

HERTFORDSHIRE COUNTY COUNCIL

**CABINET
MONDAY 12 FEBRUARY AT 10.00AM**

**EXECUTIVE COMMITTEE
MONDAY 12 FEBRUARY AT 2.15 PM**

Agenda Item No:

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**NEW PROVIDERS FOR ADDITIONAL VOLUNTARY (PENSION)
CONTRIBUTIONS (AVCs)**

Report of the Finance Director

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Executive Member: Michael Janes

1. Purpose of the Report

To report on the selection process for AVC providers to replace Equitable Life and to approve the new AVC providers.

2. Summary

2.1 A report presented to Cabinet on 20 November 2000 set out the background on Equitable Life, currently the County Council's sole AVC provider. At that meeting a decision was made to begin the process of tendering for a new AVC provider and to delegate the detailed process to the Investment Panel.

2.2 On 8 December 2000 Equitable Life closed its doors to most new business having failed to find a buyer for the organisation as a whole. Since then there have been further discussions between Equitable Life and various parties regarding the sale of parts of the business. These have largely proved unsuccessful so far and Equitable Life's future appears uncertain.

2.3 The shortlisting process has identified Standard Life and Clerical Medical as the preferred new AVC providers and the Investment Panel recommend the appointment of both organisations as future AVC providers.

1. **Introduction**

Under the Local Government Pension Scheme regulations the Pension Fund is required to offer members the chance to make Additional Voluntary Contributions (AVCs) to supplement their main pension. The current provider is Equitable Life, who shut their doors to most new business on 8 December 2000. It is still possible for new contributors to join the Equitable Life AVC scheme but, given the uncertainty around Equitable Life's future, this may not be appropriate.

2. **Background**

Cabinet on 20 November 2000 agreed that one or more pensions providers be invited to tender to administer AVCs and stakeholder pensions for the Hertfordshire Pension Fund, with the selection process being overseen by the Investment Panel, and the outcome be reported back to Cabinet and Executive Committee for decision.

3. **Developments Around Equitable Life**

3.1 After losing a court case relating to Guaranteed Annuities last summer, Equitable Life put itself up for sale. After a high level of initial interest all the interested parties pulled out. This led to Equitable Life's decision to close its doors to new business on 8 December 2000. Since then Equitable have been in discussions with various organisations regarding the sale of parts of its business, although no firm proposals have been received. It is also attempting to cap its liabilities by negotiating with the holders of Guaranteed Annuities. This process is likely to be a lengthy one, taking at least six months and possibly longer.

3.2 The problems with Guaranteed Annuities affect only Equitable's With Profits fund. However this is the area that around 80% of Hertfordshire's AVC contributors have invested in. Equitable are now imposing a 10% Market Value Adjustment (MVA) on withdrawals from the With Profits fund. There is therefore considerable uncertainty around both Equitable Life's future and its future investment performance. A large number of contributors have suspended contributions to their AVCs and have asked that alternative arrangements be set up before the end of March to maximise the tax allowances available.

4. **Shortlisting for a New Provider**

4.1 The process of shortlisting has been carried out by the Investment Panel based on the following criteria:

- Experience of providing Group AVC schemes where there are a range of payroll providers involved and information and contributions received in varying formats
- Types of investment available, including the availability of a With Profits option
- Financial and organisational stability
- Past performance of With Profits and Unit Linked investment
- Charges
- Quality of administration

- 4.2 In making decisions on which providers to shortlist and to appoint, advice was received from Hymans Robertson, the Pension Fund's investment consultants. This has taken the form of a seminar organised by Hymans Robertson, which included presentations from five providers, and of a report summarising their views on the strengths and weaknesses of potential providers. References from other County Councils have also been taken up.
- 4.3 In considering the new AVC arrangements the Panel agreed to select two providers on the basis that:
- a) this reinforces that pension fund members are making their own choice when selecting an AVC policy;
 - b) it provides a wider choice of investments;
 - c) should similar circumstances ever re-occur, an alternative provider will already be in place.
- 4.4 When considering the selection of two providers, members took into account factors such as ownership and size of the AVC operation to ensure that the chosen providers complement each other.
- 4.5 The two providers identified as best meeting all the criteria were Standard Life and Clerical Medical.

5. Financial Implications

The County Council does not make an employer's contribution to the AVC Scheme and so there are no ongoing cost implications to this decision (all charges are met by employees). The set up costs will consist of ITNET's charges for changing systems and these are estimated at around £8,000. Costs of staff time in Corporate Accountancy will be absorbed in base budget.

6. Conclusion

The difficulties experienced by Equitable Life require a review of AVC provision. The Investment Panel recommend the appointment of two new providers – Standard Life and Clerical Medical.

Background Papers referred to by the Author

Report to Cabinet – 20 November 2000

Report to Investment Panel – 30 November 2000

Hymans Robertson paper 'AVC Provider Choice. Review of AVC Arrangements Provider Choice, Communication and Implementation'