

PENSIONS PANEL

14 March 2018

Title: Additional Voluntary Scheme Review	
Report of the Chief Operating Officer	
Open Report with Exempt Appendix 1 (relevant legislation: paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)	For Information
Wards Affected: None	Key Decision: No
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Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary: Periodically the Council reviews its Additional Voluntary Contribution (AVC) provider to ensure that it is still appropriate and relevant to its members. In addition, a review of its performance and fees has been completed. Appendix 1 of this report includes a review of the Council's current AVC provider, Prudential, with a summary of the key points outlined in the main body of this report. After this report was produced, Prudential have provided advised of a reduction in fees and the introduction of improved communications and the potential to introduce a salary sacrifice element to the Council's current AVC offer.	
The Panel is asked to note: i. the JLT AVC review report in Appendix 1; ii. that Prudential have agreed to: <ul style="list-style-type: none">○ reduce the costs of the funds they provide by 1 March 2018;○ are improving their communication support to clients; and○ are able to provide a salary sacrifice option for AVC payments.	

1 Introduction and Background

- 1.1 The Pensions Regulator's 2015 Code of practice no. 14 "Governance and administration of public service pension schemes" expects Pensions Boards and Panels to be "familiar" with their Fund's AVC arrangements.

1.2 In addition one of the Pension Panels objectives includes the selection, appointment and termination of external AVC providers and review performance. A review of the Fund's AVC was included as part of the 2017 Business Plan.

1.3 Officer engaged JLT to review the AVC scheme provided by Prudential and compare it against 'what good looks like' in the broader workplace savings marketplace.

2. **Summary of JLT Review**

2.1 JLT have assessed the existing scheme, outlined the key features seen in modern workplace pensions products using research captured during our annual review of pensions providers 'Provider Watch', and drawn comparisons, conclusions and recommendations.

2.2 The primary features considered are those that the Pensions Regulator highlights as important to assess a scheme against, namely investments, communications, at retirement options and value for money.

2.3 JLT found that compared with a modern workplace savings product:

- Overall Prudential are a good AVC provider and tick several boxes;
- The lack of transparency around the "with profits" strategy was raised but it was noted that this was usual for this type of strategy;
- similar investments funds could be obtained more cheaply elsewhere, however these options currently do not provide an AVC compliant approach;
- the AVC communications have limited content and are out-dated;
- at retirement options available to members do not compare favourably; and
- value-for-money could be improved with a different provider.

2.4 JLT recommends that action is taken in three areas:

- that the Members should review their investment objectives and evaluate the continued suitability of this approach;
- that discussions are held with Prudential on the options they have to improve communications to members; and
- that consideration is given around the options available to you to improve value for money with Prudential.

3. **Officer Meeting with Prudential**

3.1 On 9 January 2018 officer met with Prudential to raise the issues outlined in the report and to discuss the costs charged to AVC Members.

3.2 Overall the meeting was positive, and Prudential confirmed that:

- i. Prudential is reducing the Annual Management Charge (AMC) for Unit-Linked funds by 10 basis points (this excludes the Prudential Cash Fund and the Prudential With-Profits Fund). The costs for each strategy provided is outlined below:

Fund name	Current AMC	New AMC
Prudential Discretionary	0.75	0.65
Prudential UK Equity Passive	0.65	0.55
Prudential UK Equity	0.75	0.65
Prudential Fixed Interest	0.75	0.65
Prudential Global Equity	0.75	0.65
Prudential Index-Linked	0.75	0.65
Prudential International Equity	0.75	0.65
Prudential UK Property	0.75	0.65
Prudential Long-Term Gilt Passive	0.65	0.55
Prudential Ethical	0.75	0.65

- ii. Prudential advised that they can now support employers in offering Salary Sacrifice Shared Cost AVC arrangements. Salary Sacrifice is a way of employers enabling AVCs to be made through salary sacrifice arrangements by using the existing LGPS shared cost AVC rules.
- iii. Prudential outlined improvement in their communication, including inserts in the Annual Benefit Statement, an updated Website, on-site presentations, emails and handouts. Officers will work with Prudential to ensure maximum benefits are obtained from the communication options provided.
- iv. A review of the strategies will be completed later in 2018, where additional strategies will be added.

3. Consultation

3.1 None.

4. Financial Implications

Implications completed by: Claire Symonds, Chief Operating Officer

- 4.1 The Pensions Regulator's 2015 Code of practice no. 14 "Governance and administration of public service pension schemes" expects Pensions Boards and Panels to be "familiar" with their Fund's AVC arrangements.
- 4.2 This report forms part of a regular review of the AVC provision.

5. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Solicitor

- 5.1 The Council as an administering authority is obliged to enable members of the Pension Scheme to make AVC's. Regulation 17 of The Local Government Pension Scheme Regulations 2013 sets out the requirements for dealing with AVCs or shared cost additional voluntary contribution arrangements ("SCAVCs"). Under the Regulation an active member may enter into arrangements to pay AVCs or SCAVCs. The

arrangements must be a scheme established under an agreement between and a body approved for the purposes under the Finance Act 2004 (“the AVC provider”), registered in accordance with that Act and administered in accordance with the Pensions Act 2004. Prudential is such a provider.