
ABBEY LIFE ASSURANCE COMPANY LIMITED STAFF PENSION SCHEME

CHAIRMAN'S STATEMENT for the period 1st April 2019 to 31st March 2020

Annual Chairman's Statement for the Abbey Life Staff Pension Scheme – AVC arrangements

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee to prepare an annual statement regarding governance, which should be included in the annual Trustee report and accounts. This statement has been prepared in respect of members' additional voluntary contributions (AVCs) held with Standard Life and Scottish Widows, and money purchase transferred in benefits held within the SW Abbey Retirement Fund.

This statement issued by the Trustee covers the period from 1 April 2019 to 31 March 2020 and is signed on behalf of the Trustee by the Chairman.

This statement covers governance and charge disclosures in relation to the following:

1. The default arrangement;
2. Processing of core financial transactions;
3. Member borne charges and transaction costs;
 - i. Default arrangement and self-select funds;
 - ii. Illustrations of the cumulative effect of these costs and charges;
4. Value for Members; and
5. Trustee knowledge and understanding.

In view of the size of the Scheme, the Trustee has taken a pragmatic and proportionate approach on governance. The Scheme is not used as a Qualifying Scheme for auto-enrolment purposes.

1. The Default Arrangement

A default investment arrangement is provided for Members who have made no specific investment instruction or for whom the Trustee may hold unallocated funds from time to time. Members can also choose to invest in the default investment arrangement which is set up by the Trustee.

The objective of the Default Investment Vehicle is defined in the Scheme's Trust Deed and Rules as *"an Investment Vehicle with an investment objective which aims to preserve capital whilst aiming to provide a return on investments similar to that which might be achieved on cash deposits in a bank or building society or money market funds"*.

The Trustee's objectives regarding the default arrangement are, therefore, to broadly aim to provide capital preservation whilst achieving cash deposit returns before the application of charges.

The default arrangement for the Scheme during the period was the Standard Life Deposit and Treasury Fund. The Statement of Investment Principles for the default arrangement (Default Arrangement SIP) has been in place since October 2015, and is appended to this statement. It sets out in further detail the Trustee's aims and objectives in relation to the default arrangement.

The Trustee undertakes a review of the funds available to members every three years, which includes a review of the performance of the default arrangement to ensure that the Standard Life Deposit and Treasury Fund is performing in line with its intended objective. If the Standard Life Deposit and Treasury Fund is not meeting its objective, then this would be highlighted and, depending on the cause, may trigger the Trustee to conduct an out-of-cycle review of the default arrangement.

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CHAIRMAN'S STATEMENT (continued)

A formal review of the default arrangement strategy and performance was completed on 11 July 2019. Following the 2019 review of the default arrangement, which took account of the aims and objectives of the fund, the fund's performance against Sector and Benchmark, the costs and charges of the fund, and consideration of the Scheme's membership, the Trustee concluded that the default arrangement is consistent with the Trust Deed and Rules and continued to be appropriate for the Scheme based on the objectives and past performance of the fund, and the Scheme's membership profile. The next formal review of the default arrangement will be carried out in the 2021/22 Scheme year.

The Trustee undertook a wider review of the Scheme's fund range in 2017. It was concluded that the range of open funds provide good value for Members. The Trustee will keep the fund range under review and take appropriate action in the event that any funds are deemed no longer suitable. The Trustee is set to review the Scheme's fund range in the 2020/21 Scheme year.

2. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of Member assets into and out of the Scheme, transfers between different investments within the Scheme, and payments to and in respect of Members), are processed promptly and accurately. The Trustee includes, but does not limit to, the following as the Scheme's core financial transactions:

- *the receipt and investment of Member contributions;*
- *transfer of Member assets into and out of the Scheme;*
- *transfer of assets between different investments within the Scheme; and*
- *payments to and in respect of Members.*

The core financial transactions are undertaken on the Trustee's behalf by Equiniti, who provide the administration services for the DC Section of the Scheme (this includes AVCs).

A Service Level Agreement (SLA) with Equiniti is included in the contract with them and is updated as needed to ensure it is fit for purpose and reflects the Trustee's needs. The SLA covers the accuracy and timeliness of all core financial transactions including time-critical processes (claims and non-claims) and manual administration activities. The turnaround times set within the service level agreement vary depending on the nature of the activity, ranging from 2 business days to 10 business days. The trustee regularly monitors the performance via the quarterly administration reports prepared by Equiniti. Equiniti reported that SLAs averaged over 99% for the four quarters from 1 April 2019 to 31 March 2020.

As part of their checking process, Equiniti carry out monthly checks, in addition to daily reconciliation of the Trustee's bank account. All investment and banking transactions are also checked and verified before being processed. All work processes are documented and subject to a peer review process, with work being calculated and independently checked by another member of the team. A regular review process also involves Equiniti providing quarterly core financial transaction metrics to the Trustee to review at its regular meetings, compared to target processing times.

The Trustee has reviewed the processes and controls implemented by Equiniti and consider them to be suitably designed and meeting required levels. Controls around administration and the processing of transactions are documented in the Scheme risk register, which is regularly reviewed.

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CHAIRMAN'S STATEMENT (continued)

There have been no administration service issues with respect to core financial transactions, which need to be reported. The service levels reported by Equiniti were at a level deemed acceptable by the Trustee and there were no concerns raised.

The fund platform and AVC providers used by the Scheme interact with the administrator in relation to core financial transactions and provide additional information on their processes and transactions as required. The Trustee expects to be notified by Equiniti of any delays or errors encountered in the processing of core financial transactions relating to AVCs.

In light of the above, the Trustee is satisfied that there are processes in place to ensure that all core financial transactions for the DC arrangements are processed in an accurate and timely manner.

3. Member Borne Charges and Transaction costs

The Trustee should regularly monitor the level of charges borne by members through the investment funds. These charges comprise:

- Charges: these are explicit, and represent the costs associated with operating and managing an investment fund. They can be identified as a Total Expense Ratio (TER), or as an Annual Management Charge (AMC), which is a component of the TER;
- Transaction costs: these are not explicit and are incurred when the Scheme's fund manager buys and sells assets within investment funds, but are exclusive of any costs incurred when members invest in or sell out of funds.

The Trustee is also required to confirm that the charges on the default arrangement have not exceeded 0.75% p.a. (the charge cap), and produce an illustration of the cumulative effect of the costs and charges on members' retirement fund values, as required by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.

(i) Default arrangement and self-select investment funds

The default arrangement has levied a TER of 0.61% p.a. of assets under management, which is well below the statutory charge cap of 0.75% p.a., for all members during the period. In addition, members are invested in a range of self-select funds with varying risk profiles and charges that are available to members as alternatives to the default arrangement. These funds attracted TERs of between 0.00% p.a. and 0.63% p.a. of assets under management.

The transactions costs for the default arrangement was 0.0592% p.a. of assets under management. The self-select funds, which members are invested in, attracted transaction costs of between 0.00% p.a. and 0.17% p.a. of assets under management. A full list of the TERs and applicable transaction costs is contained in Appendix 1.

We have not received all of the transaction costs information from Scottish Widows, one of the arrangement's investment managers. The Trustee and their advisers continue to liaise with Scottish Widows to obtain the outstanding information. Where transaction costs have been provided as a negative cost (i.e. profit), a floor of zero has been used by the Trustee to avoid potentially understating the level of costs.

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(ii) Illustrations of the cumulative effect of costs and charges

From 6 April 2018, the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of charges and transaction costs by the trustee and managers of a relevant scheme. These changes are intended to improve transparency on costs.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided 2 illustrations of their cumulative effect on the value of typical scheme members savings over the period to their retirement.

The next few pages contain illustrations of the cumulative effect of costs and charges on the value of member savings within the Scheme over a period of time.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future, which are set out in the appendix.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed.

The illustrations provided

Each of the following tables illustrate the potential impact that costs and charges might have on different investment options provided by the Scheme. Not all investment options are shown in the illustrations.

The Trustee has chosen to illustrate the potential impact that costs and charges might have if the 2 example members were invested in the Standard Life Deposit and Treasury Fund (the default arrangement), a higher risk profile fund that has a lower level of costs and charges compared to the default arrangement (Scottish Widows Property Fund), and a higher risk profile fund that has a higher level of costs and charges compared to the default arrangement (Standard Life Managed Fund).

The Trustee has determined the example members for whom illustrations have been provided as the youngest deferred member, and a deferred member of average age (ages determined using data for the Scheme). The fund values chosen for the illustrations were determined by the pot sizes held by members.

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Example member 1

The illustration below is based on a deferred member, 24 years from normal retirement at age 65, with a current fund value of £4,442, and no further contributions. The table highlights the cumulative effect of costs and charges on the member's fund value for an investment in the default arrangement, the Scottish Widows Property Fund (higher risk profile, and lower level of costs and charges than the default arrangement), and the Standard Life Managed Fund (higher risk profile than the default arrangement).

Age	Standard Life Managed Fund			Standard Life Deposit and Treasury Fund			Scottish Widows Property Fund		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
41	4,442	4,442	0	4,442	4,442	0	4,442	4,442	0
45	4,890	4,750	140	4,150	4,040	110	4,890	4,860	30
50	5,520	5,170	350	3,820	3,590	230	5,520	5,430	90
55	6,220	5,630	590	3,510	3,190	320	6,220	6,070	150
60	7,020	6,130	890	3,230	2,840	390	7,020	6,780	240
65	7,920	6,680	1,240	2,970	2,520	450	7,920	7,580	340

Fund values are shown against their relevant spending power in today's terms (i.e. after the impact of expected inflation). Returns for cash instruments, in particular, may not keep pace with inflation and, in low interest rate conditions, may result in negative returns i.e. a decrease in the value of holdings in the fund after deduction of charges. Members invested in these options should ensure it is appropriate for their personal circumstances.

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Example member 2

The illustration below is based on a deferred member 9 years from normal retirement at age 65, with a current fund value of £15,911, and no further contributions. The table highlights the cumulative effect of costs and charges on the member's fund value for an investment in the default arrangement, the Scottish Widows Property Fund (higher risk profile, and lower level of costs and charges than the default arrangement), and the Standard Life Managed Fund (higher risk profile than the default arrangement).

Age	Standard Life Managed Fund			Standard Life Deposit and Treasury Fund			Scottish Widows Property Fund		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
55	15,911	15,911	0	15,911	15,911	0	15,911	15,911	0
60	17,520	17,030	490	14,880	14,480	400	17,520	17,390	130
65	19,760	18,540	1,220	13,690	12,870	820	19,760	19,440	320

Fund values are shown against their relevant spending power in today's terms (i.e. after the impact of expected inflation). Returns for cash instruments, in particular, may not keep pace with inflation and, in low interest rate conditions, may result in negative returns i.e. a decrease in the value of holdings in the fund after deduction of charges. Members invested in these options should ensure it is appropriate for their personal circumstances.

The following assumptions have been made for the purposes of the above illustrations:

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;*
2. *Inflation is assumed to be 2.5% each year;*
3. *No assumption is made for real salary growth;*
4. *Values shown are estimates and are not guaranteed;*
5. *The transaction costs have been averaged over an 'up to 2 year' period based on the information available, in line with statutory guidance to reduce the level of volatility, and a floor of 0% p.a. has been used for the transaction costs if these were negative in any year, so as not to potentially understate the effect of charges on fund values over time; and*
6. *The assumed growth rates reflect expected 10-year annualised returns (gross of costs and charges) and are as follows:*
 - *Deposit and Treasury Fund 0.8% p.a.*
 - *Managed Fund 5.0% p.a.*
 - *Property Fund 5.0% p.a.*

Members are advised to consider both the level of costs and charges, and the expected return on assets (i.e. the risk profile of the strategy), in making investment decisions and not in isolation.

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CHAIRMAN'S STATEMENT (continued)

4. Value for Members

The Administration Regulations require the Trustee to make an assessment of charges and transaction costs borne by Members, and the extent to which those charges and costs represent good value for money for Members.

There is no regulatory definition of "good value" and the process of determining this for Members is a subjective one. Based on advice from the Scheme advisors, Aon, the Trustee has established a cost-benefit analysis framework in order to assess whether the Member borne charges deliver good Value for Members. The assessment is relevant to the current membership. The cost part of the analysis considers the costs and charges that Members pay.

The benefit side of the analysis considers the quality of Scheme Governance and Management, the quality of Scheme Administration, the quality of Scheme Investments, and the quality of Scheme Communications. In assessing the quality of the Scheme across these different areas, the Trustee has taken account of the Pensions Regulator's DC Code of Practice, along with considering general market practices and comparisons.

The members pay investment charges as detailed above. The remaining charges (including administration, governance and advisory fees) are borne by the Company. The Trustee considers this is as an additional valuable benefit for members.

The Trustee regards the most important aspect of value to members to be making available a range of suitable investment options, with competitive charges, from which members are able to choose.

Members of the Scheme have a range of investment options to choose from; each option has a different associated charge (as shown in appendix 1). The Trustee has certain powers afforded by the Scheme's Trust Deed and Rules in relation to making changes to the investment options available to members. The Trustee has exercised these powers on a number of occasions in the past by closing funds to new contributions.

The last review of the fund range available to members in the AVC arrangement took place in November 2017. It concluded that the fund range covers the majority of asset classes, and that the costs and charges borne by members, in those funds that remain open to further contributions, represent good value for Members.

Whilst some of the AVC funds carry higher charges, all of the funds are reviewed regularly and those that are regarded as representing poor value for Members, either due to high charges or (in some cases) sustained poor performance, may be closed. The fund range includes other options for members to choose from that carry lower charges.

The Trustee will continue to monitor and review triennially the ongoing suitability of these legacy arrangements. The next AVC review will take place during the 2020/21 scheme year.

The Trustee will also continue to communicate regularly with Members via a newsletter to ensure that they are aware of the investment options available to them, and to encourage them to review their investment choices regularly to ensure that they remain appropriate to their individual circumstances. The most recent newsletter was sent to members during February 2020.

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5. Trustee Directors' Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustee to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets, and other matters to enable them to exercise their functions as a Trustee properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

The Scheme is managed by 5 Trustee Directors; 3 Trustee Directors are appointed by the Principal Employer, and there are 2 Member Nominated Directors. No new Trustee Directors joined the Trustee Board during the year. The composition of the Trustee board is compliant with Regulatory requirements and demonstrates diversification of skills and breadth and depth of pension knowledge.

Trustee Directors are familiar with the key Scheme documents (including the Trust Deed and Rules, Statement of Investment Principles, and other scheme management documentation) and are able to access these documents within the Trustee's secure online portal. Scheme documents are reviewed by the Trustee on a regular basis.

All Trustee Directors are made aware of the training resources available throughout the Scheme year and undertake additional training as required. Training undertaken by each Trustee Director is recorded within the Trustee Training Log, which is reviewed and updated regularly.

Over the course of the scheme year, the Trustee Directors have attended the DC related seminars and training sessions listed below:

- Professional Pensions – Pensions and Benefits UK
- Aon – Demographic Horizons Webinar
- Linklaters – PLSA Workshop (including discussion SIP disclosure requirements, GMP equalisation and GDPR implications of member tracing)
- Aberdeen Standard Investments – Pensions Funds seminar and Q&A session
- Aon – National Pensions Dinner
- Aon – GMP Equalisation training
- Gowling & Aon – GMP Equalisation tax considerations discussion
- Aon – National Pensions Dinner
- Aberdeen Standard Investments – Global Investment Forum
- Aon – Trustee Governance at this changing time webinar

The Trustee also has in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments, and carry out a self-assessment of training needs periodically to determine training requirements for the next Scheme year.

Any new Trustee Directors are also expected to complete the Regulator's Trustee Toolkit within a reasonable period from the date of their appointment.

In addition to the knowledge and understanding of the Trustee board, the Trustee receives advice from its appointed advisers where any gaps are identified. The Trustee has engaged with their appointed professional advisers throughout the year to ensure that they run the Scheme effectively and exercise their functions properly (and including managing trustee succession planning).

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Agenda-specific training is also provided by the Scheme's advisers during Trustee Board meetings and the Trustee has:

- Reviewed the Scheme's default arrangement, which considers the performance and cost of the default arrangement for the Scheme's members. The Trustee will review the other fund options in more detail in 2020 as part of the self-select fund review;
- Reviewed administration reports from Equiniti, to monitor service delivery against agreed service levels;
- Ensured that an audit of the Trustee's Report and Accounts is carried out for the Scheme year ended 31 March 2020;
- Considered Scheme risks and the law relating to pensions and trusts through updating the risk register.

The Trustee works closely with its appointed professional advisers throughout the year, who have provided specialist advice and updates on legislation, guidance and best practice developments to ensure that it exercises properly its functions as Trustee Directors.

Considering the training activities completed by the Trustee Board, together with the professional advice available to the Trustee, the Trustee considers that it meets the Pension Regulator's requirements (as set out under Code of Practice No 7) and is confident that the combined knowledge and understanding of the Trustee Board, together with the input from its specialist advisers, enables it to properly exercise its functions as the Trustee of the Scheme.

Signed on behalf of the Trustee of the Abbey Life Staff Pension Scheme

Original signed by Neil C H Tointon

Neil C H Tointon
Chairman of the Trustee Board
30 September 2020

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CHAIRMAN'S STATEMENT (continued)

Appendix 1 – TERs and Transaction Costs for all funds

Scottish Widows

Fund Name (6 available funds)	Total Expense Ratio (% p.a.)	Transaction Costs (% p.a.)
Building Society	0.00	Undisclosed
Consensus	0.00	0.12
Indexed Stock	0.00	Undisclosed
Mixed	0.04	0.17
Property	0.19	0.00
SW Abbey Retirement Fund	0.30	Undisclosed

Source: Scottish Widows

It is worth noting that members receive a reduction in Annual Management Charges of 1%p.a. for the Scottish Widows funds. This has been reflected in the charges shown in the table above.

However, there is an administration charge of £1,500 p.a., which is paid for by the Scheme to Scottish Widows.

The Trustee requested transaction charges as at 31 March 2020 for the funds listed above from Scottish Widows. However, Scottish Widows was only able to provide the transaction costs covering the 12 months up to 31 December 2019 for three of the funds listed. The Trustee will continue to request the transaction costs from Scottish Widows.

Standard Life

Fund Name (3 available funds)	Total Expense Ratio (%)¹	Transaction Costs (% p.a.)
Active		
Deposit and Treasury	0.61	0.0592
Managed	0.63	0.1109
Money Market	0.61	-0.0022

Source: Standard Life

It is worth noting that members receive a 0.40% p.a. reduction from the TER for the Standard Life funds.

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Appendix 2 – Default arrangement SIP

Abbey Life Assurance Company Limited Staff Pension Scheme **Statement of Investment Principles for the default arrangement**

This Statement of Investment Principles for the default arrangement ("**default arrangement SIP**") covers the default arrangement within the Abbey Life Assurance Company Limited Staff Pension Scheme (the "**Scheme**") and applies to Additional Voluntary Contributions ("**AVCs**").

This default arrangement SIP should be read as an addendum to the main Statement of Investment Principles ("**Main SIP**") for the Scheme, a copy of which is available on request.

If there is any difference between the default arrangement SIP and the provisions of the Trust Deed of the Scheme, the provisions of the Trust Deed will prevail (including any amendments to the Trust Deed from time to time).

The Scheme has identified the default arrangement as the Standard Life Deposit and Treasury Pension Fund in relation to AVCs.

Trustee's Aims and Objectives in respect of the default arrangement

The Trustee's objective is to invest the assets, held in respect of Members of the Scheme for and from whom there is no current investment instruction, in an investment vehicle, which has as its aims:

- 1) as far as possible to preserve capital value; and*
- 2) to provide a return on investment similar to that which might be achieved on cash deposits in a bank or building society or money market funds.*

Explanation of how the Trustee's Aims and Objectives are intended to ensure that the default arrangement is invested in the best interest of Members

This default arrangement protects the capital value of the Member's fund, until the Member gives a valid investment instruction to the Trustee. With the benefit of investment advice, the Trustee has determined that the Standard Life Deposit and Treasury Pension Fund is the appropriate investment vehicle for these purposes.

The Trustee will review the ongoing appropriateness of the default arrangement with reference to these aims, including the extent to which the return on investments relating to the default arrangement (after deduction of any charges relating to those investments) is consistent with the Trustee's aims and objectives, through its process of regular reviews of the Scheme's investment options.

The Trustee's policies in relation to the default arrangement in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are those set out in the Main SIP as they apply to the default arrangement.