

FALKIRK COUNCIL

Subject: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)
Meeting: PENSIONS COMMITTEE
Date: 6 MARCH 2014
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 This purpose of this report is to invite the Committee to consider the appointment of Prudential as an additional AVC Provider to the Pension Fund.

2. BACKGROUND

- 2.1 The rules of the Local Government Pension Scheme require that each Fund must provide a means by which members can build up their benefits on a money purchase basis. This facility is better known as Additional Voluntary Contributions (AVCs).
- 2.2 Members receive tax relief on their contributions, which in turn are invested with an external manager (i.e. the AVC Provider). The Provider will generally offer a spread of investment funds ranging from a low risk cash fund to more volatile equity linked funds. On retirement, the accumulated AVC pot is converted into an annuity or can be realised as a tax free lump sum.
- 2.3 AVCs have been a feature of the Scheme since 1987. At that time, Central Regional Council Superannuation Fund (predecessor of the Falkirk Fund) appointed Standard Life and Halifax Building Society as joint AVC providers. Halifax withdrew from the AVC marketplace in 2001 and since then Standard Life have been sole providers to the Fund.
- 2.4 AVCs enjoyed something of a renaissance in 2006 when a change in tax rules allowed the accumulated funds to be taken as tax free cash on retirement.

3. CURRENT PROVIDER - STANDARD LIFE

- 3.1 The current AVC arrangement allows members to invest in the following Standard Life Funds:
- Cash Fund
 - With Profits Fund
 - Managed Fund
- 3.2 Members are allowed to spread their investment across the three funds and can switch between funds.
- 3.3 As at 5th April, 2013, a total of £2.7m was invested with Standard Life in the Falkirk Council AVC Scheme. At present, roughly 300 members have rights in the AVC Scheme of which only 100 are actually contributing (i.e. less than 1% of members).

4. BASIS FOR ADDITIONAL PROVIDER

- 4.1 The local authority AVC market is specialised to the extent that there are only two credible providers – Standard Life and Prudential – with Prudential being the leading provider.
- 4.2 Whilst Standard Life is a well-known institution with a strong financial rating (S&P rating A+), their approach to marketing the AVC arrangements has been low key. They have shown no great enthusiasm to develop the product so as to make it operate more successfully (e.g. by extending the range of funds available or undertaking presentations).
- 4.3 Standard Life's approach to marketing the product means that:
- the AVC take up rate in Falkirk is poor in comparison with other Funds; and
 - members may be missing out on a tax efficient way of saving for retirement
- 4.4 Others factors may be contributing to the low take up rate:
- the narrow range of funds on offer
 - the lack of easily accessible fund information on performance, costs, etc
 - economic circumstances
- 4.5 Despite their shortcomings, there are good reasons why Standard Life should be retained as one of the Fund's AVC Providers:
- Avoids disturbing the AVC arrangements of current members
 - Administrative links are already in place between Standard Life and Fund employers
 - Standard Life's weakness has been in marketing rather than investing

5. INVESTMENT ADVISER VIEW

- 5.1 The Fund's investment adviser, Hymans Robertson has been asked to comment on the proposal that Prudential be appointed as joint AVC Providers to the Falkirk Fund.
- 5.2 Hymans note from their research that Prudential:
- Is the leading player in the LGPS AVC market
 - Is a financial institution with long term stability (S&P A+)
 - Pro-actively promote their AVC proposition
 - Have developed bespoke literature in relation to the LGPS (unlike Standard Life)
 - Provide high quality support to LGPS members
 - Demonstrate a strong commitment to the market
- 5.3 The appointment of Prudential will allow members to have greater investment choice with their AVC. The choice could include in house Prudential funds, external funds or lifestyle funds that would automatically "de-risk" as members approached retirement age. Hymans have made various recommendations in relation to the funds that should be offered and this will be followed up with Hymans should Prudential be appointed.
- 5.4 In terms of charges, Hymans observe that Prudential scores well against other market players with the annual management charge being in the range 0.65% to 0.85% p.a. depending on the investment fund chosen. This is marginally higher than the 0.6% levied by Standard Life and perhaps reflects the "after sales" service offered by the respective companies.

5.5 In terms of historic performance, Hymans comment that performance (other than the Prudential Property Fund) has been above or in line with benchmarks over the past 5 years and that they have no concerns over the various funds on offer. It is worth bearing in mind that the greatest benefit of AVCs to members often comes in the form of the tax savings.

5.6 In summing up, Hymans state that

“Our research shows that Prudential is the most committed AVC Provider in the local government marketplace. It works with over 70 Funds and has a thorough understanding of the LGPS marketplace..... We believe they would be a suitable addition as an AVC provider for the Fund to sit alongside Standard Life.”

5.7 The Pensions Manager is aware that other Scottish Funds operate a joint AVC arrangement – invariably Standard Life and Prudential – without difficulty. The Pensions Manager has also met with the client account manager of Prudential as part of due process and has been reassured as to the level of commitment and standard of service that can be expected from Prudential.

6. CONCLUSION

6.1 AVCs give scheme members an opportunity to improve on the benefits provided by the LGPS in a uniquely tax efficient manner.

6.2 The Fund has a duty of care to ensure that facilities such as AVCs are attractive, well publicised and easily accessible to scheme members. The take up of AVCs in the Falkirk Fund appears low in comparison with other local authority funds. Whilst payment of AVCs is entirely voluntary and pressures on disposable income will have reduced demand, the passive approach taken by Standard Life to developing the scheme will not have helped the take up rate.

6.3 Prudential are recognised as leading exponents of the LGPS AVC product and their appointment as joint providers is supported by Hymans Robertson. It is considered that their appointment, if ratified, will help to refresh the AVC facility and make it easier through improved marketing and greater product choice for members to save for their retirement.

7. RECOMMENDATIONS

7.1 **The Committee is asked:**

- i) **to approve the appointment of Prudential as an additional AVC Provider to the Fund; and, if so approved**
- ii) **to authorise the Chief Finance Officer to consult with Hymans Robertson regarding the investment funds to be made available to AVC contributors**

Chief Finance Officer

Date: 7^h February, 2014

BACKGROUND PAPERS

1. Hymans Robertson paper – Review of the suitability of Prudential as Joint AVC Provider

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506304 and ask for Alastair McGirr