

## REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

### REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION ARRANGEMENTS

Pensions Committee  
19<sup>th</sup> September 2016

Classification  
**PUBLIC**

Ward(s) affected

**ALL**

Enclosures

one

## 1. INTRODUCTION

- 1.1 As part of the Pension Fund Governance it is good practice that we undertake a regular review of our Additional Voluntary Contribution (“AVC”) provision. As a result, Aon Hewitt was asked to undertake a review of the AVC arrangements held within the London Borough of Hackney Pension Fund ('the Fund').

## 2. RECOMMENDATIONS

### 2.1 The Pensions Committee is recommended to:

- **note the London Borough of Hackney Pension Fund AVC Review**
- **agree the recommendations to :**
  - **review the structure of the lifestyle strategies available through the AVC arrangement**
  - **close the Global Equity Fund to new members**
  - **consider using some of the additional services available**
  - **update the Fund's website**
  - **investigate with employers in relation to the timing of monthly payments and the auctioning of requests to change AVCs.**

## 3. RELATED DECISIONS

- 3.1 None.

## 4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

- 4.1 AVCs are not part of the main Pension Fund. Instead AVC contributions are invested directly with the AVC provider and therefore do not impact on the sustainability of the Fund or on employer costs. Scheme members then have some flexibility in how they use their AVCs on retirement; as a tax free lump sum (subject to limits), ongoing annual income or a mixture of both.
- 4.2 There could be a financial impact on scheme members who pay AVCs if the AVC fund performance is poor or charges are unacceptably high. Although AVCs do not tend to be a major part of pension saving for most scheme members, this could

result in a lower expected income on retirement or, in the worst scenario, a member deferring their retirement.

## **5. COMMENTS OF THE DIRECTOR, LEGAL**

- 5.1 LGPS administering authorities are required to provide an LGPS AVC facility. The Pensions Committee, as quasi Trustees to the London Borough of Hackney Pension Fund, have a responsibility to ensure the AVC arrangement continues to be fit for purpose on behalf of the scheme members. This oversight responsibility should cover all areas including the range of investment funds, the performance of those funds, value for money provided by the supplier, the appropriateness of the charges, the quality of communications and the standard of administration.
- 5.2 AVCs are an attractive proposition for many scheme members, giving them the potential to increase their income in retirement in a tax efficient way and it is therefore positive that we promote this facility, whilst ensuring we do not provide financial advice to members.

## **6. FINDINGS OF AVC REVIEW**

- 6.1 The London Borough of Hackney has appointed Prudential to provide an AVC facility for its scheme members. This arrangement has been in place for a number of decades now.
- 6.2 Due to the level of expertise required (particularly in relation to the suitability and performance of investment funds), external consultants carry out ongoing reviews of AVC providers on behalf of administering authorities. AON Hewitt carried out this review of the Hackney AVC. The report considers the following:
- Security – financial strength of the provider
  - The best interests of members and beneficiaries – the suitability of the investment options available to members
  - Performance – fund performance versus benchmark of each unit linked fund option held by members
  - Liquidity and tradability in regulated markets – how readily realisable are the fund options held by members
  - Quality – investment capabilities in relation to the fund options available to members and administration capabilities and
  - Profitability – competitiveness of the fund charges in place, compared to current market rates.
- 6.3 The report summarises the uptake of the Hackney AVC facility. As at 31 March 2016 there were 619 members with c. £5.5m of assets invested across 13 different funds as shown below.

Fund name	Number of members	Fund value (£)
Cash	4	11,160
Deposit Fund	7	59,397
Discretionary	7	112,941
Ethical	2	23,749
Fixed Interest	5	20,899
Global Equity	8	70,145
Index-Linked	9	76,308
International Equity	4	44,397
Long-Term Gilt Passive	3	29,496
UK Equity	5	21,030
UK Equity Passive	1	21,946
UK Property	6	33,296
With Profits Cash Accumulation Fund	585	4,998,958
<b>Total</b>	<b>619<sup>1</sup></b>	<b>5,523,721<sup>2</sup></b>

The AVC facility also allows members to purchase life cover and 34 members currently purchase life cover with the average premium being £200 per annum and the average sum assured £30,500.

6.4 Aon Hewitt's review highlighted no serious concerns in relation to Hackney Fund's Prudential AVC arrangement. It did however highlight:

- That the lifestyle strategies (which are available to allow scheme members to automatically switch investment funds as they draw nearer to retirement) are out-dated compared to current investment thinking, and because they do not target the format in which members are likely to take their benefits. Accordingly Aon Hewitt has recommended that these are reviewed.
- The Global Equity Fund has consistently under-performed and Aon Hewitt recommends this Fund is closed to new members.
- When considered in isolation, the charges on the AVC arrangement provided by Prudential are high, compared to current market rates. Prudential, do, however, provide a customised LGPS AVC offering (unlike other providers), including an LGPS website and other communications, and they liaise directly with employers and scheme members in relation to the AVC deductions.

6.5 The review also highlighted a number of services offered by Prudential that we are not currently making use of, such as governance reporting and member presentations. Officers are already liaising with Prudential to better understand and make use of these services wherever possible.

- 6.6 Aon Hewitt's report also refers to the fact that the Hackney Pension Fund website does not appear to provide information regarding the AVC arrangement. Officers will discuss this with Equiniti as part of the website refresh that is imminent to ensure this is included.
- 6.7 As part of this review, officers also asked Aon Hewitt to investigate the situation surrounding a scheme member who asked to increase their AVCs but where the increased amount was not being reflected in their AVC account. The investigation concluded that the issue was due to Hackney Council payroll not implementing the change through the payroll. It also highlighted that some of the payments from Hackney Council to Prudential are very close to the statutory deadline. Officers will investigate this further to identify the underlying issues and ensure improvements are put in place, as well as liaising with Prudential to check the payment dates for other employers. Prudential has already assured us that they will notify officers if a statutory deadline is missed.

Ian Williams  
**Group Director of Finance & Corporate Resources**

Report Originating Officers: Rachel Cowburn ☎020-8356 2630  
Financial considerations: Michael Honeysett ☎020-8356 3332  
Legal comments: Stephen Rix ☎020-8356 6122

### **Appendices**

Appendix 1 - Review of AVC Arrangements

### **Background Papers**

None