



LOCAL PENSION BOARD - 23 AUGUST 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ADDITIONAL VOLUNTARY CONTRIBUTIONS

Purpose of the Report

1. To inform the Board about the service delivery improvements with the Pension Fund's in-house Additional Voluntary Contribution (AVC) provider the Prudential.

Background

2. Leicestershire Local Government Pension Scheme is required to provide an Additional Voluntary Contribution (AVC) scheme where active contributors may elect to pay extra pension contributions, known as AVCs, to provide additional benefits at retirement or in the event of death in service.
3. AVC contributions are deducted directly from scheme members pay before tax is calculated, so if a scheme member does pay tax, they receive tax relief automatically. Such additional contributions do not form part of the Pension Fund and do not require an employer's contribution.
4. The Prudential Assurance Company Limited (the Prudential) has been the Leicestershire Pension Fund's in-house AVC provider since 31 March 1996. The Prudential's service delivery has been good for a many years, however from November 2020 the Fund experienced a marked fall in the Prudential's service standards, causing the Fund to make late payment of members retirement benefits with AVCs.
5. Prior to the 24 May 2021, The Pensions Manager, in agreement with the Chair of the Local Pension Board, reported the Fund's delays in processing retirement benefits for members with AVCs, to The Pensions Regulator as a material breach.
6. The Prudential's service standards were reported to the Local Pension Board at its meeting on the 24 May 2021. The Prudential decided not to attend the meeting on the 24 May 2021, instead requesting a closed forum. The Board report is available within the background papers of this report.

7. On the 27 May 2021 the Pensions Manager wrote to the Prudential listing the Local Pension Board's concerns and questions. The letter is appended.
8. The Local Pension Board and Fund Officers subsequently met with three Prudential colleagues in a closed meeting on the 7 June 2021. The meeting provided opportunity to hear from the Prudential directly and to discuss the necessary improvements.

Prudential Improvements

9. Since the meeting on the 7 June 2021 Fund Officers have experienced a significant improvement at the Prudential.
10. The Prudential investigated the Fund's late receipt of contributions from the Fund's employers. The largest missing monthly payment related to contributions from De Montfort University, effecting several scheme members.
11. All the missing payments have been resolved by the Fund's employers and credited to the scheme members Prudential AVC accounts. Whilst the responsibility for accurate payment and receipt of AVCs lies between the employers and Prudential, if there are future delays these will be reported to the Pensions Manager. The Pensions Manager will then investigate the cases. The Prudential explained that late receipt of contributions from employers has caused issues with their timeliness of processing AVC retirement benefits.
12. On-line Fund access. The Prudential has spoken to Fund Officers to understand their problems in accessing the Prudential's online system. Prudential now have a greater understanding of the system issues and have reported these back to the Prudential for system release improvements. Additionally, the Prudential are actively working with several of our active AVC scheme payers, to identify why they cannot see some of their invested AVCs, via their online portal.
13. The Prudential has committed to make improvements to their service delivery by the 30 June 2021, the date set by The Pensions Regulator for improvements by the Leicestershire Fund. The Pension Manager recognises improvements have been made by this date, but further improvements are still required.
14. The Prudential have given their honour and commitment to the improvement plan, and Fund Officers can report a marked improvement in response times and help with any queries being raised by the Fund. As at the 30 June 2021 there were only two outstanding retirement cases, and both were being positively worked through.
15. The Prudential remain confident that they will make all the necessary improvements but have agreed to keep in regular contact with the Pensions Manager to resolve further issues, as they occur. The Pension Manager

confirms the Prudential are in regular contact with him and the Pensions Team.

16. The Prudential confirmed that any Leicestershire Fund member impacted by the delays will not need to go through the Fund's formal Internal Dispute Resolution Procedure (IDRP) process. The Prudential will look at all cases automatically and assess if compensation is due on a case by case basis.
17. The Prudential confirmed that no scheme member will be negatively financially impacted by the delays in investing their contributions.
18. The Prudential have not provided documentary evidence of the 14 days for processing retirement claims, but the Pensions Manager continues to monitor this and escalate any cases that fall outside of this timeline.
19. The Prudential explained their reasons for not wanting to meet in an open forum. There appeared to be some confusion as to the direction of the planned Board meeting, in that, the Prudential thought scheme members could ask questions directly, which they cannot. At the closed meeting on the 7 June 2021, Members of the Leicestershire Pension Board explained the Board prefers to operate in an environment of openness and transparency, for the benefit of the Fund's members.
20. The Prudential confirmed they understood AVC scheme payers qualified for Financial Service Compensation Scheme cover. However, the Prudential were clear the issues being encountered were purely administrative and not financial.

AVC Providers

21. Whilst the Fund has seen a significant improvement since the 7 June 2021, the Prudential's issues highlight how quickly a large and well recognised AVC provider can fall into difficulties.
22. Fund Officers are therefore working with the Fund's Actuary Hymans Robertson on an informal review of other Local Government AVC providers.
23. Fund Officers do not wish to end the contract with the Prudential. However, Officers are minded too have a second AVC provider for current and new scheme members, offering more choice and investment options.
24. After the results of the informal review are known, if there is sufficient interest from other external Local Government AVC providers, Officers will consider a formal tender for a second AVC provider.

Recommendation

25. Members of the Board note the report.

Equal Opportunities Implications

None specific

Appendix

Appendix – Pension Manager and Board’s letter to the Prudential dated 27 May 2021

Background Page

[Report to Local Pension Board 24 May 2021 – Additional Voluntary Contributions.](#)

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