

CLWYD PENSION FUND COMMITTEE

Date of Meeting	21 March 2017
Report Subject	AVC Review Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

Under the LGPS Regulations, each Fund is required to provide access to an AVC arrangement where pension fund members can pay additional contributions in order to further boost retirement savings and/or to provide additional life insurance. Even though this is an individual choice, the Administering Authority is the policyholder for the “group” arrangement in place. This means that the Administering Authority has certain responsibilities.

TPR’s various Codes of Practice state that DC schemes (*including AVC arrangements for DB schemes*) should meet certain aims; they should be efficient, effective and give members “value for money”. These aims should be regularly evaluated to ensure this continues to be the case for the AVC arrangements.

Therefore a review of the Fund’s AVC arrangements has been carried out by Mercer and this report provides an update on it. It was agreed that the scope of the review extended to Prudential only, and not Equitable Life.

The review of the Fund’s AVC assets held with Prudential has not identified any material concerns that require significant or immediate action to be taken by the Administering Authority. The review has shown that there is a good range of asset classes available to members, the fund charges compare well against the typical AVC market and performance has been generally good for the majority of funds over the periods measured (2012 - 2016 inclusive).

The review also identified that take-up of the AVC option for a Fund of the size of Clwyd is not massively out of line (only slightly below average) compared to other Funds in Wales and beyond.

A number of areas have been identified where further consideration should be given to reviewing the “default” fund and lifestyle strategies available to members, in addition to building on existing communication and monitoring activities.

RECOMMENDATIONS

1	The Committee notes this report of the AVC review carried out by Mercer.
2	The Committee delegates power to Fund Officers to act on the recommendations and implement next steps, noting that the officers will report progress made at future Committee meetings.

REPORT DETAILS

1.00	AVC Review Update												
1.01	<p>Under the LGPS Regulations, each LGPS Fund is required to provide access to an AVC arrangement where pension fund members can elect to pay additional contributions in order to further boost retirement savings and/or to provide additional life insurance.</p> <p>Even though this is an individual choice, the Administering Authority is the policyholder for the “group” arrangement in place. The Administering Authority, therefore, has certain responsibilities.</p> <p>TPR’s various Codes of Practice state that DC schemes (<i>including AVC arrangements for DB schemes</i>) should meet certain aims; they should be efficient, effective and give members “value for money”. These aims should be regularly evaluated to ensure this continues to be the case for the AVC arrangements.</p>												
1.02	<p>There are a total of 571 members invested in the Prudential arrangement, although many are invested in more than one fund.</p> <p>The table below summarises the total AVC assets under the Fund held with Prudential.</p> <table border="1"> <thead> <tr> <th>AVC Provider</th> <th>Date fund value as at</th> <th>Unit Linked Funds</th> <th>With Profits Fund</th> <th>Deposit Fund</th> <th>Total of all Funds</th> </tr> </thead> <tbody> <tr> <td>Prudential</td> <td>November 2016</td> <td>£1,563,127</td> <td>£2,204,403</td> <td>£566,296</td> <td>£4,333,826</td> </tr> </tbody> </table> <p>There are 11 Unit Linked Funds, and one With Profits and Deposit Fund available to members.</p>	AVC Provider	Date fund value as at	Unit Linked Funds	With Profits Fund	Deposit Fund	Total of all Funds	Prudential	November 2016	£1,563,127	£2,204,403	£566,296	£4,333,826
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Prudential	November 2016	£1,563,127	£2,204,403	£566,296	£4,333,826								
1.03	<p>Fund Officers met with Mercer at the outset of the review to agree the range and scope of the review carried out. This meeting also provided an opportunity for officers to express their views and objectives from the review. It was agreed with Mercer at the outset that the scope of the review extended to Prudential only, and <u>not</u> Equitable Life. This was on the grounds that Prudential is the current provider, and members with Equitable Life funds had received extensive support/information from the Fund over very many years.</p>												

1.04	<p>Fundamentally, Mercer's review of the Fund's AVC assets held with Prudential did not identify any material concerns that require significant or immediate action to be taken by the Administering Authority.</p> <p>The conclusions and next steps identified are set out in paragraphs 1.06 and 1.07 of this report. The full report is available to any PFC members who want to consider the detail.</p>
1.05	<p>Mercer's review covered the following areas:</p> <ul style="list-style-type: none"> - The communications, administration and marketing of the options available to members, and broad consideration of take up rates; - Details of the Prudential policy held by the Administering Authority and the types of investment funds available within them (including the availability of any Ethical / Socially Responsible funds); - Details of any charges or penalties that may be applied upon a transfer out, along with details of any preferential terms that may be lost; - The amount invested in each fund by members of the Fund; - Details of past performance of the investment funds in which members' AVCs are invested. - High level commentary on alternative investment funds available with Prudential.
1.06	<p>Conclusions</p> <p>The conclusions of the review are summarised below:</p> <ul style="list-style-type: none"> - Take-up of the AVC option for a Fund of the size of Clwyd is not massively out of line (only slightly below average) compared to other Funds in Wales and beyond. - Prudential's communication with Fund members is active and ahead of most providers. - The majority of unit-linked funds have performed in the upper quartiles when compared to similar funds within the same sector (with only a few exceptions). Performance should be monitored closely going forward. - Annual charges compare reasonably well against the typical AVC market. - There are a number of lifestyle strategies available to members, with differing switching periods (6, 8 or 10 years) that target annuity purchase at retirement. Recommendation is to explore merits of introducing a lifestyle option that targets cash at retirement. - Approximately 50% of members' AVC funds are invested in the Prudential With Profits Fund. Whilst performance has been good in the past, the continued use of this fund as the default choice should be reviewed. - A number of members have relatively high accrued terminal bonuses and a Market Value Reduction would not have been applied if they had transferred recently. For older members, at least, a high terminal bonus potentially makes this investment much higher risk than they are probably aware. It is recommended that this be highlighted to

	<p>members as these terms are not guaranteed and could be withdrawn. Members should also be reminded of the other funds available within the Prudential policy.</p> <ul style="list-style-type: none"> - There are a large number of members investing in the Deposit Fund who are more than 5 years from their intended retirement date. As such it is recommended that they be reminded of the features of the fund and their need to regularly review the appropriateness of their selection. - The Administering Authority should also consider completing the assessment against the Pension Regulator’s DC Code of Practice 13.
1.07	<p>Next Steps</p> <p>Fund Officers will be liaising with representatives from Prudential to discuss the findings of the review and the next steps that can be jointly taken. For completeness, the recommended next steps emerging from the AVC review were:</p> <p>Further consideration of</p> <ul style="list-style-type: none"> - The current default fund and its ongoing suitability. - The range of lifestyle strategies on offer to members <p>Communication of</p> <ul style="list-style-type: none"> - the AVC arrangement to new and prospective members (in particular, in the light of recent reductions to exit charges effective from 19 March 2017) - the AVC arrangement to all members with current AVC investments, clarifying where their monies are invested, reminding them of the options and the lifestyle strategies available, and how the optimal investment strategy today should be targeting the type of benefits members wish to obtain on retirement. (Members in a lifestyle strategy should also be communicated with on an ongoing basis as they approach retirement date in line with the Disclosure of Information Regulations.) - the accrued (non-guaranteed) terminal bonuses and transfer terms available to members in the With Profits fund - the Deposit Fund key features for members invested in this fund that are more than five years from their intended retirement date. <p>Ongoing monitoring of</p> <ul style="list-style-type: none"> - the performance of all AVC funds on a regular i.e. at least annual basis - the AVC arrangements against the Pension Regulator’s DC Code of Practice - the AVC provider and a more detailed review of the funds every two to three years (or earlier, if any significant changes take place in the market, within the LGPS, or with the provider).

2.00	RESOURCE IMPLICATIONS
2.01	The actions arising out of the findings of the review will mean further officer time is required, firstly to liaise with Prudential, and secondly to implement the agreed next steps. This may involve Fund-wide and targeted

	member communications but it is expected that support from Prudential and Mercer will also be provided as required.
3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report but noting the developments in the highlighted areas.

4.00	RISK MANAGEMENT
4.01	This report addresses the item contained on the Fund's Business Plan, as well as some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): <ul style="list-style-type: none"> • Administration and Communication risks: A4 • Governance risks G5 & G6.
4.02	Whilst the findings of the review did not identify any major issues, some risks do remain and need to be considered. These include (but are not limited to) members having funds invested in a way that is not optimal to their objectives. The recommended next steps seek to address this and other risks present.

5.00	APPENDICES
5.01	None.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Full AVC Review report presented to Fund Officers on 2 March 2017. Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) CPF – Clwyd Pension Fund – 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 (b) Administering authority or scheme manager – 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. (c) PFC – Clwyd Pension Fund Committee - the Flintshire County

Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund

- (d) **LPB or PB – Local Pension Board or Pension Board** – 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.
- (e) **GAD** - The Government Actuary's Department.
- (f) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (g) **TPR - The Pensions Regulator** - a national body that is the UK regulator of work-based pension schemes.
- (h) **DCLG - Department for Communities and Local Government** - Central Government department responsible for the LGPS
- (i) **LGA - The Local Government Association** - 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.
- (j) **Additional Voluntary Contributions (AVCs)** - additional contributions paid into an investment vehicle provided by the Fund in order to boost savings for retirement. Proceeds at retirement can be used to take additional lump sum, or buy additional pension either in the LGPS or on the open market.
- (k) **Disclosure of Information Regulations** - legislation that sets down the detail of what information should be provided to members and when. TPR also issued a guide building on this legislation providing details about the availability of free and impartial advice from the government's guidance body "Pension Wise". The guide also included good practice examples that should be provided to members at the point they are required to make a decision to take their benefits in a particular form or to take a transfer to another scheme in order to take their benefits.
- (l) **Annuity** - a series of payments (which may be flat or increasing) payable at regular intervals into the future. This may be purchased from an insurance company from proceeds of an AVC arrangement.
- (m) **Lifestyling** - an investment mechanism that automatically switches investments from growth / return seeking asset classes to more secure ones as members approach retirement. This could target cash or an annuity/pension depending on the mechanism in place.
- (n) **With Profits Funds** - an investment fund that can have guaranteed returns attached to them, but also may pay when possible annual and final bonuses depending on performance. Early withdrawals may be

subject to reduction and may mean the loss of previous bonuses applied.

(o) **Unit Linked Funds** - an investment (pooled) fund where units are purchased and the value / returns achieved by the Fund are driven by the overall unit price. Typically these are open-ended vehicles and so funds can be accessed at any time.

(p) **quartiles** a descriptor for a set of data split into four equal groups, each group comprising a quarter of the data.

(q) **DC Code** - Code of Practice 13 issued by TPR in 2016 setting out the standards of conduct and practice that occupational pension schemes providing money purchase benefits (including AVCs) need to meet to comply with their legal duties.