

# The Cardiff Pinnacle Group Pension Scheme (“the Scheme”)

## Chair’s Statement regarding defined contribution benefits with Equitable Life

### 1. Introduction

- 1.1. This statement has been prepared by the Trustee of the Cardiff Pinnacle Group Pension Scheme (“the Scheme”) and demonstrates how the Equitable Life Section (“the EL Section”) of the Scheme complies with the defined contribution (DC) governance standards. These standards were introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and amended by the Occupational Pension Scheme (Administration and Disclosure) (Amendment) Regulations 2018 (“the Regulations”).
- 1.2. The reporting period covered by this statement is 1 January to 31 December 2018 (“the reporting period”). The information contained in this statement will be made available in the Scheme’s Annual Report & Accounts for the year ending 31 December 2018 as well as on a publicly accessible website.

### 2. The Scheme’s DC arrangements

- 2.1. In 2015, following a request from the sponsoring employer of the Scheme, the Trustee agreed to transfer all assets from the Aviva (previously Friends Life) Section of the Scheme into a Master Trust arrangement with Fidelity. As a result of this process, the only remaining DC Scheme assets are invested in the EL Section. There have been no active members or contributions paid to the EL Section since December 2000 and it has at no point been an automatic enrolment qualifying scheme.

### 3. The Scheme’s investment arrangements

- 3.1. As the EL Section is closed to new joiners there is no default investment arrangement in place. As there is no default arrangement, the requirement for a statement prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 does not apply.
- 3.2. The vast majority of EL Section members are wholly invested in the Equitable Life With-Profits Fund which aims to offer smoother investment returns than a unit-linked fund. The operation of the Equitable Life With-Profits Fund is described below:
  - 3.2.1. For each investor in the Equitable Life With-Profits Fund, Equitable Life maintains a ‘Guaranteed Value’ and a ‘Policy Value’.
  - 3.2.2. The Guaranteed Value is based upon the value of the contributions paid (less charges) plus any investment growth. Investment growth is achieved through the addition of bonuses and Equitable Life currently applies an annual guaranteed bonus of 3.5%. The Guaranteed Value is available, in full, on retirement at any age, or on death. The NRA for members of the EL Section is 60.
  - 3.2.3. The Policy Value applies where benefits are surrendered before NRA, either as a result of a transfer out or by taking benefits. At the point of surrender, the Policy Value may be subject to a financial adjustment which has the effect of reducing the value of benefits available to ensure a member only receives their fair share of the fund. In recent years, Equitable Life has not applied a financial adjustment and has in fact paid an uplift to the Policy Value (known as a Capital Distribution). This

Capital Distribution is currently set at 35%. The Capital Distribution and the Financial Adjustment applied may change at any time.

- 3.3. Alongside the Equitable Life With-Profits Fund, members of the EL Section have access to 11 unit linked funds, albeit the Trustee notes that only a handful of members have benefits invested across these funds.

### Review of the EL Section and recent developments

- 3.4. The Trustee reviews the EL Section annually with the assistance of its advisers, Barnett Waddingham LLP. The most recent review was completed in May 2019 and this included an assessment of the Value for Members provided by the EL Section over the reporting period. Further details of the results of the May 2019 review are provided under Section 6 below.

- 3.5. An important development over the reporting period, was the news that Equitable Life had announced that it had entered into an agreement to transfer its business to Utmost Life & Pensions (previously known as Reliance Life). There are various steps that will need to be completed before the proposed transfer can be confirmed and Equitable Life is seeking High Court approval. The key features of the deal are as follows:

3.5.1. The Equitable Life With-Profits Fund will be closed and all investors in the Fund will be required to transfer to a unit-linked alternative. There will be a default option available where no decision is made.

3.5.2. As part of the move to a unit-linked fund, members will be asked to give up all guarantees and in return an uplift will be applied to each member's policy value.

3.5.3. The value of the uplift will be member specific and will be driven by the current value, the guaranteed value and the term to retirement. However, broadly the expectation is that the uplift will be 60-70%, but this is not guaranteed.

- 3.6. The Trustee will be asked to vote on these proposals on behalf of EL Section members later this year and if approved it is likely that the proposals will be implemented in early 2020, albeit these timescales are subject to change. As part of its voting, the Trustee will take into consideration the current and future benefits of all EL Section members and the degree to which the proposals represent value for members.

- 3.7. The Trustee will keep EL Section members up to date with how these proposals are progressing.

## 4. Core financial transactions

- 4.1. The governance standards require the Trustee to ensure that 'core financial transactions' are processed promptly and accurately.

- 4.2. For this purpose, EL Section's core financial transactions comprise:

4.2.1. transfers out of the EL Section

4.2.2. investment switches within the EL Section

4.2.3. other payments out of the EL Section

No future contributions or transfers into the EL Section are currently permitted and no investment switches took place over the reporting period.

### Controls in place

- 4.3. The Trustee has checked the controls and procedures of Equitable Life and these are monitored as part of the ongoing operation of the EL Section. Equitable Life provides the Trustee with details of all EL Section

transactions and any payments made from the EL Section (either as a transfer out or retirement) are first reviewed by the Trustee with support from representatives of the sponsoring employer. Any issues that arise are dealt with as they arise and are reported as part of the regular Trustee meetings.

- 4.4. Equitable Life has confirmed the following controls for the EL Section:
- 4.4.1 Investment switches are 100% checked. Upon receipt of fully completed instructions, switches are made within 5 working days.
  - 4.4.2 Payments out are 100% checked at authorisation stage. Upon receipt of fully completed instructions, payments are made within 5 working days.
  - 4.4.3 Equitable Life was unable to provide scheme specific SLA information for the reporting period, the Trustee will endeavour to obtain this information next Scheme year and will engage early following the transition to Utmost Life & Pensions.
- 4.5. The Trustee notes that there were limited core financial transactions processed over the reporting period.
- 4.6. Based on the above, the Trustee is satisfied that it can confirm that the core financial transactions have been processed promptly and accurately during the period covered by this statement and that suitable controls and measures are in place to monitor performance. Importantly, no material issues have been identified.

## 5. Charges and transaction costs

- 5.1. Members bear the cost of administration and investment charges deducted from the funds in which their EL Section benefits are invested. The charges differ between the investment funds available and consist of both explicit and implicit costs.
- 5.1.1. Explicit costs: these are collected by explicit deduction of investment units and are expressed as a percentage of the value of each member's holdings within an investment fund. These are referred to by Equitable Life as Annual Management Charges (AMC).
  - 5.1.2. Implicit costs: these relate to the charges and transaction 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 explicit charges. These implicit charges impact on the investment returns achieved by the investment fund.
- 5.2. The following table provides details of the explicit and implicit costs applied across all of the investment funds that are currently available through the EL Section. This information has been sourced from Equitable Life and includes explanatory notes, where relevant.

Fund name	AMC	OEIC net transaction cost [1]	Stock Lending costs [2]	Transaction costs [3]	Total charge [4]
Equitable Life With Profits Fund [5]	1.00%	N/A	0.004%	0.041%	1.05%
Equitable Life Far Eastern Fund	0.75%	0.224%	0.002%	0.000%	0.98%
Equitable Life Pelican Fund	0.75%	0.331%	0.003%	-0.002%	1.08%

Fund name	AMC	OEIC net transaction cost [1]	Stock Lending costs [2]	Transaction costs [3]	Total charge [4]
Equitable Life Gilt & Fixed Interest Fund	0.50%	-0.028%	0.000%	0.001%	0.47%
Equitable Life European Fund	0.75%	0.208%	0.002%	0.002%	0.96%
Equitable Life North American Fund	0.75%	-0.004%	0.003%	0.000%	0.75%
Equitable Life All Share Tracker Fund	0.50%	0.031%	0.000%	0.000%	0.53%
Equitable Life Fund of Investment Trusts	0.75%	0.150%	0.000%	0.001%	0.91%
Equitable Life Property Fund [6]	1.00%	0.004%	0.000%	0.000%	1.44%
Equitable Life International Fund	0.75%	0.121%	0.001%	-0.001%	0.87%
Equitable Life Money Fund	0.50%	0.006%	0.000%	0.000%	0.51%
Equitable Life Managed Fund [7]	0.75%	0.074%	N/A	0.009%	0.83%

**Notes:**

[1] The costs to date are not calculated on the full arrival price slippage methodology, instead using industry supplied expected spreads for each asset category. The With-Profit Fund does not invest in OEICs but in direct assets.

[2] When a fund lends stock it is entitled to receive 80% of the income earned. The remaining 20% belongs to the stocklending agent. The costs suffered by the fund are disclosed but not the income.

[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 is not impacted by large investments or disinvestments.

[4] The total charges impact to policyholders on each Equitable Life Fund (With-Profit and Unit-Linked) of costs at both Fund and underlying OEIC level and includes the annual management charge.

[5] This excludes the 0.5% for cost of guarantees.

[6] The total fund impact also includes the property management expenses of 0.44% pa for the year ended 31 December 2018.

[7] 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. For the Managed Funds there are also costs associated with derivatives and currency deals included in addition to dilution.

5.3. To demonstrate the impact of the costs and charges applied through the Scheme, in this year's Chair's Statement the Trustee has produced illustrations in line with February 2018 guidance from the Department for Work & Pensions entitled "Cost and charge reporting: guidance for trustees and managers of occupational schemes". These illustrations are set out below, and are designed to cater for representative cross-sections of the membership of the Scheme.

5.4. For each individual illustration, each savings pot has been projected twice; firstly to allow for the assumed investment return gross of the costs and charges of the fund, and then again, but adjusted for the cumulative effect of the costs and charges of the fund.

5.5. To determine the parameters used in these illustrations, the Trustee has analysed the membership of the EL Section relevant to the reporting period of this statement and ensured that the illustrations take into account the following:

- A representative range of pot sizes.

- A representative range of real terms investment returns (gross of costs and charges), including the lowest, the highest and the most popular (by number of members).
- A representative range of costs and charges, including the lowest and the highest.
- A representative period of EL Section membership, covering the approximate duration that the youngest member would take to reach target retirement age (60).

5.6. As the EL Section is closed to future contributions, future payments have not been taken into account when producing these illustrations.

### Equitable Life With Profits Fund

An illustration for the Equitable Life With Profits Fund has been provided as it is the most popular Fund selected by members of the Scheme. Equitable Life maintains two values for members' investments in the With-Profits Fund – the Guaranteed Value and Policy value - and both of these values are used when producing members' annual benefit statements. The figures shown on a benefit statement are:

- 1. Guaranteed benefit:** that increases at a minimum rate of 3.5% each year.
- 2. Transfer value:** this is your Policy Value together with the current Capital Distribution of 35% which is added if you transfer out of the With Profits Fund. The Policy Value is not guaranteed (can go down as well as up) and is normally reviewed once a year – recent non-guaranteed annual bonuses have been 2.0% each year.

The illustrations below have been prepared using the policy value and the charges applied by Equitable Life to the policy value. It does not reflect the guaranteed value and the value of any guaranteed increases applicable to the guaranteed value, nor does it take into account any Capital Distribution. As such, the 0.50% charge levied by Equitable Life in relation to the guaranteed element of the With-Profits Fund has not been taken into account when deducting charges. These are based solely on a combination of the AMC and the quoted transaction costs.

Years of investment	Starting pot size £1,400		Starting pot size £2,600		Starting pot size £6,300	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£1,400	£1,400	£2,600	£2,600	£6,300	£6,300
1	£1,414	£1,399	£2,625	£2,599	£6,361	£6,297
5	£1,470	£1,397	£2,729	£2,594	£6,613	£6,285
10	£1,543	£1,393	£2,865	£2,587	£6,942	£6,269
15	£1,619	£1,390	£3,008	£2,581	£7,288	£6,254
20	£1,700	£1,386	£3,157	£2,575	£7,650	£6,239
25	£1,785	£1,383	£3,314	£2,568	£8,031	£6,224

**Note on how to read this table:** If a member has invested £1,400 in this strategy on 31 December 2018, after 10 years, the policy value could be £1,543 if no charges are applied but £1,393 with charges applied.

### The Equitable Life Pelican Fund

An illustration for the Equitable Life Pelican Fund has been provided as it is both the highest charged fund with the highest assumed investment return selected by EL Section members.

Years of investment	Starting pot size £1,400		Starting pot size £2,600		Starting pot size £6,300	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£1,400	£1,400	£2,600	£2,600	£6,300	£6,300
1	£1,427	£1,413	£2,651	£2,623	£6,423	£6,357
5	£1,542	£1,464	£2,864	£2,719	£6,939	£6,588
10	£1,698	£1,531	£3,154	£2,843	£7,643	£6,889
15	£1,871	£1,601	£3,474	£2,973	£8,418	£7,204
20	£2,061	£1,674	£3,827	£3,109	£9,272	£7,533
25	£2,270	£1,750	£4,215	£3,251	£10,213	£7,877

**Note on how to read this table:** If a member has invested £1,400 in this strategy on 31 December 2018, after 10 years, the policy value could be £1,698 if no charges are applied but to £1,531 with charges applied.

### The Equitable Life Gilt & Fixed Interest Fund

An illustration for the Equitable Life Gilt & Fixed Interest Fund has been provided as it is both the lowest charged fund with the lowest assumed investment return as selected by Scheme members.

Years from investment	Starting pot size £1,400		Starting pot size £2,600		Starting pot size £6,300	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£1,400	£1,400	£2,600	£2,600	£6,300	£6,300
1	£1,386	£1,380	£2,575	£2,562	£6,239	£6,209
5	£1,333	£1,302	£2,476	£2,418	£5,999	£5,858
10	£1,269	£1,210	£2,357	£2,248	£5,712	£5,447
15	£1,209	£1,126	£2,244	£2,090	£5,438	£5,065
20	£1,151	£1,047	£2,137	£1,944	£5,178	£4,710
25	£1,096	£973	£2,035	£1,807	£4,931	£4,380

**Note on how to read this table:** If a member has invested £1,400 in this strategy on 31 December 2018, after 10 years, the policy value could be £1,269 if no charges are applied but to £1,210 with charges applied.

### Notes to costs and charge illustrative examples

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.
2. Inflation is assumed to be 2.5% each year
3. No further contributions are assumed to be paid
4. Values shown are estimates and are not guaranteed
5. The starting pot sizes of £1,400, £2,600 and £6,300 have been selected as they reflect the 25<sup>th</sup> percentile, Median and 75<sup>th</sup> percentile respectively based on membership demographics over the Scheme year to 31 December 2018.
6. The projected growth rates used are in line with those produced for the Scheme's Statutory Money Purchase Illustrations (SMPI). These assumption are set out in the table below

Fund name	Assumed return (above inflation)
Equitable Life With Profits Fund	1.00%
Equitable Life Pelican Fund	2.00%
Equitable Life Gilt & Fixed Interest Fund	-1.00%

## 6. Value for members

- 6.1. The Regulations require the Trustee to assess the extent to which the charges and transaction costs borne by members represent good value for the services received.
- 6.2. The charges and transaction costs borne by members either cover or contribute to the costs of providing the following:
- 6.2.1. Investment services;
  - 6.2.2. Administration services; and
  - 6.2.3. Communications.
- 6.3. The latest value for money assessment was undertaken by the Trustee with assistance from its professional advisers in May 2019. From the assessment the Trustee concluded that, over the reporting period:
- 6.3.1. The EL Section continued to offer reasonable value for members, particularly given the 3.5% guaranteed growth rate applicable to investments in the Equitable Life With Profits Fund. The majority of members are wholly invested in this Fund; and
  - 6.3.2. There are a few areas where the Trustee believes that value for member could be improved and the need for improvement largely arises due to the legacy nature of the Equitable Life offering. For example, there is a lack of online access to information and the range of funds offered is fairly restrictive. However, the Trustee is conscious of the recent proposals relating to the transfer of the Equitable Life business to Utmost Life & Pensions and does not, therefore, intend to take any action until further details of the transition are known.

The Trustee will then undertake a review of the Utmost Life & Pensions offering to determine the value for member this is likely to deliver, taking into account the needs of the current membership and will benchmark this against other offerings more widely available in the market to determine what actions should be taken.

## 7. Trustee knowledge and understanding

- 7.1. The Trustee is an independent professional Trustee (the Trustee Corporation Limited) which has over 30 years' experience in providing trustee services to UK pension arrangement and brings a high degree of pensions experience, knowledge and expertise to the management of the EL Section. Over the reporting period the Trustee Corporation Limited had 11 Directors.
- 7.2. The Trustee consults with its external professional advisers in the day to day operation of the EL Section on an as required basis. This includes, for example, seeking input and guidance on legal or pension scheme

governance matters. The Trustee's professional advisers also provide support at the regular Trustee meetings alongside representatives of the sponsoring employer.

7.3. The Trustee has a sound working knowledge of the Scheme's trust deed and rules as well as all other relevant Scheme documentation, both through its overall experience in managing the Scheme as well as its review of such documentation over the reporting period. This, together with maintenance of sufficient knowledge and understanding of the law relating to pensions and trusts, and the relevant principles relating to the funding and investment of occupational pension schemes, has been demonstrated in particular during the reporting period through:

7.3.1. The understanding of, and planning towards, adherence to the new DC disclosure requirements introduced by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and amended by the Occupational Pension Scheme (Administration and Disclosure) (Amendment) Regulations 2018 ("the Regulations"). The impact of such requirements on the EL Section was initially considered by the Trustee in May 2018 and further planning and training was undertaken over the reporting period.

7.3.2. A review of the trust deed and rules in relation to the Trustee's powers and provisions to wind up the Scheme. This review was completed in early 2018 in conjunction with the Trustee's professional advisers.

7.3.3. A review of the potential impact of the deal between Equitable Life and Utmost Life & Pensions on the EL Section and the impact upon members' benefits. This review was ongoing over the reporting period and a further more detailed review is planned for 2019 once further information has been released by Equitable Life.

#### Trustee training

7.4. The Trustee is legally required to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of EL Section assets and other matters to enable it to exercise its functions as Trustee properly. This requirement is underpinned by the guidance and requirements set out in the Pensions Regulator's Code of Practice 7.

7.5. As an independent professional Trustee, all Trustee directors are required to maintain high levels of knowledge and to complete continuing professional development of over 40 hours each year, which covers training on topics that are both relevant and appropriate for the running of the EL Section. Specific relevant training over the course of the reporting period was as follows:

7.5.1. The new cost and charges disclosure requirements and the impact upon the EL Section of the Scheme.

7.5.2. The proposed deal between Equitable Life and Utmost Life & Pensions, in particular focusing on the impact of benefits held with the Equitable Life With-Profits Fund.

7.5.3. Cyber security and the General Data Protection Regulation;

7.5.4. Investment classes and investment strategy;

7.5.5. Regulations and guidance regarding Master Trusts; and

7.5.6. Trustee whistleblowing responsibilities.



7.6. The Trustee considers its broad skill set, and combined knowledge, as well as its access to external professional advisers as benefiting the members of the Scheme and improving the effectiveness and decision making of the Trustee and enables it to properly exercise its trustee functions in relation to the Scheme.

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The Trustee Corporation Limited, Chair of the Trustee

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Date