

**AGENDA MANAGEMENT SHEET**

**Name of Committee**

**Pension Fund Investment Board**

**Date of Committee**

**19 May 2008**

**Report Title**

**Standard Life AVC Arrangements**

**Summary**

Report setting out Mercer’s findings on Standard Life.

**For further information please contact:**

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**Would the recommended decision be contrary to the Budget and Policy Framework?**

**Background papers**

**CONSULTATION ALREADY UNDERTAKEN:-**

Details to be specified

- Other Committees  .....
- Local Member(s)  .....
- Other Elected Members  Cllr Davis, Chair of Pension Fund Board
- Cabinet Member  .....
- Chief Executive  .....
- Legal  Tony Maione
- Finance  David Clarke, Strategic Director of Resources - reporting officer
- Other Chief Officers  .....
- District Councils  .....
- Health Authority  .....
- Police  .....
- Other Bodies/Individuals  .....

**FINAL DECISION YES**

**SUGGESTED NEXT STEPS:**

Details to be specified

- Further consideration by this Committee  .....
- To Council  .....
- To Cabinet  .....
- To an O & S Committee  .....
- To an Area Committee  .....
- Further Consultation  .....

**Pension Fund Investment Board - 19 May 2008**

**Standard Life AVC Arrangements**

**Report of the Strategic Director of Resources**

**Recommendation**

That the Investment Board note the contents of the report and instruct the Strategic Director, Resources to liaise further with Mercer about extending the range of investments available through Standard Life.

**1. Introduction**

1.1 At its meeting on 3 August 2007, the PFIB instructed the Strategic Director, Resources to liaise further with Mercer on:

- The financial strength of Standard Life;
- The advantages and disadvantages of appointing an additional AVC provider alongside Standard Life;
- A review of the investment strategy and of the funds available.

**2. Financial strength of Standard Life**

2.1 Further to the initial report to the PFIB on 3 August 2007, Mercer continues to state that the current financial strength of Standard Life is such that it remains one of the AVC providers that they would currently consider for inclusion on a long list of providers for a new appointment.

2.2 Interestingly, Mercer's report does not refer to Standard Life as being "below average strength against other providers" as was stated in its previous report

**3. Advantages and disadvantages of appointing an additional provider**

3.1 The generic report submitted by Mercer lists both the advantages and disadvantages of appointing an additional provider to run alongside Standard Life.

3.2 The advantages of such an appointment are based mainly around the extra choice of having an additional provider with whom members can AVCs.

3.3 The disadvantages, however, focus more on the additional burden of administration both for the County as the administrator and for the Fund's employers. Also, that the additional choice can cause confusion for members and potentially may see a reduction in service levels with the existing provider.

#### **4. Review of the investment strategy and funds available**

4.1 Mercer has submitted a comprehensive report, dealing with such areas as the investment objectives of a group AVC plan, styles of investment management and issues around the types of funds available.

4.2 The report is summarised in **Appendix A** to this report and makes recommendations for actions and next steps.

#### **5. Recommendation**

5.1 That the Investment Board note the contents of the report and instruct the Strategic Director, Resources to liaise further with Mercer about extending the range of investments available through Standard Life.

DAVID CLARKE  
Strategic Director, Resources

Shire Hall  
Warwick  
May 2008

## Mercer Review of AVC Investment Strategy and Fund Options

### Summary and Recommendations

In this report we have covered a number of the investment issues that need to be considered when selecting fund options to be offered to members of a Group AVC arrangement.

### Recommended Actions

- i. Administering Authority to decide on its key investment objectives for the Group AVC arrangement.

### We recommend adopting the following objectives:

- **To provide a choice of funds for members which includes options expected to deliver good long-term rates of return (i.e. in excess of price and wage inflation) so that the value of members' assets is maximised.**
- **To provide a choice of funds for members which includes options that reduce the risk to accumulated assets of sudden (and sustained) reductions in capital values, or to the amount of pension or service credit that can be purchased, or the lump sum taken at retirement.**
- **To offer members sufficient choice to tailor their investments to their own personal and financial circumstances.**
- **Not to offer too many choices to members, which could lead to confusion and the cost and complexity of the Group AVC arrangement in terms of administration and communication.**

A "broad" range of around 10 to 15 funds should be sufficient to provide an adequate choice of funds for most members. A higher number would apply if options for more sophisticated member investors are to be offered, or if the Administering Authority decides to offer a wider choice of investment manager, either through the Standard Life platform or by appointing an additional provider.

- ii. Administering Authority to decide upon the criteria to adopt for including / excluding funds in the broad range, in relation to:
  - Core funds to offer;
  - Any additional (Non-Core) funds to offer.

### We recommend the following criteria are applied:

- a. **Core/Non Core funds: Confirm that Core Fund options should be included, and the extent to which Non-Core options should also be included (either basic only or basic and advanced; see details in paragraph 3.6).**
  - b. **Internal/External fund options: Confirm whether to offer only internally managed funds (Standard Life Investments), or combine with externally managed funds (a broad choice of which are available as shown in the Appendix). Consider if more detailed investigation of the external fund options available through the Standard Life platform is warranted, to support this decision.**
  - c. **Active/Passive options: Confirm whether to offer only actively managed funds (as is currently the case), only passively managed funds or a combination of the two.**
  - d. **Charging basis: Confirm if the level of charges should be a criterion for determining whether or not fund options are included, noting that a higher charging basis often applies for externally managed funds.**
- iii. In addition, specific areas where a formal decision is needed from the Administering Authority are as follows:
- a. **With-profits: Confirm whether further action should be taken to close off the with-profits option for existing contributions.**
  - b. **Lifestyling: Confirm whether a lifestyle option should continue to be included, and whether a bespoke option should be discussed with Standard Life in the light of the A-Day changes.**
  - c. **Default option: Confirm whether or not happy to continue operating without a default option. If wish to introduce a default, seek Mercer's confirmation as to appropriate option to use for this purpose.**

Our recommendations are focused on the criteria for determining an appropriate range of AVC options going forward. Once these are confirmed, and the specific points at (iii) above are determined, we can complete this exercise by formally recommending the specific options available from Standard Life to be adopted.

We also recommend that Standard Life be asked to supply statistics on a regular basis to the Administering Authority of where members' existing AVCs are invested and to which funds' ongoing contributions are currently being remitted.