



Surrey Local Pension Board 18 July 2019

Additional Voluntary Contributions Governance Review (Interim) Report

Recommendations:

The Board is asked to **note** the content of this report and **make recommendations** to the Pension Fund Committee if appropriate.

Details:

Background

1. The Pension Fund Team is undertaking a fundamental governance review of AVC provision.
2. Barnett Waddingham has been appointed to carry out the review.

Content

3. This is an interim report as, unfortunately, the consultant has not yet completed the full review. Nonetheless, it covers two important and topical issues.

Equitable Life

4. Equitable Life was closed to new business in 2000 and is currently in the process of being acquired by Utmost Life. This acquisition is being presented as a potential solution for members holding blighted with profits policies, although, unfortunately, it is not complete panacea.
5. A 'Policyholder Independent Expert' will prepare a report to consider whether the proposed scheme is in the best interests of members, which will be presented to the High Court. The Court will then determine whether the scheme can go ahead.
6. Barnett Waddingham's report is presented to the Board as Annex 1.

Prudential

7. Many AVC providers offer life styling products which target growth for younger members but gradually transitions the Fund to less risky investments as they approach retirement. The prudential has effectively closed the two funds that make up Surrey's life styling option by abruptly switching off the transitioning.
 8. The Pension Fund Team was concerned that the Prudential is offering sub-optimal funds insofar as:
 - The investment fund is less risky and, therefore, offers less potential for growth than its predecessor, but (paradoxically) it charges higher management fees
 - The life styling fund is less risky than its predecessor to the extent that it may well decline in value, after management charges have been deducted, unless interest rates increase significantly. Although the former is probably a good thing the latter is a concern given that transitioning starts 10 years before retirement.
 9. Although the Prudential's suggestions are not ideal, Barnett Waddingham believes that they offer the best balance of funds that the provider is willing to offer. In view of this, the Pension Fund Team suggests (reluctantly) accepting the Prudential's proposal and ask the Administration Team to write to all the members affected informing them of the forced transfer and alerting them to the alternative Prudential AVC funds available and their option to transfer free of charge.
 10. Barnett Waddingham's life style report is presented to the Board as Annex 2.
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Annexes:

Annex 1 – Barnett Waddingham's paper on Equitable Life

Annex 2 – Barnett Waddingham's paper on the Prudential