

**Chubb Security Pension Fund (“The Fund”)**  
**Chair’s statement regarding the governance of defined contribution arrangements**  
**Scheme year - 1 April 2022 to 31 March 2023**

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## **1. Introduction**

- 1.1. This statement has been prepared by the Trustee of the Chubb Security Pension Fund (“the Trustee”), to report on compliance 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 scheme year 1 April 2022 to 31 March 2023. It may not, therefore, include any subsequent changes to the Fund since 31 March 2023.
- 1.4. As required by the Regulations, the Trustee will publish this Statement on a publicly accessible website. The web address for the website will be <https://chubbfunds.com/uk-en/reports/>.

## **2. The Fund’s DC arrangements**

- 2.1. The Fund’s DC arrangements comprise:
  - 2.1.1. DC benefits for some members who had short periods of membership after 5 April 1997 and who received a refund of part of their contributions. The DC benefits represent retained ‘Protected Rights’, a result of the method used by the Fund from 6 April 1997 to ‘contract out’ of the State Pension Scheme. These Protected Rights remained invested within the Fund’s defined benefit (DB) investment strategy.
  - 2.1.2. DC ‘underpin’ accounts apply for some members, under which they will receive the greater of a DB entitlement and the comparable pension that can be secured by the DC underpin account. The Trustee has been informed by the Fund’s administrator, Buck, that during the Fund year, comparable pensions that could be secured by DC underpin accounts were not expected to be greater than the DB entitlement. Benefits for these members are therefore expected to be DB in nature and are not considered further in this Statement.
  - 2.1.3. The Fund held an Additional Voluntary Contribution (AVC) policy with one provider during the reporting period.

## **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. All Protected Rights benefits were invested in line with the Fund's DB investment strategy ("the Fund Portfolio"). The Fund Portfolio operates as a unitised arrangement. Units within the Fund Portfolio are valued using the market value of assets which are reported on a monthly basis.

## 4. Core financial transactions

- 4.1. The Trustee has a duty to ensure that 'core financial transactions' are processed promptly and accurately, for the Fund these comprise the following:
- 4.1.1. Transfer payments out of the Fund
  - 4.1.2. Retirement/death benefit payments out of the Fund
- 4.2. As Protected Rights benefits are invested in the Fund Portfolio, there are no investment switches available to members outside those made by the Trustee. 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 benefits are undertaken on the Trustee's behalf by the administrator of the Fund, Buck.

## 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.
  - 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 below:

Core financial transaction	Service level
Transfers out of the Fund	10 working days
Retirement benefit payments	7 working days

- 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 and performance discussed at each Administration Sub-Committee meeting from which the outcomes of these discussions 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.

## Performance during the Fund year

- 4.8. Following the identification of service issues by Buck as highlighted in the Trustee's statements covering the previous two Fund years, the Trustee has continued to closely monitor Buck's performance relating to core financial transactions closely. The Trustee is now satisfied that Buck's ongoing performance against SLAs have largely returned to acceptable levels although where SLA targets are being missed, the Trustee is concerned over the length of time taken by Buck to clear any backlog. Furthermore, following data cleansing exercises undertaken during the Fund year, more outstanding tasks relating to core financial transactions have been identified that the Trustee is working with Buck to resolve.
- 4.9. Buck are required to attend Quarterly Administration Sub-Committee meetings to monitor the above issues and the Trustee continues to work with Buck to improve the processing of core financial transactions, such as in relation to unclaimed benefits during the Fund year. The Trustee has agreed with Buck a framework for reducing the fees paid by the Fund to Buck where performance falls short of SLAs.

## Fund AVCs

- 4.10. The AVC policy was provided by Aegon 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 provider, 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.

## Trustee view of core financial transactions

- 4.12. The Trustee believes that these measures enable it to effectively monitor the promptness and accuracy of core financial transactions of the Fund's administration for its DC and AVC arrangements. Whilst acknowledging the issues experienced, due to the very low number of Protected Rights members during the Fund year, the Trustee is confident that all related core financial transactions over the reporting period have been processed promptly and correctly.

## 5. Member-borne 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 Fund Portfolio'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 Fund Portfolio

- 5.4. The TER for the Fund Portfolio for the Fund year was 0.2709% p.a.
- 5.5. The additional transaction costs incurred within the Fund Portfolio over the Fund year was 0.2394% 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 the Aegon AVC arrangement over the Fund year:

Investment option	TER (p.a.)	Transaction costs (year to 31 March 2023)	Average transaction costs (p.a.)*
Aegon BlackRock LifePath Capital 2034-2036 (BLK)	0.41%	0.0584%	0.0487%
Aegon BlackRock LifePath Capital 2031-2033 (BLK)	0.41%	0.0372%	0.0386%
Aegon BlackRock LifePath Capital 2028-2030 (BLK)	0.41%	0.0563%	0.0499%
Aegon BlackRock LifePath Capital 2025-2027 (BLK)	0.41%	0.0424%	0.0346%
Aegon BlackRock LifePath Capital 2022-2024 (BLK)	0.41%	0.0241%	0.0234%
Aegon BlackRock Cash (BLK)	0.33%	0.0132%	0.0137%
Aegon BlackRock Long Gilt (BLK)	0.30%	-0.0211%**	-0.0278%**
Aegon BlackRock Index-Linked Gilt (BLK)	0.30%	0.0363%	0.0065%
Aegon BlackRock American Flexible Equity (BLK)	0.90%	0.0583%	0.1358%
Aegon BlackRock 50/50 Global Equity Index Tracker (BLK)	0.66%	0.0640%	0.1053%
Aegon BlackRock Balanced Growth (BLK)	0.75%	0.1275%	0.1401%
Aegon BlackRock 50/50 Global Growth (BLK)	0.75%	0.1322%	0.1675%
Aegon BlackRock Strategic Accumulation (BLK)	0.75%	0.1263%	0.1636%

\* The statutory guidance requires trustees to disclose an average of the last five years' transaction costs (insofar as they are able). As we have data for the last four years only, the figures are four-year averages for all funds except the LifePath Capital Funds which are three-year averages.

\*\* 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 down the price of the asset being traded, whilst the transaction was in progress, resulting in the asset being purchased for a lower price than when the trade was initiated.

## Impact of costs and charges

5.7. 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.

## 6. Disclosure of net investment returns

The Trustee is required to disclose returns, net of charges and transaction costs, for each investment strategy and fund that members are able, or were previously able, to select and in which members' assets were invested during the Fund Year. As all Fund benefits (except AVCs) are invested in line with the Fund's DB strategy. The Trustee has provided the returns of the Fund Portfolio for the Fund year. When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance.

Investment Fund	Annualised Return –1 year to 31 March 2023	Annualised Return – 3 years to 31 March 2023	Annualised Return – 5 years to 31 March 2023
Fund Portfolio	-22.8%	-6.0%	-2.8%

## 7. 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 provider. Regulations require the Trustee to assess the extent to which the Scheme provides value for members.

- 7.1. The Trustee's governance of the Fund Portfolio is supported by Barnett Waddingham as Investment Consultant and subject to Investment Monitoring and Operational Governance Reports.
- 7.2. Barnett Waddingham report directly to the Trustee on the performance of the Fund Portfolio.
- 7.3. The Trustee was satisfied with the performance of the Fund Portfolio during the Fund year. Having considered the charges the members bear, the Trustee believes that this represents good value for its members, although it notes that administrative difficulties continued somewhat during the Fund year.

## 8. Trustee knowledge and understanding

### The Trustee Board

- 8.1. The Trustee Board comprises seven trustee directors, three of whom are nominated by the members.
- 8.2. One of the Company appointed trustee directors, Brian McGowan is the chair.

### Trustee knowledge and understanding requirements

- 8.3. 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

- 8.4. 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.
- 8.5. 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.
- 8.6. 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.
- 8.7. The trustee director appointment & removal policy was updated during the Fund year, formally documenting the induction process for new trustee directors. The new process includes sessions with the Trustee's legal, actuarial and investment advisers, as well as the Fund Secretary.

- 8.8. 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.
- 8.9. 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:
- 8.9.1. Statement of Investment Principles (SIP)
  - 8.9.2. General Data Protection Regulation Law & Breach Register
  - 8.9.3. Privacy Notice
  - 8.9.4. Trustee Director Appointment & Removal process
  - 8.9.5. Terms of Reference for each of the Administration, Legislative Compliance and Pensioner Buy-in & Data Cleanse Sub-Committees
  - 8.9.6. Conflicts of Interest Policy
  - 8.9.7. Internal Dispute Resolution Procedure
  - 8.9.8. Training policy and log
  - 8.9.9. Whistleblowing and Breach Notification Policy
  - 8.9.10. Objectives for investment advisers
  - 8.9.11. Trust Deed & Rules (following legal advice on benefit specification)

#### Activities over the Fund year

- 8.10. The Trustee received the following training from their professional advisers and service providers during the Fund year:
- 8.10.1. Pension Dashboard Regulations
  - 8.10.2. Longevity risk mitigation and insurance transactions
  - 8.10.3. Taxation and inflationary pressures
  - 8.10.4. Climate change guidance
  - 8.10.5. State Pension Age
  - 8.10.6. Finance Act 2022
  - 8.10.7. Reporting on Stewardship
  - 8.10.8. VFM developments in DC schemes
  - 8.10.9. Scam warnings
  - 8.10.10. Equality, Diversity & Inclusion
  - 8.10.11. Collective DC Legislation
- 8.11. During the period covered by this statement, the Trustee undertook a review and received professional advice on the following aspects of DC Fund governance:
- 8.11.1. Effective System of Governance

- 8.11.2. Pension Dashboard readiness
- 8.11.3. Investing for Buy-out
- 8.11.4. Bulk Annuity Buy-in
- 8.11.5. Benefit Specification
- 8.11.6. The calculation that determines the benefits payable for DB members with a DC Underpin

**Assessment**

- 8.12. 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:
  - 8.12.1. The Trustee is able to challenge and question advisers, service providers and other parties effectively.
  - 8.12.2. The Trustee’s decisions are made in accordance with the Fund rules and in line with trust law duties
  - 8.12.3. The Trustee’s decisions are not compromised by such things as conflicts or hospitality arrangements.

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Brian McGowan, Chair of the Trustee

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Date

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

A1.1. 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

A1.2. 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:

A1.2.1. Protected Rights funds are fully invested in the Fund Portfolio.

A1.2.2. Using the median pot size of those who hold Protected Rights funds as a representative pot size.

A1.2.3. The approximate duration that the youngest member using the Fund Portfolio would take to reach Normal Retirement Age ("NRA").

A1.2.4. 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 Fund Portfolio

A1.3. All Protected Rights funds are invested in the Fund Portfolio.

Years of membership	Age: 45 Starting pot size £5,000	
0	£5,000	£5,000
1	£4,971	£4,946
3	£4,913	£4,839
5	£4,855	£4,735
10	£4,715	£4,484
15	£4,579	£4,246
20	£4,446	£4,021

A1.4. Note on how to read this table: If a Protected Rights member had £5,000 invested in this option on 31 March 2023, when they came to retire in 10 years, the savings pot could reduce to £4,715 in today's terms if no charges are applied or to £4,484 in today's terms with charges applied.

A1.4.1. 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.

A1.4.2. Inflation is assumed to be 2.5% each year

A1.4.3. No further contributions are assumed to be paid

A1.4.4. Values shown are estimates and are not guaranteed

A1.4.5. Charges for the Fund Portfolio used in the illustration are those outlined in this statement

A1.4.6. The projected growth rates for the Fund Portfolio is 1.90% p.a. which is in line with those produced for the Fund's 2021 Statutory Money Purchase Illustrations (SMPI).



A1.4.7. 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 year only, the figures are based on this year only.