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## **REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION ARRANGEMENTS**

**Report by Chief Officer Human Resources**

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

**23 March 2016**

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

- 1.1 This report seeks approval from the Joint Pension Fund Committee and Board to commence a review of the AVC provision of the Fund.**
- 1.2 The current provider has been used since 2002 when the last review was carried out, due to issues being experienced with the provider, including the lack of promotion of the AVC option. It is an opportune time to commence a review of the provision.

#### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that the Pension Fund Committee and Pension Board:-**
  - (a) Approves the commencement of a review of the AVC provision in consultation with procurement.**
  - (b) Notes that a further update will be provided to the Joint Committee and Board before proceeding.**

### 3 BACKGROUND

- 3.1 Additional Voluntary Contributions (AVC's) were introduced in the mid 1980s as an additional means for individuals to save for retirement. AVC's 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.
- 3.2 An active member of the Local Government Pension Scheme (LGPS) may elect to pay AVC's 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 was not to adopt this discretion.
- 3.3 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.
- 3.4 AVC arrangements were last reviewed in 2002. In a report commissioned at the time of Halifax withdrawing from AVC provision, our actuaries at the time 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".
- This resulted in the Pension Fund including a cash deposit fund (Sterling Fund) within the range of funds agreed with Standard Life.
- 3.5 Standard Life allows investment in an agreed range of funds at the selection of the employee. An optional death-in-service (only) life assurance facility was previously available however this service has since been discontinued for new business. The present "limited" range of funds agreed with Standard Life are:
- a) Deposit & Treasury Pension Fund (formerly called the "Managed Cash Fund")
  - b) Ethical Fund
  - c) Managed One Fund
  - d) Money Market Pension Fund (formerly called the "Sterling Fund")
  - e) Protection One Fund
  - f) UK Equity One Fund
  - g) With Profits Fund

The minimum investment period for the above funds is 12 months (for monthly Payments).

- 3.6 Standard Life no longer provide formal financial advice to employees on the above range of funds. Members select funds 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.
- 3.7 At 31 March 2015 the fund comprised of 125 members (both active and deferred), with a total fund value of £833,040.
- 3.8 For some time now, we have experienced issues with the service provided by Standard Life. These issues include:
- a) Lack of documentation for members.
  - b) No active promotion of the AVC facility by Standard Life (staff workshops?).
  - c) Returned payments - resulting from poor administrative practices by Standard Life.
  - d) No dedicated customer service/relationship manager for account.

#### **4 PROPOSAL**

- 4.1 In light of the issues currently being experienced with the current provider it is proposed that we commence a review of the AVC provision for the Pension Fund.
- 4.2 It may be impractical to entirely discontinue the Council's arrangement with Standard Life, as some existing member funds (particularly "with profits") may suffer a financial penalty for enforced transfer, for which members may reasonably hold the Administering Authority responsible.
- 4.3 In order to inform this review it is proposed that a discussion be held with the procurement team to identify any available frameworks and a report be presented back to the joint meeting of the Pension Fund and Board

#### **5 IMPLICATIONS**

##### **5.1 Financial**

There are no direct financial implications of this report.

##### **5.2 Risk and Mitigations**

The risk management framework for the Pension Fund and any subsequent procurement discussion is designed to mitigate or tolerate these risks.

##### **5.3 Equalities**

It is anticipated that there are no adverse impacts due to race, disability, age, sexual orientation or religion/belief arising from the proposals in this report.

##### **5.4 Acting Sustainably**

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

##### **5.5 Carbon Management**

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

##### **5.6 Rural Proofing**

It is anticipated that 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 to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

**6 CONSULTATION**

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

**Approved by**

**Clair Hepburn**  
**Chief Officer Human Resources**

**Signature .....**

**Author(s)**

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**Background Papers:** None

**Previous Minute Reference:** None

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