

SOUTH YORKSHIRE PENSIONS AUTHORITY

16 February 2012

Report of the Clerk and Treasurer

ADDITIONAL VOLUNTARY CONTRIBUTIONS: POSITION STATEMENT

1. Purpose of the Report

To provide Members with information on the providers, funds, performance and member numbers associated with the AVC facilities offered to LGPS members by the South Yorkshire Pension Fund.

2. Recommendations

Members are recommended to note the contents of the report.

3. Background Information

- 3.1 At the Member Advisory Panel meeting of November 2011 a paper was requested that set out the current position of the Authority in relation to its Additional Voluntary Contribution facility.
- 3.2 Since 1988 LGPS Administering Authorities have been allowed, through Regulations, to offer an additional voluntary savings facility to Scheme members in order to allow them to increase their retirement benefits.
- 3.3 Originally the facility was designed simply to allow members to save an additional and separate fund of money through a third party provider. That Fund then had to be converted to an income at retirement. Tax relief was, (and still is), granted on any contributions made.
- 3.4 Tax, finance and Regulation changes over the years have amended the original premise of AVCs and members can now take all or part of their AVC funds as tax-free cash as well as having access to better value annuities from the LGPS rather than from the provider or another insurance company.
- 3.5 Originally, like other LGPS funds, SYPA only offered one provider choice and three simple Investment routes with that provider (i.e. a deposit account linked to building society interest rates, a with-profits approach and a managed fund route). There was no choice of funds within the managed approach.
- 3.6 There are no costs to SYPA involved in the provision of the facility and the Authority makes no contributions to members' AVC savings.
- 3.7 At the moment only a few LGPS funds offer Members the choice of more than one provider: many funds limit the choice to just one firm. It is a specialist market and there are only really three potential providers of LGPS AVCs:

Prudential, Scottish Widows and Standard Life. Equitable Life is, of course, closed to new business.

- 3.8 There is a detailed explanation about AVCs on the Fund website and this includes hyperlinks to the designated providers.

4 Equitable Life

- 4.1 The Authority's first choice of provider back in 1988 was Equitable Life. At the time this was one of the UK's most venerable and reputable financial companies and was chosen, on advice, for its mutual status and financial integrity and strength.
- 4.2 The subsequent problems at Equitable Life from the mid 1990 have been well documented both in the press and in other reports and presentations to the Authority
- 4.3 By the year 2000 the problems with Equitable were serious enough to prompt a review of the Authority's position and in 2001 an alternative provider, Scottish Widows, was appointed to become the default AVC provider in South Yorkshire. The majority of members elected to divert future on-going contributions to the new provider rather than continue paying to Equitable. Funds already built up were left with Equitable pending a decision on action by SYPA.
- 4.4 Over the following eighteen months the Authority worked hard to provide AVC fund holders with information and choices about the Equitable situation. The end result was that about 700 With Profits Fund holders participated in a bulk transfer of funds away from Equitable to Scottish Widows on a reduced penalty basis to that which would otherwise have applied to individuals.
- 4.5 This left about 1400 active and deferred members with AVC funds with Equitable, some of whom were holding policies not affected by the crisis, that is, managed funds or deposit accounts. This number has reduced over the years as people have left or retired. Currently the Authority has 500 active members with Equitable funds of some kind.
- 4.6 Following the bulk transfer further letters were sent to Equitable holders to provide them with updated information and to encourage them to keep their positions under review. However, whether through apathy or a fear of losing out on any future compensation that might become payable, no interest was shown in moving funds away and people have therefore remained with Equitable, (although not necessarily paying any more to them), by default rather than by a positive election to do so.

5. Scottish Widows

- 5.1 From April 2001 to September 2009 Scottish Widows was the default AVC provider to the Fund although some concerns had arisen about the quality of their administration and service on occasion.
- 5.2 As part of a general review of the AVC facility and also in response to the withdrawal of tax relief on some AVC life cover products, including that offered by Scottish Widows, The Prudential Assurance Company were appointed as the alternative provider to Scottish Widows in 2009.

- 5.3 This achieved several objectives in that it provided more member choice, it provided a life cover product that was still able to attract tax-relief on contributions thus making the premium price competitive and it provided competition to Scottish Widows who would be driven to improve.

6. Prudential

- 6.1 Prudential are the big players in the public sector AVC industry and in particular in the LGPS. They have a large dedicated service group who are able to provide members with bespoke information in a variety of formats. They can arrange one on one surgeries, group presentations, retirement seminars for employers, on line services for employees and employers and an expertise and an understanding of what LGPS clients require.
- 6.2 Prudential currently have relationships with about 70% of LGPS Funds and are perceived to be the provider of choice in the public sector.

7. AVC fund choices by provider

- 7.1 Scottish Widows, by agreement with SYPA, offer the following investment choices for South Yorkshire members:

- Cash Fund
- Indexed Stock Fund
- Unitised With-profits Fund
- Environmental Fund
- European Fund*
- Global Equity Fund
- North American Fund*
- UK Equity Fund*
- South Yorkshire North Atlantic Option
- South Yorkshire Lifestyle Option

*these fund choices are only available to members using either the South Yorkshire North Atlantic or Lifestyle Options.

- 7.2 Prudential offer the following investment routes to South Yorkshire members:

- Cash Fund
- Deposit Fund
- Retirement Protection Fund
- Fixed Interest Fund
- Index Linked Fund
- With-Profits Fund
- Property Fund
- Discretionary Fund
- International Equity Fund
- Global Equity Fund
- Socially Responsible Fund
- UK Equity Passive Fund
- UK Equity Fund

8. Membership statistics by provider and fund

8.1 The following tables provide a breakdown of the numbers of AVC account holders in The South Yorkshire Fund by provider and investment route.

Equitable Life

Deposit Account	With-Profits	Managed Fund
86	496	149

Of the 694 accounts still held with Equitable Life 447 are held by active members of the Fund although the vast majority of these no longer pay into them. Some members have funds in more than one investment route but the information is not held in a form that will easily identify the actual number of individuals that hold these multiple accounts.

Scottish Widows

Cash	Indexed Stock	With-Profits	Environmental	European	Global Equity	North American	UK Equity
172	52	784	65	47	72	52	122

Scheme members currently have 1080 policies lodged with Scottish Widows with a fund value totalling £5,927,325. Of these policies 253 are receiving regular contributions, 640 are single premium policies, (the majority as a result of the bulk transfer from Equitable Life), and 187 are policies that were receiving regular premiums but where the member has now stopped paying. As can be seen from the figures in the table above the 1080 policies are made up from a large number of investments as a result of some members electing to have their money spread over a range of investment options. A small number of members have elected to invest in options that are not detailed above and which are not normally an option for South Yorkshire members. Generally speaking this is where members have either transferred from a Fund where this option was available or where independent advice has been taken and the member has specifically requested the route in question. In the interests of customer satisfaction both Scottish Widows and the Authority have taken a relaxed attitude to these requests.

Prudential

Cash	Dep'	Ret'mnt Protect'	Fixed Int'	Index Link'	With-Profits	Prop'	Discret'y	Int' Equity	Global Equity	Socially Respon'	UK Eq' Passive	UK Equity
42	14	15	15	15		3	13	14	6	4	14	4

Prudential has been the alternative AVC provider for just over two years following their appointment in September 2009. As at 31 March 2011 90 members held policies in the investment routes shown in the table above. Some members have policies that cover a spread of investments. In the two year plus period in which Prudential have been the alternative provider many more members than the 90 in question at the end of March 2011 have taken out policies with Prudential for short-

term gain and then taken the benefits from them. The majority of these have been members who have had some warning or knowledge of forthcoming early retirement exercises at their organisations and have taken the opportunity to invest the maximum allowable in the time left before retirement. There is no money in this type of business for Prudential and this is mentioned further in the “comment” section at the end of the report.

9. Provider Investment Performance

9.1 Because the Authority only acts as a facilitator of AVCs the arrangements regarding AVCs are a matter for the provider and the individual member and the Authority is not responsible for the selection or performance of the funds. It is not appropriate, therefore, for the Authority to comment upon the investment performance of the funds offered by a provider.

10. Comment

10.1 Members need to be aware that the Authority **does not** recommend:

- That AVCs are beneficial, suitable or appropriate
- That either Prudential or Scottish Widows are suitable or appropriate companies in which to invest
- That any of the funds and investment routes available are suitable or appropriate for members

10.2 Members need to be aware that the Authority **does** recommend:

- That Members use the free Independent Financial Advice Service before making a decision to pay AVCs.

10.3 The Authority acts as a facilitator only in these matters. Unfortunately, there will be some members who will seek to blame the Authority if their investment fails to match their expectations. Counterbalancing this is the fact that currently, the majority of new AVC accounts are short term in duration as members approaching retirement or seeking early retirement look to maximise their tax-free cash element and view the investment return as being the tax relief they receive on their contributions. However, Prudential have recently announced measures to curb the amount of short-term investment business they handle by imposing penalties on policies of less than 5 years duration. The Authority will need to assess what communications are necessary to members in order to ensure that anyone taking out a policy with Prudential after July 2012 fully understands that they may suffer a financial penalty if benefits are drawn within 5 years.

10.4 Members should note that since April 2008 it is possible for LGPS members to buy additional pension by paying additional contributions up to a maximum of £5000 per year into the pension fund providing that the contract is completed before their 65th birthday.

11. Implications

- **Financial** - There is no financial involvement of the Authority in the provision of this service.
- **Legal** - None
- **Diversity** - None
- **Risk** - Please refer to the comments set out in section 10 above.

Ian Baker
Pensions Manager (Member Services)
Phone 01226 772908
E-mail: IBaker@sypa.org.uk

Background papers used in the preparation of this report are available for inspection in the Pensions' Administration Unit.