

## **HENDRE LIMITED RETIREMENT BENEFITS SCHEME**

### **CHAIR'S STATEMENT (Scheme year ended - 31<sup>st</sup> March 2020)**

#### **Background**

The Scheme is a defined contribution (DC) occupational pension scheme as defined in Part 4 of the Finance act 2004.

This is the Chair's Statement as required by the occupational defined contributions trust based pension scheme code of practice.

The Scheme is closed to new entrants but contributions are still paid monthly to the Scheme in respect of the remaining active members.

#### **The Scheme Investment Strategy**

A default investment arrangement is generally provided for members who are automatically enrolled into their employer's pension scheme, or where 80% or more of the scheme members are investing in one particular fund. The latter applies to the Scheme as all active members are investing in the Scottish Widows With-Profits Fund.

The Scheme is not used for auto enrolment as the employer has implemented other workplace pension arrangements in order to satisfy this requirement, and which offer a wide range of investment choice and appropriate default investment funds.

Members have the choice to switch their contributions from the Scheme into their respective workplace pension scheme in order to invest in alternative funds.

The Scheme remains open for existing members who elected to invest in the Scottish Widows With-Profits Fund prior to the 15<sup>th</sup> February 1999, and who continue to benefit from a Guaranteed Annuity Rate (GAR) equal to 11.11% for men and 9.09% for women, applicable at age 65 and 60 respectively.

The Trustees monitor the investment objectives of the Scottish Widows With-Profits Fund and meet with the Scheme Adviser; Origen Financial Services Limited, at least annually.

A full review of the Scottish Widows With-Profits Fund was carried out in February 2020 and as a result, no changes were necessary and none have been made during the scheme year to the 31<sup>st</sup> March 2020.

The scheme rules permit payment of an annuity together with a Tax Free Lump Sum, if required. Whilst the Scheme can accommodate trivial or small pot payments it is not possible to adapt the Scheme to allow flexible access to benefits under pension freedoms. Where flexible access is required, members can transfer the value of their pension fund to an alternative pension arrangement but in doing so, will lose any GAR entitlement.

The Trustees appreciate that whilst the GAR is still considered to provide a valuable benefit, that the Scheme's lack of flexibility and alternative investment strategies may not be appropriate for all members. Therefore, members are free

to cease contributing to the Scheme but on the understanding that this will prevent any future entitlement to the GAR.

### **Financial Transactions**

The Scheme has service level agreements in place with the Scheme Administrator and Scottish Widows; which covers the accuracy and timeliness of all core financial transactions.

### **Payment & Investment of Contributions**

The Scheme Administrator sends a contribution schedule for both the employer and employee pension contributions to Scottish Widows prior to the end of each month, in which the contributions were deducted from the member's pay.

This enables Scottish Widows to collect the direct debit as well as reconcile and invest the contributions within the permitted timeframe; by the 22<sup>nd</sup> of the following month.

Scottish Widows acknowledges receipt of the contributions which is also the date on which they are deemed to be invested, each month by email.

The Finance Manager reconciles the amounts each month for the principle employer against the bank statement, which is checked and signed off by the Finance Director.

Despite being informed of the correct monthly payment amounts, Scottish Widows under collected payments in the 2019 scheme year and were slow to resolve the situation. Having lodged a formal complaint an apology was forthcoming from Scottish Widows, which confirmed that the problems experienced in updating the direct debit amounts had been rectified, and that members had not suffered any detriment as a result of the error.

In this scheme year, the contribution schedule sent to Scottish Widows each month has again been correct but the contributions have been over collected each month. The Scheme Administrator immediately raised the issue with Scottish Widows but it took some time for Scottish Widows to agree that a much lower payment should be made in January of this year, to offset the substantial overpayment. Whilst it was noted that this error had not been detrimental to scheme members, a formal complaint has been raised with Scottish Widows and including a proposal to adopt a different method of paying pension contributions.

External auditors audit the Scheme annually.

### **Transfer of assets into the scheme and transfers out**

There have been no transfers either in or out of the scheme in the current scheme year.

The Scheme Administrator and Origen would ordinarily monitor the progress of any potential transfer to ensure that any enquiries are answered within 10 working days, and upon receipt of all necessary paperwork and checks that any transfer requests and payments are processed within 2 working days.

The Scheme Administrator will also confirm with the Scheme Adviser, Origen whether the transfer is coming from or is being paid to a legitimate pension arrangement, prior to the Trustees authorising any such transactions.

### **Switching investments**

Active members wanting to switch their contributions from the Scottish Widows With-Profits Fund to a different investment will do so by authorising the Scheme Administrator to redirect their contributions to the employer's workplace pension scheme. This provides the member with the opportunity if required, to invest in a wide selection of unit linked investments which are competitively priced against the restricted range of unit linked investment funds available in the Scheme.

Any request to redirect some or all of the Scheme pension contributions to the employer's workplace pension scheme would be processed by the Scheme Administrator to coincide with the next pay run. Only the member can control their investment selection in the employer's workplace pension scheme, and so will be made aware that they must personally make their investment selection either online, or via the pension provider's helpline.

### **Payments out of the scheme to members/beneficiaries**

#### **Retirement**

Scottish Widows generates and issues communications leading up to a member's normal retirement age via the Scheme Administrator who in turn checks the information prior to issuing to the member.

The Scheme Administrator reviews the master listing monthly to ensure that members who are approaching their normal retirement age are made aware of their forthcoming entitlement to the GAR and of the necessary documentation that will be required by their normal retirement age, in order to secure the GAR.

Origen also checks the records for up and coming retirements and notifies the Scheme Administrator.

Where necessary Scottish Widows will be reminded of the forthcoming retiree and both the Scheme Administrator and Origen will chase for any for any outstanding retirement communications to ensure that these are received in the appropriate timeframes.

Various communications will be issued in the 12 months leading up to the members retirement age and the retirement illustration, associated forms and Open Market Option reminder are all provided by Scottish Widows 6-8 weeks prior to the member's normal retirement age. This documentation will be checked by the Scheme Administrator and issued to the member immediately, together with a checklist reminding the member of the importance of returning all documentary evidence and forms prior to their normal retirement age; 60<sup>th</sup> (female) or 65<sup>th</sup> birthday (male). Members are also reminded to factor in time for the Trustees to authorise the claim and for this to be submitted to Scottish Widows.

Origen and the Scheme Administrator will chase the member for their forms and evidence, as required.

The Scheme Administrator will check all of the forms and documentary evidence and where there is any uncertainty will contact the scheme adviser; Origen for advice on any necessary steps to ensure swift resolution.

Where trustee approval is required, the Scheme Administrator will contact the necessary Trustees promptly to obtain the necessary signatures.

The Scheme Administrator will ensure that Scottish Widows acknowledges receipt of the claim forms and associated evidence, and processes payment for the member within 10 working days or by their normal retirement age, if later.

### **Death Claims**

Members are reminded at least once year to keep all of their nomination forms up to date.

Notice of a member's death will be made via the Scheme Administrator who will refer to the deceased's Expression of Wish Form.

The Scheme Administrator will request evidence of the member's death and will seek approval from the Trustees as to the most appropriate beneficiaries, making reference to any Expression of Wish Form.

Upon receipt of the death certificate/evidence of death the Scheme Administrator will gain the necessary Trustees signatures within 2 working days, prior to submitting the claim to Scottish Widows.

It is expected that Scottish Widows will pay any death claim within 2 working days of receipt of the evidence of death and the trustee's authority.

Once payment is received in the trustee's bank account, the Scheme Administrator will endeavour to pay this directly to the beneficiaries identified, again within 2 working days.

### **General Administration**

The SLA's and scheme administration are monitored regularly with any issues arising being brought to the Trustees attention immediately. A formal scheme administration report is produced and reviewed at the annual Trustee Meeting.

There have been no issues regarding the processing of core financial transactions and all pension contributions have been calculated accurately.

Whilst there has been no detriment to the scheme members, the inability of Scottish Widows to collect the correct direct debit is of concern, resulting in a formal complaint to Scottish Widows.

The administration report covers matters such as member complaints, transfer enquiries and monitors whether these proceed. Information is also provided in respect of any benefits claimed by members or their beneficiaries and this report is reviewed at the annual Trustee Meeting.

- Transfer payments are handled by the Scheme Administrator, supported by the Scheme Adviser.
- Death benefits are handled by the Scheme Administrator, supported by the Scheme Adviser.
- Retirement Benefits are handled by the Scheme Administrator, supported by the Scheme Adviser.
- All transactions mentioned above, require the Trustee approval.

## Scheme Charges

From the 6<sup>th</sup> April 2018, the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 ("the 2018 Regulations") introduced requirements relating to the disclosure and publication of the level of charges and transaction costs which requires Trustees and managers of a relevant scheme to provide illustrative examples of the compounding effect of costs and charges on a member's pension savings.

The Scheme is not used for auto enrolment and is exempt from the legislative Charge Cap of 0.75% due to the third party promise of the GAR provided by Scottish Widows.

The Trustees received information on the transaction costs and charges from Scottish Widows associated with the Scottish Widows With-Profits Fund, which are as follows:-

- 0.3% Capital fee
- 0.07% Investment Management fee
- 0.65% Administration fee
- 0.20% Transaction fee

These costs and charges have been taken into account when calculating the effect of charges on a members fund over the following terms to retirement:-

Term to Retirement (years)	Starting Fund Value (£)	Annual Charge (%)	Further Contributions Paid (£)	Total Charges (£)	Fund Value at Retirement (£)
1 (shortest)	182,434.00	1.22	0.00	2,225.69	180,208.31
6 (average)	182,434.00	1.22	0.00	12,953.42	169,480.58
17 (longest)	182,434.00	1.22	0.00	34,359.88	148,074.12

### Assumptions:

- No further contributions paid (plan paid up)
- Nil growth
- Nil inflation

Term to Retirement (years)	Starting Fund Value (£)	Annual Charge (%)	Further Contributions Paid (£)	Total Charges (£)	Fund Value at Retirement (£)
1 (shortest)	182,434.00	1.22	2,673.96	2,258.32	182,849.64
6 (average)	182,434.00	1.22	16,043.76	13,624.74	184,853.02
17 (longest)	182,434.00	1.22	45,457.32	39,040.70	188,850.62

### Assumptions:

- Contributions of £222.83 paid per month (not increasing)

- Nil growth
- Nil inflation

The disclosed costs show that these are unlikely to have a negative impact on a member's investment where contributions are continuing. However, deferred members are likely to experience a negative impact on their investment unless of course, the reversionary and terminal bonuses awarded exceed the charges. A reduction in value due may be negated in full or in part by the return gained from the GAR.

For completeness the Unit Linked Funds and associated costs and charges are as follows:-

<b>Total Expense Ratio (TER) for Unit Linked Funds</b>	
<b>Scottish Widows Pension Fund</b>	<b>TER %</b>
Cash Series 1	0.875
Fixed Interest Series 1	0.875
Indexed Stock Series 1	0.875
International Series 1	0.876
Mixed Series 1	0.891
Property Series 1	0.967
UK Equity Series 1	0.875
<i>Plus Bid/Offer Spread of 0.5% on buying/selling units</i>	

The employer pays fees in respect of any professional services associated with the Scheme, including auditing annual accounts, administrative support and financial advice.

### **Trustee requirements for knowledge and understanding**

A bespoke approach to trustee training has been adopted and a record of the training completed by each trustee is logged and is recorded by the Scheme Administrator.

The training record is reviewed annually to identify any gaps in the Trustees knowledge and understanding along with each trustee carrying out a self-evaluation during the scheme year, this in turn permits any gaps in knowledge to be fulfilled by:-

- Attending any relevant training courses
- Engaging with Professional advisers such as:-
  - Pension Consultants & Advisers
  - Legal Advisers
  - Auditors

The Trustees engage regularly with their professional advisers and hold a formal Trustee Meeting each year, as well as ad hoc meetings when necessary.

The formal annual meeting is normally held at the business premises of the Company, and typically lasts most of the day. As part of the meeting an annual update/training session is usually provided by the scheme adviser to ensure that

the Trustees knowledge is up to date and to test, fill in any gaps identified in the Trustees knowledge and understanding.

No gaps in knowledge or understanding were identified in the scheme year.

However, after advising the Pension Regulator that the Trustees were unable to comply with the requirement to illustrate the cumulative effect of costs and charges on the Scottish Widows With-Profits Fund, the 2019 Chairs Statement was scrutinised, resulting in a penalty notice and a fine of £511.60 for failing to:-

- **Include a Statement of Investment Principles (SIP)** - This requirement is still under consideration by the Pension Regulator as the default investment fund provides a third party promise in the form of the GAR and it is understood that as a result, an exemption would ordinarily apply. A SIP has been produced pending the Pension Regulator's decision, and is now available for members to review.
- **Describe any review undertaken during the scheme year of the default investment arrangement** - Details of the outcome of the review undertaken in February this year have been included in this Statement and the document can be accessed by members alongside the Chairs Statement.
- **State the level of charges and transaction costs applicable to the default investment arrangement and to include an illustrative example of the cumulative effect over time** - Despite the Trustees having asked Scottish Widows for the necessary details well in advance of this new requirement for 2019, this had not been forthcoming. Scottish Widows admitted they were culpable and have since provided details of the charges enabling this information and the illustrative example to be included in this Statement but have also reimbursed £511.60 to the Trustees.

Three advisories were also raised regarding the need for further information:-

- evidence that the Scottish Widows With Profits-Fund, deemed to be a default investment had been formally reviewed
- how the processing of core financial transactions had been met
- the monitoring and recording of the Trustee's knowledge and understanding

The advisories have been addressed and the Chair's Statement expanded to provide more detail in each of the areas mentioned.

An induction process for new trustees is followed.

- The Scheme Administrator provides all new trustees with a full complement of relevant scheme documents.
- A new trustee will also receive a separate induction with the scheme adviser to ensure that they are familiar with the trust deed and rules and any other associated documentation setting out the Trustees current policies in running the Scheme.
- The induction will provide the new trustee with information to support their understanding of investments, their responsibilities and how the Scheme provides benefits.

- A new trustee is notified that they must complete all of the relevant modules of the Trustee Toolkit within 6 months of their appointment.

To ensure that the ongoing knowledge and understanding of the trustees is managed throughout the scheme year and is kept up to date, the trustees are encouraged to register for the 'news by email service' provided by the Pension Regulator and to revisit the trustee toolkit modules.

The trustees commitment to keeping their knowledge up to date by registering for the 'news by email service' and other relevant reading, along with their engagement with their professional advisers makes it clear that their combined knowledge and understanding together with suitable advice, enables the trustees to properly exercise their functions.

### **Member Communications**

An Annual Statement is produced by Scottish Widows for all deferred and active scheme members, providing them with a personalised fund value, a projection of their pension funds and estimated retirement benefits. The annual statements comply with statutory guidance and are produced by the pension scheme provider; Scottish Widows.

All members receive a communication when approaching retirement which explains the pension options provided by the Scheme, and sign posts the member to the free services provided by Pension Wise and The Pensions Advisory Service. Members are made aware that to secure the GAR, all of the necessary paperwork and evidence required must be submitted to Scottish Widows prior to their 60<sup>th</sup> birthday for women, and 65<sup>th</sup> birthday for men.

Members are also made aware that if they transfer their With-Profits pension fund to a more flexible arrangement, they will give up their entitlement to any GAR.

The Scheme Administrator and the trustees have taken the following steps to trace members:-

- Searched through all documentation held in the scheme folders
- Requested any additional information from Scottish Widows
- Reviewed the list with trustee Allan Jones who was able to identify some of the names and possible contact points
- Explored various social media channels e.g. LinkedIn
- Managed to find 6 deferred member contact details

Regrettably, there are still 13 deferred members for whom there is no known address or contact telephone number. It is hoped that these members will come forward when the employer advertises the need for former employees to get in touch via a posting on the company website.

This Chairs Statement and the documents listed below are available to view online at the following web address:

Links to useful documents:-

Asset mix of Scottish Widows With-Profits Funds (latest data – 31st December 2019)

<https://adviser.scottishwidows.co.uk/assets/literature/docs/43982B.pdf>

Fund Fact Sheet Scottish Widows With-Profits Fund (latest data - 31<sup>st</sup> December 2019)

<https://adviser.scottishwidows.co.uk/assets/literature/docs/47199.pdf>

Scottish Widows With-Profits - Your Guide

<https://adviser.scottishwidows.co.uk/assets/literature/docs/44620.pdf>

Scottish Widows With-Profits Fund Principles and Practices of Financial Management (PPFM)

<https://reference.scottishwidows.co.uk/docs/ppfm.pdf>

Statement of Investment Principles (SIP) - March 2020

<https://www.hafod.org.uk/about/corporate-publications/>

Scottish Widows With-Profits Review – February 2020

<https://www.hafod.org.uk/about/corporate-publications/>

Signature: .....  .....

Name of Chair: .....Neil Davies.....

Appointed by the Trustees on: .....28/09/2020.....