CAMBRIDGESHIREPEN SION FUND

Pension Fund Board (PFB)

Agenda Item: 3

Minutes-Action log from PFB meeting

This log captures the actions from the Pension Fund Board of the 24th July 2014 together with any carried forward items from previous meetings and updates members on the progress on compliance in delivering the necessary actions.This is the updated action log as at 30/09/2014.

Minutes from 24th July 2014					
Item No.	**Item**	**Action to be taken by**	**Action**	**Comments**	**Whether Action now Completed**
100	Reimbursing Board Members		Deferred until (Public Service Pensions Act) (PSPA Board) arrangements finalised	A report would not be presented to full Council until the detailed arrangements for the new Pension Board were finalised	**For information purposes**.
100	Consultation response (pages 6-8) in CIV	Paul Tysoe	By Democratic Services email 08/08/2014	A copy of the final response would be sent to all Members by email.	**Completed**
103	New Governance Regulations Consultation Response Open Letters	Paul Tysoe/Mark Whitby Paul Tysoe	Sent email Jo Walton 4/8/2014	Send final response on the Governance arrangements consultations (subject to formal approval by Cllr Count) Write to all of the Cambridgeshire and Peterborough MPs, in open letters, point out that these	**Completed** **To be completed early October.**

	4th Option for Pension Board Work with Legal and Democratic Services	Steve Dainty/Paul Tysoe Steve Dainty/Paul Tysoe/Karen McWilliam	Draft Terms of Reference produced by Democratic Services.	proposals attempted to fix bad performance by penalising well-run Pension Funds. Approach Northamptonshire Pension Fund Board to see if there is an appetite for the “fourth option” governance arrangement to PSPA Board. To establish PSPA Board (ongoing).	**Meeting with Democratic Services scheduled for 27/10/2014.**
104	Annual Report and Statement of Accounts 2013-14 (Draft)	Paul Tysoe	Will need to speak to PwC and this issue would be corrected in the final Statement of Accounts.	CCC contributions had been incorrectly coded and netted off. CCC contributions now being paid into Cambridgeshire Pension Fund bank account and evidenced accordingly. PwC will include this in the 2014-15 audits of the accounts.	**Completed**
104	Annual Report and Statement of Accounts 2013-14 (Draft)	Paul Tysoe	Check name of Scheme Employer	We have been advised that the organisation which employs the CPF members previously employed by Enterprise is still trading under the name of “Enterprise”. We will change	**Completed**

				the employer name when we are instructed to by Amey.	
105	Additional Voluntary Contributions (AVCs) review	Paul Tysoe Paul Tysoe Paul Tysoe Jo Walton	Noted on Forward Plan	Receive future reviews of the AVC arrangements annually Engage with the current provider to consider their range of investment funds being offered, in terms of diversity Engage with the current provider on strengthening AVC lifestyle strategy awareness and options; Agree for further officer investigations and reports on possible alternative arrangements –e.g.A report comparing APCs and AVCs, the breakeven point on performance, and also revisiting alternative options for Funds available through Prudential, as detailed all above. LGSS setting up its own AVC scheme was discussed. It was noted that there may be legal and financial complexities to	**Noted – engagement with providers ongoing.** **Please see appendix a – a comparison of APCs and AVCs.** **Research was undertaken to look at the**

				be overcome in such an arrangement, in addition to economies of scale, but the possibility of marketing such an AVC option to other authorities was suggested.	**feasibility of this option. The findings are contained in appendix b.**
106	WMState Street Global Services Annual Performance Review	Paul Tysoe	To note for future reports	Reflect the comments on less frequent valuations/volatility in future reports, and also to note Members' comments on having greater detail rather than an overview, to best assess the position going forward.	**Completed**

Appendix A – Additional Voluntary Contributions compared with Additional Pension Contributions

APCs

Scheme members in the main section of the Local Government Pension Scheme (LGPS) can pay more in contributions to buy up to £6,500 of extra pension. Any extra pension purchased is payable to the member each year in retirement and is payable on top of the members normal LGPS pensions. APCs count towards the member's pension only and do not count towards death in service or survivor's benefits.

Scheme members can normally pay for this extra pension on a regular basis directly from pay, over a complete number of years, or via a lump sum (preferably from pay).

If a member chooses to retire early (before Normal Pension Age) the extra pension that the member has purchased will be reduced for early payment. If the member chooses to draw their pension after their Normal Pension Age any extra pension purchased is increased as it is being paid later.

On retirement, the scheme member can choose to exchange some of the extra pension purchased for the for a tax-free cash lump sum in the same way as with their benefits in the main LGPS pension.

The **whole cost** of any extra pension a member purchases is paid for by the member unless their employer chooses to pay some or all of the cost of the APC (Shared Cost APC). Making contributions to a Shared Cost APC (except in cases where a member chooses to buy lost pension for an unauthorised unpaid absence, within 30 days of returning to work) is at each employer's discretion.

Scheme members can calculate the cost of purchasing additional pension via the online calculator found on the national LGPS website; https://apc.lgps2014.org/

A worked example based on current factors;

Scheme member aged 36 with a normal pension age of age 68 (female)

Member pays £100 per month gross for 12 months.

Total extra pension purchased = £162.87 per annum at normal pension age

Same member purchases additional pension of £1,000 per annum over a duration of one year

Cost to member £614.00 per month x 12 = £7,368

Spreading payments to buy additional pension

The minimum period of time that a member can spread payment of APCs is 12 months and the maximum period is the number of full years left to the member's Normal Pension Age.

If a member chooses to spread payment of the additional pension contributions over a number of complete years they will be credited with the full amount of extra pension purchased if the payments are completed or if, before completing payments, the member is retired on the grounds of ill health with an enhanced pension. In all other cases, if the member ceased payments early (either because they choose to cease making the payments of because they cease membership of the scheme) they will be credited with the amount of extra pension they had purchased at that time. The member can choose to stop paying APCs at any time by notifying the Fund in writing.

If a member wishes to pay by regular contributions from salary they are also required to complete a medical clearance form which they send to their doctor who must declare that they are in reasonable health before the member is allowed to buy extra pension through regular contributions. Members need to be aware that they are responsible for any costs incurred in obtaining medical clearance.

Payment by lump sum (one-off payment)

Medical clearance is not required for members that wish to purchase APCs by a one-off payment.

Members can choose to pay by a one-off lump sum from salary (as long as the member’s salary plus any statutory deductions is sufficient to cover the payment) or by direct payment to the Pension Fund.

If members buy extra pension by making a lump sum payment they will be credited with the full amount of pension bought.

When a member makes payment by a lump sum, direct to the Fund, they need to be aware that there are potential tax implications if they have used a tax-free lump sum due from, or already received from, a pension scheme to pay for the APC. This activity is known as recycling.

Tax relief

Any extra regular contributions that are taken from a member’s pay and if they pay tax, would receive tax relief automatically through the payroll. If a member chooses to pay a lump sum outside of their salary they would need to claim any tax relief through submission of their annual tax return or directly with HMRC. Tax relief is only given on contributions up to 100% of a member’s UK taxable earnings or, if greater, £3,600 to a tax relief at source arrangement, such as an additional pension contribution arrangement.

Additional Voluntary Contributions (AVCs)

AVCs are a form of investment to build up separate pension or lump sum or a combination of both. Prudential is the in-house AVC provider for the Cambridgeshire Pension Fund although members can choose AVCs with other providers through Free Standing AVCs.

Members can currently pay up to 50% of their pensionable pay, from any usual pay day, into their pension. The 50% excludes the standard LGPS contributions. Members have the option to increase, decrease or cease AVCs at any point up to retirement.

It should be noted that if members start a new Prudential AVC and withdraw funds within five years of their first contribution an early withdrawal charge will be applied by Prudential.

The final LGPS 2014 regulations have been issued but the understanding of how AVCs should be treated from 1 April 2014 remains unclear. The following information on new AVC contracts with effect from 1 April 2014 is based on what it is believed the regulations intended. However, we and the rest of the LGPS funds are waiting formal guidance and possibly amending regulations to ensure consistency of understanding across the LGPS community.

It is our understanding that any new AVC contract that starts after 1 April 2014 onwards will be subject to different limits as follows:

- Scheme members will be able to pay up to 100% of pay (less statutory deductions) into a new AVC contract
- Scheme members will be limited to taking 25% of the AVC fund as a tax free lump sum on retirement

Any AVC contract that starts before 1 April 2014 will not be effected by these new limits. The table below is a comparison of our understanding of these changes:

AVC contract start date	Limit on contributions from pay	Limit on tax free lump sum at retirement from AVC fund
On or before 31 March 2014	Up to 50% of pensionable pay (as defined in 2008 scheme)	Up to 100% of AVC fund (subject to HMRC limits). Any remainder taken as a pension
On or after 1 April 2014	Up to 100% of pensionable pay (as defined in 2014 scheme)	Up to 25% of AVC fund (subject to HMRC limits) with the rest as pension

Assuming that the above information proves to be the correct interpretation of the regulations, scheme members who commenced paying AVCs before 1 April 2014 could potentially lose the pre 2014 protections upon transferring employment between different LGPS Funds (e.g. Cambridgeshire to Northamptonshire).

Overall comparison of AVCs and APCs

	Additional Pension Contributions (APCs)	**Additional Voluntary Contributions (AVCs)**
Tax relief on contributions	Yes	Yes
Flexibility in payment	No – no ability to stop and restart contract at the same level or cost	Yes – ability to increase and decrease contributions. Ability to stop and start payments although potential for pre 2014 protections to be lost.
Certainty of benefits purchased	Yes – providing contract is paid in full.	No – final fund value dependent on contributions paid and performance of the investment routes chosen and management fees.
Provides dependants benefits	No	Yes – if member purchases a LGPS pension with part of, or the entire final AVC fund a dependant's pension is automatically purchased.

Appendix B – Potential LGSS AVC Scheme – Complexities Explored

At the Pension Fund Board meeting on 24th July, members discussed the potential for LGSS setting up its own AVCs scheme, with the potential for marketing to other LGPS funds. It was acknowledged that there may be legal and financial complexities to this and I agreed to provide some further information on this option. To follow is some high level initial information to outline the legal status of an AVC arrangement. In particular, the LGPS Regulations require the AVC arrangement be a body:

- approved, and registered in accordance with, the Finance Act 2004, and
- administered in accordance with the Pensions Act 2004.

In simple terms, this means we would need to develop and establish a (trust based defined contribution) pension scheme which would need to be subject to HMRC approval (i.e. for tax relief purposes), registered with the Pensions Regulator and which would be subject to all of the key requirements of running a pension scheme, such as:

- Having a board of trustees who understand their duties and are fit and proper to carry them out. The Pensions Regulator expects pension scheme trustees to regularly review their skills and competencies to demonstrate that they meet these requirements. Overall trustee obligations and liabilities would also need to be satisfied.
- Having a robust governance structure. The Pensions Regulator expects trustees to review their schemes, including AVCs, to ensure that they meet the standards of governance and administration that are set out in the DC code of practice and supporting DC regulatory guidance that were published in November 2013. These documents list 31 “quality features” which set out the activities, behaviours and control processes that will help trustees to meet their objectives and deliver good member outcomes.
- Maintaining adequate internal controls which mitigate significant financial, operational, regulatory and compliance risks. Areas of risk which are likely to have a significant impact on occupational trust-based pension schemes include fraud (including pensions liberations fraud), administration, investment and member options at retirement.
- Responsibility for determining, selecting and establishing the range and suitability of the available investment options, ensuring that the risk profile reflects the needs of the membership.

This is quite different to our current responsibilities in relation to the LGPS where the pension scheme is established by DCLG and they deal with areas such as registration for tax approval purposes. Also, obviously the LGPS is defined benefit so our systems and processes are focussed on that (not a defined contribution investment based pension).

Finally and perhaps most importantly, it is quite probable that the Councils would not have the powers to establish such an AVC scheme.