

# Value for Members assessment & reporting of net returns - 2023

## Factor 1. Costs & Charges

Scheme & default fund	Charges %	Transaction Costs %	Total %
<p>Hendre RBS Scottish Widows With-Profits Fund</p> <p>Trustees can assign benefits via Bonds with Phoenix. The benefit of this is that the Guarantees would continue to be preserved for deferred members and for active members up to and including the date of the scheme wind up.</p>	1.02	0.2	1.22
<p>Comparator a – default fund</p>	<p>0.5 Plus (£2.50 pa) charge</p> <p>Members receive a rebate between 0.1% on savings over £3,000 and 0.3% on savings over £50,000</p>	0.05	<p>0.55 (max) Plus (£2.50 pa) charge</p>
<p>Comparator b – default fund</p>	<p>0.3 Plus (£18 pa) Admin Charge</p>	0.123	<p>0.423 Plus (£18 pa) Admin Charge</p>
<p>Comparator c – default fund</p> <p><b>ER's QWPS and would accept members future contributions &amp; could facilitate transfers-in with advice, if req'd.</b></p>	<p>0.2</p> <p>Platform charge based on fund value: - 0.20% up to £29,999 0.18% up to £49,999 0.17% up to £99,999 0.15% up to £249,999 0.00% above £250,000</p>	0.05	0.25 (maximum)

- a. B&CE Global Investments (up to 85% shares) growth
- b. NOW: Diversified Growth Fund
- c. Aegon ARC (GSIPP) - Equity & Bond ARC Fund

The above schemes were selected as a comparison for the VFM assessment as they are well established, have excellent transparency in regard to reporting and have funds under management well in excess of £1 million.

Comparator c., which is the employer's current Qualifying Workplace Pension Scheme, could easily adapt to receive additional pension contributions for the active members who are already in membership of this scheme. In addition, the active members within the scheme could transfer-in their funds from Scottish Widows with advice, if needed.

Aegon would be able to accommodate a bulk transfer of all members where required into a S32 Buy Out Plan.

However, to preserve the GAR it is likely that if a wind up was considered appropriate and necessary, that Scottish Widows would be asked to substitute all of the members benefits including the GAR in individual paid up policies, in the members own names. Any annuitants would also have their annuity secured in an individual annuity bond, in the annuitants own name/s. Scottish Widows has confirmed that these options are available as an option to the Trustees for the members, if required.

## Factor 2. Net Investment Returns

Published net returns (%)	5 year (2018 – 2023)	3 year (2020 – 2023)	1 year (2022 - 2023)
Scottish Widows With-Profits	3.25%	2.08%	-5.32%
Comparator A	5.12%	7.56%	-1.52%
Comparator B	3.3%	6.3%	-13.7%
Comparator C	5.6%	9.3%	-3.3%

- a. B&CE Global Investments (up to 85% shares) Growth Fund (published)
- b. NOW: Diversified Growth Fund (published)
- c. Aegon ARC (GSIPP) – Equity & Bond ARC fund (published)

### Geometric v Arithmetic mean

The returns in the table below include the annual geometric average-the annual net return which when compounded over time delivered the returns shown below: -

The geometric mean rather than the arithmetic mean return is more accurate when measuring portfolio returns. It takes into account the compounding interaction between individual returns in addition to the returns themselves.

Scottish Widows With-Profits Fund	1 year (2022 – 2023)	3 year (2020 – 2023)	5 year (2018 – 2023)	10 year (2013 – 2023)	15 year (2008 – 2023)
Geometric Mean	-5.32%	2.08%	3.25%	5.37%	5.70%
Arithmetic Mean	-5.32%	2.12%	3.47%	6.87%	8.64%

GAR added Value

Hendre (Female) - GAR of 9.09% is 43.37% higher than the equivalent standard AR available on the OMO of 6.34% (calc below)

OMO standard Annuity Rate (AR) for a 60 year old female, on a single life basis with a 5 year guarantee and nil escalation = 6.34% (Money helper)

$$9.09 - 6.34 = 2.75$$

$$(2.75/6.34) \times 100 = 43.37\% \text{ higher}$$

Hendre (Male) - GAR of 11.11% is 60.08% higher than the equivalent standard AR available on the OMO of 6.94% (calc below)

OMO standard Annuity Rate (AR) for a 65 year old male, on single life basis with a 5 year and nil escalation = 6.94% (Money helper)

$$11.11 - 6.94 = 4.17$$

$$(4.17/6.94) \times 100 = 60.08\% \text{ higher}$$

Average Age 57 and 76.47% of members have the GAR (39/51 members)

Female = 43.37% higher than the OMO

$$2.0043 \text{ y/x } 3 \text{ yrs to age } 60 = 1.2608/26.08\%$$

$$26.08\% \times .7647 = 19.94\% \text{ higher}$$

Males = 60.08% higher than the OMO

$$2.00608 \text{ y/x } 8 \text{ yrs to age } 65 = 1.0909/9.09\%$$

$$9.09\% \times .7647 = 6.95\%$$

A 26.08% /9.09% annual increase in the investment return from age 57, would deliver a 43.37% /60.08% higher pension pot by 60/65, when the GAR becomes payable.

However, as this is only available to 76.47% of members, the investment returns can be treated as 19.94% /6.95% higher.

### Factor 3. Admin & Governance

#### i. Promptness and accuracy of core financial transactions

The Trustees are satisfied that due to the procedures and controls in place that all core financial transactions have been calculated and processed effectively by the scheme administrator.

The Trustees are satisfied that Scottish Widows has met the needs of the scheme and its members in a timely and efficient way, and have processed all core financial transactions promptly and accurately. Core financial transactions are transactions such as:

- Payments in and investment of member and employer contributions
- Transfer of money or benefits from the scheme
- Transfer and switches between investments within the scheme
- Payments out of the scheme to beneficiaries

Scottish Widows understand that these transactions are particularly important. To make sure members are not put at risk of losing out financially, they have effective quality controls in place to assess the accuracy of the transactions processed and information provided to all customers. This includes full end to end monthly quality checking across all areas of the business. Scottish Widows aims to ensure all core transactions are completed within 5 working days of receiving all the information we require.

#### ii. Quality of record keeping

The Trustees can confirm that the record keeping and data provided to Scottish Widows for the scheme and its members is accurate and up to date.

In addition, Scottish Widows produces annual communications for this scheme which provide details of the data held for each member (e.g. Scheme Year End Audit Schedule). This allows the trustees to check that the information that is held is accurate and up to date for each member of the scheme.

The security of Scottish Widows customers is paramount and they have taken measures to make sure effective data security controls are in place that comply with the relevant legal and regulatory requirements, whilst also ensuring their customers are protected.

Scottish Widows use personal data to help administer and service the scheme. Sometimes the information is shared with other companies to help Scottish Widows fulfil the administrative requirements and services, members who wish to find out more about how the personal data is used visit [www.scottishwidows.co.uk/legalprivacy](http://www.scottishwidows.co.uk/legalprivacy)

#### iii. Appropriateness of Default Investment Strategy

The Scottish Widows With-Profits Fund is the only fund utilised by the active pension scheme membership which secures a Guaranteed Annuity Rate (GAR) for the Scheme members. Pension contributions to the Scottish Widows With-Profits Fund are fixed at the pre February 1999 levels as the GAR was removed for any increments or new pension contributions, thereafter.

**The GAR provides a 'single life level annuity, with 5 year guarantee' and is equal to 9.09% at age 60 for females, and 11.11% for males at age 65.** Having compared the GAR with the equivalent annuity rate on the open market for a female at age 60 and a male at 65, the GARs are much higher than the standard annuity rates available on the open market.

The Scottish Widows With-Profits Fund invests in a mix of assets such as company shares, property, bonds and cash deposits. While shares and property have usually performed better producing greater growth than bonds and cash over longer periods of time, the return has been much more variable and as such involves greater investment risk for the investor.

**With-profits investing includes a special feature called 'smoothing' which works** by keeping back some of the gains earned in in good investment years and using them to pay bonuses in poor investment years but these are not in any way guaranteed. **The benefit of a With-Profits Fund is that 'smoothing' will shield** against large downturns in the markets.

The scheme is closed to new members and therefore, the membership profile is aging. The active scheme membership is predominantly aged 45 and over, with only 1 member aged between 35 and 44. With this in mind the With-Profits Fund with its more cautious approach to investing is considered appropriate for the majority of scheme members, who choose to remain in active scheme membership.

Members who do not want to want to purchase an annuity on the basis prescribed by the Scheme, who wish to withdraw their pension benefits flexibly or earlier than the ages mentioned above, or who may want to invest in an alternative investment fund have the option of redirecting all of their **contributions to the employer's Qualifying Workplace Pension Scheme (QWPS)** with Aegon.

The Trustees review the investment objectives and the performance of the Scottish Widows With-Profits Fund at least every three years with the Scheme Adviser; Origen Financial Services Limited.

Whilst reversionary bonus rates remain low (0.25% for 2019) and there is nondisclosure regarding terminal bonus rates, the With-Profits Fund provides members with steady returns and low volatility with certainty over their pension income at their normal retirement age.

The scheme also entitles members to withdraw their tax free cash entitlement from any Unit Linked funds thereby maximising the benefit of the GAR from the remaining fund.

The Trustees are satisfied that the Scottish Widows With-Profits Fund adopts a diversified investment approach with an emphasis on lower risk investments. This together with the smoothing of returns provides an appropriate investment solution for the current scheme members who are predominantly approaching retirement, with no need to consider further de risking.

iv. Quality of Investment Governance (delegated to an IGC) – how is the Scottish Widows With Profits Fund governed internally

Scottish Widows is committed to treating all of its customers fairly and to help them ensure that they do so, they have a With Profits Committee. The responsibility of the Committee is to provide an independent view of the management and operations of the with-profits business. The Committee reviews how the Scottish Widows With-Profits Fund is managed and scrutinises any major proposal that affects the Fund. The Committee meets separately from **and provides advice to the Company's Board.**

v. Level of trustee knowledge, understanding and skills to operate the pension scheme effectively

The Trustees are satisfied that they have the required level of trustee knowledge, understanding and skills to operate the pension scheme effectively as outlined in the Chairs Statement.

vi. Quality of communication with scheme members – Communications issued by Scottish Widows and associated SLAs

The scheme trustees are responsible for meeting the requirements set out in the Disclosure Regulations (The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 No.2734).

The Trustees are aware of their obligation to meet the minimum statutory obligations under these regulations and confirm that they signpost customers to the relevant and important scheme information, including transaction costs and charges and value of money assessments, when issuing annual benefit statements.

The Trustees can confirm that the Scheme also follows the required steps for issuing communications to members within the required time scales and points **out the appropriate risk warnings leading up to a member's retirement, or when** a member approaches the scheme for a retirement or transfer illustration.

vii. Effectiveness of management of conflicts of interest

The Trustees are satisfied that they have adequate procedures in place to disclose and manage any conflicts of interest by maintaining a register highlighting any areas where trustees might be conflicted. This register is regularly reviewed and Trustees and their advisers are asked to disclose any areas of actual or potential conflict.

At each Trustee Meeting the Trustees are asked to declare any new potential conflicts. Any identified potential conflicts between stakeholders are identified in a timely manner and are dealt with appropriately.