



<u>Committee and Date</u> Pensions Committee
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10.00

<u>Item</u>
11
Public

ADDITIONAL VOLUNTARY CONTRIBUTIONS

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Summary

The Fund's Additional Voluntary Contributions (AVCs) are provided by Prudential M&G. This report highlights that scheme member contributions into AVC's have increased three-fold since the introduction new taxation rules in 2006. In 2007 the range of funds made available to scheme members was reviewed and updated. Since 2007 14 funds have been available for new investment. Over the last 3 year 11 of these 14 funds have outperformed their benchmarks.

Recommendations

Members are asked to note the report

REPORT

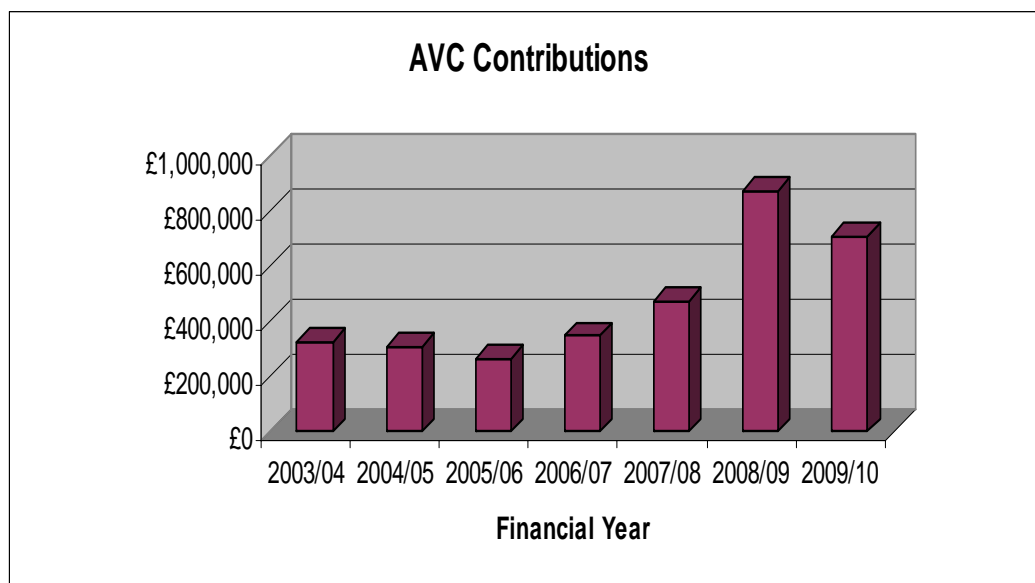
Background

1. Scheme members have the option to increase retirement benefits by purchasing additional pension through the local government pension scheme with Additional Regular Contributions (ARCs) or choosing to invest with the Fund's Additional Voluntary Contribution (AVC) provider, Prudential M&G.
2. Prudential M&G have been the Fund's AVC provider since 2000. In 2007 the funds offered to scheme members were reviewed with the assistance of Mercers and the fund offering updated. Scheme members have the option to invest in 14 different Funds.
3. The range of funds offered were chosen with a view to achieving the following objectives;-

- To provide a choice of funds for members which includes options expected to deliver good long-term rates of return (i.e. in excess of price and wage inflation) so that the value of members' assets is maximised
- To provide a choice of funds for members which includes options that reduces the risk of accumulated assets of sudden (and sustained) reductions in capital values, or the amount of pension credit that can be purchased, or the lump sum taken at retirement
- To offer members sufficient choice to tailor their investments to their own personal and financial circumstances
- Not to offer too many choices to members, which could lead to confusion, increased cost and complexity of the AVC arrangement in terms of administration and communication.

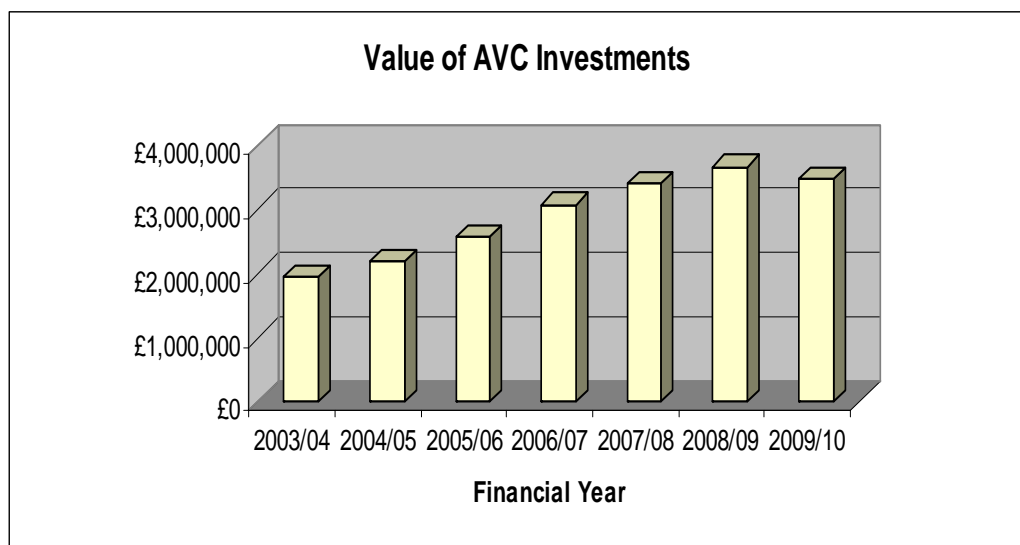
Level of AVC investment

4. In recent years the Fund has seen an increase in the level of investment into its AVC arrangement. In April 2006 the HMRC rules on pension contributions were changed to enable employees to pay higher amounts into their pensions and obtain tax relief at their marginal rate of tax. Since 2006 the Shropshire Fund has seen the annual contributions into the AVC Funds provided by Prudential increase three-fold.



5. There are currently over 500 scheme members contributing to the Prudential AVC arrangement. Since 2006 the number of scheme members contributing to AVC's has increased by around 20%. The Fund is finding that contributing scheme members are paying increasingly larger amounts into the AVC arrangement.

6. The cumulative value of AVC investments held by Shropshire scheme members was £3.5 million at the end of March 2010. The value of investments has increased significantly over recent years in part due to the increasing level of contributions.



Choice of Funds

7. The Fund offers a selection of low charging options together with higher charging options where that can be justified by expected higher returns or additional diversification. Both active and passively managed funds are therefore offered in the fund range.
8. Mercers no longer recommend any new with-profits investment. Their concerns surround the level of reserves that some with-profits providers hold and the more valuable guarantees that existing investments have over new contributions. In view of Mercers concerns the with-profits fund is not available for new contributors.
9. There are a number of funds within the range that are managed by external fund managers. These include the BlackRock passive Global Equity (50:50) Index Fund, the passive BlackRock World ex UK Equity Fund and the active BlackRock Ascent Overseas Equity Fund. In addition, the HSBC Amanah fund is included as a specialist option for any investors wishing to invest their assets according to Islamic Shariah principles.
10. The Shropshire Fund currently offers 14 funds within its AVC range. There are also 4 further funds which following the review in 2007 are no longer available for new investment.

	Investments as at 31/03/10 £000
Funds (available for new investment)	
Prudential Deposit	392
Prudential Retirement Protection	49
Prudential Fixed Interest	90
Prudential Index Linked Gilts	67
Prudential Corporate Bond	11
Prudential Property	74
Prudential Discretionary	153
HSBC Amanah	0
BlackRock World ex UK Equity Index	2
BlackRock Ascent Overseas Equity	13
BlackRock Global Equity (50:50) Index	13
Prudential UK Equity Index	309
Prudential Equity	129
Prudential Socially Responsible Equity Fund	95
Funds (no longer available for new investment)	
Prudential With Profits Fund (existing contributions only)	1,903
Prudential Cash Fund	41
Prudential Global Equity Fund	47
Prudential International Equity Fund	74
Total	3,462

11. The Fund range does not include a default option. This means that all scheme members are required to actively make a fund selection. This eliminates any risk that the Fund may be construed as providing investment advice to scheme members.
12. A range of three lifestyle options are offered which automatically switch investments to lower risk funds as retirement approaches.

Investment Performance

13. Over the last three years 11 of the 14 funds within the AVC range available to scheme members have outperformed their benchmarks.
14. Full details of the investment performance of the AVC range over 1 and 3 years is shown at Appendix A.

Communications

15. Prudential M&G administer the Funds AVC arrangements. Scheme members are able to contact Prudential via telephone, mail or website to set up or amend their AVC arrangements.
16. The website offers full details of the funds available to scheme members including both short term and long term investment performance.

17. Promotional materials are produced by Prudential at no cost to the Fund. Prudential produce scheme specific leaflets for the Shropshire AVC arrangements which are available on request. The Prudential are also willing to work with employers to promote AVC arrangements.

Next Steps

18. Officers will continue to monitor the investment performance of the Funds AVC range provided by Prudential M&G and report any concerns to the Committee.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Pensions Committee, 11 September 2007, Paper 13

Human Rights Act Appraisal

The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998

Environmental Appraisal

Not applicable

Risk Management Appraisal

Regular monitoring of the AVC provider and performance will ensure that the scheme membership has access to high performing AVC provision.

Community / Consultations Appraisal

N/A

Cabinet Member

N/A

Local Member

N/A

Appendices

A – Prudential AVC – Investment Performance

