

# Pensions Committee

2.00 p.m., Monday, 20 March 2017

## Additional Voluntary Contributions (AVC) – administration service

Item number	5.8
Report number	
Executive/routine	
Wards	All

### Executive summary

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Significant concerns have arisen regarding the administrative performance of both AVC providers to the Fund, Standard Life and Prudential. These have been raised with the companies and both have stated their commitment to progress solutions. Delivery of requisite service enhancements will be reviewed by the Fund and a further update provided to Committee in September 2017.

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

## **Additional Voluntary Contributions (AVC) – administration service**

### **Recommendations**

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Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider;
- 1.2 Note the administrative concerns in respect of the AVC service provision and that these have been raised by the Fund directly with the Standard Life and Prudential;
- 1.3 Note that Standard Life has committed “to work with” the Fund “to resolve the issues” and that, similarly, Prudential has stated its attention to expedite solutions;
- 1.4 Note that, at present, in light of the recent assurances received, the Fund does not intend to raise the issue of contribution monitoring with the Pensions Regulator; and
- 1.5 Note that such delivery of AVC contribution monitoring and UFPLS service provision will be reviewed by the Fund and a further update provided to Committee in September 2017.

### **Background**

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- 2.1 The administering authority of the Local Government Pension Scheme (LGPS) has a duty to ensure that the companies providing AVC services continue to offer financial security as well as competitive investment and administrative performance.
- 2.2 In accordance with previous determination of the Pensions Committee and in light of the importance of investment performance and fund security, an annual report on the performance of Lothian Pension Fund’s and Lothian Buses Pension Fund’s two Additional Voluntary Contributions providers, Standard Life and Prudential, is submitted to the Investment Strategy Panel (ISP), in its advisory role to the Executive Director of Resources.
- 2.3 On 2 December 2016, ISP considered the latest AVC annual reports, that is to 31 March 2016. “Executive Summary” is shown below:

- “Prudential and Standard Life are both regarded as financially secure organisations with investment grade ratings and low implied risk of default.
- Prudential continues to be more proactive than Standard Life in the promotion of AVCs to members of the Fund.
- Performance of the Funds continues to be variable as is typical across such a range of funds. Both providers are well-resourced organisations competing in and committed to the investment management business.
- Administration service from Standard Life and responsiveness to queries is a frustration and a concern.
- There are two key issues/concerns that are being escalated with the providers and within the industry:
  - the Fund is unable to monitor the payment of contributions by the employers to the AVC providers and this may need to be reported to the Pensions Regulator;
  - new freedom for members to take AVC benefits from age 55 before their main scheme benefits could be a significant administration burden on the Fund if the providers fail to provide a satisfactory solution. The Fund is liaising with the providers on this matter.
- Lack of satisfactory resolution of these issues could mean that the Fund has to amend its AVC offerings to members.
- Further member communication is required regarding the need for members to ensure that their AVC fund choice remains appropriate.”

## Main report

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### AVC Administration

- 3.1 There are a number of concerns regarding AVC administration which are outlined below:

#### Monitoring the receipt of contributions from employers

- 3.2 All public sector schemes were brought within the remit of The Pensions Regulator from April 2015. In July 2016, the Pensions Regulator published its “Code of practice no:13 Governance and administration of occupational trust-based schemes providing money purchase benefits”. The Fund is aware of a number of instances of late payment by employers and has been attempting (unsuccessfully) to gain the necessary information from the providers to be able to monitor payments on an ongoing basis. Whilst Prudential appear to be making efforts in this regard, Standard Life has stated that it does not intend to provide this information. The Fund is attempting to escalate the issue with Standard Life and to raise awareness of the broader issue in the industry. The Fund also intends to disclose this breach to the regulator in the very near future.

## **“Freedom and Choice”- Uncrystallised funds pension lump sum (UFPLS) - Communication and Payment**

- 3.3 With effect from 6 April 2015, the Taxation of Pension Act 2014 granted the opportunity to access such funds to any member aged 55 or over. Any such withdrawal would be termed an “uncrystallised funds pension lump sum (UFPLS)” payment, with 25% being paid free of income tax. This greater flexibility for members to access defined contribution pension savings introduced under ‘Freedom and Choice’ conflicts with current LGPS in Scotland regulations with regards to AVCs. As a result, the Scottish Government wrote to Funds in July 2016 providing guidance to exercise the permissive scheme rules override to allow UFPLS payments to be made until such time as the legislative changes could be made. UFPLS flexibilities render the administrative process very complicated, given the potential for drawdown of AVC funds by a member over a prolonged period and also taxation implications, including the money purchase annual allowance (MPAA) and Lifetime Allowance (LTA).
- 3.4 Standard Life has agreed to offer a payment facility to facilitate such full withdrawal, although the company has determined that this does not constitute UFPLS within its definition. However, at present, Prudential has declined to do so, although it has stated its intention to provide such in the long-term (unspecified timeframe). Neither provider is currently willing to address the administration requirements of a scenario where a member may seek phased UFPLS withdrawal(s), although Prudential has stated this to be its future aim. At the time of writing, LPF has only two cases where active members, post age 55, have requested UFPLS. Both of these relate to Standard Life funds and the requests are for the full AVC value and not partial withdrawal. Accordingly, these funds have been released.
- 3.5 In summary, the Fund, along with other LGPS administering authorities, is not actively publicising this UFPLS entitlement to members, pending confirmation of the administrative position on a Scotland-wide basis.

### **General administration service standards**

- 3.6 Delays in providing member AVC fund values to the Fund are causing delays in retirement processing. Liaison is ongoing with both providers to provide requisite assurance and address current deficiencies. In that context, it is acknowledged that performance by Prudential over the recent period has indeed improved and reverted to target levels.

### **AVC Member Communications**

- 3.7 In November 2015, LPF wrote to all members holding an AVC to remind them that they need to regularly review their fund choice(s). LPF has asked both Prudential and Standard Life to ensure that their AVC statements include explicit information for members to review their investments to ensure the Fund choice is right for them. Following clarification of the position on monitoring of receipt of

contributions and UFPLS, the Fund intends to write to all members again regarding their AVCs.

### **Responses from the providers - update**

- 3.8 Further dialogue was undertaken with both Standard Life and Prudential in February 2017.
- 3.9 Standard Life has stated that it is “committed to work with you (LPF) to resolve the issues that you have raised around servicing, the Pensions Regulator Contribution Monitoring, websites and communications, and UFPLS / pension freedoms.”
- 3.10 Prudential has commented “Please be assured we are fully committed to finding a solution that will provide you with the data you require to fully meet your contribution monitoring requirements on a month by month basis, down to member level”. Timescale for provision of such, however, remains uncertain. As regards UFPLS, Prudential has stated that it has now received requisite clarity from the Scottish LGPS administering authorities on the expected service demands, sufficient for the company to develop an UFPLS proposition.

## **Measures of success**

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- 4.1 Service performance expectations of the Funds in respect of its AVC providers are:
  - a. Compliance with the Pensions Regulator’s “Code of practice no:13 Governance and administration of occupational trust-based schemes providing money purchase benefits”;
  - b. Administrative provision of the Uncrystallised funds pension lump sum (UFPLS)” in accordance with the statutory entitlement of members;
  - c. General administration service standards to align with industry best practice.

## **Financial impact**

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- 5.1 Additional work by the Funds’ administrative and accounting staff resources is required in order to address poor service performance by the providers.

## **Risk, policy, compliance and governance impact**

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- 6.1 The availability of AVC services is a discretionary, rather than mandatory, supply by LGPS Funds. It is important that the Funds exercise due diligence in ensuring, as far as is possible, that AVC providers meet service performance expectations in order to mitigate potential reputational damage. Communications with members should be clear that AVC choice is not the Funds’ responsibility, given the potential for adverse investment outcomes.

## Equalities impact

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7.1 None

## Sustainability impact

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8.1 None

## Consultation and engagement

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9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

## Background reading/external references

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## Links

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### Coalition pledges

**Council outcomes** CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives

**Single Outcome Agreement**

**Appendices**