

Briefing

## LGPS additional voluntary contribution reviews and current market activity



### Change in the AVC Market

The market for providers of LGPS AVC arrangements has seen little development in recent years, with the providers that remain active doing little to change their propositions. Recent months however have seen notable developments relating to two of the most prominent providers Equitable Life and Prudential. In this note, Martin Willis summarises these developments and outlines how we can help you to review your AVC arrangements.

### Proposed Equitable Life transfer to Reliance Life to free up 60%-70% capital payments on with-profits investments

You may have seen the recent [announcement](#), or received a letter from Equitable Life if they are one of your AVC providers, on the proposed transfer of Equitable Life and all of its business to Reliance Life (whose focus is on the acquisition of run-off books of life business in the UK).

This has significance for trustees, including administering authorities, who hold investments with Equitable Life, particularly where members' benefits are invested in the With-Profits Fund.

Under the proposal, the With-Profits Fund will be converted to unit-linked funds. This will end the guaranteed values and the guaranteed return that often applies to these policies, and as a result Equitable Life expects that it will be able to enhance the current capital distribution from 35% to 60%-70%.

We expect the enhancement may be greater for policies that include a guaranteed investment return.

Upon immediate transfer to Reliance Life thereafter, Equitable Life have said that there will be a choice of unit-linked funds managed by Reliance Life.

The proposal is at a very early stage. Equitable Life will ask trustees and other with-profits policyholders to vote on the proposal (expected mid-2019) and, if accepted, it expects the conversion of the With-Profits Fund (i.e. removal of the guarantees and enhancement of the capital distribution) to take place in late 2019. The transfer to Reliance Life would immediately follow this. In the case of the LGPS, it will be the administering authority who will be asked to vote. Existing unit linked policies will also transfer to Reliance Life.

This news has some short term and long term impacts. In the long term, with the guarantees removed, many Funds are likely to carry out a more fundamental review to check the ongoing longer term suitability of the new arrangement with Reliance Life, and to review their AVC arrangements in general.

Our colleagues in our Workplace Health and Wealth Practice Area are experienced in carrying out AVC reviews for administering authorities and will be pleased to assist. See the AVC reviews section later on in this note which describes how we can help in more detail.

In the short term, keeping members informed is likely to be a priority, as the enhancement to the capital distribution will not apply to benefits taken or transferred prior to the changes. Indeed, for any member currently in the process of taking or transferring benefits from the With-Profits Fund, Equitable Life is writing to the administering authority stating that their member should think carefully before taking their savings, providing further information to be passed to the member and requesting confirmation of whether the payment should still proceed. Administering authorities are likely to want to make sure that members are aware of the proposals prior to making any decisions.

## Prudential to cease providing member presentations and meetings

As part of a wider review of its business to modernise its operations, M&G Prudential recently announced that it will be making changes to its Corporate Pensions Team which provides workplace presentations and individual meetings to LGPS Funds.

Prudential have stressed that they remain committed to their LGPS AVC clients, but going forward support to members will be through their online and telephone services.

Authorities that previously made use of these services should consider whether to replace them. Working together, our Public Sector and Workplace Health and Wealth practice areas are well placed to assist you, including delivering presentations explaining the LGPS and AVCs to your members, and consideration of alternative education strategies.

## AVC reviews

Although all administering authorities ensure LGPS members have access to defined contribution (DC) additional AVC arrangements to supplement their retirement savings, such arrangements are often subject to relatively light touch governance after they have been set up. This is understandable given the relative size of the AVCs in question compared to the main LGPS benefits, but it should be remembered that DC benefits are the one part of a member's benefits where risk lies with them.

This briefing note helps administering authorities consider both how they can meet their core compliance requirements for AVCs as set out in TPR's Code of Practice 14, and also how they can go beyond this and implement solutions that will add meaningful improvements to potential member outcomes.

In addition, the introduction of pension freedoms and flexibilities have made decisions more complicated. As members consider how and when they might take their benefits, this can have a knock on effect on investment and contribution decisions.

Even if most AVC arrangements are just used to fund tax free cash entitlements, that doesn't mean they should be invested in a cash fund for their entire retirement timeframe – running a real risk of losing value in real terms as inflation takes its toll.

Of course the majority of members are unlikely to want to make their own investment decisions in any case, meaning default investment options take on even greater importance, and if members are required to make a choice it's just as important to ensure options are clearly communicated as it is to make sure an appropriate range is made available.

## Does this apply to our scheme?

We have seen a significant step up in what The Pensions Regulator (TPR) expects in terms of DC governance from trustees. Its Code of Practice 14 (Governance and administration of public service pension schemes) already includes the requirement to consider AVCs under the LGPS, but we would also suggest wider DC governance standards introduced under Code of Practice 13 (Governance and administration of occupational trust-based schemes providing money purchase benefits) are taken into consideration.

**Strictly speaking Code of Practice 13 doesn't apply to public sector schemes (and in any event on a proportionate basis only for AVCs).**

However, there are a number of elements introduced that help drive best practice, and we believe these should be considered as part of good governance of any DC arrangement.

- **Suitability assessment against TPR's Code of Practice 14**

To demonstrate compliance with relevant legislation and highlight any risks or non-compliance and recommend best practice.

- This is considered through assessment of four areas:

- 1. Governing your scheme –** knowledge and understanding, conflicts and publishing information
- 2. Managing risks –** including monitoring of outsourced services
- 3. Administration –** including reporting payment failures, operating a contribution monitoring record and providing information to members e.g. benefit statement and information about accessing benefits.

- 4. Resolving issues**

- **Investment suitability**

Based on aims and objectives of fund and strategy

- **Communication and engagement**

How the AVC options are communicated to members, and whether this actually helps members understand the choices they have

- **Summary and conclusions**

Outlining whether arrangements conform to relevant legislation and a summary of key recommendations

## Key considerations

We would suggest the following areas are considered as part of any review:

- **Legislative updates**

Are those responsible for the Fund aware of recent legislative developments, and if so has action been taken if appropriate. In turn, do members understand these changes and any resulting options?

- **Benefit analysis**

Membership profile, investment analysis, member-borne charges and communications on a per arrangement basis. This helps Authorities understand how members are exercising choice in the present and how they might take benefits in the future.

## How Barnett Waddingham can help

There are many options to improve DC governance, and we can provide assistance with the following:

- training for those connected with the running of pension funds
- establishing procedures for maintaining governance
- provider suitability reviews/selection exercises
- investment reviews/implementation of new options
- analysis of membership – this can be done on an analytical basis using our GEM consulting tool or through direct approaches to members through bespoke surveys or feedback exercises
- reviewing / producing member communications, targeted to the demographics for the scheme

**Our colleagues in our Workplace Health and Wealth are experienced in carrying out AVC reviews for administering authorities and will be pleased to assist.**

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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