

# WIRRAL COUNCIL

## PENSIONS COMMITTEE

22 SEPTEMBER 2009

### REPORT OF THE DIRECTOR OF FINANCE

#### REVIEW OF SCHEME ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) ARRANGEMENTS

##### 1. EXECUTIVE SUMMARY

1.1 This report updates Members on arrangements for the provision of Scheme Additional Voluntary Contributions (AVCs).

##### 2. REQUIREMENT TO PROVIDE AVC FACILITY

2.1 Pension Funds have been required to offer a Scheme Additional Voluntary Contribution facility since 6 April 1988. This money purchase type arrangement is in addition to the new Additional Regular Contributions (ARCs) option available within the Scheme. The requirements in respect of AVCs are currently set out in Regulation 25 of the LGPS (Administration) Regulations 2008.

2.2. The Pension Fund has a responsibility to ensure that the AVC arrangements made available to members are reasonable and it has carried out regular periodic reviews of providers' performance to satisfy this responsibility.

2.3 A review of the MPF Scheme AVC provision has recently been carried out by HSBC Actuaries and Consultants. Periodical reviews of the continued suitability of the AVC providers have previously been undertaken by Mercer the Actuary. The most recent reviews were carried out in August 2005 and June 2006 and the results reported to the 21 September 2005 (Minute 21 refers) and 27 June 2006 (Minute 6 refers) meetings of the Pensions Committee.

2.4. Merseyside Pension Fund currently has three AVC providers as detailed in the table below, although Equitable Life is now not offered as a choice to new members:

Company	Date Appointed	Value of Funds Held
Equitable Life	April 1988	£3,329,444 (At 1/7/2008)
Standard Life	March 1991	£6,471,463 (At 30/9/2008)
Prudential	March 2003	£3,619,321 (At 31/3/2008)
Total		£13,420,228

### **3. REVIEW OF AVC PERFORMANCE OF PRESENT PROVIDERS**

- 3.1 Following a competitive tender process HSBC was appointed to complete a review of the continuing suitability of the existing AVC providers; Equitable Life, Standard Life and Prudential to ensure that they continue to offer arrangements which are competitive and reasonable for Scheme members. Although Equitable Life is no longer recommended or offered as an AVC choice for future contributions a substantial number of members still have funds invested with the Company in its With-Profits Fund and a number of other funds.
- 3.2. The findings of the latest AVC review are contained in the report from HSBC dated June 2009, attached (Appendix 1). The findings can be summarised as follows:

#### **a. Equitable Life**

Of the 16 funds currently used by members the largest holding is in the With-Profits Fund in which 59% of the money is held (£1,959,000 in total) with nearly all the remaining holdings being within the Building Society Fund (19%) and the Managed Fund (19%).

HSBC report that for those members with Equitable Life With-Profits benefits, they are unlikely to be able to match the guaranteed value available at retirement if they choose to transfer their benefits away and it is therefore appropriate to maintain it as a closed scheme.

#### **b. Standard Life**

HSBC has confirmed that taking into account the specific requirements of Merseyside Pension Fund, and based on their assessment of relative administration capabilities, investment options, online capabilities and charging levels, they conclude that Standard Life remains suitable as an AVC provider.

The Standard Life Scheme has the highest total money held within it (approximately £6,471,463). It offers a range of both internally and externally managed investment funds.

For those members investing in the Standard Life With-Profits Fund, the current bonus rates remain relatively low and the prospects for these to increase in the short term are reasonably poor. However the fund continues to offer security of capital value provided the benefits are held to retirement. The Merseyside Pension Fund ceased to offer the With-Profits option for any new investors a number of years ago because of concerns about lack of transparency on how With-Profits policy returns are determined.

c. **Prudential**

HSBC has confirmed that taking into account the specific requirements of Merseyside Pension Fund, and based on their assessment of relative administration capabilities, investment options, online capabilities and charging levels, they conclude that Prudential remains suitable as an AVC provider. The Merseyside Fund does not allow members to invest in the Prudential With-Profits plan.

Prudential has confirmed that members are currently investing in 21 different funds in total, including four which are externally managed. The total money held is however concentrated in a small number of funds. Some 73% of the total holdings are held in one fund, the Deposit Fund, which is used by 585 of the 826 members. Of the externally managed funds, the largest holding was £43,406.90 (1% of total holdings) and the investment in the four external funds was by only 13 members of the Scheme.

4. **FURTHER REVIEW RECOMMENDED OR ACTION REQUIRED**

- 4.1. The report identifies a number of areas that MPF should consider for further action or review including; nomination of AVC default funds in the event of members failing to make a positive AVC fund selection, Life-style options made available, choices of funds made available and a number of member communication exercises recommended.

a. **Default Fund Provision**

At present the only AVC fund default option in use is the Prudential Deposit Fund, which offers members a secure investment with minimum risk but poor longer term growth prospects. HSBC has recommended that consideration be given to introducing a default fund with Standard Life. This has not been done to date as the default option is seen as a short term measure only until the member makes a positive decision and because no Standard Life option offered the same minimum investment risk as the Prudential Deposit Fund.

b. **Life-style options**

A review of the Life-style options on offer is recommended to ensure that the choices available are appropriate to the particular circumstances of the LGPS regulations and members preferred investment choices.

c. **Choices of individual funds made available**

Although both Standard Life and Prudential nationally offer a wide range of investment choices for AVCs the choice available to MPF members from Prudential is more restricted. The majority of Scheme members in this Pension Fund currently choose to invest in a relatively small number of the funds available to them.

Ongoing monitoring of the performance of these funds would be simpler if the choice on offer was restricted to a selection of the most popular and successful available. Further advice is to be sought from HSBC on this issue to ensure that the choice of AVC funds available to members is the most appropriate.

d. **Communication issues**

A number of member communication issues are identified mainly in connection with the suitability of the default fund and life-style options which are being addressed.

5. **INLAND REVENUE REFORMS INTRODUCED FROM 6 APRIL 2006**

- 5.1 The Local Government Pension Scheme is unusual in that members are permitted to take up to 100% of the value of their AVC pot on retirement as tax free cash, providing that this together with any other lump sum amount does not exceed 25% of the capital value of their total pension benefits.

6. **FINANCIAL IMPLICATIONS**

- 6.1 The cost of the AVC review undertaken by HSBC was £7,500 plus VAT.
- 6.2 An estimate of the charge for some supplementary advice has been requested on the design of bespoke life-style options appropriate to members needs and on specific AVC funds that should or should not be offered to members from the full range available from the providers.

7. **STAFFING IMPLICATIONS**

- 7.1 There are none arising directly from this report.

8. **EQUAL OPPORTUNITY IMPLICATIONS**

- 8.1 There are none arising directly from this report.

9. **HUMAN RIGHTS IMPLICATIONS**

- 9.1 There are none arising directly from this report.

10. **COMMUNITY SAFETY IMPLICATIONS**

- 10.1 There are no specific implications arising from this report.

**11. LOCAL MEMBER SUPPORT IMPLICATIONS**

11.1 There are no specific implications for any Member or Ward.

**12. LOCAL AGENDA 21 IMPLICATIONS**

12.1 There are no specific implications arising from this report.

**13. PLANNING IMPLICATIONS**

13.1 There are no specific implications arising from this report.

**14. BACKGROUND PAPERS**

14.1 Additonal Voluntary Contribution Schemes Review – HSBC Actuaries and Consultants June 2009.

**15. RECOMMENDATION**

15.1 That Members note the report.

IAN COLEMAN  
DIRECTOR OF FINANCE

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