

Statement from the CNPP Trustee on the transition of Defined Contribution (DC) investments from the Prudential to Aegon for GPS Benefit Structure members

Please note that whilst the majority of questions refer to GPS benefit structure AVCs, the transition also includes the GPS new joiners where assets have been held by the Prudential. Therefore the responses below apply equally to those members.

The purpose of this statement is to provide more explanation of the reasons why the Trustee has decided to transition members' investment pots (excluding "With Profits") from the Prudential. Answers to some commonly asked questions are provided below to address the main concerns that have been raised.

The Trustee has a duty and statutory obligations to review the DC investment funds and services for the benefit of the members to ensure good service and value for money. Acting where they conclude better arrangements could be put in place.

After a lot of thought and advice the Trustee concluded that other providers could offer a better service, more suitable investment funds and greater value for money for members than the Prudential. The Trustee therefore had a duty to change the funds and /or the provider.

Following a public procurement for new administrators the Trustee appointed Aegon as the DC administrator of the CNPP. Aegon will provide an enhanced service to all members (with better communications including member online access and services) at a member charge significantly less than that of the Prudential. Annual Management Charges paid by members will fall from the Prudential's fees of between 0.65%-0.75% per annum to Aegon's 0.26% (for their default funds) per annum – this is a significant saving for members.

The Trustee acknowledges that members have been given a short length of time to select new investment funds with Aegon but wanted to give all members an opportunity to make a decision if at all possible.

The Trustee advised members' of this change in a letter dated 3 May 2019 giving members approximately 2 1/2 weeks to make a decision. Members will be able to review their investment decisions on-line and make changes easily going forward.

The Trustee wants to reassure its members that the changes being made are for the long term benefit of the membership. None of this has been undertaken lightly and advice has been taken at all stages of this review. The Trustee understands and appreciates that members may be concerned with these changes and that in the short-term they may not seem to be in the members' best interest. The Trustee has however satisfied itself that these changes are in the long-term interest of members'. It is not easy making these decisions particularly as they could attract criticism. This however is not a good reason to not do what the Trustee believes is in the members' interest. The Trustee accepts that this is a judgement however legislation requires the Trustee to review and make these judgements.



The Trustee would like to apologise for any distress this has caused any particular member. The Trustee genuinely feels that this transition is beneficial otherwise they would not have made it.

On behalf of the CNPP Trustee

Responses to typical questions

Q1 The Prudential Deposit fund (cash) attracted no risk and no fees. The transition to Aegon no longer provides me a similar no risk, no fee option.

A1 All funds managed by the Prudential have charges embedded in their structure although in some instances they are hidden from members.

The Prudential Deposit fund is backed by the assets of the Prudential's "With Profits" Fund and the Prudential's current practice (which isn't guaranteed) is to declare an interest rate equal to the Bank of England base rate. The Prudential closed the Deposit Fund to new contributors in 2018.

The Deposit fund's cost and charges are not transparent to members. This is because its interest rate is not directly linked to the investment return and costs of running the "With Profits" Fund's assets.

Moving to Aegon ensures members are aware of the charges they are paying for all funds.

The Prudential give the Deposit fund a "minimal" risk rating. There is a slight chance that its value could fall. The value of savings in the Prudential's Deposit fund depends upon the continued solvency of the Prudential's "With Profits" Fund.

The Aegon Cash Fund may be anticipated to give a low level of risk, similar to that of the Deposit Fund.

Whilst these funds may not go up or down in value by much in the short-term, they are not expected to give good returns compared to inflation over the longer-term.

Q2 Since the decision has been made to separate the administration of the GPS Benefit Structure Defined Benefit (DB) arrangement (Equiniti) from the GPS AVC Scheme (Aegon), how will the fact that these schemes are supposed to be linked together be managed?

A2 Although the Trustee has made the decision to appoint a specialist DC provider (Aegon) where members also have DB then Equiniti (the DB administrator) will take the role of lead when communicating the combined benefits.

There will be no changes in your benefit entitlement under the CNPP and in particular your ability to take your 25% tax free lump sum at retirement across both your DB and AVC benefits – whether those are with Aegon or in the Prudential "With Profits" fund.

Equiniti will liaise with Aegon or Prudential (or both) as necessary.

For GPS Defined Contribution new joiners who do not have a DB entitlement, Aegon will lead the administration and be your primary point of contact.

Q3 Why were the GPS AVC members not afforded the same communication and protection of interests that were provided to the CPS members and New Joiners when they transitioned from BlackRock to Aegon?

A3 The transition from BlackRock to Aegon was as a result of a corporate transaction between these two organisations and is a legal requirement when one insurer takes on benefits from another to ensure that members benefits are protected. For information, in 2017, BlackRock announced that they were transferring a block of their investment and administration clients to Aegon. The Trustee, and the CPS members and New Joiners, were affected by this because the Trustee had used funds provided by BlackRock. The legal requirements on BlackRock prescribed what BlackRock had to do; The Trustee transition from Prudential to Aegon is not a corporate transaction and those requirements do not apply.

Q4 Please confirm that my terms with respect to pension are 'no less favourable'?

A4 There is no change in your benefit entitlement under the CNPP and therefore the benefits remain 'no less favourable'.

Q5 Please confirm the legal status of the transfer.

A5 The Trustee is acting in accordance with the law, its powers under the Trust and in line with the expectations of the Pension Regulator and Pension Ombudsman. In transitioning the CNPP administration arrangements the Trustee has received advice and support from a number of professional advisors and suppliers on the legal and investment aspects including the transition of the AVCs. In all instances the Trustee is considering the member's interests and the overall value of the arrangements to members.

Q6 Why was there no consultation with AVC members prior to the change of provider?

A6 Consultation would generally only be a legal requirement where members' benefits were being changed and not the provider. The Trustee has a statutory duty to review its AVC offering and if it does not satisfy a 'value for member' test then it is required to make necessary changes [see question 5 above].

Q7 Apart from the small reduction in fees (AMCs), what are the other benefits to the AVC members of this change?

A7 Aegon provide a more suitable range of funds, better administration service which includes improved communications and member level access via Aegon's TargetPlan website. You can access TargetPlan by visiting <https://www.cnpp.org.uk/login> and click on the link to Aegon's website.

Whilst the fee reduction may be viewed as relatively small the fees are significantly lower than those managed by the Prudential and more importantly they are clear and transparent.

Q8 Do the Trustees have the legal/moral right to transfer AVC member's funds to a different provider and into different investment options without agreement of the individual?

A8 The Trustee has a duty and statutory obligations to review the investment funds and services for the benefit of the members to ensure good service and value for money for the members. The Trustee must act where it concludes that better arrangements could be put in place. The Trustee is not required to consult with the affected members.

Q9 Who decided the fund options available to the AVC members?

A9 The Trustee has chosen the range of investment funds to be offered to members following advice from its investment consultant.

Q10 Do you consider 2 weeks an acceptable time for AVC members to make an important financial decision on which fund option to choose?

A10 The Trustee decided to give members the option to select their new investment funds in advance of the transition of their investment pots from the Prudential to Aegon, to the extent that the timetable could accommodate it. Had it been possible, the Trustee would have provided more time for members to decide.

Q11 Has the option to leave existing AVC's with the Prudential not been considered as an option? And only new contributions managed by the new provider.

A11 The Trustee concluded that Aegon's range of funds were more suitable and better value for members. The Trustee needed to act and working with Aegon the Trustee has been able to minimise the costs arising from the transition of assets from the Prudential to Aegon. Aegon have agreed to bear the transition costs arising from the selling and buying of the investments held within the funds up to a limit. The Trustee and Aegon expect that the transaction costs will be below this limit, but we will not know for certain until the trades are completed. Aegon are pre-funding the purchase of units in the funds members have chosen, or the default option, in advance of receiving the monies from Prudential, so that there is no period when members will not be invested.

Q12 What happens if I incur a transaction charge as a result of this transition?

A12 The Trustee is hopeful that there will be no transition charges applied to members. In the event that a transition charge is made, it is expected to be small. It will depend on the individual transition of each member since it will depend on which Prudential fund they were invested with and which Aegon fund they have chosen, The Trustee expects the savings from the reduction in the Annual Management Charge (AMC) to be greater than the transition cost.