

Chair's Statement as at 30 June 2021



	Section	Page
	Summary	3
1	Default investment arrangements	4
2	Processing core financial transactions	6
3	Member-borne charges and transaction costs	7
	3.1 <i>Default arrangements: effect of costs and charges on members' pots</i>	8
	3.2 <i>Level of costs and charges</i>	12
	3.3 <i>Self-select options: effect of costs and charges on members' pots</i>	13
	3.4 <i>Legacy AVC funds</i>	14
4	Value for members assessment	15
	4.1 <i>ZCashBuilder</i>	16
	4.2 <i>Legacy AVCs</i>	16
5	Trustee knowledge and understanding (TKU)	17
6	Governance	19
7	Conclusion	19

Governance requirements apply to defined contribution (DC) pension arrangements to help members achieve a good outcome from their pension savings. The Trustee of the Zurich Financial Services UK Pension Scheme (the “Scheme”) is required to produce an annual statement (which is signed by the Trustee Chair) to describe how these governance requirements have been met in relation to:

- the investment options in which members’ funds are invested
- the requirements for processing financial transactions
- the charges and transaction costs borne by members
- an illustration of the cumulative effect of these costs and charges
- a ‘value for members’ assessment’; and
- Trustee knowledge and understanding.

The statement covers the period from 1 July 2020 – 30 June 2021. More information can be found in the pages that follow.






The Trustee has taken note of the statutory guidance when preparing this statement.

The Scheme provides both defined benefit (DB) and DC benefits. The DC benefits are provided through ZCashBuilder and legacy AVC providers. To assist the Trustee in meeting the governance requirements around these DC benefits, the Trustee has a DC Committee (DCC) including both Trustee and company nominated representatives.

DB/defined benefit: a pension scheme where you know what the final benefit is going to be according to a given formula, but the company doesn’t know how much it will cost to provide it, eg ZPensionBuilder.

DC/defined contribution. a type of money purchase arrangement where the amount of money going in is fixed according to a given formula (usually a percentage of salary).



	Key points	Rating	Link
Default investment arrangements: The Trustee is required to review the default investment strategies at least every three years and to monitor performance against its investment aims and objectives.	A review of the default investment arrangements was carried out in 2020 and the resulting changes implemented in April 2021. More information on these changes can be found in Section 1.		Default investments
Core financial transactions: The Trustee is required to make sure that core financial transactions (eg investing contributions) are processed promptly and accurately.	The Trustee receives regular reports from the administrator and monitors performance against agreed service levels. Based on this the Trustee consider that the core financial transactions have been processed promptly and accurately during the Scheme year.		Core financial transactions
Value for Members: The Trustees is required to assess the extent to which the charges, and as far as possible transaction costs, paid by the members represent value for money	The Trustee carried out an assessment using the methodology set out by The Pension Regulator. This concluded that the Scheme's DC arrangements provide good value for members.		Value for Members
Trustee Knowledge and understanding: The Trustee is required to meet certain standards of knowledge and understanding to ensure the Trustee directors are able to properly exercise their duties as a Trustee.	The Trustee directors take personal responsibility for keeping themselves up to date with relevant developments and believe that this, combined with the use of advisers and the specialist knowledge available within the employer, enables them to properly exercise their duties as Trustee directors.		Trustee Knowledge
Governance: The Trustee is required to carry out an annual assessment against The Pension Regulator's Code of Practice 13 for the governance of DC schemes.	The Trustee carried out an assessment against the Code of Practice 13 which identified that the Scheme meets all the legal requirements and the majority of expectations set out in the Code and associated Guides.		Governance

CONCLUSION:

- Taking account of all the factors considered, the Trustee believes that the Scheme's DC arrangements provide good value for members and is expected to deliver good outcomes for members at retirement.
- The investment changes carried out in April 2021 reduced the charges for the majority of members and improved the value members receive for the charges they pay.
- The Trustee continues to look for ways to improve the value for members, including planning a suite of communication materials, developing a new member website and considering ways to support members in the approach to retirement.



1. Default investment arrangements

ZCashBuilder is a qualifying pension scheme for auto-enrolment and is therefore required to have a default investment option. Members who join the Scheme and who do not choose an investment option are placed into one of the following defaults:

- Drawdown Lifestyle: for members with ZCashBuilder benefits only (DC only default)
- Cash Lifestyle: for members who joined the Scheme before 31 March 2007 and have both defined benefit and ZCashBuilder benefits (hybrid default)
- The Sterling Liquidity Fund was also classed as a default arrangement for the year ending 30 June 2021 as it was used as a default arrangement for members whose contributions were not able to be invested in the Zurich Property Fund when it temporarily closed between March – October 2020. On the reopening of the Property Fund all contributions that had been defaulted into the Sterling Liquidity Fund were transferred to the Property Fund. The Sterling Liquidity Fund is no longer a default option because it was replaced by Z Cash Fund in April 2021.

The Statement of Investment Principles

The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements. Details of the objectives and the Trustee's policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles' (SIP). On 30 September 2020 the Trustee approved a new SIP for the Scheme's DC assets, including a section which forms the SIP for the default arrangements and is attached to this statement.

The aims and objectives of the default arrangements, as stated in the SIP are as follows:

To provide a good value lifestyle strategy which:

- *is suitable for a majority of members who do not wish to make an active choice*
- *protects members against volatility in the approach to retirement*

The Trustee believes that the default strategies are suitable for the majority of members. The default arrangements are therefore lifestyle strategies which:

- gradually move investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- targets members who are expected to use Flexible Access Income Drawdown during their retirement (Drawdown Lifestyle) and members who are expected to take cash at retirement (Cash Lifestyle).

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for the default arrangement.



1. Default investment arrangements

The default strategy and the performance of the default arrangement are reviewed at least every three years.

The latest comprehensive review was carried out by the DC Committee and ratified by the Trustee at its meeting on 30 September 2020. The work carried out by the Committee included:

- a review of the default strategies and their suitability for the membership.
- analysis of the membership demographics and modelling the expected fund values at retirement and how members are expected to take their benefits.
- input from the Trustee's investment adviser.
- a review of the performance of the default strategies and the underlying funds.
- consideration of the most appropriate way of incorporating responsible investment into the default arrangements.
- the most appropriate level of investment risk to be taken at different stages of a member's time to retirement.
- when members were expected to take their benefits.
- a review of the self-select options and take up by members of the differing options.

The changes arising from this review were implemented in April 2021.

This review had the following outcomes:

- The default strategy for members with ZCashBuilder benefits only would continue to target drawdown at retirement with a 25% allocation to cash.
- The default strategy for members with both final salary and ZCashBuilder benefits would continue to target 100% cash at retirement.
- Z Growth Fund replaced ZFundBuilder, as the growth fund for both default strategies. This is invested 100% in passive equities which increased the investment risk and reduced the charges from 0.52% to 0.29%.
- Z Cautious Growth Fund replaced ZFlexibleIncomePot for both lowering the investment risk in the years before retirement in the default strategies, and to provide a combination of growth and protection for those moving into drawdown in retirement. This fund is now 100% invested in passive funds which reduced the charges from 0.54% to 0.28%.
- To allow for the increased investment risk in the growth stage of the lifestyle strategies, both default arrangements will start switching to Z Cautious Growth Fund 10 years before the target retirement age. The switch from Z Growth Fund to Z Cautious Growth Fund takes place over 4 years.
- The default target retirement age for members in the Drawdown Lifestyle was moved to State Pension Age as the Committee decided this was closer to when members were likely to take their benefits. This change was not applied to those who had selected their own target retirement age, or those who were within 5 years of their target retirement age.

In addition to the strategy review, the Trustee also reviews the performance of the default arrangements against their aims, objectives and policies on a regular basis.

The reviews that took place during the Scheme year concluded that the default arrangements were performing broadly as expected and are consistent with the aims and objectives of the default as stated in the SIP.

The Trustee regularly monitors the performance of the default investment strategies and the review undertaken in 2020 included a review of the performance of the funds used in the default investment strategies.

Prior to the changes that took place in April 2021:

- ZFundBuilder had outperformed the benchmark over 1 and 3 years.
- ZFlexibleIncomePot had outperformed over 1 year but had underperformed its benchmark over the longer term. The fund offered some protection against market falls and to achieve this, invested heavily in defensive assets, (ie government bonds). In August 2020 the benchmark was reduced from CPI+2% to a cash benchmark +2%.



2. Processing core financial transactions

The Trustee has received assurance from the Scheme's administrator (Railpen) and has taken steps to ensure that there were adequate internal controls so that the core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme year. This includes the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members and beneficiaries

The Scheme has a service level agreement (SLA) in place with the administrator which covers the accuracy and timeliness of all core financial transactions. These are split into granular detail with each step being assigned an SLA.

The key processes adopted by the administrator to help it meet the SLA are as follows:

- Operating appropriate procedures, checks and controls and operating within the SLA.
- Production of quarterly reports which include reporting on performance against SLAs, and which are reviewed by the Scheme management team and the Trustee.
- Holding regular calls with the Scheme management team. These take place at least monthly and on an ad-hoc basis if required.

- At least two persons involved with checking investment processes. Checks are carried out by Railpen before investment instructions are entered into the automated system for action by Scottish Widows.
- The Scheme management receives an independent assurance report on Railpen's controls. This report is also reviewed by the Scheme management team and any queries are raised with Railpen. The latest report stated that the controls tested were operating with sufficient effectiveness to provide reasonable assurance.

The Trustee receives quarterly reports about the administrator's performance and compliance with the SLA. This report is also reviewed by the Scheme management team and any queries raised with Railpen. Based on this information provided by the administrators the Trustee is satisfied that over the period covered by the statement:

- The quarterly reports verify the number of transactions performed and how many were outside the SLA including by how much and why.
- During the year Railpen achieved an overall performance against SLA of 98.5%. In relation to the core financial transactions, 1,392 were completed with 14 being outside the SLA, giving a performance of over 99%.
- Where a transaction is completed outside SLA the Trustee asks for further information.

- There have been no material administration errors in relation to processing core financial transactions.
- Where Railpen's internal checks identified an error had occurred, this was rectified and if required, calculations and transactions carried out to ensure the member did not lose out financially.
- The Trustee reviewed the processes and internal controls implemented by Railpen on engagement and consider them to be suitably designed to enable core financial transactions to be effectively processed. In particular, the Trustee noted the high level of automation in the processes to reduce errors and inaccuracies.
- The Scheme management team also compare expected contributions to actual contributions going into the Scheme on a monthly basis and at an individual level, with all material differences being investigated.
- Quarterly reports with performance against SLAs are received from Scottish Widows in relation to the Supplementary Scheme.



3. Member borne charges and transaction costs

The Trustee is required to set out the ongoing charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs but excluding transaction costs; this is also known as the total expense ratio (TER). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges also include any costs, eg administration and investment costs, since members incur these costs.

The Trustee is also required to separately disclose transaction cost figures that are borne by members. In the context of this statement the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds. The charges and transaction costs for:

- ZCashBuilder have been supplied by Scottish Widows, who are the Scheme's platform provider and for some funds, also the investment manager.
- Legacy AVCs have been supplied by each of the providers.

There is no missing transaction cost data.

When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance.

Default arrangements

The Scheme has the following default arrangements:

1. Drawdown Lifestyle: for members with ZCashBuilder benefits only (DC only default).
2. Cash Lifestyle: for members who joined the Scheme before 31 March 2007 and have both defined benefit and ZCashBuilder benefits (DB+DC default).
3. The Sterling Liquidity Fund was also classed as a default arrangement for the year ending 30 June 2021 as it was used as a default arrangement for members whose contributions were not able to be invested in the Zurich Property Fund when it temporarily closed between March – October 2020. On the reopening of the Property Fund all contributions that had been defaulted into the Sterling Liquidity Fund were transferred to the Property Fund. In April 2021 the Sterling Liquidity Fund was replaced by Z Cash Fund.

Defaults (1) and (2) have been set up as a lifestyle strategy which means that members' assets are automatically moved between different investment funds as they approach their retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested. The funds used in these defaults are Z Growth Fund, Z Cautious Growth Fund and Z Cash Fund. The charges for these funds are shown in section 3.2 of this statement.

Charges can have a significant impact on the total fund value over time so below we show some projected fund values for some example members both before and after the charges.

On the next pages are the projected fund values which for a range of sample members show the projected fund value before and after charges for the default arrangements, and before and after the changes that took place in April 2021.

When mentioning charges in this statement we refer to bps, or basis points, which is the measure used in the investment industry. One basis point is one hundredth of a percent or 0.01% of the fund value. This means that 50 bps = 0.5% and 100 bps = 1%.



3. Member borne charges and transaction costs

3.1 Default arrangements: effects of costs and charges on members' pots

The following pages show projected outcomes for the default arrangements, both before and after the changes that took place in April 2021 and some self-select funds. These notes apply to all the projections on the following pages

Notes:

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges can't be known in advance, the Trustee has had to make a number of assumptions about what these might be and these are explained below:

- The 'before costs' figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs.
- The 'after costs' figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction costs figures used in the illustration are an average of those provided by the managers over the past 3 years. The Trustee has used average transaction costs over the previous 3 years, which reflects available data and the fact that, in its view, disclosing average costs is the most appropriate and proportionate method of measurement, given the fluctuations in transaction costs during this timeframe.
- Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- Charges are based on the projected pension pot values so are also shown in today's terms.
- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.
- The following financial assumptions have been made for all projections:
 - Inflation is assumed to be 2.50% each year.
 - Salaries will increase with inflation.

- Regard has been given to the DWP Guidance "Reporting of costs, charges and other information: guidance for trustees and managers of occupational schemes" issued in October 2021.
- The assumptions are set by the Trustee each year, taking advice from the Scheme Actuary and are in line with AS TM1 (The Financial Reporting Council's Technical Memorandum 1).

Because of the changes which took place in April 2021 we show these projections for the default arrangements both before and after these changes.

Tables 1 & 2 show the assumed growth rate and charges for the funds used in the projections.

Table 1: Funds (before April 2021)	Growth (before taking account of inflation)	Charges*
ZFundBuilder	4.66%	0.64%
ZFlexibleIncomePot	2.43%	0.71%
ZRetirementLumpSum	1.0%	0.07%
BlackRock Sterling Liquidity Fund**	1.0%	0.29%

Table 2: Funds (after April 2021)	Growth (before taking account of inflation)	Charges*
Z Growth Fund	5.0%	0.33%
Z Cautious Growth Fund	3.5%	0.29%
Z Cash Fund	1.0%	0.07%

*These charges take into account the total member charge, shown in 3.2 below, plus an average of the transaction costs over the past 3 years.

** In April 2021 the BlackRock Sterling Liquidity Fund was replaced by Z Cash Fund.



3. Member borne charges and transaction costs

3.1 Default arrangements: effects of costs and charges on members' pots

Table 4 shows the projected fund value, both before and after charges, for the youngest member in the DC only default arrangement (now called the Drawdown Lifestyle). Some details of this sample member are shown in Table 3.

TABLE 3:	DC only youngest member
Starting age	19 years
Starting fund value	£1,800
Basic salary	£17,500
Future contributions:	12% until aged 60 years (old lifestyle). 12% until aged 67 (Drawdown Lifestyle) This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 4:	DC only default (before April 2021)		Drawdown Lifestyle (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 1	£2,493.68	£2,479.18	£2,496.36	£2,468.29
Year 3	£6,844.13	£6,782.72	£6,870.85	£6,832.28
Year 5	£11,379.88	£11,212.81	£11,461.32	£11,366.10
Year 10	£23,582.50	£22,866.27	£23,953.75	£23,559.80
Year 15	£37,126.20	£35,395.32	£38,045.78	£37,087.75
Year 20	£52,158.38	£48,865.71	£53,942.28	£52,095.93
Year 25	£68,842.61	£63,348.21	£71,874.27	£68,746.31
Year 30	£87,360.46	£78,918.84	£92,102.39	£87,218.58
Year 35	£107,913.43	£95,659.36	£114,920.65	£107,712.10
Year 40	£120,068.11	£104,298.76	£139,211.55	£129,145.34
Year 45	£0.00	£0.00	£157,403.92	£144,751.71
Year 50	£0.00	£0.00	£0.00	£0.00

Using Year 40 as an example, this shows that after the April 2021 investment changes, the estimated total charges over 40 years have reduced from £15,700 to £10,000 even though the projected fund value is higher.

Table 6 shows the projected fund value, both before and after charges for the youngest member with both final salary and DC benefits in the default lifestyle for these members (now called the Cash Lifestyle). Some details of this sample member are shown in Table 5.

TABLE 5:	Hybrid (DB+DC) youngest member
Starting age	33 years
Starting fund value	£1,100
Basic salary	£20,900
Future contributions:	12% until aged 60 years (old lifestyle). 12% until aged 67 (Cash Lifestyle). This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 6:	DB+DC default (before April 2021)		Cash Lifestyle (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 1	£1,938.38	£1,923.28	£1,940.48	£1,916.63
Year 3	£7,089.78	£7,032.43	£7,113.46	£7,075.84
Year 5	£12,460.59	£12,291.81	£12,541.87	£12,444.55
Year 10	£26,909.79	£26,126.76	£27,314.63	£26,883.70
Year 15	£42,946.98	£41,001.19	£43,978.98	£42,902.79
Year 20	£60,746.67	£56,993.21	£62,777.16	£60,674.69
Year 25	£75,467.51	£69,580.60	£83,711.30	£80,139.51
Year 30	£0.00	£0.00	£101,668.32	£96,543.25
Year 35	£0.00	£0.00	£110,594.28	£104,863.39
Year 40	£0.00	£0.00	£0.00	£0.00

Using Year 30 as an example this shows that after the April 2021 investment changes, the estimated total charges over 25 years have reduced from £5,800 to £3,500 even though the projected fund value is higher.



3. Member borne charges and transaction costs

3.1 Default arrangements: effects of costs and charges on members' pots

Table 8 shows the projected fund value both before and after charges for the youngest member in the Sterling Liquidity Fund when it was a default arrangement. This fund was no longer being used as a default option in April 2021 and is no longer available to members. For this reason there is no comparable fund projection for after April 2021 for this fund. Some details of this sample member are shown in Table 7.

TABLE 7:	BlackRock Sterling Liquidity Fund youngest member
Starting age	30 years
Starting fund value	£990
Basic salary	£35,800
Future contributions:	12% until aged 60 years. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	NO

TABLE 8:	BlackRock Sterling Liquidity Fund	
	Before charges	After charges
Year 1	£2,370.78	£2,368.52
Year 3	£10,831.03	£10,803.60
Year 5	£19,045.48	£18,946.85
Year 10	£38,552.56	£38,093.59
Year 15	£56,673.45	£55,626.96
Year 20	£73,506.67	£71,682.91
Year 25	£89,143.71	£86,385.93
Year 30	£103,669.59	£99,850.03
Year 35	£0.00	£0.00
Year 40	£0.00	£0.00

Table 10 shows the projected fund value, both before and after charges, for a typical member in the DC only default arrangement (now called the Drawdown Lifestyle). Some details of this sample member are shown in Table 9.

TABLE 9:	DC only typical member
Starting age (median)	37 years
Starting fund value (median)	£17,000
Basic salary (average)	£47,700
Future contributions:	12% until aged 60 years (old lifestyle). 12% until aged 67 (Drawdown Lifestyle). This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 10:	DC only default (before April 2021)		Drawdown Lifestyle (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 1	£18,776.28	£18,711.40	£18,796.60	£18,608.58
Year 3	£31,144.60	£30,793.10	£31,312.30	£31,109.76
Year 5	£44,039.68	£43,230.02	£44,445.96	£43,997.24
Year 10	£78,731.60	£75,945.77	£80,187.70	£78,658.07
Year 15	£117,236.22	£111,119.58	£120,506.06	£117,111.51
Year 20	£153,635.93	£142,860.48	£166,010.38	£159,794.25
Year 25	£0.00	£0.00	£207,446.53	£198,011.23
Year 30	£0.00	£0.00	£244,226.13	£231,533.03
Year 35	£0.00	£0.00	£0.00	£0.00
Year 40	£0.00	£0.00	£0.00	£0.00

Using Year 20 as an example, this shows that after the April 2021 investment changes, the estimated total charges over 20 years have reduced from £10,700 to £6,200 even though the projected fund value is higher



3. Member borne charges and transaction costs

3.1 Default arrangements: effects of costs and charges on members' pots

Table 12 shows the projected fund value, both before and after charges for a typical member with both final salary and DC benefits in the default lifestyle for these members (now called the Cash Lifestyle). Some details of this sample member are shown in Table 11.

TABLE 11:	Hybrid (DB+DC) typical member
Starting age (median)	49 years
Starting fund value (median)	£30,600
Basic salary (average)	£52,800
Future contributions:	12% until aged 60 years (old lifestyle). 12% until aged 67 (Drawdown Lifestyle). This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 12:	DB+DC default (before April 2021)		Cash Lifestyle (after April 2021)	
	Before charges	After charges	Before charges	After charges
Year 1	£32,454.67	£32,358.13	£32,489.78	£32,173.03
Year 3	£46,642.45	£46,073.99	£46,920.50	£46,601.44
Year 5	£61,434.49	£60,193.14	£62,063.76	£61,382.74
Year 10	£93,067.31	£89,868.36	£102,334.33	£100,242.80
Year 15	£0.00	£0.00	£140,212.75	£136,273.55
Year 20	£0.00	£0.00	£0.00	£0.00
Year 25	£0.00	£0.00	£0.00	£0.00
Year 30	£0.00	£0.00	£0.00	£0.00
Year 35	£0.00	£0.00	£0.00	£0.00
Year 40	£0.00	£0.00	£0.00	£0.00

Using Year 10 as an example, this shows that after the April 2021 investment changes, the estimated total charges over 10 years have reduced from £3,200 to £2,000 even though the projected fund value is higher.

Table 14 shows the projected fund value both before and after charges for a typical member in the Sterling Liquidity Fund when it was a default arrangement. This fund was no longer being used as a default option in April 2021 and is no longer available to members. For this reason there is no comparable fund projection for after April 2021 for this fund. Table 13 contains some details of this sample member.

TABLE 13:	BlackRock Sterling Liquidity Fund typical member
Starting age (median)	46 years
Starting fund value (median)	£1,400
Basic salary (average)	£47,700
Future contributions: *	12% until aged 60 years. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	NO

TABLE 14:	BlackRock Sterling Liquidity Fund	
	Before charges	After charges
Year 1	£3,238.04	£3,234.95
Year 3	£14,508.19	£14,471.13
Year 5	£25,450.90	£25,318.56
Year 10	£51,436.86	£50,823.51
Year 15	£73,971.70	£72,627.14
Year 20	£0.00	£0.00
Year 25	£0.00	£0.00
Year 30	£0.00	£0.00
Year 35	£0.00	£0.00
Year 40	£0.00	£0.00



3. Member borne charges and transaction costs

3.2 Level of costs and charges

In addition to the default arrangements, members also have the option to invest in other lifestyle strategies and several other self-select funds. The level of charges for each self-select fund, including those used in the lifestyle strategies, are set out in the following table. The underlying funds for the lifestyle strategies, including those used in the default arrangements are shown in bold.

Transaction costs are the costs associated with buying and selling the assets within the fund. These figures include an element of 'slippage cost' which is the difference between the price at the time the instruction was sent to the market and the price that is used when the trade is carried out. It is possible for the slippage cost to be negative; for example if the price at the time the instruction was sent is higher than the price actually paid. Negative transaction costs can also occur where managers are able to offset the purchases and sales in any one fund as a way of reducing the transaction costs paid by members.

TABLE 15: Funds no longer available (replaced in April 2021)	Admin charge (bps)	Fund charge (bps)	Total member charges (bps)	Transaction cost (bps)
ZFundBuilder	17.5	34.1	51.6	13.4
ZFlexibleIncomePot	17.5	36.5	54.0	6.4
ZPensionPurchasePot	17.5	10.4	27.9	-1.0
ZRetirementLumpSum	NIL	5.6	5.6	1.1
BlackRock Sterling Liquidity Fund	17.5	9.4	26.9	1.4
Aquila 50/50 Global Equity Index	17.5	9.7	27.2	0.0
SW Mixed Investments fund	17.5	44.5	62.0	8.8
Corporate Bond Over 15 Year Index	17.5	10.5	28.0	-0.6

TABLE 16: Funds available from April 2021	Admin charge (bps)	Fund charge (bps)	Total member charges (bps)	Transaction cost (bps)
Z Growth Fund*	17.5	11.5	29	4.1
Z Cautious Growth Fund*	17.5	10.5	28	1.7
Z Annuity Fund	17.5	10.5	28	3.7
Z Cash Fund*	Nil	6	6	1.1
UK Equity Index	17.5	9.5	27	-2.9
World ex-UK Index	17.5	10.5	28	-0.9
Ethical Global Equity Index	17.5	26.5	44	0.0
L&G Future World Fund	17.5	26.5	44	3.6
HSBC Islamic	17.5	36.5	54	2.5
Scottish Widows Managed Fund	17.5	44.5	62	-4.7
Property	17.5	70.5	88	0.0
Corporate Bond All Stocks	17.5	8.5	26	0.0
Index Linked Over 5 years Gilt Index	17.5	9.5	27	-1.5

*Funds used in the default lifestyle strategies.

Funds in bold are used in the three lifestyle strategies.



3. Member borne charges and transaction costs



3.3 Self-select options: effect of costs and charges on members' pots

Below are the projected fund values, both before and after charges for a typical member in one of the self-select investment funds. The notes on in Section 3.1 apply to these projections and the assumed growth rates and charges are shown in the table on the right. These projections are over a 40 year period for the following funds:

- ZFundBuilder: was the most commonly used fund before the changes in April 2021 when members were transferred into Z Growth Fund.
- Z Growth Fund: is the most commonly used fund from April 2021.
- Property Fund: is the fund with the highest charges.
- Z Cash Fund is the fund with the lowest charges.

	Typical member
Starting age	25 years
Starting fund value (average)	£6,700
Basic salary (average)	£24,000
Future contributions	12% until aged 65 years. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	No

	Growth (before taking account of inflation)	Charges*
ZFundBuilder (before April 2021)	4.66%	0.64%
Z Growth Fund (after April 2021)	5.0%	0.33%
Property Fund	4.6%	0.102%
Z Cash Fund	1.0%	0.07%

	ZFundBuilder (before April 2021)		Z Growth Fund (after April 2021)		Property Fund		Z Cash Fund	
	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
Year 1	£7,587.50	£7,571.41	£7,595.71	£7,585.75	£7,586.05	£7,560.27	£7,498.00	£7,496.34
Year 3	£13,731.34	£13,596.07	£13,800.99	£13,716.59	£13,719.08	£13,503.23	£12,998.01	£12,984.83
Year 5	£20,136.85	£19,797.86	£20,312.67	£20,099.74	£20,105.99	£19,567.11	£18,338.21	£18,306.78
Year 10	£37,369.76	£36,111.86	£38,033.43	£37,230.64	£37,254.02	£35,272.06	£31,019.76	£30,915.81
Year 15	£56,496.56	£53,651.61	£58,023.27	£56,178.78	£56,232.16	£51,788.06	£42,800.14	£42,589.94
Year 20	£77,725.44	£72,509.20	£80,572.75	£77,136.96	£77,235.72	£69,156.98	£53,743.41	£53,398.51
Year 25	£101,287.39	£92,783.64	£106,009.63	£100,318.40	£100,480.84	£87,422.87	£63,909.05	£63,405.68
Year 30	£127,438.82	£114,581.39	£134,703.61	£125,958.93	£126,206.77	£106,632.06	£73,352.31	£72,670.89
Year 35	£156,464.33	£138,016.91	£167,071.78	£154,319.42	£154,678.24	£126,833.25	£82,124.54	£81,249.15
Year 40	£188,679.78	£163,213.24	£203,584.59	£185,688.39	£186,188.29	£148,077.67	£90,273.41	£89,191.37

*These charges take into account the total member charge plus an average of the transaction costs over the past 3 years.



3. Member borne charges and transaction costs

3.4 Legacy AVC funds: level of costs and charges

At 30 June 2021 approximately 500 members had DC benefits in one of the legacy AVC arrangements. These legacy AVCs attract varying levels of management charge depending on the provider and fund chosen as set out below. There are no additional administration charges paid by the members. Transaction costs are shown to the latest available date provided by the investment manager.

The ReAssure funds are not listed below as there are no admin, fund or transaction charges.

The Gresham funds are not listed below as these were no longer in use as at 30 June 2021 as the remaining member had taken their benefits.

Eagle Star	Admin charge (bps)	Total AMC (bps)	Transaction cost (bps)
With Profits	Nil	50	2.24
Global Select	Nil	117	18.34
Equity Managed	Nil	116	25.74
Managed	Nil	119	23.14
Secure	Nil	109	0.00
Threadneedle	Admin charge (bps)	Total AMC (bps)	Transaction cost (bps)
Multi-asset fund	Nil	36	13
UK Equity	Nil	30	133
Global Select	Nil	42	6
Aquila Over 15 yrs UK Gilt Index	Nil	15	-0.01

Supplementary Scheme	Admin charge (bps)	Total AMC (bps)	Transaction cost (bps)
Zurich JPM Asia Equity	Nil	95	58.8
Zurich Long Dated Gilt	Nil	55	-4.1
Zurich Managed	Nil	56	-4.7
Zurich Property	Nil	83	0.0
Zurich Threadneedle American	Nil	69	39.2
Zurich Threadneedle Asia	Nil	72	44.8
Zurich Threadneedle European	Nil	68	81.8
Zurich Threadneedle Global Equity	Nil	82	41.1
Zurich Threadneedle Japan	Nil	67	14.1
Zurich JPM UK Specialist Equity	Nil	70.0	30.5
BlackRock Sterling Liquidity Fund	Nil	35	1.4



4. Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of 'good value' but the Trustee considers that it broadly means that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme membership as a whole, when compared to other options available in the market. The assessment was undertaken taking account of the pensions Regulator's Code of Practice No 13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

4.1 ZCashbuilder

The Trustee reviews all member-borne charges (including transaction costs where available) annually with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The last review was carried out on 30 June 2021. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of service received has also been considered in this assessment. The Trustee's DC adviser has confirmed that the fund charges are competitive for the types of fund available to members.

As detailed in the earlier section covering processing of financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes. The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches and we expect this to lead to greater investment returns net of fees over time.

Overall, the Trustee believes that members of the Scheme are receiving good value for money for the charges and cost that they incur. The Trustee believes this because:

- Members continue to benefit from good governance with a strong DC Committee and Trustee board which includes a professional trustee and strong support of an in-house executive pensions team.
- Members benefit from an employer contribution of 12% and a highly effective administration service with very good performance against Railpen's agreed SLAs and a low number of complaints.
- LCP, the Trustee's DC adviser, has assessed:
 - compared to schemes of a similar size members pay total charges that are either at or below median for most of the asset classes they are invested in.
 - The fund range available to members compares well with schemes of a similar size.
 - The quarterly performance monitoring carried out is in line with standard practice amongst medium to large own-trust schemes.

- There is close investment performance monitoring and the majority of funds have performed broadly in line with their benchmarks over the period.
- The level of information and online support present on the ZPen website goes beyond what is seen in many own-trust schemes.
- Members benefit from the provision of a dedicated member helpline which is less common for own-trust arrangements.
- The presence of a dedicated DC Committee is positive for governance purposes.
- The core company contribution of 12% compares well with industry body recommendations regarding contribution rates required to achieve an adequate income.
- The support services provided by the ZPen team and Pensions Support team go beyond what is commonly seen amongst own-trust schemes.



4. Value for members assessment

4.2 Legacy AVCs

The Trustee assessed each provider separately on 30 June 2021 and reached the following conclusions. LCP, the Trustee’s DC adviser commented that:

- The charges are broadly similar to those across other AVC mandates.
- It is positive that members are able to transfer into ZCashBuilder.

The Trustee will continue to monitor the performance of both the investments and administration services of its AVC providers.

AD Supplementary Scheme: the Trustee concluded that these funds are currently providing value for members who receive some administration services from Scottish Widows and also benefit from the rigorous investment governance oversight provided by Scottish Widows.

Eagle Star: the Trustee concluded that these funds represent value for members as whilst the charges are comparatively high, members benefit from guaranteed annuity rates at retirement. It was noted that some of these funds may not represent value for those members who do not take advantage of the guaranteed annuity rates. This was communicated to these members.

ReAssure: the Trustee concluded that these funds are providing value for members; there are no charges linked to these funds and members are benefiting from a guarantee that their fund will not reduce. Members are invested in 2 policies, one paying interest linked to the Nationwide Standard Mortgage Rate and the second linked to the Goldman Sachs Sterling Liquid Reserves Fund.

Threadneedle: the Trustee concluded that these funds are currently providing value for members. It was noted that there are no concerns regarding Threadneedle as an AVC provider and that the charges for these funds are low compared to other AVC arrangements.

AVCs: Additional Voluntary Contributions are contributions made by individuals to the Scheme to build up additional benefits at retirement. These are also sometimes called Additional Pension Contributions.



5. Trustee knowledge and understanding (TKU)

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each trustee must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's current statement of investment principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally.
- Have, to the degree that is appropriate for the purpose of enabling the individual properly to exercise his or her functions as trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to the funding and investment of assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

- There is an appropriate induction process which was implemented when Hilary Newton, Derryn Yong and Liz Ryan were appointed during the Scheme year. The induction training took place on 1 September, 2 September and 29 September 2020.

- All Trustee directors are required to maintain a CPD log with a minimum requirement of completing 15 hours per year. Each trustee has a personal review with the Chair and Head of UK Pensions at least annually. This includes a review of their TKU and specific development areas. Any training needs identified by the assessments are met through tailored training programmes which use a variety of training tools, including interactive workshop sessions, seminars and individual study. Use is made of in-house expertise and the Trustee's own advisers as well as external training programmes and seminars.
- Professional trustees are subject to additional regulatory requirements to ensure continually high standards are attained, this includes a minimum of 25 hours relevant learning and development. The standards were developed by The Professional Trustee Standards Working Group, the latest standards were published on 26 February 2019.
- At 30 June 2021 all Trustee directors had completed The Pension Regulator's Trustee Toolkit, which is designed to meet the minimum level of knowledge and understanding required by law.
- The Trustee board includes an accredited professional trustee firm that has supported the Scheme for some time and is conversant with the Scheme specifics and documentation, as well as bringing general pension knowledge and experience. Two individuals are used depending on the knowledge required, eg one attends the Trustee Board and Funding Committee meetings and the other attends the DC Committee meetings.

- The Trustee's advisers proactively raise any changes in the governance requirements and other relevant matters as they become aware of them and would typically deliver training on such matters if they were material. During the period covered by this statement, the Trustee received training on the following topics:
 - DC at-retirement options (19 August 2020).
 - Long term journey planning (27 January 2021).
 - GMP Equalisation (23 March 2021).
 - Responsible Investment (11 May 2021).
 - Brexit restructuring (21 May 2021).
- The Trustee is supported by the Scheme management team providing technical and governance support and Scheme secretarial services.
- All Trustee directors are familiar with, and have access to copies of, the current Scheme governing documentation, including Trust Deed and Rules, together with any amendments, the SIP and key policies and procedures. In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and where relevant deciding individual member cases.

CPD: continuing professional development



5. Trustee knowledge and understanding (TKU)

The Trustee has its own dedicated, secure website where Scheme documents, trustee procedures and other useful information, including contact information, meeting agendas and minutes are stored. This enables the Trustee to have quick access to the most up to date information relating to the Scheme.

In November 2018 the Trustee carried out its triennial Board Effectiveness Review (BER) by answering a questionnaire circulated to all Trustee directors and regular Trustee meeting attendees. The design and coverage of the BER drew on the Zurich Group Governance Principles for Subsidiaries and the Zurich BER questionnaire.

The 2020 interim BER took place on 20 November 2020 when the Trustee considered whether there had been a material change in board effectiveness, with a specific focus on Trustee board meetings and trustee board composition. This was in light of the move to virtual meetings as a result of the pandemic and the number of changes to the directors on the Trustee Board that had taken place over a relatively short time frame. Based on this the Trustees directors were satisfied the Board was performing its role effectively.

The training programme is reviewed regularly to ensure it is aligned with the objectives of the Trustee's work plan and addresses knowledge gaps identified by the Trustee directors through self-evaluation.

Due to Covid-19 limitations on meetings, training has been carried out through a programme of regular webinars.

The Trustee directors consider they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

Taking into account the knowledge and experience of the Trustee directors with the specialist advice received from the appointed professional advisers, including investment consultants and legal advisers, the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.



6. Governance

To assist the Trustee in meeting its governance requirements:

- A dedicated DC committee was set up in 2019 made up of representatives from the Trustee board and the Company. On establishment of the DC committee, it took responsibility from the Funding Committee for the investment of the DC assets. The DC Committee reports back to the full board regularly on matters relating to ZCashBuilder and the legacy AVCs.
- The DC Committee has completed the annual assessment of the Scheme's processes and practices against Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes and the accompanying guidance notes. This identified that the Scheme meets all the legal requirements and the majority of the expectations set out in the Code and associated Guides.
- A Trustee Governance Handbook has been produced which documents how the Trustee governs the pension Scheme and provides a framework to signpost all the Trustee's policies and key documentation.

7. Conclusion

Taking account of all the above, the Trustee believe that the Scheme provides good value for members and is expected to deliver good outcomes for members at retirement. This statement was approved by the Trustee on 14 December 2021 and signed on their behalf by:

David Sims

Chair: Zurich Financial Services UK Pension Trustee Ltd

