

# **Chubb Security Pension Fund**

## **Chairman's statement regarding the governance of defined contribution arrangements for the year ended 31 March 2021**

### **1. Introduction**

- 1.1. This statement has been prepared by the Trustee of the Chubb Security Pension Fund ("the Trustee") and reports on how the Trustee complies with the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015 ("the Regulations"), and subsequently amended by The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.
- 1.2. The governance standards apply to defined contribution (DC) arrangements and are designed to help members achieve good outcomes from their pension savings.
- 1.3. This statement covers the Fund year 1 April 2020 to 31 March 2021. It may not, therefore, include any subsequent changes to the Fund since 31 March 2021.
- 1.4. As required by the Regulations, the Trustee will publish this Statement on a publicly accessible website.

### **2. The Fund's DC benefits**

- 2.1. The Fund's DC benefits comprise of the following:
  - 2.1.1. Some members retain a DC account in the Fund holding only legacy Protected Rights rebates. These members would normally have chosen to receive a refund of contributions on leaving the Fund. However, at the time of choosing to receive a refund of contributions, legislation required that any Protected Rights rebates a member had accrued remained invested in the Fund. These "Protected Rights funds" are DC in nature however, during the Fund year no members were affected.
  - 2.1.2. Some members of the Fund have a DC underpin, under which the value of the member's defined benefit (DB) is compared to the value of the member's DC underpin account. The Fund will pay the higher of these benefits. If the benefit to be paid is the DC underpin, the benefit will be DC in nature. The Trustee has been informed by the Fund's administrator, Buck, that during the Fund year, the DC underpin was not expected to bite and benefits for these members would all be defined benefit in nature. The treatment of these benefits is not therefore covered by this Statement.
  - 2.1.3. The Fund held Additional Voluntary Contribution (AVC) policies with two providers during the reporting period. As the Protected Rights funds are determined to have been DC in nature during this Fund year, the AVC policy is subject to extra reporting which we have included in this Statement. The Trustee has undertaken an exercise to review all AVC policies during the Fund year.

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### **Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021**

#### **3. The Fund's investment arrangements**

- 3.1. The Fund is not used as a qualifying scheme by any sponsoring employer to meet its auto-enrolment duties on a DC basis.
- 3.2. The Fund has no default investment arrangements for the purposes of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "Scheme Administration Regulations"). As there is no default arrangement, the requirement for a Statement of Investment Principles (SIP) prepared in accordance with regulation 2A of the Occupational Pension Scheme (Investment) Regulations 2005 does not apply.

#### **Overview of the Fund's investment arrangements**

- 3.3. Protected Rights funds are invested in the Chubb Common Investment Fund ("the CCIF") in line with the Fund's DB investment strategy. The CCIF operates as a unitised arrangement. Units within the CCIF are valued using the bid market value of assets on a monthly basis.

#### **4. Core financial transactions**

- 4.1. The governance standard requires the Trustee to ensure that 'core financial transactions' are processed promptly and accurately. For the Fund, these comprise:
  - 4.1.1. Transfer payments out of the Fund
  - 4.1.2. Retirement benefit payments out of the Fund
- 4.2. As Protected Rights funds are invested in the CCIF in line with the Fund's DB investments, there are no investment switches available to members outside those made by the Trustees of the CCIF. Therefore, only transfers/payments out of the Fund are relevant in terms of core financial transactions.
- 4.3. Transactions in respect of the Protected Rights funds are undertaken on the Trustee's behalf by the administrator of the Fund, Buck Consultants (Administration & Investment) Limited ("Buck"), and the Trustees of the CCIF.

#### **Controls and monitoring arrangements**

- 4.4. The controls in place in relation to ensuring the promptness and accuracy of core financial transactions are:
  - 4.4.1. The Trustee has a Service Level Agreement (SLA) in place with Buck, both in terms of timeliness and accuracy, and reporting of performance against those service levels.

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### Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021

4.4.2. The SLA sets out the timeline standards expected for each step of the Fund's main administration tasks, including core financial transactions. Buck aims to process at least 95% of core financial transactions within the SLAs set out below:

Core financial transaction	Service Level Agreement (days)
Transfers out of the Fund	10
Retirement benefit payments	7

- 4.5. In order to monitor Buck's performance against agreed SLAs, the Trustee receives quarterly administration reports from Buck. These reports include cash flow monitoring, summaries of member transactions, reporting of service performance against the SLAs and identify any issues arising regarding administration timeliness and/or accuracy. Reports are considered at each Trustee Meeting.
- 4.6. The controls in place in relation to the accuracy of core financial transactions are:
- 4.6.1. Internal checking procedures are applied to all processes.
- 4.6.2. Monitoring of accuracy is undertaken via the auditing of the Fund's annual report and accounts and periodic auditing of the Fund's membership data. In addition, Buck's internal controls are subject to internal controls procedures.
- 4.7. The Trustee has reviewed the above processes and controls implemented by Buck and consider these to be suitably designed to achieve its objectives.
- 4.8. As highlighted in the Trustee's statement covering the previous Fund year, the Trustee was formally made aware on 6 August 2020 that Buck had been misreporting its administration performance against agreed SLAs since late 2018/early 2019. Quarterly reports presented at Trustee meetings generally showed performance ranging from 95% to 100% however, in reality the average SLA during the period was around 80%. The Trustee subsequently submitted Breaches of Law reports to TPR on 27 August 2020, with further updates provided on 28 September 2020 and 27 November 2020 at TPR's request. The Trustee continued to liaise with TPR as to the recovery process throughout the reporting period. Overall, the Trustee has been notified of 79 breaches by Buck for the Fund as a whole.
- 4.9. To resolve, the service issues relating to the Fund's administration and the backlog of outstanding tasks accrued, the Trustee arranged weekly meetings with Buck to monitor progress and provide support in eliminating the backlog of work and in getting the administration performance up to agreed levels by the end of October 2020. The Fund's backlog was cleared ahead of this deadline in the week commencing 19 October 2020

## **Chubb Security Pension Fund**

### **Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021**

#### **Fund AVCs and changes during the Fund Year**

- 4.10. The AVC policies were provided by Aegon and Utmost Life & Pensions ("Utmost") during the reporting period. The Trustee has delegated the administrative oversight of the AVC arrangements to Buck.
- 4.11. There are no formal SLAs in place with the AVC providers, however Buck reports to the Trustee as part of the Trustee's meetings with any specific issues relating to the administration of the AVC policy.

## **5. Charges and transaction costs**

- 5.1. Members bear charges and transaction costs, which will differ depending on the investment options in which their pension savings are invested:
- 5.1.1. Charges: these are expressed as a percentage of the value of a member's holdings within an investment fund, and can be made up of a combination of charges, e.g. annual management charge and additional expenses. We refer to the total annual charge as the Total Expense Ratio (TER).
- 5.1.2. Transaction costs: these relate to the variable costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the TER charge.
- 5.2. All administration, communication and other costs associated with running the Fund (other than administering the AVC arrangements) are met by the sponsoring employer.
- 5.3. The Trustee approached the CCIF's investment managers to obtain details of the member-borne charges and transaction costs incurred over the Fund year. Details are provided below.

#### **Charges in relation to CCIF**

- 5.4. The TER for the CCIF for the Fund year was 0.238% p.a.
- 5.5. The additional transaction costs incurred within the CCIF over the Fund year was 0.085% p.a. The average transaction costs incurred within the CCIF over the two-year period since disclosure requirements began is 0.091% p.a.

#### **Charges in relation to AVCs**

- 5.6. The following tables provide details of the charges and transaction costs for each of the investment options provided through each AVC arrangement over the Fund year.

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### Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021

#### Aegon

- 5.7. Members that hold AVC benefits with Aegon are invested in one, or a combination, of the funds detailed in the table below alongside details of the charges and transaction costs quoted by Aegon for these funds:

Investment option	TER (p.a.)	Transaction costs (year to 31 March 2021)	Average transaction costs (p.a.)
Aegon BlackRock Diversified Growth (BLK)	0.65%	0.5313%	0.5313%*
Aegon BlackRock Pre-Retirement (BLK)	0.41%	0.0358%	0.0358%*
Aegon BlackRock LifePath Capital 2034-2036 (BLK)	0.41%	0.0539%	0.0539%*
Aegon BlackRock LifePath Capital 2031-2033 (BLK)	0.41%	0.0487%	0.0487%*
Aegon BlackRock LifePath Capital 2028-2030 (BLK)	0.41%	0.0540%	0.0540%*
Aegon BlackRock LifePath Capital 2025-2027 (BLK)	0.41%	0.0319%	0.0319%*
Aegon BlackRock LifePath Capital 2022-2024 (BLK)	0.41%	0.0227%	0.0227%*
Aegon BlackRock LifePath Capital 2019-2021 (BLK)	0.41%	0.0137%	0.0137%*
Aegon BlackRock Cash (BLK)	0.30%	0.0144%	0.0181%
Aegon BlackRock Long Gilt (BLK)	0.30%	-0.0406%**	-0.0208%**
Aegon BlackRock Index-Linked Gilt (BLK)	0.30%	-0.0130%**	-0.0130%**
Aegon BlackRock American Growth (BLK)	0.90%	0.1982%	0.2127%
Aegon BlackRock 50/50 Global Equity Index Tracker (BLK)	0.65%	0.1799%	0.1400%
Aegon BlackRock Balanced Growth (BLK)	0.75%	0.1615%	0.1472%
Aegon BlackRock 50/50 Global Growth (BLK)	0.75%	0.1799%	0.1933%
Aegon BlackRock Strategic Accumulation (BLK)	0.75%	0.1739%	0.1446%

\*These funds only became available within the Aegon AVC arrangement following the transfer of Utmost AVCs in July 2020. As a result, we only report average transactions costs over a one-year period.

\*\* in certain circumstances the methodology used for calculating transaction costs (known as slippage) can lead to negative costs being reported. This can be, for example, where other market activity pushes the price of the asset being traded down, whilst the transaction was in progress, resulting in the asset being purchased for a lower price than when the trade was initiated.

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### Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021

#### Utmost

5.8. Members that held AVC benefits with Utmost (formerly Equitable Life) during the Fund year were in one or a combination of, the funds detailed in the table below. Details of the charges and transaction costs levied by Utmost during the Fund year are provided in the table below:

Equitable Life Fund (Citi Code)	Fund Annual Management Charge %pa	Annualised Reporting Period	Underlying Open Ended Investment Company "OEIC" Net Transaction Cost %pa [1]	Stock lending %pa [2]	Equitable Life Fund Transaction Cost %pa [3]	Equitable Life Fund Total Charges Impact %pa [4]
UK Secure Cash Pension	0.5	31/12/2020	0.00000	0.000000	0.00000	<b>0.50</b>
US Equity (EU25)	0.75	31/03/2021	0.176289	0.000299	0.003088	<b>0.93</b>
UK Equity (EU26)	0.75	31/03/2021	0.5404038	0.000956	0.010649	<b>1.30</b>
Money Market (EU41)	0.50	31/03/2021	0.000083	0.000000	0.000000	<b>0.50</b>
Managed (EU23) [5]	0.75	31/03/2021	0.127976	0.000401	0.021264	<b>0.90</b>
European Equity (EU33)	0.75	31/03/2021	0.469480	0.003578	0.002557	<b>1.23</b>

#### Notes:

[1] The costs for the underlying OEICs held by each Fund are now being calculated on the full arrival price slippage methodology.

[2] When an Aberdeen Standard Investment fund lends stock it is entitled to receive 85% of the income earned. The remaining 15% belongs to the stock lending agent. When a JP Morgan fund lends stock it is entitled to receive 90% of the income earned. The remaining 10% belongs to the stock lending agent. The costs suffered by the fund are disclosed but not the income in accordance with regulations.

[3] This is the cost incurred on the Fund when it purchases or sells the underlying asset (OEIC) as the price may include a dilution adjustment. The purpose of dilution is to ensure the OEIC performance is not impacted by large investments or disinvestments.

[4] The total charges impact to policyholders on each Utmost Fund of costs at both Fund and underlying OEIC level and includes the annual management charge.

[5] The calculations for the Managed Funds are based on the relevant calculations for the underlying OEICs held within the portfolio, prorated based on the portfolio percentage held.

## **Chubb Security Pension Fund**

### **Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021**

#### **Investment transition carried out during the Fund year**

- 5.9. During the Fund Year, the Trustee, with the support of its advisers Barnett Waddingham, reviewed the ongoing suitability of Fund's AVC arrangements in April 2020. Following this review, the Trustee agreed that Utmost AVC members would experience better value in the Fund's primary AVC arrangement with Aegon. As a result, the Trustee decided to close the Utmost AVC arrangement and transfer its membership to the Aegon AVC arrangement in July 2020.
- 5.10. However, as the member data provided by Buck during the transfer process was incomplete, Aegon couldn't invest 4 members transferred AVCs as they required sufficient information to be setup as new joiners within the Aegon AVC arrangement. This resulted in members being out of market for a number of days whilst Buck collated the required information for Aegon. A profit and loss report was subsequently run by Aegon who confirmed to the Trustee that members were not negatively impacted by this delay.
- 5.11. There were no explicit costs to members for the transition, either in selling units in the Utmost funds or buying units in the Aegon Funds. Therefore, members' fund values immediately before and immediately after the transition were the same.

#### **Impact of costs and charges**

- 5.13. To demonstrate the impact of charges and transaction costs on members' pension savings over time, the Trustee has produced illustrations and these are set out in the appendix.

#### **Value for members**

The Trustee is required to assess annually the extent to which the charges and transaction costs borne by members represent good value. These member borne deductions cover the cost of providing the investment management services for the Protected Rights funds and also the administration services and communications for the AVC providers.

- 5.14. The CCIF has its own Board of Trustees which is supported by Barnett Waddingham as Investment Consultant and it is subject to Investment Monitoring and Operational Governance Reports.
- 5.15. The CCIF regularly reports to the Trustee on the performance of the fund.

## **Chubb Security Pension Fund**

### **Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021**

- 5.16. The Trustee is satisfied with the performance of the CCIF and following a formal review in April 2020, the Fund's AVC providers. Having considered the charges the members bear, the Trustee believes that this represents good value for its members, although it notes that there have been administrative difficulties during the Fund Year.

## **6. Trustee knowledge and understanding**

### **The Trustee Board**

- 6.1. The Trustee Board comprises six trustee directors, 3 of whom are nominated by the members.
- 6.2. One of the appointed trustee directors, Brian McGowan, is the chairman.

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

- 6.3. Trustee directors are required to be conversant with the Fund's main documents, and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension plans and investment of Fund assets and other matters to enable them to exercise their functions as trustee directors properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 07. The comments in this section relate to the Trustee as a body in dealing with the whole Fund and are not restricted to DC benefits.

### **Approach**

- 6.4. The Trustee has put in place arrangements for ensuring that trustee directors take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs to identify knowledge gaps and training needs in relation to emerging legislation, Fund changes and upcoming matters in the Fund's business plan.
- 6.5. The Secretary to the Trustee reviews the self-assessments and arranges for training to be made available to individual trustee directors or to the full Trustee board as appropriate.
- 6.6. All of the existing trustee directors have completed the Pension Regulator's Trustee Toolkit and new trustee directors are required to complete this within six months of taking up office. During the Fund year no new trustee directors were appointed.



## **Chubb Security Pension Fund**

### **Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021**

- 6.7. In addition, the Trustee received advice from professional advisers as and when required, for example on consultancy, investment and legal matters. The professional advisers are engaged to pro-actively alert the trustee directors on relevant changes to pension and trust law. Professional advisers also provide support in relation to understanding and reviewing the Fund's documents, attending Trustee meetings and often in the delivery of training at these meetings. The relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisers.
- 6.8. The Trustee aims to remain conversant with the Fund's Trust Deed & Rules and the following Trust documents and policies, having reviewed them in the Fund year:
- 6.8.1. Statement of Investment Principles (SIP)
  - 6.8.2. General Data Protection Regulation policies and procedures
  - 6.8.3. Scheme Funding Report in respect of the actuarial valuation at 31 March 2021
  - 6.8.4. Member Nominated Trustee selection process

#### **Activities during the Fund year**

- 6.9. The Trustee received the following training from their professional advisers and service providers during the Fund year:
- 6.9.1. Trustee requirements in relation to the SIP and requirements with effect from 1 October 2020
  - 6.9.2. TPR's DB Code of Practice
- 6.10. During the period covered by this statement, the Trustee undertook a review and received professional advice on the following aspects of DC Fund governance:
- 6.10.1. The suitability of the Fund's AVC arrangements and the feasibility of AVC consolidation
  - 6.10.2. The impact of Covid-19
  - 6.10.3. The long-term investment strategy of the CCIF
  - 6.10.4. Buck's operational review of its administration services and subsequent recovery plan
  - 6.10.5. Trustee obligations in relation to statutory deadlines

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### **Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021**

- 6.11. The Trustees updated the Fund's SIP to incorporate changes made to target allocations in light of the phased implementation of Liability Driven Investment as well as the Trustee's stewardship policy and arrangements with fund managers.

#### **Assessment**

- 6.12. The Trustee considers that their combined knowledge and understanding, together with their access to professional advice, enables them to properly and effectively exercise their trustee functions in the following ways:

- 6.12.1. The Trustee is able to challenge and question advisers, service providers and other parties effectively
- 6.12.2. The Trustee's decisions are made in accordance with the Fund rules and in line with trust law duties
- 6.12.3. The Trustee's decisions are not compromised by such things as conflicts or hospitality arrangements

  
.....  
**Brian McGowan, Chairman of the Trustee**

28/10/21  
.....  
**Date**

## Chubb Security Pension Fund

### Chairman's statement regarding the governance of defined contribution arrangements (continued) for the year ended 31 March 2021

#### Appendix – Illustrations on the impact of cost and charges

- A1. To demonstrate the impact of member-borne charges and transaction costs on the value of members' pension savings, the Trustee has produced illustrations in accordance with statutory guidance. These show the impact of charges and transaction costs for representative cross-sections of the Fund membership. For the illustration, the savings pot has been projected twice; firstly to allow for the assumed investment return gross of the costs and charges of the fund the member is invested in and then again, but adjusted for the cumulative effect of the costs and charges of the fund.

#### Parameters used for the illustrations

- A2. Whilst no members held DC assets during the Fund year, to determine the parameters used in the illustration, the Trustee has analysed the membership from the previous Fund year and ensured that the illustration takes into account the following:
- A2.1. Protected Rights funds are fully invested in the CCIF
  - A2.2. Using the median pot size of those who hold Protected Rights funds as a representative pot size
  - A2.3. The approximate duration that the youngest member using the CCIF would take to reach NRA.
- A3. The Trustee has determined not to include any illustrations for AVCs as it would be disproportionately burdensome given the amounts of money held in each of the individual AVC funds:

#### The CCIF

- A4. All Protected Rights funds are invested in the CCIF.

Years of membership	Age: 55	
	Starting pot size £?	
0	£1,500	£1,500
1	£1,491	£1,486
3	£1,474	£1,460
5	£1,457	£1,433
10	£1,414	£1,369

## **Chubb Security Pension Fund**

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A5. Notes to costs and charges illustrative example:

A5.1. Note on how to read this table: If a Protected Rights member had £1,500 invested in this option on 31 March 2021, when they came to retire in 10 years, the savings pot could reduce to £1,414 in today's terms if no charges are applied or to £1,369 with charges applied.

A5.2. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. It is for this reason some funds show negative real growth.

A5.3. Inflation is assumed to be 2.5% each year

A5.4. No further contributions are assumed to be paid

A5.6. Values shown are estimates and are not guaranteed

A5.7. Charges for the CCIF used in the illustration are those outlined in this statement

A5.8. The projected growth rates for the CCIF is 1.90% p.a. which is in line with those produced for the Fund's Statutory Money Purchase Illustrations (SMPI)

A5.9. The statutory guidance requires trustees to use an average of the last five years' transaction costs (insofar as they are able) when producing the illustrations. As we have data for the last three years only, the figures are based on three year average