

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	16 December 2022
TITLE:	Additional Voluntary Contributions (AVC) Provider Review & Appointment
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report:	

1. THE ISSUE

1.1. The purpose of this report is to update the Committee with progress on appointing a new provider for Additional Voluntary Contributions (AVCs).

2. RECOMMENDATION

That the Committee notes:

2.1. The selection of the AVC provider which is a decision delegated to the Head of pensions

2.2. That the AVC arrangements including fund selection will be reviewed every 2 years.

3. FINANCIAL IMPLICATIONS

3.1. There are no direct implications related to the Committee in connection with this report.

4. REPORT

4.1. Background

4.2. The Fund's existing AVC provider, Aviva, gave notice in January 2022 that they would not accept any new employer applications to their existing AVC scheme. In practice this meant that any member, with an employer not already in the scheme, would not be able to start an AVC contract. This situation left the Fund in breach of LGPS regulations which state that members must be provided with access to an AVC scheme. The Fund negotiated a six month extension with Aviva (which expired in August) and in February appointed Hymans Robertson to assist with the procurement of a new provider. Hymans were appointed via the LGPS National Framework.

4.3. Hymans carried out a review of the AVC market on behalf of the Fund and six other LGPS Funds. The LGPS AVC market is not lucrative for providers (as most members take the AVC as a cash lump sum) and a number have now withdrawn from the market. The conclusion from their review was that there was only one provider who would be prepared to offer an AVC scheme which was Legal & General (L&G).

4.4. Advised by Hymans' the Fund has engaged with L&G to agree specific terms for an AVC contract which will in most cases be more favourable to scheme members in terms of management fees and the range of funds offered. For the Fund it will be more operationally efficient with all the employers set up as one scheme.

4.5. L&G manage AVC assets for a number of LGPS funds as well as being a major pension provider to many employers in the private sector. The new AVC arrangements will benefit from the development of L&G's pension business and will be part of a pilot exercise with a few local authorities of which Avon Pension Fund is one. The pilot is not generally available to other local authorities at present.

4.6. Implementation Plan

4.7. All new contributions currently paid by members to Aviva will transfer to L&G in January 2023. L&G and the Employer Services Team are working with employers to ensure they are set up to submit contributions from January 2023 via the L&G portal.

4.8. Most members' AVC pots will transfer from Aviva and Utmost to L&G in March 2023. A series of communications are being sent to members to explain the changes and timescales involved.

4.9. Investment Advice

4.10. Hymans have provided investment advice and with the Investment Team have agreed the range of funds to be offered to members. Initially members will be invested in the default fund.

4.11. The default fund targets cash at retirement because most LGPS members take their AVC pot as cash while using their LGPS pensions for monthly pension income. For members some years from retirement the default fund invests with the aim of giving a good return relative to inflation over the longer-term. As members get nearer to retirement, the fund gradually moves to a more cautious mix of investments to help protect the value of their savings. In the last few years before retirement, funds are moved into a mix of investments intended for someone expecting to take all their AVCs as a cash lump sum when they retire.

4.12. For members who do not wish to be in the default fund there is a selection of self-select funds.

4.13. L&G's default fund and all their 'Future World' funds have a strong emphasis on responsible and sustainable investment.

4.14. One concern when organising the transfer of all AVCs from Aviva and Utmost to Legal & General is the risk that the value of members' AVCs could be adversely affected by changes in investment market conditions during the days while the transfers are going through. The Fund and L&G have agreed how this risk will be mitigated.

4.15. Governance Arrangements

4.16. Moving forward APF will carry out a biennial governance review and conduct a further market test in five years time.

5. EQUALITIES

5.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

6. CLIMATE CHANGE

6.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

1 OTHER OPTIONS CONSIDERED

1.1 None

2 CONSULTATION

2.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Geoff Cleak, Pensions Manager 01225 395277
Background papers	None
Please contact the report author if you need to access this report in an alternative format	