

**HERTFORDSHIRE COUNTY COUNCIL
CABINET
MONDAY 20 NOVEMBER 2000 AT 10.00 A.M.**

Agenda Item No:

8

PENSION FUND ISSUES

Report of the Chief Financial Officer

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1. Purpose of the Report

To propose a tendering exercise to appoint a new AVC / stakeholder provider for the Hertfordshire Pension Fund, with the selection process being overseen by the Investment Panel, and that the outcome be reported back to the Cabinet thence to the Executive Committee for approval.

2. Summary

Equitable Life is the Pension Fund's sole AVC provider and is currently being sold following the recent loss of a court case against some of its policy holders. The County Council, as Administering Authority, periodically reviews its AVC provision and the next review should take place once the future of Equitable Life is clearer in December/January.

The government is introducing stakeholder pensions in April 2001. The aim of stakeholder pensions is to offer individuals the opportunity to contribute to a low cost, flexible pension scheme. Offering a stakeholder scheme is not compulsory for the County Council but would provide greater choice for employees.

The Investment Panel has identified some key areas of policy development for the Pension Fund arising from an Investment Panel Workshop on 3 October 2000, namely benchmarking and risk management. Any decisions to change the current policy would need to be reflected in the "Statement of Investment Principles" (SIP) which would require the ultimate approval of the Cabinet and Executive Committee.

1. Introduction

The Hertfordshire Pension Fund operates under the Local Government Pension Scheme (LGPS) regulations. Under these regulations it is required to offer members the opportunity to make Additional Voluntary Contributions to supplement their main pension. The Hertfordshire Pension scheme offers an AVC scheme administered by Equitable Life. Pension Funds may offer more than one AVC provider.

2. Recent Developments

There have been two recent developments that require a re-evaluation of the current County Council pension arrangements. These are the introduction of Stakeholder Pensions, starting in April 2001 and the likely take-over of Equitable Life, the existing Additional Voluntary Contribution (AVC) provider.

These are discussed in more detail in the next paragraphs.

3. AVCs and Equitable Life

Equitable Life has been the scheme's only AVC provider since the introduction of AVCs in 1988. Pension Funds may offer staff the choice of more than one AVC provider and a number of Funds do so. Equitable Life and Prudential are the two main AVC providers to local government pension schemes.

On 20 July 2000 Equitable Life finally lost its long running court case against holders of guaranteed annuity policies and immediately put itself up for sale.

Until the sale is completed and the terms of the sale are known, it is not possible to fully assess the impact of this ruling on both existing AVC holders and on the future position of Equitable Life as an AVC provider. The deadline for final bids is 20 November and a preferred bidder is expected to be in place around Christmas. At that stage more details should be available to judge the impact of the sale.

Two letters have been sent to AVC holders to keep them informed of these developments.

Given the uncertainty around Equitable Life's future and concern about the possible impact of recent court cases on its performance, it would be appropriate to review the Pension Fund's AVC provider in January 2001. At that stage options may include the retention of Equitable Life as the sole provider, retaining Equitable Life in addition to a new provider or switching all AVCs to a new provider.

4. Stakeholder Pensions

Partly in response to the mis-selling of personal pensions the government has introduced a new option for those wishing to increase their pension in retirement. The aim of stakeholder pensions is to have low charges and flexible contributions, enabling people to contribute as and when they are able to build up a second pension to supplement the basic state pension or any other provision.

The government has aimed stakeholder schemes at those earning between £10,000 and £20,000 a year but they are open to almost anyone, including those not working. The main exception is staff earning more than £30,000 a year who are not permitted to set up a scheme where they are already a member of an occupational pension scheme. There is a limit on annual contributions towards stakeholder schemes of £3,600 in most circumstances.

There is no requirement for employers to contribute to a stakeholder scheme on the employee's behalf. It is not envisaged that the County Council would make contributions towards individuals' stakeholder pensions as contributions are already made to the LGPS.

Employers who offer an occupational pension scheme, such as the Local Government Pension Scheme, do not have to offer a stakeholder pension to staff. However, given that stakeholder pensions will be a real alternative to AVCs for staff earning less than £30,000 per annum, members may decide that it would be appropriate to offer a stakeholder pension alongside the AVC option.

It is proposed that the Fund invite tenders from AVC suppliers who would also be able to provide a Stakeholder scheme to enable staff to make an informed choice between the two options.

5. Investment Panel Workshop

On 3 October Investment Panel members attended a workshop in Ware to discuss Pension Fund issues. The main issues raised were:

- Risk – assessing the current levels of risk in the Pension Fund's investment portfolio and discussing ways of managing this risk. Potential solutions included the possibility of setting fund managers risk targets as well as performance targets;
- Benchmarking of investment performance – evaluating the usefulness of the current peer group benchmarking method against a benchmark tailored to the specific requirements of the Hertfordshire fund.

It was agreed that further work on these two issues was required, the outcome of which would need to be reported to future Cabinet / Executive Committee meetings if any change of policy were required as a result.

6. Financial Implications

It is not proposed that the County Council make an employer's contribution to any new stakeholder or AVC schemes. Therefore the cost will be minimal and will consist primarily of the staff time required to select a provider and of administering deductions from payroll for pensions contributions.

7. Conclusion

The recent changes discussed above require a re-assessment of the current AVC provision. It is proposed that Cabinet agree to tender in January 2001 for one or more pensions provider to administer AVCs and stakeholder pensions. It is recommended that the process of selecting a provider be overseen by the Investment Panel with the final decision referred back to Cabinet / Executive Committee for approval.

Background information referred to by the author

Stakeholder pensions - a guide for employers (Department of Social Security)
Stakeholder Pensions information from the Office for Pension Regulation
website (www.opra.gov.uk)
Pensions Management Special Supplement - October 2000 - Stakeholder
Solutions
Advice from Hymans Robertson actuaries
Professional Pensions stakeholder supplement - 31 August 2000
Pensions for today business guide - Smith and Williamson
Financial Times - 30 October