



Committee and Date  
Pensions Committee

15 September 2011

10.00

Item

**14**

Public

## PENSIONS ADMINISTRATION MONITORING

**Responsible Officer** Debbie Sharp  
e-mail: [debbie.sharp@shropshire.gov.uk](mailto:debbie.sharp@shropshire.gov.uk) Tel: 01743 252192

### 1. Summary

- 1.1 The report provides Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

### 2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 **Risk Management**  
Performance is considered and monitored to ensure regulatory timescales are adhered to.
- 3.2 **Human Rights Act Appraisal**  
The recommendations contained in this report are compatible with the Human Rights Act 1998
- 3.3 **Environmental Appraisal**  
There is no direct environmental, equalities or climate change consequence of this report.
- 3.4 **Financial Implications**  
There are no direct financial implications arising from this report.

### 4. Performance

- 4.1 The performance chart showing the team's output and performance levels to the end of July 2011 is attached at **Appendix A**.

- 4.2 The Procedures outstanding at the end of the month has remained at the same level during May, June and July 2011. The number of procedures completed has dropped.
- 4.3 It was reported at the last meeting that the team was hoping to fill a vacancy for a Pensions Assistant. A successful appointment has been made, from the re-deployee list, who will start shortly.

## **5. Communications**

- 5.1 In June the retired members meeting was held at the theatre Severn. Presentations were given by speakers from the National Trust, Wenlock Olympian Society and Shropshire Astronomical Society. The event was very well attended by around 130 retired scheme members.
- 5.2 Joint meetings were held at Wrekin Housing Trust and New College with Prudential Assurance, where a variety of pension issues were discussed.
- 5.3 A Shared Service (Communication) Meeting has been held with Staffordshire, Warwickshire, Worcestershire, Cheshire and Lancashire Funds to see where joint work could take place on communication materials. This proved successful with a number of ideas being discussed.
- 5.4 Meetings have also taken place with IT in relation to making improvements to the Pension Fund Website.
- 5.5 Information has been put on the Pension Fund Website for Shropshire Council Employees who have received a letter regarding changes to Term & Conditions. The options vary for individuals depending on whether they voluntarily agree to changes to their current contract or have their current contract terminated on 30 September and a new contract given from 1 October 2011. The team have taken numerous calls on the effect these changes have to their benefits.

## **6. Annual Benefit Statements**

- 6.1 The Annual Benefit Statements were issued to all active and deferred members, in total around 26,000 statements have been sent. Over the years considerable time has been taken to improve the Statement and this has led to the greater understanding by the membership of their entitlements from the Pension Scheme. This has resulted in very few telephone queries.
- 6.2 Benefit Statements were also issued to all the elected members in the Scheme; these resulted in positive feedback following some re-styling.
- 6.3 A different company was selected to manage the print and distribution, creating a cost saving from last year. The company used was Adare Inspired Communications.

## 7. Equitable Life Announcement

- 7.1 The Government have been looking into the offer of compensation to policyholders who were With-Profit investors who suffered loss as a result of Government maladministration.
- 7.2 The compensation scheme will cover both individuals and group policyholders like those who contribute while members of the Shropshire County Pension Fund.
- 7.3 The Scheme Actuary Mercer Limited have put together an update on the current situation (**Appendix B**), however a summary of the main points has been provided below:
- To be eligible for compensation scheme members need to have been an Equitable Life With-Profit contributor between 1 January 1993 and 31 December 2000 and who have suffered what is termed as a “Relative Loss”.
  - The Government have scaled back the level of compensation to 22.4% of the relative loss, being the amount “affordable from the public purse”.
  - Group policyholders may not learn the amounts payable if any until after June 2012.
  - Any compensation due will not be paid until the second or third year of the Payment Scheme.
- A link to the document (Appendix B) can be found on the Pension Fund Website [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)
- 7.4 The Fund will also be contacting all active, deferred and retired members who currently or have previously made contributions to Equitable Life.

## 8. Review of Public Sector Pensions

### Employee Contributions – short term measures

- 8.1 Communities and Local Government have set out the initial and medium term context for the LGPS in England and Wales, following the Ministerial Written Statement by the Chief Secretary to the Treasury on 19<sup>th</sup> July 2011 to the House of Commons, and indicated the next steps.
- 8.2 The position in relation to employee contributions is specifically clarified as being different, because of the funded nature of the LGPS scheme, and that there will be discussions around alternative ways to deliver some or all of the savings.
- 8.3 The Local Government Group was invited by the Secretary of State to conduct discussions with the local government trade unions to establish a package of measures to secure the necessary short term savings in the LGPS equivalent to the 3.2 percentage point increase in other schemes. The package will include protections from contribution

increases for the lowest paid. Other issues important to the long term sustainability of the LGPS may also be discussed.

- 8.4 The outcome of discussions was to be reported back to the Secretary of State by 9<sup>th</sup> September in time to allow the formal, statutory consultation exercise to begin by the end of September.
- 8.5 The onward timetable from then, as required by section 7 of the Superannuation Act 1972, is as follows:
- a. A 12 week statutory consultation exercise on amending regulations:
  - b. Consideration of responses and decisions by Ministers in early 2012;
  - c. Making and laying of the amending regulations as soon as possible thereafter; and
  - d. Scheme changes coming into force on 1 April 2012.

### **Post-Hutton Reforms – Long term measures.**

- 8.6 The Government intends to set individual scheme cost-ceilings to ensure on-going affordability and sustainability. These will replace the previously envisaged ‘cap and share’ mechanism for the LGPS.
- 8.7 The cost ceilings will be based on Lord Hutton’s proposals, but will go further and ensure that the pension individuals receive at normal pension age will be broadly as generous for low and middle earners as it is now. The ceilings will ensure that public service pension schemes remain affordable and sustainable, by setting a limit on the contribution made by employers and ultimately the taxpayer.
- 8.8 Schemes have been invited to provide initial reform proposals in headline terms by the end of October. The programme envisaged then is to finalise detailed Scheme design elements so that the relevant legislation can be introduced in the 2012 – 2013 Parliamentary session. This will allow full implementation for April 2015.

### **9. Annual Meeting**

- 9.1 The Annual Meeting for 2011 will be held on 8 November. As in previous years there will be 3 meetings during the day.
- 9.2 The first meeting will be held at 10.00am at the Civic Offices, Telford. The two meetings in the afternoon will be held at the Walker Theatre, Theatre Severn in Shrewsbury at 2pm and 5pm. This is a change of venue to previous years.
- 9.3 Please let Pensions Services know which meeting you will be able to attend by calling (01743) 252130 or e-mail [pensions@shropshire.gov.uk](mailto:pensions@shropshire.gov.uk).

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pensions Committee

**Cabinet Member (Portfolio Holder)**

NA

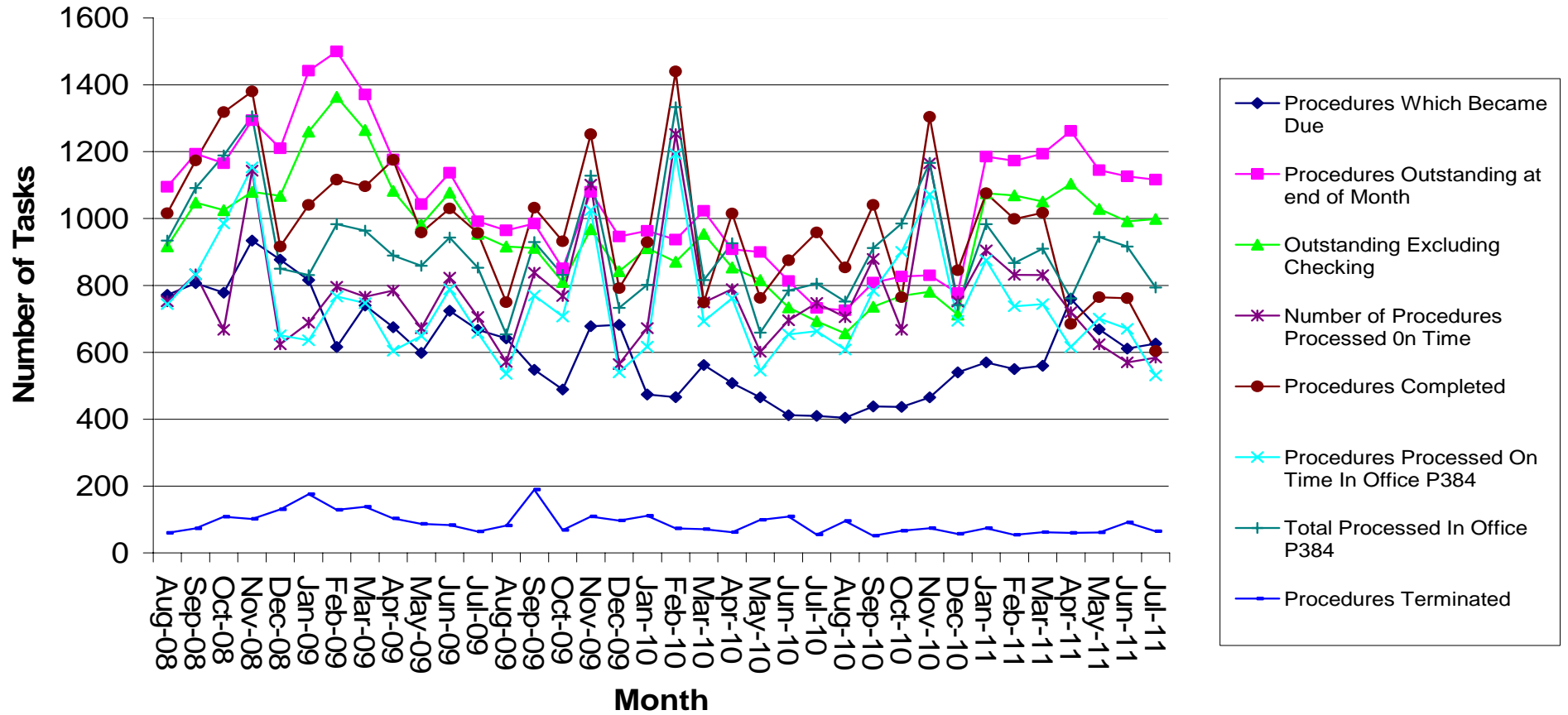
**Local Member**

NA

**Appendices**

Appendix A – Performance Monitoring

### Task Statistics



## Appendix B

# Equitable Life update Member announcement

### Summary of main messages

Equitable Life has recently published its 2010 Report and Accounts, in which it announced that policy values will (currently) be increased by 12.5% for members who decide to transfer their benefits away from the With-Profits Fund.

Additionally, there have been some recent announcements on the payment of compensation by the Government to Equitable Life with-profits policyholders. This will remove one of the largest barriers to members reviewing the merits of retaining their investments within the Equitable Life With-Profits Fund.

This update from the Administering Authority has been prepared on the basis of information received from the Fund's actuarial advisers and covers the following areas:

- Financial update
- Investment update for the Equitable Life With-Profits Fund
- Capital distribution
- Compensation
- Should I remain invested in Equitable Life's With-Profits Fund?
- Where can I get further information?

### Financial update

A brief overview of the current position is given below and a "jargon buster" is attached to help with some of the terminology used:

- There was no increase in the non-guaranteed policy values during 2010. However, for policies remaining in force at 1 April 2011 until further notice, these non-guaranteed policy values will increase at 2% per annum, backdated to 1 January 2011.
- The Administering Authority's Equitable Life Group AVC Policy has a 3.5% guaranteed interest rate. This means that your "notional guaranteed value" (which is the minimum payable in the event of death or actual retirement) continues to increase at 3.5% per annum. However, if you choose to transfer your with-profits fund elsewhere, the underlying policy value would apply instead.
- The individual financial reduction applied on early surrender of with-profits investments remains at 5%. However, Equitable Life reserves the right to amend this reduction at any time.

- The level of assets available to protect the solvency of the with-profits fund was 12.6% of the fund value as at 31 December 2010 (12.2% at 31 December 2009).

### Investment update for the Equitable Life with-profits fund

The underlying assets of the With-Profits Fund achieved a return of 8.4% for the year. After taking a deduction for administration, the cost of guarantees, tax and technical provisions, the effective net return on the fund was 2.7% (compared to 6.6% in 2009).

As Equitable Life continues to “de-risk” its financial position (a further £200m has been moved out of equities and property into cash during 2010), the with-profits fund remains cautiously invested:

	31 December 2010 (%)	31 December 2009 (%)
Equities	2.4	3.7
Property	7.0	8.2
Gilts	33.5	34.7
Corporate Bonds	35.5	43.8
Cash	21.6	9.6
<b>Total</b>	<b>100%</b>	<b>100%</b>

Equitable Life has not specifically commented on the substantial increase in cash holdings, beyond indicating that it is generally used to meet day-to-day expenses and to provide funds for the expected level of new claims. However, they must have some expectation of an increase in transfers during 2011, including the additional commitment to the payment of the 12.5% capital distribution (see below).

The investment changes made during 2010 have further reduced the risk to investors of significant market changes, although diminishing the opportunities for outperformance and additional bonuses to be paid.

### Capital distribution

It is obviously vital for the future wellbeing of Equitable Life, and its investors, that there is sufficient capital available to maintain Equitable Life’s solvency. However, a balance is needed between maintaining the security and making sure a fair share of the assets is given to individuals who decide to surrender their with-profits investments.

For this reason, Equitable has decided that anyone now taking benefits out of the with-profits fund will receive an additional capital distribution of 12.5% of policy values at 31 December 2010 i.e. the value available for transfer will increase by 12.5%.

For remaining with-profits investors, the capital held represents a buffer against future adverse events and, although not adding to policy values directly, this is a significant benefit. Equitable Life intends to review this rate of capital distribution regularly.



## Compensation

The Government has made funds available to enable the compensation of Equitable Life with-profits investors who lost out due to the accepted areas of maladministration. To be considered for compensation, the Administering Authority's policy had to have been taken out between 1 September 1992 and 31 December 2000 inclusive or a qualifying member would have to have contributed into the policy between 1 January 1993 and 31 December 2000.

Even if you meet the requirements above for being eligible to be considered, it will not automatically mean that you will have suffered a loss and therefore receive compensation. In some cases, members have been better off with Equitable Life and are not due any compensation.

The Government has considered how an investor's with-profits investment with Equitable Life grew in comparison to a similar with-profits fund with other insurers. The Government then decided that the "public purse" can only afford to provide compensation of 22.4% of this relative loss (and a minimum loss of £10 per member will apply, to avoid having to process very small amounts).

An Independent Commission, established by Government, reported on how the amounts should be calculated and who should receive payment first. The Commission's recommendations included, for example, compensating current with-profits annuitants first and then the oldest individual policyholders.

A subsequent report confirmed that where compensation is payable, the Payment Scheme will issue a statement of the amount due. For group policies like the Group AVC Policy you are invested in, this may not be available before June 2012, with any compensation being paid up to a couple of years after that.

However, the Government has accepted a recommendation that compensation should be paid even if an eligible investor has surrendered their Equitable Life with-profits investments before compensation is paid. On this basis, investors wishing to transfer away from Equitable Life will be able to do so without impacting on any possible entitlement to compensation.

### **Should I remain invested in Equitable Life's With-Profits Fund?**

This question may still prove difficult for you to answer. You should seek advice from an independent financial adviser. It may be helpful for your adviser if you share a copy of this note with them so they can help you to consider a number of issues, including:

- During the investment market turmoil of the last few years, the cautious underlying investments of the with-profits fund have protected its value and provided security. However, Equitable Life has indicated that future investment returns are unlikely to exceed 3.5% per annum and other than where Equitable Life is contractually obliged to deliver these returns, these will not be in a guaranteed form;
- If you disinvest your assets from the with-profits fund, other than on full retirement or death, you will lose the guarantees (within your "notional guaranteed value"). The non-guaranteed value (known as your "policy value") is lower in most cases, though the 12.5% capital distribution available from 1 April 2011, outlined above, may change this;

- Equitable Life will also reduce the policy value (and the 12.5% capital distribution) by a further 5% (currently) on transfer. You can compare the notional guaranteed value and the transfer value on your annual fund statements to understand your own position;
- For some people, the “loss” on transfer is “just” the 5% disinvestment penalty i.e. their guarantee currently has no value, as the policy value (non-guaranteed fund) is higher (especially after the capital distribution which is currently 12.5%, though this can be reduced by Equitable Life in future);
- For other people, the guarantee may still be valuable. You should consider your own position, perhaps with the help of an independent financial adviser as noted below. If you wish to compare the value of your “notional guaranteed value” with your current “surrender value” which is the amount available to transfer to another arrangement, you can request a transfer value quotation;
- Your period to retirement is important i.e. how long you have got to invest the money elsewhere in the hope of making up any loss if you transfer;
- The expected return on any alternative investment you are able to transfer to. The expected return may be higher than 3.5% per annum, but it is unlikely to be guaranteed and that usually means that it can go down as well as up in value i.e. there is an investment risk involved;
- Your attitude to this investment risk;
- Your capacity to accept this investment risk. How important this investment is in terms of your comfort and overall financial security during retirement, taking into account other pension arrangements you have such as your main LGPS benefits.

### **Where can I get further information?**

The Administering Authority will provide further general updates, as appropriate. However, neither the Administering Authority nor our advisers are authorised to give you advice as to the best course of action in your own circumstances.

Therefore, if you require further advice in relation to your options with Equitable Life, you are strongly encouraged to take your own independent financial advice. A local list of independent financial advisers can be obtained from the IFA Promotions website at [www.unbiased.co.uk](http://www.unbiased.co.uk).

Further information can be found on Equitable Life at [www.equitable.co.uk](http://www.equitable.co.uk)

**On behalf of the Shropshire County Pension Fund  
July 2011**