

Pensions Committee

22 June 2016

Report Title	Additional voluntary contributions – update and review	
Originating service	Pension Services	
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Recommendations for noting:

The Committee is asked to note:

1. The report and the planned review of the Fund's AVC arrangements.

1. Purpose

- 1.1 To provide Committee with a high level overview of a planned review of the Fund's additional voluntary contributions (AVCs) arrangements. A full comprehensive review will be provided to Committee at a future meeting.

2. Background

- 2.1 Under the Scheme rules, members can pay AVCs to boost their retirement benefits. AVCs are invested separately in individual members "pots", managed by the AVC providers. On retirement (and subject to LGPS Regulations) members can elect to take additional benefits as cash or pension from the Fund.
- 2.2 The Fund currently facilitates active AVC provision via Prudential (there are also existing AVC accounts with Equitable Life which are no longer open to new members).
- 2.3 During 2015/16, the Fund received £0.7m in members' AVCs. As at 31 March 2016, £1.9m was invested with Equitable Life and £37.4m with Prudential. Around 3,400 members are actively contributing to these arrangements.
- 2.4 The pension regulator (tPR) has set governance standards for defined contribution (DC) pension schemes which also applies to AVC arrangements. The review will assist the Fund meet the expectations of the tPR.
- 2.5 The Fund last reviewed the AVC arrangements in 2014 and the AVC fund range has increased over time.

3. Scope of review

- 3.1 As part of the day to day fund activity and regular dialogue with Prudential, the operational processes and member communications evolve to ensure they remain up to date and fit for purpose.
- 3.2 The planned review will focus in more detail on:-
 - fund investment options
 - investment performance
 - provider administration performance and "value for money"
 - provider financial strength and market presence
- 3.3 The Fund appointed advisers will assist with the review and build on the work already undertaken by Fund officers.

4. Pricing review

- 4.1 The Fund has requested that Prudential undertakes a pricing review following an increase in invested asset values and greater scrutiny of charges on money purchase pension arrangements more generally in the pension industry. The purpose of this pricing review is to enable the Fund to determine value for money and ensure the pricing of AVC provision by Prudential remains competitive for the service provided and alongside alternative providers in the market.
- 4.2 Through the pricing review Prudential have already identified that cost savings could be made by reducing the manual work required to allocate contributions received from employers. Prudential are developing a more automated process to create scope for a price reduction. They will also look at a differentiating price to reflect the lower level of communication support the Fund requires as a result of the in-house member services team.

5 Fund options review

- 5.1 The Fund is currently considering the range of fund options on offer to members and the selection of the default fund. As noted above, included in this review will be consideration of the performance of individual funds and review of the variety of funds available to cater for different member risk appetite.
- 5.2 Prudential have provided the Fund with a list of possible additional funds and should any of these be implemented, there is the option to add these to the existing portfolio or for them to replace existing funds. The latter contains an added level of complexity, particularly on a communications front, as there will be members already invested in and contributing to these funds. It is also important to emphasise that the Fund cannot provide advice.
- 5.3 Also for consideration is the possibility of members being invested in funds which may not meet their requirements, for example younger members in very low risk and return funds and older members approaching retirement, invested in higher risk funds with volatile fund values.
- 5.4. As an immediate priority (and mindful that the introduction of a cap on retirement/redundancy benefits may drive a higher number of early retirement requests in the short term), an additional communication will be issued to members with the 2016 Annual Benefits Statement. This will encourage existing AVC members to review their fund choice, especially those approaching retirement.
- 5.5 The Fund intends to report back to Committee on the outcomes of the pricing and fund options reviews by the end of this year.

6. Communication and marketing

- 6.1 The Fund has asked Prudential for greater oversight and a comprehensive review of the communications it sends to Fund members along with the associated marketing activity.
- 6.2 One specific focus point will be the communication about how members can take their AVCs and the associated timing. This draws upon changing legislation and feedback from Fund members seeking greater clarity on the new “freedom and choice” introduced by the Government for defined contribution pension savings in 2015 and the ability to take the whole of their AVC fund as a cash lump sum on retirement. In addition to a recent update of reference material on the Fund’s own website, it is important that member communications are clear and consistent (with common terminology) to avoid confusion.
- 6.3 A wider review of the Fund’s website in terms of coverage of AVCs and Prudential’s website content is also underway. This will include the appropriate links from the Fund’s site to the new landing page that has been developed by Prudential.

7. Financial implications

- 7.1 The report contains financial information which should be noted.
- 7.2 Active members of the Local Government Pension Scheme are eligible to contribute a percentage of their pensionable pay to the Fund’s in-house additional voluntary contribution arrangement.
- 7.3 There are management fees applied by AVC providers.

8. Legal implications

- 8.1 The report contains no direct legal implications.

9. Equalities implications

- 9.1 This report has implications for the Council’s equal opportunities policies, since it deals with the pension rights of employees.

10. Environmental implications

- 10.1 The report contains no direct environmental implications.

11. Human resources implications

- 11.1 This report has implications for the Council’s human resources policies since it deals with the pension rights of employees.

12. Corporate landlord implications

12.1 The report contains no direct corporate landlord implications.

13. Schedule of background papers

13.1 None.