

## UPS Pension Trustee Limited

### Chair's annual statement regarding defined contribution benefits held in the University of Warwick Pension Scheme ("the Scheme")

#### 1. Introduction

- 1.1. This statement has been prepared by UPS Pension Trustee Limited ("the Trustee"), the Trustee of the University of Warwick Pension Scheme ("the Scheme"), and reports on how the Trustee has complied with the defined contribution (DC) governance standards. These standards are designed to help members achieve good outcomes from their pension savings.
- 1.2. This statement covers the Scheme year 1 April 2021 to 31 March 2022.
- 1.3. The Trustee will publish this Statement on a publicly accessible website. The web address for the website will be: <https://warwick.ac.uk/pensions/ups>

#### 2. The Scheme's DC arrangements

- 2.1. Over the reporting period, the Scheme's DC arrangements comprised the following:
  - 2.1.1. A Defined Contribution Section ("the DC Section") which is open to future contributions and is used as a qualifying workplace pension scheme for auto-enrolment purposes. The administration and investment management services for the DC Section are provided by Scottish Widows.
  - 2.1.2. A separate AVC arrangement provided by Prudential which holds benefits for Defined Benefit Section ("the DB Section") members.

#### 3. The DC Section's default investment arrangement

- 3.1. Over the reporting period, the DC Section had one default investment arrangement for the purposes of the regulations, the Scottish Widows Passive Interim Lifestyle Strategy ("the Default Option"). This was implemented in January 2017 following advice from the Trustee's professional advisers. Its design took account of the needs of DC Section members as well as the Trustee's own investment beliefs.

##### Default Option design and objectives

- 3.2. The key features of the Default Option are as follows:
  - 3.2.1. It is structured as a lifestyle investment strategy which invests across a series of multi-asset investment funds. The multi-asset funds are designed to provide exposure to different degrees of investment risk depending upon each member's term to their Normal Retirement Age (NRA).
  - 3.2.2. When a member is a long way from NRA, the Default Option will hold investments that are designed to be higher risk (relative to other stages of the strategy) with the objective of providing potentially higher returns. Over the 42 years prior to a member's NRA the Default Option will automatically and progressively switch their retirement savings into lower risk investments with the aim of protecting their value relative to the way in which they are expected to be accessed.
  - 3.2.3. The Default Option has been designed to provide flexibility at each members NRA by being broadly appropriate regardless of how each member takes their retirement income (e.g. cash, annuity purchase or drawdown).

### Alternative investment options

- 3.3. Alongside the Default Option, over the Scheme year the Trustee made available three additional investment strategies that target taking benefits through Annuity Purchase, Drawdown and Cash at NRA. These all use the same underlying investment funds for growth as the Default Option and it is only in the final years of investment where the strategies will vary.
- 3.4. The Trustee also provided access to a range of individual investment options for members to self-select. These included:
  - 3.4.1. The underlying investment portfolios that make up the Passive Lifestyle Strategies, namely, the SW Passive Annuity Purchase, the SW Passive Multi Asset I, the SW Passive Multi Asset II, the SW Passive Multi Asset III, the SW Passive Multi Asset IV, the SW Passive Multi Asset V and the SW Money Market Funds.
  - 3.4.2. A range of DC Section specific funds, namely; the UPS Balanced Growth Fund, the UPS Equity Growth Fund, the UPS Money Market Fund and the UPS Pre-Retirement Fund.

### Review of the Default Option and recent changes

- 3.5. The Trustee, together with its professional advisers, monitors the investment options accessed through the DC Section on a quarterly basis. This monitoring looks at the performance of the funds, to ensure that they are consistent with the stated aims and objectives, as well as any developments or changes at the fund manager. The Trustee is comfortable that the funds used by the Default Option have performed in line with their stated aims and objectives over the Scheme year.
- 3.6. The last strategic review of the Default Option was completed in the previous reporting period, on 11 May 2020. This review considered the appropriateness of the current design of the Default Option as well as Scottish Widows' future planned changes. These changes would involve moving the vast majority of the DC Section's accrued assets and members from the Default Option to Scottish Widows' range of Pension Investment Approaches (PIAs) which would result in the following key changes:
  - 3.6.1. Integration of Environmental, Social and Governance (ESG) factors into the design of the strategy
  - 3.6.2. A change to the structure of the automatic de-risking in the lead up to NRA (see 3.2.2 above).
  - 3.6.3. Adjustments to the asset allocation of the strategy at different stages of membership.
- 3.7. The review concluded that overall the design of the strategy remained appropriate and that the changes being proposed by Scottish Widows should add value for members over the longer-term. Whilst these changes had originally been planned for early 2021, Scottish Widows took the decision to delay their implementation in order to refine its approach. Scottish Widows presented its revised proposals to the Trustee in November 2021 and, with support from its professional advisers, the Trustee concluded that the change in approach did not materially impact the decisions made in 2020 and therefore the decision was made to go ahead.
- 3.8. The first contribution was invested in the new strategy on 1 April 2022 and accrued assets for the vast majority of members were transferred in May 2022. As these changes fall into the Scheme year ending 31 March 2023, further detail will be provided in next year's Statement.

### Review of Self-Select Funds

- 3.9. In September 2021 the Trustee, supported by its professional advisers carried out a review of the range of self-select investment options provided through the DC Section following a recommendation made in the 2020 strategic review. The review recommended that two self-select funds be removed from the range, three funds be closed to future contributions and a new fund focussed on integrating ESG factors be introduced.
- 3.10. These changes were agreed by the Trustee in September 2021 and implemented in Q2 2022 (alongside with the changes to the Default Option noted above). As these changes fall outside of the Scheme year ending 31 March 2022, further detail will be provided in next year's Statement.

### Further information on investments

- 3.11. Information on the range of investment options provided through the DC Section is available in the Statement of Investment Principles (SIP) which was last reviewed in September 2020. This is appended to this Chair's Statement and published online alongside. For the purposes of Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 the SIP sets out further details around the Trustee's investment objectives, as well as the default investment strategy. The SIP was last updated in June 2022 and published in July 2022.

## 4. Core financial transactions

- 4.1. The Regulations require the Trustee to ensure that core financial transactions are processed promptly and accurately. Core financial transactions comprise:
- 4.1.1. The investment of contributions.
  - 4.1.2. Transfers into and out of the DC Section.
  - 4.1.3. Investment switches.
  - 4.1.4. Payments out of the DC Section in respect of members.

### DC Section administration

- 4.2. To ensure the accuracy and timeliness of all DC Section core financial transactions, the Trustee has established robust reporting and monitoring processes.
- 4.2.1. The day-to-day monitoring of administration standards is undertaken by the University's "in-house" pensions team who scrutinise the performance of all service providers to the DC Section. The Pensions Administration Manager reports back to the Trustee on anecdotal experience as part of the quarterly Trustee meetings and any immediate concerns are escalated to the Trustee as appropriate.
  - 4.2.2. Service Level Agreements (SLAs) have been agreed as part of the contract between the Trustee and Scottish Widows. These SLAs set out the agreed maximum timescales for each task to be completed and also the percentage of tasks expected to be completed within these timescales. The agreed SLAs for each of the individual core financial transactions identified in 4.1 above are as follows:

Core financial transaction	SLA
Investment of contributions	24 hours from date of receipt

Core financial transaction	SLA
Transfer into the DC Section	Act on instruction by end of the following Business Day
Transfer out of the DC Section	Act on instruction within 2 Business Days
Investment switches	Act on instruction by end of the following Business Day
Payments out of the Plan	Act on instruction within 2 Business Days

4.2.3. Scottish Widows provides the Trustee with quarterly administration reports that document its performance against the agreed SLAs. The Trustee considers these reports in detail as a regular item at its quarterly meetings. Scottish Widows reports core financial transactions under 'Time Critical Processes' and its performance over the Scheme year is outlined in the table below:

SLA area	Performance target	Performance in period
Time Critical Processes	100%	85%
Manual Administration	95%	84%
Call Handling	97%	97%*

\*based on average of monthly performance period as opposed to total calls.

4.2.4. With effect from July 2019 Scottish Widows have also reported on 'Manual Financial Transactions Accuracy'. The target for this is 100%. Since it has been included in reporting, 'Manual Financial Transactions Accuracy' has been 100%.

4.2.5. As part of its ongoing consideration of service standards, the Trustee noted that the SLA level achieved by Scottish Widows over the Scheme year for Time Critical and Manual processes were below their targets of 100% and 95% respectively. This continues a trend noted from the previous year. Scottish Widows noted previously that the delays relate to the difficult working conditions and ongoing transformation of working practices arising from the Covid-19 pandemic. Looking at Time Critical processes across individual quarters, performance had improved at the start of the Scheme year before declining in the middle of the year and then recovering in the last quarter. The Manual Administration performance remained below target throughout but improved slightly towards the end of the Scheme year. The Trustee continues to exert pressure on Scottish Widows to hit its targets. Importantly, Scottish Widows was able to confirm that, where any Time Critical processes had been delayed, action had been taken to ensure that the member in question was not disadvantaged.

4.2.6. Administration is captured as part of the Scheme's risk register and any DC Section specific risks are clearly documented. This includes details of the controls established by the Trustee and records details of any required actions.

4.2.7. Additional measures that help to monitor the accuracy of core financial transactions are the University's annual checks on data quality.

4.3. There were no significant issues reported to or identified by the Trustee in connection with either the promptness or accuracy of core financial transactions processed during the period covered by this statement. As is mentioned above, there was some underperformance against SLAs, and this has been addressed. The Trustee will continue to monitor SLA performance.

#### AVC administration

- 4.4. As the administrator of the Defined Benefit Section (“the DB Section”) of the Plan, the Trustee has delegated the administrative oversight of the separate AVC arrangement held with Prudential to Barnett Waddingham.
- 4.5. Barnett Waddingham advise the Secretary to the Trustee of any specific issues that arise relating to the administration of the AVC policies and high-level transactional information supplied by Prudential is reported to the Trustee as part of the quarterly meetings.
- 4.6. Over the Scheme year the Trustee noted that some members of the Scheme had experienced delays in relation to queries raised with Prudential. The Trustee and its professional advisers believe this to be as a result of the wider challenges that Prudential has faced connected to moving between administration platforms and the impact of the Covid-19 pandemic on staffing and processes. Whilst there is little interaction with Prudential for the members on a day-to-day basis (as only one fund is available) and members mostly only deal with Prudential at retirement (via Barnett Waddingham as Scheme administrators), the Trustee will continue to review highlighted issues to ensure where possible that delays do not have a material negative impact on members (e.g. delays paying benefits).

#### Trustee's view of core financial transactions

- 4.7. Taking the above into consideration, the Trustee is confident that all core financial transactions over the Scheme year have been processed accurately. Whilst there were some minor issues in relation to Time Critical processes, this has been investigated and no members were subject to any detrimental impact.

### 5. Charges and transaction costs

- 5.1. Charges for the administration, communication and investment services provided to the Scheme’s DC arrangements are structured on a ‘bundled’ basis and consist of the following:
  - 5.1.1. **Charges:** these are collected by deduction of investment units and are expressed as a percentage of the value of each member’s holdings within an investment fund. They are referred to as a Total Expense Ratio (TER) and include the Annual Management Charge (AMC) and the Fund Charge (FC) incurred over the period.
  - 5.1.2. **Transaction cost:** 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.

#### DC Section charges and transaction costs

- 5.2. The following table provides details of the costs and charges applied to each of the investment options provided through the DC Section over the period 1 April 2021 to 31 March 2022. This data has been sourced from Scottish Widows and there is no missing data:

Investment option	Fund Charge (FC)	Annual Management Charge (AMC)	Total Expense Ratio (TER)	Transaction Costs [1]
SW Money Market CS1 [2]	0.440%	0.150%	0.159%	0.018%

Investment option	Fund Charge (FC)	Annual Management Charge (AMC)	Total Expense Ratio (TER)	Transaction Costs [1]
SW Passive Annuity Purchase CS1 [2]	0.410%	0.075%	0.495%	0.019%
SW Passive Multi-Asset I CS1	0.410%	0.095%	0.505%	0.024%
SW Passive Multi-Asset II CS1 [2]	0.420%	0.085%	0.517%	0.043%
SW Passive Multi-Asset III CS1 [2]	0.420%	0.085%	0.517%	0.045%
SW Passive Multi-Asset IV CS1 [2]	0.410%	0.085%	0.505%	0.050%
SW Passive Multi-Asset V CS1 [2]	0.410%	0.085%	0.505%	0.041%
UPS Equity Growth	0.410%	0.075%	0.485%	0.036%
UPS Money Market	0.360%	0.140%	0.500%	0.018%
UPS Pre-Retirement	0.410%	0.075%	0.485%	0.002%

[1] 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.

[2] These are the underlying funds used by the Default Option. Note that for members investing in the Default Option the costs and charges that apply will depend upon how far each member is from their NRA.

#### AVC arrangements costs and charges – Prudential

- 5.3. Scheme members that hold AVC benefits with Prudential are invested exclusively in the Prudential With Profits Fund. Details of the charges and transaction costs quoted by Prudential for the With Profits Fund are provided in the table below:

Fund name	TER	Transaction costs	Effective date [1]
Prudential With Profits Fund	Prudential does not state an explicit TER for its With Profits Fund as charges are deducted before bonuses are applied to members' benefits, however, they are estimated to be in the region of 1%.	0.06%	31/12/2021

[1] The Trustee and its advisers requested transaction cost information from Prudential for the reporting period covered by this Statement, however, Prudential was not able to provide this information in time for inclusion in this Statement. The transaction cost data to 31 December 2020 was released in July 2021 and Prudential was not able to confirm the expected timescales for the transaction cost data to 31 March 2021. The Trustee is continuing to work with its advisers to exert pressure on Prudential to ensure this information can be included in future years

### Impact of costs and charges

- 5.4. To demonstrate the impact of charges and transaction costs on members' pension savings over time, the Trustee (with support from Scottish Widows) has produced illustrations, and these are set out in Appendix 1. The Trustee has not included illustrations for the Prudential With Profits Fund as the holdings are not material relative to the wider Scheme DC assets. The estimated charges are relatively high for this fund, but the Trustee notes that it offers guarantees that members may value.
- 5.5. The Trustee also investigated whether Market Value Reductions (MVRs) would apply on transfers out of the Prudential With Profits Fund. Prudential confirmed that MVRs may apply if benefits taken at any time other than death or NRA and that MVRs were currently being applied to transfers out of the fund. However, an MVR will only apply if the value of the assets underlying an individual plan is less than the value of the plan including bonuses. In practice this suggests MVRs would not apply to the majority of AVC funds based on bonus records, but the amount of bonuses that apply to transfer values may be less than they were previously.

## 6. Disclosure of net investment returns

- 6.1. From 1 October 2021, trustees of all relevant pension schemes, are required to calculate and state the annualised return, net of transaction costs and charges, of all of the investment options members were able to select, and in which members' assets were invested, during the Scheme year.
- 6.2. Statutory guidance recommends that trustees disclose net investment returns covering at least a five-year period. For the arrangements where the investment returns vary with age, such as for the Default Option, the investment returns are shown over 1 year, and 5 years for a member aged 25, 45 and 55 at the start of the period.
- 6.3. The following tables provide net investment return figures for DC Section's investment options. The data has been sourced by Scottish Widows and the returns have been produced in line with the June 2021 statutory guidance entitled "Completing the annual Value for Members assessment and Reporting of Net Investment Returns".

### Default Option

Age at start of investment period	Annualised returns to 31 March 2022	
	1yr net return	5yr net return (p.a.)
25	12.68%	8.91%
45	9.25%	7.19%
55	4.92%	5.83%

### Passive: Securing Lifelong Income Lifestyle

Age at start of investment period	Annualised returns to 31 March 2022	
	1yr net return	5yr net return (p.a.)
25	12.68%	8.91%
45	9.25%	7.19%
55	4.92%	5.83%

#### Notes to the tables:

- Due to the way in which the Default Option and Passive: Securing Lifelong Income Lifestyle strategies work, the underlying funds held by members will be identical up to 5 years prior to NRA. As such, the returns for both strategies will be the same.
- Data for the strategies targeting cash and drawdown at retirement was not provided by Scottish Widows as no DC Section members had invested in these strategies over the Scheme year.

### SW Funds

Fund name	Annualised returns to 31 March 2022	
	1yr net return	5yr net return (p.a.)
SW Money Market CS1	-0.46%	-0.21%
SW Passive Annuity Purchase CS1	-6.70%	0.93%
SW Passive Multi-Asset II CS1	1.66%	4.70%
SW Passive Multi-Asset III CS1	4.92%	5.83%
SW Passive Multi-Asset IV CS1	9.25%	7.19%
SW Passive Multi-Asset V CS1	14.05%	9.60%
UPS Equity Growth	14.29%	10.15%
UPS Money Market	-0.36%	-0.06%
UPS Pre-Retirement	-9.71%	1.08%

#### Notes to the table:

- Data for the SW Passive Multi-Asset I CS1 was not provided by Scottish Widows as it did not hold any DC Section assets or members over the Scheme year.



## 7. Value for members

- 7.1. The Trustee is required to assess annually the extent to which the charges and transaction costs borne by members represent good value.
- 7.2. Analysis was undertaken by the Trustee's professional advisers, Barnett Waddingham LLP, and the findings set out in a report. The Trustee considered this analysis and confirmed its assessment of value for members, effective as at 31 March 2022 and this is set out below.
- 7.3. Recognising that low cost does not necessarily mean good value, the assessment considered whether the services for which members pay or share the costs are suitable for, relevant to and (likely to be) valued by members and whether performance of the services had been effective. Consideration was also made of the costs relative to other options available in the market.
- 7.4. Various investment-related services for which members do not directly bear the costs are nevertheless inextricably linked to creating the environment under which investment returns are delivered, e.g. strategy, monitoring and the investment governance structure, so these were included in the assessment.
- 7.5. Other services paid for by the University of Warwick were excluded but nevertheless deliver value to members, e.g. the services of professional advisers in relation to the defined contribution sections and the operation of the Trustee board, with a duty to act in the best interest of members.

### DC Section

- 7.6. In relation to the DC Section, the member-borne charges and transaction costs relate to:
  - 7.6.1. investment services
  - 7.6.2. administration services
  - 7.6.3. communication services
- 7.7. The assessment considered:
  - 7.7.1. in relation to investment services:
    - 7.7.1.1. the investment strategy, e.g. the design of the default and range of alternative options
    - 7.7.1.2. the arrangements for monitoring the performance of the investment options and reviewing the investment strategy
    - 7.7.1.3. the investment governance arrangements
  - 7.7.2. in relation to administration services:
    - 7.7.2.1. the general administration arrangements
    - 7.7.2.2. arrangements in relation to financial transactions
    - 7.7.2.3. data and record keeping
  - 7.7.3. in relation to communication services:
    - 7.7.3.1. communication strategy
    - 7.7.3.2. pre-retirement communications
    - 7.7.3.3. at/post retirement communications

- 7.8. The assessment concluded that the DC Section continues to provide **excellent value** for members and that there are no areas in which the DC Section's arrangements detract value relative to areas where members bear costs directly. However, in terms of wider value for money (i.e. services for which the members do not directly bear costs) the Trustee expressed some concern around the "at retirement" services provided by Scottish Widows and in particular the knock-on delays for members. The Trustee is working with its professional advisers and Scottish Widows to resolve this.
- 7.9. In reaching the conclusion the Trustee recognised the robust governance processes applied to the DC Section, the range and overall quality of administration services and engagement tools provided to members.

#### AVC benefits

- 7.10. In relation to the AVC arrangement with Prudential, the member-borne charges and transaction costs relate to:
- 7.10.1. investment services
  - 7.10.2. administration services
  - 7.10.3. communication services
- 7.11. The assessment considered the broad value for members of these services, taking a proportionate approach that reflects the relatively low value of the AVC pension savings concerned.
- 7.12. The Trustee concluded that the AVC arrangement offers **reasonable value** in relation to the charges and transaction costs borne by members.
- 7.13. In reaching this conclusion, the Trustee recognised:
- 7.13.1. Members investing in the arrangement can use their benefits to fund their tax-free cash entitlements through the defined benefit (DB) section of the Scheme.
  - 7.13.2. The charges are broadly aligned with similar types of arrangements offered elsewhere.
  - 7.13.3. Barnett Waddingham provides oversight of the benefits.

## 8. Trustee knowledge and understanding

- 8.1. Over the reporting period the Trustee comprised six Trustee Directors, of whom one is the Chair. Two of the Trustee Directors are member-nominated, and four are employer-nominated, meeting statutory requirements for the composition of trustee boards.
- 8.2. The Trustee delegates certain activities to an Investment Sub-Committee (ISC). The ISC is responsible for assisting the Trustee with developing an appropriate investment strategy for the DC Section, the ongoing monitoring of the investment strategy and the activity and performance of Scottish Widows.

#### Trustee knowledge and understanding requirements

- 8.3. Trustee Directors are required to be conversant with their schemes' main documents and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets.

## Approach

- 8.4. The Trustee Directors aim to remain conversant with the Scheme's trust deed and rules as well as all other Scheme documents such as the SIP, the risk register and current policies, e.g. conflicts of interest. They do so through their experience in governing the Scheme, as well as specific activities over the Scheme year and access to professional advice.
- 8.5. The Trustee Directors aim to achieve and maintain knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of Scheme assets through a combination of training and taking professional advice.
- 8.6. All Trustee Directors are asked to complete a formal training programme both following appointment and to review their training needs on an ongoing basis to ensure that they have the necessary skills and knowledge required to effectively discharge their duties.
- 8.7. Trustee training is considered at Trustee meetings and Trustee Directors are asked to provide feedback and suggest topics for future training sessions which allows all Trustee Directors to identify and address any gaps in knowledge. Training is delivered by the Trustee's professional advisers and external training is sought on topics relevant to the Trustee Directors' duties.
- 8.8. The Trustee Directors consult with 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 Plan's documents and attending Trustee meetings.

## Activities over the Scheme year

- 8.9. Over the Scheme year the Trustee took professional advice in the following areas:
  - 8.9.1. Review of the self-select fund range and consideration of alternative fund options.
  - 8.9.2. Review of the Default Option and Scottish Widows proposed changes.
- 8.10. Over the Scheme year, the Trustee reviewed the following Scheme documents:
  - 8.10.1. The 2021 annual governance statement
  - 8.10.2. The Annual Report & Accounts
  - 8.10.3. The risk register
  - 8.10.4. Investment adviser objectives, including a review of performance against those objectives
- 8.11. Over the Scheme year, the Trustee received training on the following topics at Trustee meetings
  - 8.11.1. The advantages and disadvantages of Master Trusts, including a comparison of potential value
  - 8.11.2. Wider regulatory environment, capturing recent and upcoming legislative changes
  - 8.11.3. Implementation statement requirements
  - 8.11.4. Market environment and the impact of the Russia/Ukraine conflict on DC Section members
  - 8.11.5. Integration of ESG into investment strategy design
  - 8.11.6. Additional Voluntary Contribution arrangements

## Assessment

8.12. The Trustee Directors consider 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 Directors are able to challenge and question advisers, service providers and other parties effectively

8.12.2. Trustee decisions are made in accordance with the Scheme rules and in line with trust law duties

8.12.3. The Trustee Directors' decisions are not compromised by such things as conflicts or hospitality arrangements

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James Hunt, for and on behalf of the Trustee of the University of Warwick Pension Scheme  
Chair of the Trustee

.....  
22/9/22

Date

## Appendix 1: 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, Scottish Widows, on behalf of 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 membership and investment options.

### Parameters used for the illustrations

A1.2. To determine the parameters used in these illustrations, the Trustee, with support from the DC Section provider, Scottish Widows, has analysed the membership of the DC Section and ensured that the illustrations take into account the following:

A1.2.1. A representative range of pot sizes.

A1.2.2. A representative range of real term investment returns (gross of costs and charges), including the lowest, the highest and the most popular (by number of members).

A1.2.3. A representative range of costs and charges, including the lowest and the highest.

A1.2.4. A representative period of membership, covering the approximate duration that the youngest member would take to reach target retirement age.

A1.3. Future contributions are included within these illustrations as the DC Section remains open to contributions. For those members who are no longer active, illustrations have been produced which assume no future contributions will be paid.

### Guidance to the illustrations

The following notes on the illustrations should also be read;

1. Projected pot sizes are shown in today's terms and do not need to be reduced further for the effects of future inflation. Inflation is assumed to be 2.5%.
2. The retirement age is assumed to be age 65.
3. The starting pot size is assumed to be £3,000.
4. For active members, gross contributions are assumed to be £150 per month from the start of the projection to retirement and are assumed to increase in line with inflation. For deferred members contributions are assumed to be nil.
5. Values shown are estimates and not guaranteed.
6. The charges used are those shown earlier in this Chair's Statement. Scottish Widows were unable to use an average over the last 5 years.
7. The projected growth rates, gross of costs and charges, for each fund or arrangement are in line with the 2020 Statutory Money Purchase Illustrations (SMPs) and are outlined below:

### Self-Select Funds

Fund	Projected Growth Rate (Average)
UPS Pre-Retirement:	1.0% below inflation
UPS Equity Growth:	2.4% above inflation
Scottish Widows Cash:	1.5% below inflation

Fund	Projected Growth Rate (Average)
SW Money Market:	1.5% below inflation

  

Default Option	
Years to retirement	Projected Growth Rate (Average)
1	0.30% below inflation
3	0.30% below inflation
5	0.20% below inflation
10	0.00% above inflation
15	0.30% above inflation
20	0.50% above inflation
25	0.70% above inflation
30	0.90% above inflation
35	1.00% above inflation
47	1.30% above inflation

### Default Option - Active members

This has been selected as it is the most popular investment option selected through the DC Section. The illustrations show the impact of cost and charges for an active member investing in the strategy to age 65 starting at different ages. The illustrations assume a £150 per month contribution and a starting pot size of £3,000.

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35		Age Now 18	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	5,070	5,050	5,100	5,080	5,150	5,120	5,150	5,120	5,150	5,120
3	9,200	9,100	9,340	9,230	9,580	9,480	9,580	9,480	9,580	9,480
5	13,200	13,000	13,500	13,300	14,100	13,900	14,100	13,900	14,100	13,900
10			23,700	23,000	26,000	25,100	26,500	25,700	26,500	25,700
15					37,100	35,400	40,200	38,300	40,200	38,300
20					47,200	44,400	54,000	50,700	55,300	51,900
25							66,000	61,000	72,000	66,500
30							75,900	69,100	90,400	82,200
35									109,000	98,200
47									139,000	120,000

Note on how to read this table: If an Active member aged 35 had £3,000 invested in this strategy and makes contributions as set out above, when they came to retire in 30 years, the fund could grow to £75,900 if no charges are applied but to £69,100 with charges applied.

### Default Option – Deferred members

This has been selected as it is the most popular investment option selected through the DC Section. The illustrations show the impact of cost and charges for a deferred member investing in the strategy to age 65 starting at different ages. The illustrations assume a starting pot size of £3,000 and that no further contributions are made.

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35		Age Now 30	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	3,000	2,980	3,020	3,010	3,060	3,040	3,060	3,040	3,060	3,040
3	2,990	2,940	3,060	3,010	3,180	3,130	3,180	3,130	3,180	3,130
5	2,980	2,890	3,080	2,990	3,310	3,220	3,310	3,220	3,310	3,220
10			3,060	2,890	3,570	3,370	3,660	3,460	3,660	3,460
15					3,670	3,370	4,040	3,710	4,040	3,710
20					3,640	3,260	4,350	3,890	4,460	3,990
25							4,470	3,890	4,930	4,290
30							4,450	3,760	5,440	4,610
35									5,960	4,900
47									6,240	4,800

Note on how to read this table: If a Deferred member aged 35 had £3,000 invested in this strategy, when they came to retire in 30 years, the fund could grow to £4,450 if no charges are applied but to £3,760 with charges applied.

### Self-select funds – Active members

The illustrations shown below are for a representative selection of the funds that members may invest in through the DC Section. They were selected to reflect the range of projected returns and charges. The illustrations assume a £175 per month contribution and a starting pot size of £3,000.

Years	UPS Pre Retirement		UPS Equity Growth		Scottish Widows Cash CS7		SW Money Market CS1	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	5,030	5,010	5,170	5,140	5,010	4,990	5,010	4,990
3	9,040	8,950	9,670	9,570	8,950	8,860	8,960	8,850
5	12,900	12,700	14,400	14,100	12,700	12,500	12,800	12,500
10	22,400	21,800	27,200	26,400	21,800	21,200	21,900	21,100
15	31,500	30,300	41,800	39,900	30,300	29,100	30,400	28,900
20	40,100	38,100	58,300	54,800	38,100	36,300	38,300	35,900
25	48,300	45,400	76,900	71,200	45,400	42,700	45,700	42,200
30	56,100	52,200	97,900	89,300	52,200	48,600	52,600	47,900
35	63,600	58,500	121,000	109,000	58,500	53,900	59,000	53,100

Note on how to read this table: If an Active member had £3,000 invested in the UPS Equity Growth Fund and makes contributions as set out above, over the next 30 years, the fund could grow to £97,900 if no charges are applied but to £89,300 with charges applied.

## Self-select funds – Deferred members

The illustrations shown below are for a representative selection of the funds that members may invest in through the DC Section. They were selected to reflect the range of projected returns and charges. The illustrations assume a starting pot size of £3,000 and that no further contributions are made.

Years	UPS Pre Retirement		UPS Equity Growth		Scottish Widows Cash CS7		SW Money Market CS1	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	2,970	2,950	3,070	3,050	2,950	2,940	2,950	2,930
3	2,910	2,870	3,220	3,170	2,870	2,820	2,870	2,810
5	2,850	2,780	3,390	3,300	2,780	2,710	2,790	2,700
10	2,720	2,590	3,830	3,630	2,590	2,460	2,600	2,440
15	2,590	2,400	4,330	4,000	2,400	2,230	2,420	2,200
20	2,470	2,230	4,890	4,400	2,230	2,020	2,260	1,980
25	2,350	2,070	5,530	4,840	2,080	1,830	2,100	1,790
30	2,240	1,930	6,250	5,330	1,930	1,660	1,960	1,610
35	2,130	1,790	7,060	5,870	1,790	1,500	1,820	1,450

Note on how to read this table: If a Deferred member had £3,000 invested in the UPS Equity Fund, over the next 30 years, the fund could grow to £6,250 if no charges are applied but to £5,330 with charges applied.



# DC Section Statement of Investment Principles

