conjunction with these changes, appropriate consideration will be given to the treatment of members' existing AVCs invested in the current lifestyle option, and any self-select funds that are to be closed.

4.0 Financial Implications

- 4.1 These are discussed throughout the report.

5.0 Legal Implications

- 5.1 The administering authority of the LGPS has a duty to ensure that AVC provision offered is such that it provides financial security as well as competitive investment and administrative performance. Members will therefore need to consider whether the changes proposed to the AVC lifestyle strategy and to the self-select fund range as outlined in paragraphs 3.6 – 3.8 meet such requirements.

6.0 Equality Implications

- 6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

- 7.1 Not applicable.

8.0 Human Resources

- 8.1 Not applicable.

Report sign off:

Conrad Hall
Chief Finance Officer