



Haringey

Agenda item:

[No.]

Pensions Committee

On 17<sup>th</sup> Sept 2009

Report Title: Fund Administration Update

Report of Assistant Chief Executive People and Organisational Development

Signed

Stuart Young  
Assistant Chief Executive P.O.D

Contact Officer : I M Benson Pensions Manager ( 0208 489 3824 )

Wards(s) affected: All

Report for: Non Key Decision

**1. Purpose of the Report (That is, the decision required)**

1.1 To consider regulatory changes affecting the administration of the Local Government Pension Scheme together with relevant issues covered in circulars issued by the Local Government Pensions Committee (LGPC) and Department for Communities and Local Government (DCLG).

**2. Introduction by Cabinet Member (if necessary)**

**3. State links with Council Plan Priorities and actions and / or other Strategies**

**3.1 Review of AVC Providers by Hymans Robertson**

3.1.1 Hymans Robertson were asked to carry out a review of the Fund's AVC Providers as part of our due diligence in monitoring the AVC scheme.

3.1.2 A Briefing Note is attached as **Appendix 1**.

3.1.3 The Council's AVC Providers are Prudential and Clerical & Medical. Since publication of the report, Clerical & Medical have announced the merger of their sales force with Scottish Widows as a first step towards combining both companies under the Scottish Widows brand.

3.1.4 In summary the report recommends that our current Providers are retained and that action is taken to both raise the profile of AVCs as a means of providing additional benefits on retirement and to actively engage with Prudential in monitoring their investment performance which is below that of its competitors.

3.1.5 Arrangements are in hand to meet with the Providers to stimulate a coordinated approach to communicating the AVC option to the membership and to monitor

investment performance.

**3.2 Local Government Employer's (LGE) Response to DWP Consultation on Auto Enrolment.**

3.2.1 DWP have published draft regulation for auto-enrolment into pension schemes expected to be in force from 2012.

3.2.2 In the LGPS auto enrolment currently applies to new recruits employed on a contract for three months or more. If the employee chooses to opt-out with the initial three month period, contributions are refunded.

3.2.3 Under the proposed rules for auto-enrolment, an opt-out from auto enrolment must be exercised within 30 days of the member joining or receipt of enrolment information whichever is later.

3.2.3 Currently Opt-out forms are provided by the Employing Bodies. The LGE in their response argue that the proposal for opt-out forms to be provided by the Pension Scheme would be administratively onerous and costly.

3.2.4 Nationally some 36% of eligible members choose not to join the LGPS. These tend to be low paid part-time females and If opt-out forms have to be issued by the Pension Scheme and a significant number of potential optants –out miss the tight deadline, this, the LGE argue will lead to a significant increase in employer costs.

**4 Recommendations**

4.2 That the Administration Report update be noted

4.3 That no change is made to the Fund's AVC Providers

4.4 That Prudential and Clerical & Medical are invited to discuss ways in which awareness of the AVC Scheme can be increased and that investment performance can be monitored.

**5 Reason for Recommendations**

5.1 Not applicable

**6 Other options considered**

6.2 Not applicable

**7 Summary**

7.1 This report updates the Committee on general administration issues arising from the Local Government Pension Scheme.

**8 Chief Financial Officer Comments**

8.1. The Chief Financial Officer concurs with the financial implications paragraph

**9 Head of Legal Services Comments**

9.1. The Head of Legal Services has been consulted on the content of this report and has no specific comment to make

**10 Head of Procurement**

10.1 (Not Applicable)

**11 Equalities & Community cohesion Comments**

**11.1** Of the 36% of eligible employees who opt out of the LGPS, the majority are Part-time female employees in low paid employment.

**12 Consultation**

**12.2**The employees side have been consulted..

**13 Service Financial Comments**

**13.2** As Haringey Council is the largest employer in the Fund, as well as being the scheme administrator the impact of the rule requiring opt-out forms to be issued by the Pension Scheme will be minimal

**13.3** Any costs required to raise awareness of the AVC scheme will be borne by the AVC Providers

**14 Use of appendices / Tables and photographs**

Appendix 1 is the Briefing Note on the AVC Providers Review Report from Hymans Robertson

**15 Local Government (Access to Information) Act 1985**

( List background documents)

(also list reasons for exemption or confidentiality (if applicable)

**15.1** Hymans Robertson AVC Providers Review

## **Haringey Council Pension Fund Hymans Robertson AVC Review Report -- Briefing Note**

### Introduction:

Hymans Robertson have completed their review of the Haringey Council AVC Scheme. This was requested as part of our obligation to exercise due diligence in monitoring our AVC Providers.

### The AVC Option

The new HMRC tax regime which came into effect in April 2006 allowed greater flexibility both in terms of contribution limits and in converting AVC funds to tax free cash. In many cases, members can now convert the whole of their AVC fund to cash.

At the same time the LGPS regulations changed the accrual on benefits from 1/80<sup>th</sup> Pension plus 3/80ths Lump Sum to a 1/60<sup>th</sup> pension and no automatic lump sum. The purchase of added membership was replaced by the option to purchase added units of pension which cannot be converted to cash.

The option to pay AVCs is therefore likely to become more attractive to members who want to build up extra pension and or have an option to take tax free cash.

### AVC Accounts

The Fund has two active Providers (Prudential and Clerical and Medical) as well as Equitable Life which does not accept new business.

Prudential has 96 accounts; Clerical and Medical has two accounts and Equitable Life has 47. These represent 0.8% of the Fund membership which Hymans consider to be low and is lower than other Funds for which they have carried out reviews.

### Providers

Of the Providers operating in the area of AVC schemes, Prudential stands out as the most committed and proactive. Prudential have a dedicated LGPS website and call centre team which is trained to answer day to day questions from LGPS scheme members. They also handle all aspects of the application process.

Clerical and Medical have indicated that while they are not seeking new business in this area, they will continue to support existing clients.

The review found that Prudential apart, the other Life Officers did not display any particular commitment to marketing or promoting AVCs to local government scheme members.

The report refers to Scottish Widows which it says does have a strong AVC profile although it has only a small client base within the local government scheme.

### Investment Options

An extract from Hewitt and Bacon's AVC Review 2008 showing investment returns for the main Providers is attached.

While the performance coming from Prudential is considered 'reasonable' Hymans caution against a switch to a higher performing Provider who is less proactive than Prudential. They suggest opening a dialogue with Prudential to better understand the underlying reasons for current performance and to seek assurances on steps being taken to ensure steady improvement over time.

Hymans consider that the range of investment options on offer by Prudential may be too many and that this may act to inhibit the member from opting to pay AVCs .

## Pricing

Overall Prudential has much lower charges than the other Providers in the LGPS market place. (0.65% for internal funds and 0.75% for BGI's passive funds.

Other Providers charge 1% for passive funds although Scottish Widows are slightly cheaper.

## **Conclusions**

### Investment

The review does not suggest a change away from Prudential. Its lacklustre investment performance is counterbalanced by its strong focus and commitment to the LGPS AVC market.

Hymans recommend that we open a dialogue with Prudential to understand why they are underperforming and to seek assurances on what steps they are taking to improve over the longer term. The investment options being offered to members should be reduced to allow potential members to better focus on the choices available.

### Take-up of AVCs

In some measure the low take up of Prudential AVCs can be linked back to data protection concerns around providing Prudential with our active members names and addresses. These matters have now been resolved to the satisfaction of our Data Protection Team.

### Clerical and Medical / Scottish Widows

The low take up of AVCs through Clerical and Medical is explained by their decision not to seek new AVC business.

Scottish Widows are highlighted in the report as having a positive LGPS focus in marketing AVCs albeit their penetration into the market is very small.

However since the review was concluded, Scottish Widows and Clerical and Medical have announced that from 1<sup>st</sup> July 2009, they will have one combined sales force and that over time they will integrate under the Scottish Widows brand.

### Recommendations

That a dialogue is opened with Prudential to discuss Investment Performance on an on-going basis.

That the investment options made available by Prudential are reviewed

In conjunction with the above, Prudential and Clerical Medical / Scottish widows are invited to discuss ways and means of increasing awareness of the AVC scheme.

**I M Benson**  
**Pensions Manager**  
**17 August 2009**

## Appendix 2

Haringey Council Pension Fund	Early and Flexible Retirements 1 April 2009 to 30 <sup>th</sup> June 2009			
Haringey Council	Number of Cases	Basic Capital Cost	Cost of Added Years	Total Cost
Early Retirement	1	£13,400	£0	£ 13,400
Flexible Retirement	2	£0		£0
Sub -Total	3	£13,400	£0	£13,400
Employing Bodies	Number of Cases	Basic Capital Cost	Cost of Added Years	Total Cost
<i>Early Retirement</i>	0	£0	£0	£0
Flexible Retirement	0	£0	£0	£0
Sub-Total	0	£0	£0	£0
<b>Total For Haringey Council and Employing Bodies</b>				
Total Q1 09/10	3	£13,400	£0	£13,400
Total Q1 08/09	4	£119,000	£0	£119,000
<p>The discretion to release benefits early has been exercised in accordance with the relevant employing bodies Policy Statement and the Capital costs have been paid into the Fund within the timescale agreed by the Fund actuary.</p>				

Appeals Report to Quarter ending 30 <sup>th</sup> June 2009				
Appeals Process Quarterly Report	Number Open	Upheld	Not Upheld/ Closed	On Going
Stage 1 Appeal	0	0	0	0
Stage 2 Appeal	0	0	0	0
Pensions Ombudsman	0	0	0	0

### Appendix 3

#### Receipt of contributions from employing bodies;

Employing bodies are informed that they have a statutory duty to remit pension contributions to the Fund no later than the 19<sup>th</sup> of the month following the month in which the deductions are made.

For the quarter ending **30<sup>th</sup> June 2009**, the receipt of contributions from the Employing Bodies and Schools with their own Payroll Providers has been checked by Corporate Finance and payments have been received within the statutory time-limit.

### Appendix 4

<b>Pensions Scheme Regulations Local Government Pension Scheme Regulations (as amended)</b>	The scheme is administered in compliance with the provisions of the scheme regulations and relevant advice.
<b>Data Protection</b>	Data held on records maintained by the Pensions Team is registered in compliance with the relevant Data Protection Legislation
<b>Disclosure of Information The Occupational Pensions Schemes (Disclosure of Information) Regulations 1996</b>	The scheme is administered in compliance with the Disclosure of Information Regulations 1996 (as amended) and relevant advice.
<b>Member Communication</b>	Communication with members and employers is conducted in accordance with the Communications Policy approved by Pensions Panel on 23 <sup>rd</sup> June 2008
<b>Best Practice</b>	The scheme is administered having regard to the Best Practice Principles published by the UKSC

#### Settlement of employee benefits:

Employee benefits are settled within 10 working days of all paperwork being received in line with performance standards approved and monitored by the Head of Personnel