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## **REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION (AVC) PROVISION**

**Report by Chief Financial Officer**

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### **JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD**

**30 November 2018**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide members with the outcome of the review under taken of the AVC provision currently provided by the Fund.**
- 1.2 The Pension Fund under the Social Security Act 1986 is required to ensure that a person can, if desired, pay additional voluntary contributions to their pension. The Fund currently has arrangements in place with Standard Life for an AVC Scheme to allow individuals to increase their pensions. The number of employees currently active in scheme however is low.
- 1.3 The Business Plan approved on 14 June 2018 highlighted the need to undertake a full review of the current provision and to ensure it meets the requirements of the fund and relevant legislation. The review was undertaken by KPMG on behalf of the Fund. The findings of the review are contained in Appendix 1.
- 1.4 The review found Standard Life to be a relatively strong provider in the AVC market but highlighted a number of steps which could improve the current provision. The main areas of improvement were around communication and promotion of the scheme and also the monitoring of the performance of the products offered by Standard Life under the AVC scheme.
- 1.5 To address the areas of improvement para 4.2 details the actions which will be undertaken. These actions will also be included in the 2019/20 – 2022/23 Business Plan.

#### **2 RECOMMENDATIONS**

- 2.1 It is recommend that the Pension Fund Committee and Board:-**
- (a) Notes the outcome of the review undertaken by KPMG contained in Appendix 1; and**
  - (b) Notes the actions detailed in para 4.3**

### **3 BACKGROUND**

- 3.1 The Pension Fund under the Social Security Act 1986 is required to ensure that a person can, where desired, pay additional voluntary contributions to their pension. However under the LGPS regulations the rate is determined under the regulations not by the individual. To allow an individual to increase their pension contributions the Administrating Authorities is required to engage a provider for AVC provision.
- 3.2 The AVC provision is a Defined Contribution (DC) scheme and is subject to the Pension Regulators, DC Code of Practice. This code applies to AVC's within occupational Defined Benefit (DB) schemes such as the LGPS and was last updated in July 2016.
- 3.3 Scottish Borders Council Pension fund currently has arrangements in place with Standard Life to provide access to AVC funds. Standard Life currently offers approximately 300 investments products of which members of the fund; there are currently c300 funds of members are currently invested in 12. The choice of fund is the decision of an the individual member. There are currently 42 members with active AVC's (0.9% of active members).

### **4 REVIEW OF STANDARD LIFE**

- 4.1 Following concerns raised about the level of engagement and promotion of the current AVC's provision, KPMG was engaged to undertake a review of the current service provided by Standard Life and to check the Pension Fund was fulfilling its governance responsibilities under the code.
- 4.2 The full report provided by KPMG is contained in Appendix 1. The main findings are as follows:-
  - Standard Life is viewed as a relatively strong provider in the DC marketplace.
  - There are a good range of investment options open for members to choose from.
  - The Pension Funds AVC arrangements are consistent with the requirements of the Pension Fund Regulators DC Code of Practice.
  - The level of information and promotion provided by Standard Life is however limited.
- 4.3 The report also recommends a number of next steps to improve the current provision. The key actions required are shown below. The actions recommended recognise that it is not the Administering Authority's place to give individual financial advice but to ensure individuals have access to information to allow them to make an informed decision.
  - Work with AVC provider to improve communication and promotion of AVC provision.
  - Implement a triennial review of the AVC provider, to include performance, communication & T&C's
  - Review the Statement of Investment Principles to include AVC provision
  - Specific risk associated with AVC's should be added to the risk register
  - Inclusion of AVC knowledge included in 2019/20 training plan

- 4.4 The actions detailed above will be incorporated into the Business Plan for 2019/20 to 2022/23.
- 4.5 The Scottish Borders Council as an employer is currently considering implementing a Shared Cost (salary sacrifice scheme for AVC's) which will allow both employees and employers to make NI savings on AVC contributions. The Standard Life product offered by the Pension Fund could be converted into such a Shared Cost scheme with minimal administration.
- 4.6 If Scottish Borders Council does implement a Shared Cost scheme the provider operating the scheme will work with Standard Life on the communication and promotion of the scheme. The implementation of such an arrangement in other local authorities has resulted in a significant increased uptake up of the scheme by over 100%.

## **5 IMPLICATIONS**

### **5.1 Financial**

There are no direct financial consequences from this report.

### **5.2 Risk and Mitigations**

- (a) The Fund is required to ensure it meets its legislative requirements in the provision an AVC scheme. This report reviews the current scheme against the requirements and ensuring the risk is mitigated.
- (b) The Fund has an ongoing requirement to monitor the provision of the provider. The implementation of a triennial review process will ensure the Fund continues to meet these requirements.

### **5.3 Equalities**

An Equalities Impact Assessment has been carried out on this proposal and it is anticipated that there are no adverse equality implications.

### **5.4 Acting Sustainably**

There are no direct economic, social or environmental issues with this reports which would affect the Council's sustainability.

### **5.5 Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

### **5.6 Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

### **5.7 Changes to Scheme of Administration or Scheme of Delegation**

No changes are required as a result of this report.

## 6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted and any comments have been incorporated into the report.

### Approved by

**David Robertson**  
**Chief Financial Officer**

**Signature .....**

### Author(s)

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**Background Papers:** Pension Fund Business Plan 2018/19 to 2020/21

**Previous Minute Reference:** Joint meeting Pension Fund Committee and Pension Fund Board, 14 June 2018

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pensions & Investment Team can also give information on other language translations as well as providing additional copies.

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