

The Hogg Group Pension Scheme B

Chair's Statement

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ('the Administration Regulations') require the Trustees to prepare this annual statement regarding the governance of funds held within the Hogg Group Pension Scheme B ('the Scheme') and to publish it online. The governance requirements apply to all defined contribution ('DC') pension arrangements and aim to help members achieve a good outcome from their pension savings.

The Scheme provides only DC benefits and it closed to new entrants and contributions many years ago. On 8 October 2021, the sponsoring employer wrote to the Trustees to propose the Scheme is wound up in accordance with the employer's powers under the Scheme's Trust Deed and Rules. Since then, the Trustees have been working with all parties involved with running the Scheme to agree a process to wind up the Scheme.

This statement covers the period 1 April 2023 to 31 March 2024. It describes how the Trustees have met the statutory governance standards in relation to the Scheme's funds held with Aviva Life & Pensions UK Limited ('Aviva') and Utmost Life and Pensions ('Utmost') in the following areas:

1. The default investment arrangements,
2. Charges and transaction costs paid by members (including illustrations of the impact of costs and charges),
3. Net investment returns,
4. Value for members,
5. Processing of core financial transactions, and
6. Trustee knowledge and understanding.

1. Default investment arrangements

The Scheme has never been used as a Qualifying Scheme for auto-enrolment purposes and no contributions have been paid to the Scheme since before April 2015, when the relevant Regulations came into force. This means that the Scheme does not have a default investment arrangement, as defined by the Governance and Charges Regulations.

2. Charges and transaction costs paid by members

The Trustees are required to confirm:

- (i) the explicit charges, such as the Annual Management Charge and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio ('TER'). The TER is the total explicit cost of the fund to an investor and includes legal, administration, audit, marketing, and regulatory costs. It is calculated by dividing all expenses paid by the fund over the year by the value of the fund's assets.
- (ii) transaction costs (i.e. the costs of buying and selling investments in a fund). These costs are not explicit but they have an impact on the returns achieved by unit-linked funds.

The costs and charges borne by members over the period covered by this Statement have been provided by Aviva and Utmost and are set out in the table below. Both providers report transaction costs on a quarterly basis. The transaction costs shown below for the Aviva With Profits Fund are for the twelve-month period to 30 September 2023 and these are the latest available. Transaction costs for the Utmost funds are to 31 March 2024.

Fund	TER (% p.a.)	Transaction Costs (%)	Total costs and charges (%)
Aviva With Profits Fund	0.875 ¹	0.04	0.915 ¹
Aviva With Profits Guaranteed Fund	0.875 ¹	0.04	0.915 ¹
Utmost Investing by Age Strategy	0.75 ²	0.21 – 0.24 ²	0.96– 0.99 ²

Source: Aviva and Utmost

Notes

¹ Aviva states there is no annual management charge on the With Profits Fund however a similar charge to unit-linked funds i.e. 0.875% p.a. is allowed for when the bonus rate is declared on the Fund.

² Depending upon members' age (the range shown above covers up to age 65).

Illustrations to show the cumulative effect of costs and charges

The Trustees are required to illustrate the effect of costs and charges paid by a typical member on their pension savings (as a 'pounds and pence figure'). The Regulations allow the Trustees to exercise their discretion with regards to the examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme's membership.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustees have provided two illustrations of the cumulative effect on the value of typical Scheme members' savings over the period to retirement. 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 below under 'notes and assumptions'.

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. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

The two example members are:

- Example member 1: the youngest member invested in the Aviva policy who is 54 years old and has a current fund value of £8,000.
- Example member 2: the youngest member invested in the Utmost Investing by Age strategy who is 50 years old and has a current fund value of £10,200.

Example member 1: the projected the impact of costs and charges on the Aviva With Profits Fund and the Aviva With Profits Guaranteed Fund are shown in the table below:

Years to retirement	Fund value before charges	Fund value after charges	Effect of charges
10	£8,120	£8,050	£70
5	£8,730	£8,280	£450
0	£9,390	£8,510	£880

Example member 2: the projected the impact of costs and charges on the Utmost Investing by Age Strategy are shown in the table below:

Years to retirement	Before charges	After charges	Effect of charges
10	£10,970	£10,450	£520
5	£11,790	£10,710	£1,080
0	£12,680	£10,940	£1,740

Notes and assumptions

The example members are based upon membership of the Scheme as at 5 July 2024 for Aviva members and as at 1 April 2024 for Utmost members.

Projected fund values shown are estimates and are not guaranteed, they assume no further contributions are paid as the Scheme is closed and they are shown 'in today's terms' so they do not need to be reduced further for the effect of future inflation.

Inflation is assumed to be 2.5% p.a.

Projected fund values shown in the tables above are dependent on investment returns as well as the level of costs and charges. The growth rates and total charges used for the illustrations are shown in the table below.

Fund	Total charges (% p.a.)	Expected growth rate
Aviva With Profits Fund	0.92	1.5% p.a. above inflation
Utmost 'Investing by Age' strategy	1.00 – 1.07 ³	1.5% above inflation ³

³ Depending upon members' age (range shown is up to age 65).

The projected growth rates are consistent with those used in members' annual benefit statements which are determined by the statutory guidance for producing money purchase illustrations. These are now based on the historic volatility of the fund rather than expected future returns.

Transaction costs have been averaged over a period of up to 5 years in line with statutory guidance to reduce the level of volatility.

3. Net investment returns

The Trustees are required to report the net investment returns for all funds which members were invested in during the Scheme year. Net investment returns refer to the returns on funds minus all member-borne transaction costs and charges.

The net investment returns shown below have been prepared having regard to statutory guidance. The guidance states that net investment returns must be shown for a member aged 25, 45 and 55 at the start of the investment reporting period where they vary dependent upon term to retirement, for example in the Utmost investing by age strategy.

It is important to note that past performance is not a guide to future performance.

Net investment return to 31 March 2024	1 year (%)	5 Years (% p.a.)
Aviva With Profits Fund ⁴	4.0	2.7
Aviva With Profits Guaranteed Fund ⁴	4.0	4.0
Utmost Investing by Age strategy (member aged 25 or 45 at the start of the investment reporting period)	10.7	Not available ⁵
Utmost Investing by Age strategy (member aged 55 at the start of the investment reporting period)	10.5	Not available ⁵

Notes

⁴ For the Aviva With Profits Funds, the net investment return shown above is the annual bonus declared on the Fund over the previous one or five calendar years. In practice, we would expect a final bonus to increase returns to close to the returns achieved by the underlying assets of the With Profits Fund over the period held (after all costs of running the Fund, including the costs of any guarantees have been taken into account). However, these amounts are unknown and are not guaranteed. A market value reduction, which can reduce the return delivered to investors, may be applied on exit from the With Profits Fund at any time other than at maturity date, or in the event of death before retirement.

⁵ The Utmost Investing by Age strategy was launched on 1 January 2020 so five-year returns are not available.

4. Value for members

The Trustees are required to assess the extent to which the charges and transaction costs borne by members represent good value for members when compared to other options available in the market.

As the Scheme has been operating for more than three years and its total assets are under £100m, the Trustees are required to carry out a more detailed value for members assessment. In this assessment, the costs and charges and the net investment returns have been assessed relative to suitable comparator funds in 3 other large schemes. As in previous years, the governance and administration aspects of the Scheme have been assessed by the Trustees, with input from their professional advisers.

Costs and charges - the costs have been identified as the TER and the transaction costs, as set out in section 2 of this statement. Net investment returns are as set out in section 3 of this statement. The three large schemes used as comparators were the Aon Master Trust, the Scottish Widows Master Trust and NEST. None of the comparator schemes offer a With Profits Fund therefore we have compared the Aviva With Profits Funds to the comparator schemes' default investment strategy in accordance with the regulatory guidance.

Based upon the comparisons we have made, the costs and charges for the Scheme's funds are significantly higher than costs and charges in the comparator schemes. However, the guidance states that the value for members assessment should not be based upon costs and charges alone.

Net investment returns - the Aviva With Profits funds under-performed the comparators over 1 and 5 years, due to the With Profits practice of holding back some investment returns in non-guaranteed form and applying them as a final bonus at maturity. We believe the investment returns achieved by the Aviva With Profits Funds are likely to provide value for members, when we take into account the smoothed investment returns, the guaranteed nature of the bonus rate (where applicable) and the capital protection it provides at normal retirement date however, these features are not factored into the prescribed assessment.

The Utmost investing by Age strategy under-performed the comparator schemes' default investment strategies over 1 year except for members very close to retirement.

The Trustees have also considered the benefits of membership under the following 4 categories: scheme governance, investments, administration and member communications. The conclusions of the assessment are set out below.

Scheme governance

The governance arrangements in place are in line with most legacy insured arrangements, however they do not adhere to best practice. The Trustees have decided to focus on winding up the Scheme as soon as possible, rather than implementing a more comprehensive governance framework.

Investments

Historically, investment performance was not reviewed regularly by the Trustees, as investment returns (the Aviva With Profits bonus rate and the Equitable Life guaranteed investment return) were guaranteed. The Trustee has monitored the performance of the Utmost Investing by Age strategy annually since inception, as part of the process of drafting and reviewing the Chair's Statement.

Administration

The Trustees have appointed Aon Solutions UK Limited ('Aon') to provide administration services to the Scheme. However, there is no service level agreement in place and the administration team do not report regularly to the Trustees. Historically, data quality has been relatively poor but the Trustees carried out a member tracing exercise during this reporting period as part of the preparation for winding up the Scheme.

Member communications

The Scheme provides statutory communications to members where data permits and the Trustees have set up a website to publish the statutory disclosures and provide contact details to members. This is in line with most other trust-based schemes where all members are deferred.

Summary

The costs and charges on the Scheme's funds are higher than the comparator schemes and the net investment returns were lower than the comparator schemes, although the latter does not take account of any final bonus that may be added to the Aviva With Profits Funds at retirement.

We conclude that the Scheme does not provide good value to members overall and this supports the decision by the sponsoring employer (and the agreement of the Trustees) to wind up the Scheme.

5. Processing of Core Financial Transactions

The Trustees have a duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include the transfer of member funds out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members/beneficiaries.

Core financial transactions are undertaken on behalf of the Trustees by the Scheme administrator, Aon, and the providers, Aviva and Utmost. The Trustees do not have service level agreements in place with Aon, Aviva or Utmost however both Aviva and Utmost operate target timescales for processing core financial transactions.

Aon operates a number of processes which aim to minimise the risk of inaccurate or late payment of core financial transactions. Key processes include:

- Regular monitoring of the Trustee bank account,
- Reconciling disinvestments received to Trustee bank account to benefits paid out,
- Documentation and operation in line with quality assurance policies and procedures,

Due to the closed nature of the Scheme, there are relatively few core financial transactions.

There were 4 core financial transactions during this reporting period, all of which were members taking benefits or transferring out of the Scheme. The Scheme administrators have confirmed that

these transactions were processed within a reasonable timeframe, but they have been unable to confirm the number of days taken for each.

The Trustees cannot therefore confirm that all core financial transactions were processed in an accurate and timely manner during the period covered by this statement. The time taken to process transfers out or pay retirement benefits from the Scheme can take a long time, relative to wider market practice and this has been a contributory factor to the decision to wind up the Scheme.

Trustee Knowledge and Understanding

The law requires Trustees to have, or have access to, sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively. These requirements are set out in Sections 247 and 248 of the Pensions Act 2004.

The Trustees have a good working knowledge of pensions and pension law, gained from their professional roles and experience.

In exercising their functions this has required knowledge of key scheme documents such as the Trust Deed & Rules. The Trustees have engaged with their professional advisers throughout the year to provide professional advice where needed. This advice has supported the sponsoring employer and the Trustees' decision that this Scheme should be wound up, and all benefits secured outside of the Trust.

I conclude that the professional background of the Trustees and the professional advice available to the Trustees enables us to exercise our functions effectively. I also believe that this has been demonstrated and evidenced by discussions held and decisions taken during the period covered by this statement in relation to matters material to the running of the Scheme.

***Approved by the Chair of the Trustees:
James Harwood***

31 October 2024