

BRIEFING NOTE: Pension Committee – 5/3/13

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

BACKGROUND

AVCs were introduced in the mid 1980s as an additional means for individuals to save for retirement. AVCs offered an attractive, tax advantageous, savings mechanism which was relatively unique at that time. It is a requirement (under the Social Security Act of 1986) for every UK pension scheme to have an arrangement in place whereby members can pay additional voluntary contributions to enhance their pension benefits.

An active member may elect to pay AVCs into a scheme established under an arrangement made between the administering authority and a body approved for the purposes of the Finance Act 2004. An employer may contribute to the AVC scheme and where they do the AVC scheme is known as a shared cost additional voluntary contributions arrangement and contributions to it as "SCAVCs". As direct costs would be incurred by Scottish Borders Council, **the policy of Scottish Borders Council is not to adopt this discretion** (see discretionary regulation A22 – published June 2009).

Historically (since 1989) the Council had two AVC providers, Halifax PLC and Standard Life.

Following its acquisition of Clerical Medical, Halifax PLC carried out a review of various activities associated with long-term savings products. One of the outcomes of the review was that Halifax ceased to operate its AVC Deposit Account product from 30 June 2002.

All members with Halifax accounts were compulsory transferred to Standard Life on 1 July 2002.

STANDARD LIFE

Standard Life allows investment in an agreed range of funds at the option of the employee. An optional death-in-service life assurance facility is available in conjunction with the AVC provision.

The present "restricted" range of funds agreed with Standard Life are:

- Deposit & Treasury Pension Fund (formerly called the "Managed Cash Fund")
- Ethical Fund
- Managed One Fund
- Money Market Pension Fund (formerly called the "Sterling Fund")
- Protection One Fund
- UK Equity One Fund
- With Profits Fund

Standard Life will provide financial advice to employees (who request it) on the above range of funds. Members are permitted to select a fund out with this selection, at their own discretion (and risk).

Standard Life provide an Annual Statement, sent directly to members (both active and deferred) who participate in AVC arrangements.

At 31 March 2012 the fund comprised of 140 members (both active and deferred), with a total fund value of £790,900.

CHARGES

Standard Life currently apply an “Annual Management” charge of 1% to members accounts. The Council have in place a discount of 0.375% - resulting in a net charge of 0.625%.

REVIEW OF AVC ARRANGEMENTS

In a report commissioned at the time of Halifax withdrawing from AVC provision, our (former) actuaries Hymans Robertson, stated:

“Given all of the other (investment) opportunities available, Schemes should not feel constrained to offer a wide choice of AVC provider or fund options, or the need to replace Halifax with another Cash Deposit provider”.

Hymans Robertson also stated, “We would prefer to offer Cash (deposit) as one of a range of fund options within an insured arrangement”

This resulted directly in the Council including a cash deposit fund (Sterling Fund) within the range of funds agreed with Standard Life (see Emergency Powers Report approved 18 June 2002).

ALTERNATIVE PROVISION

The Pensions Team have previously received presentations by Prudential, who already provide the AVC facility for several other Scottish Authorities, including Aberdeen, Orkney, Shetland and Strathclyde Pension Funds.

Background Papers – Hymans Robertson Report 2002, SBC Employer Discretionary Policy 2009
Previous minute reference – 18 June 2002
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