

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	2019 AVC Review Update
<b>Report Author</b>	Deputy Head, Clwyd Pension Fund

### EXECUTIVE SUMMARY

The purpose of this report is to provide an annual update on the AVC arrangements following a review first carried out by Mercer in 2017, as proposed under the business plan.

In summary, the 2019 monitoring update found that:

- Unit-linked investments generally performed well over year to 30 June 2019.
- Prudential has fully removed its exit charge for investments withdrawn in the first three years, with effect from 1 December 2018.
- Underlying investment performance of the With-Profits funds has continued to be good compared to other With-Profits funds.
- Prudential has developed its digitally led service to replace its previous meeting service.

Mercer's report provided comment on the above aspects as well as further information on other current issues in the market. In addition to these reports, Prudential also presented at the Employer's Meeting on 12 November.

On the Fund's arrangements with Equitable Life, the EGM took place in London on 1 November, and policyholders voted overwhelmingly in favour of the Proposal – 94% by number, and 96% by value. The Clwyd Pension Fund also voted in favour of the proposal after having taken formal advice from Mercer in respect of how the Fund's members would be affected by the Proposal.

The next step is the High Court hearing starting on 22 November, where formal approval will be sought to implement the changes, assuming approval, effective 1 January 2020.

### RECOMMENDATIONS

1	It is recommended that all Committee members note the contents of this report and the accompanying appendix.
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## **REPORT DETAILS**

<b>1.00</b>	<b>2019 AVC Review Update</b>
1.01	<p><b>Background</b></p> <p>Under the LGPS Regulations, all Administering Authorities are required to provide members access to an AVC provider, through which they can choose to save more for their retirement. By providing this, the Administering Authority has a fiduciary duty to ensure that the AVC arrangements it puts in place are in the best interests of its members (in terms of suitability of fund range, performance, governance and administration).</p> <p>Historically, the vast majority of LGPS funds, including the Clwyd Pension Fund, used the Equitable Life Assurance Society (ELAS) to provide members access to AVCs. After its well-publicised difficulties in the late 1990s and early 2000s, ELAS closed to new business and withdrew from the market. While the Clwyd Pension Fund appointed Prudential to provide access to AVCs after this point, many ELAS fund members remained with ELAS due to the type of funds they were invested in. The Administering Authority's fiduciary duties therefore continue for both the current and historic providers.</p> <p>In accordance with these requirements, the Fund has performed regular AVC reviews (firstly in 2017 and then 2018) in order to ensure that the AVC providers remain appropriate and serve the best interests of the members. This report comments on the 2019 review.</p> <p>Currently, there are 600 Clwyd Pension Fund members with access to £5.4m of investments with Prudential and 6 members with access to £0.4m of investments with Equitable Life.</p> <p>Appendix 1 sets out a summary update as provided by Mercer, and this includes details of the actions taken following the 2017 review, commentary on performance and also updates on other aspects within the market.</p>
1.02	<p>The main findings of this annual review are:</p> <ul style="list-style-type: none"><li>- Unit-linked investments generally performed well over the year to 30 June 2019, with upper quartile performance for many of them and only two funds performing below median.</li><li>- Historically, any LGPS investments withdrawn from a Prudential policy within three years of receipt of the first contribution could incur an exit charge. However, Prudential has advised that this exit charge has been fully removed with effect from 1<sup>st</sup> December 2018.</li><li>- The underlying investment performance of the With Profits fund has continued to be positive, comparing well against other With Profits funds held on the Mercer database (exceeding the median return over ten years by 10%).</li><li>- Following on from Mercer's full review in 2017, the Life-styling options offered by Prudential have been updated. The three</li></ul>

	<p>previous options are now closed to new members, and have been replaced by two of Prudential's "Dynamic Growth" strategies; one targeting retirement options for those who are unsure how they will draw these funds on retirement, and the other for those targeting 100% cash.</p> <ul style="list-style-type: none"> <li>- Any affected members by these closures were invited by Prudential to make a decision as to which lifestyle arrangement they would like their funds to transfer to. In the absence of any positive decision, the Fund advised Prudential to default to a transfer to the "Targeting Cash" lifestyle arrangement in light of: <ul style="list-style-type: none"> <li>o the pension freedoms available to members upon retirement,</li> <li>o since 2017 the majority of members have opted to join the "Targeting Cash" arrangement and</li> <li>o following discussions with Mercer.</li> </ul> </li> <li>- Further to the previous report, and subsequent steps taken, there is no longer a default fund for future new contributors. This was adopted given that the Fund provides access to communication material (directly and via the AVC provider) designed to assist members with making investment decisions.</li> <li>- The Fund and Prudential have sought to contact AVC members in order to remind them of the options available across a range of investment strategies.</li> <li>- In May 2018, Prudential announced it would be ceasing to provide its member presentation and individual members meeting service for public sector AVC scheme clients, but focussing on a more digitally led service.</li> <li>- In October 2019, Prudential demerged from M&amp;G plc. This was to enable Prudential's Asia operations to be more valued by the market, and allows M&amp;G more freedom to invest and grow its business. It is not expected to impact on the UK business, and Clwyd Pension Fund's interests.</li> <li>- Prudential has announced that it will be closing a range of funds later in 2019 and further funds in 2020. The funds indicated are not currently in use by the Fund.</li> </ul> <p>In accordance with its responsibilities, the Administering Authority will continue to keep all AVC arrangements under review, and will revisit this again next year.</p>
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<b>2.00</b>	<b>EQUITABLE LIFE</b>
2.01	<p>Following Equitable Life's Spring Announcement in 2018 regarding their intention to transfer all policies to Reliance Life (subsequently rebranded as Utmost Life and Pensions). The EGM to vote on the proposal took place in London on 1 November 2019.</p> <p>As part of the Proposal, the Equitable Life With Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds. It was expected that the 35% Capital Distribution (the enhancement to disinvestments from the With Profits Fund that was in place previously for Equitable Life policyholders) would increase to 60%-100%.</p>

	<p>The Fund sought advice from Mercer as to whether or not it was appropriate to support the Proposal insofar as it applies to the Clwyd Pension Fund membership. Based on a critical yield analysis, Mercer advised it was reasonable to vote in favour of the Proposal.</p> <p>The Clwyd Pension Fund, as policyholder, voted in favour of the Proposal on 1 November, and was overwhelming supported – 94% by number, and 96% by value.</p> <p>The next step is the High Court hearing starting on 22 November, where formal approval will be sought to implement the changes, assuming approval, effective 1 January 2020.</p> <p>There are aspects of the Proposal that need further investigation in terms of default treatment of Funds for certain members, but this will be considered at the appropriate time.</p>
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<b>3.00</b>	<b>RESOURCE IMPLICATIONS</b>
3.01	<p>The AVC arrangement will continue to be kept under annual review (in terms of performance of funds), as per the original recommendations by Mercer.</p> <p>In addition to this, Fund Officers will continue to meet and have dialogue with the Prudential Client Managers in respect of the arrangements.</p> <p>There will also be additional work required should the High Court give approval for the Proposal to go ahead, as the default treatment for some members may not be appropriate.</p>

<b>4.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
4.01	<p>Further communications likely to be needed once the High Court has ruled on the Equitable Life transfer. This will include some targeted communications where the default proposals may not be appropriate for those members.</p> <p>Fund Officers to continue to receive regular feedback from members and employers on the AVC arrangements and service offered by Prudential.</p>

<b>5.00</b>	<b>RISK MANAGEMENT</b>
5.01	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> <li>• Governance risks: G2 &amp; G7</li> <li>• Administration risks: A4</li> </ul>

<b>6.00</b>	<b>APPENDICES</b>
6.01	Appendix 1 – Summary paper of the 2019 AVC Review Update

<b>7.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
7.01	<p>2017 AVC Summary paper, and 2018 monitoring update tabled at previous Committee meetings.</p> <p><b>Contact Officer:</b> Debbie Fielder, Deputy Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702259  <b>E-mail:</b> <a href="mailto:debbie.a.fielder@flintshire.gov.uk">debbie.a.fielder@flintshire.gov.uk</a></p>

<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p>(a) <b>The Fund – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering Authority or Scheme Manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>Additional Voluntary Contribution (AVCs)</b> – additional contributions made by members to the Fund’s Money Purchase AVC provider.</p> <p>(d) <b>The Committee – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(e) <b>LPB or PB – Local Pension Board or Pension Board</b> – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>(f) <b>GAD</b> - The Government Actuary’s Department.</p> <p>(g) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(h) <b>DCLG - Department for Communities and Local Government</b> - Central Government department responsible for the LGPS</p>

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|  | <ul style="list-style-type: none"><li>(i) <b>LGA - The Local Government Association</b> - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS.</li><li>(j) <b>Actuarial Valuation</b> - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.</li><li>(k) <b>TPR</b> – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension schemes and pay money into it, together with making sure that workplace pension schemes are run properly so that people can save safely for their later years. TPR has a specific remit in the context of Public Service Pension Schemes as defined by the Public Service Pensions Act 2013 (see it's Code of Practice 14).</li></ul> |
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