

## **Combined Nuclear Pension Plan (the “Plan”)**

### **Annual statement by the Chair of the Trustee for the year to 31 March 2018 (for all Plan members with Defined Contribution (DC) funds)**

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## **Introduction**

Every year the Trustee must issue the Plan’s Annual Report & Accounts. Members can see the full document (85 pages) on the CNPP member website in the document library. Included in the Accounts is an annual statement by the Chair of the Trustee about how the Plan has met the governance standards required by legislation for the DC aspects of the Plan during the year. The Trustee is pleased to provide a summary of the Chair’s statement below which includes details of the Plan’s charges, costs and value for members with DC funds as well as considering the suitability of the default arrangements during the year.

This Statement covers the Trustee’s stewardship of the DC aspects of the Plan during the year and the steps the Trustee is taking to improve value for members that will apply in 2019.

## **Highlights**

The highlights from the document are:

- From 1 April 2018 the administration charge for the CNPP CPS New Joiners Structure and GPS New Joiners (from 01/02/17) DC Structure reduced from 0.25% to 0.215%;
- Overall the Plan gave good value for members;
- The Plan’s default arrangements remain suitable for most members;
- Financial transactions including the investment of your contributions were carried out accurately, promptly and efficiently.

## Value for Members

Taking into account the Scheme's membership profile as well as the quality of the investment and administration services for which members bear or share the costs, the Trustees are satisfied that, last year:

- The member borne charges for both the default and other investment options for the CNPP CPS New Joiner Structure and the CNPP GPS New Joiners (from 01/02/17) DC Structure were good value for members.
- The member borne charges for the default arrangement and other investment options for the CNPP GPS New Joiners DC Structure (pre 01/02/17) and GPS Additional Voluntary Contributions (AVCs) were average value for members.

It has not been possible to assess the value for members of the transaction costs for both the default arrangement and other investment options during the last year due to transaction cost information not being available from Aegon/BlackRock or Prudential.

## Default arrangements

The default arrangement is the investment option that the Trustee has chosen for DC members who do not make an active fund choice. Members who do not choose an investment option will automatically be put into the default for their Section of the Plan. There is no default arrangement for AVC members.

Please note that, on 1 July 2018, BlackRock's defined contribution pensions business was transferred to Aegon.

The Plan has three default arrangements for DC arrangements which applied to members in the following Sections:

	Plan Section	Default arrangement
1.	CNPP CPS New Joiners and CNPP GPS New Joiners (from 01/02/17) DC Structures	BlackRock LifePath Flexi Funds
2.	CNPP CPS Shift Pay Pension Plan (SPPP)	BlackRock LifePath Capital Funds
3.	CNPP GPS New Joiners DC Structure (pre 01/02/17)	Lifestyle strategy administered by Prudential

The Trustee believes that the default arrangements are appropriate for the majority of the Plan's members because the default arrangements provide good member outcomes at retirement while subject to a level of investment risk appropriate to the majority of members who do not make active investment choices. The default arrangements manage the principal investment risks faced by members, gradually changing where they are invested as they approach retirement.

No review of the default arrangement was due to be undertaken during the year. The last review was undertaken in September 2015 when it was concluded that the default arrangements for the DC Sections should adopt Target Date Funds (TDFs). The revised default arrangement was implemented in December 2016 for the CNPP CPS Section such that the default for members in the New Joiners DC Structure targets a final investment mix suitable for members who wish to utilise income drawdown in retirement, while the default for SPPP members now targets a final investment mix suitable for cash withdrawal. Implementation of a new default arrangement for the CNPP GPS Section has been delayed following a decision by the Plan's main administration provider to withdraw from providing these services for all its clients where administration is the only service provided, which resulted in a review of administration services for both Defined Benefit (DB) and DC. A new default for the GPS Section is expected to be implemented in 2019.

The next triennial review will be undertaken in 2019 in conjunction with the appointment of a new provider for all defined contribution benefits.

## Charges for the default arrangements

Members bear the full costs of the administration, investment and transaction charges.

The charges quoted are the funds' Total Expense Ratios ("TERs"). The TER consists of a fund's Annual Management Charge ("AMC") (included in which are administration charges) and Operating Costs and Expenses ("OCE"). OCEs include, for example, the fund's custodian costs. While the AMC is usually fixed, the OCE and hence the TER, can vary slightly from day to day.

The Plan is a qualifying scheme for auto-enrolment purposes and the member borne charges for the default arrangements complied with the charge cap during the year covered by this statement.

Plan Section	Default arrangement	Range of member-borne charges
1. CNPP CPS New Joiners DC Structure CNPP GPS New Joiners (from 01/02/17) DC Structure	BlackRock LifePath Flexi Funds - a series of "LifePath" target date funds which invest contributions in a varying mix of assets according to how far each member is from retirement.	0.46% p.a.*
2. CNPP CPS SPPP	BlackRock LifePath Capital Fund	0.46% p.a.*
3. CNPP GPS New Joiners DC Structure (pre 01/02/17)	Prudential Lifestyle strategy invests contributions in different funds according to how far each member is from retirement. Charges borne by each member can vary from one year to the next.	From 0.675% to 0.75% p.a.

\* Includes 0.25% p.a. administration charge collected by Aon Hewitt (Aon)/Equiniti. This charge will reduce to 0.215% from 1 April 2018.

Source: Aegon Investment Solutions Limited and Prudential Assurance Company Limited

## Self-select funds outside the default arrangements

Members bear the full costs of the administration, investment and transaction charges for:

1. CNPP CPS New Joiners DC Structure and CNPP GPS New Joiners (from 01/02/17) DC Structure;
2. CNPP CPS SPPP; and  
CNPP CPS DB Structure Additional Voluntary Contributions (AVCs)

The Plan offers members a choice of self-select/AVC funds. The funds' individual charges (as "Total Expense Ratios") in the last year were:

Fund	Charge* %
CNPP Global Equity (ex-UK) Fund	0.39
CNPP Emerging Markets Equity Fund	0.56
CNPP Global Equity Fund	0.39
CNPP UK Equity Fund	0.39
CNPP Sharia Law Fund	0.75
CNPP Property Fund	1.23
CNPP Multi-Asset Fund	0.70
CNPP Corporate Bonds Fund	0.40
CNPP Pre-Retirement Fund	0.41
CNPP Index-Linked Gilt Fund	0.39
BlackRock DC Cash Fund	0.43
BlackRock LifePath Flexi Fund	0.46
BlackRock LifePath Capital Fund	0.46
BlackRock LifePath Retirement Fund	0.46

\*Charge = the funds' Total Expense Ratio ("TER"), which includes the funds' Annual Management Charge ("AMC") and Operating Expenses.

Source: Aegon Investment Solutions Limited

Transaction costs are not available from Aegon/BlackRock.

### CNPP GPS New Joiners DC Structure (pre 01/02/17).

Members bear the full costs of the administration, investment and transaction charges. The Plan offers members a choice of self-select/AVC funds. The funds' individual charges (as "Total Expense Ratios") in the last year were:

Fund	Charge* %
BlackRock Aquila UK Equity Index Fund	0.75
BlackRock Aquila (50:50) Global Equity Index Fund	0.75
BlackRock Aquila World ex-UK Equity Index Fund	0.75
Prudential Index Linked Passive Fund	0.65
Prudential Long-Term Gilt Passive Fund	0.65
Prudential Cash Fund	0.75

\*Charge = the funds' Total Expense Ratio ("TER"), which includes the funds' Annual Management Charge ("AMC") and Operating Expenses.

Source: Prudential Assurance Company Limited

Transaction costs are not available from Prudential.

## CNPP GPS DB Structure AVCs

Members bear the full costs of the administration, investment and transaction charges. The funds' individual charges (as "Total Expense Ratios") in the last year were:

Fund	Charge* %
Prudential M&G Recovery Fund	0.75
Prudential Ethical Fund	0.75
Prudential UK Equity Fund	0.75
Prudential UK Equity Passive Fund	0.65
Prudential Global Equity Fund	0.75
Prudential International Equity Fund	0.75
Prudential Long Term Growth Passive Fund	0.65
Prudential Overseas Equity Passive Fund	0.65
Prudential Discretionary Fund ^	0.77
Prudential Fixed Interest Fund	0.75
Prudential Index-Linked Fund	0.75
Prudential Long Term Bond Fund	0.65
Prudential Long Term Gilt Passive Fund	0.65
Prudential UK Property Fund ^	1.69
Prudential With Profits Fund (closed to new investors)	1.00 **
Prudential Cash Fund	0.55
Prudential Deposit Fund (closed to new investors)	0 ***

\*Charge = the funds' Total Expense Ratio ("TER"), which includes the funds' Annual Management Charge ("AMC") and Operating Expenses.

\*\*Average across all With Profits policyholders.

\*\*\* Charges are implicit in the declared rate of interest.

^ This fund invests directly in property. As a result, in addition to the fund's Total Expense Ratio, members also bear the cost of items such as property management and maintenance. The charge shown is the fund's "Property Expense Ratio" including the Total Expense Ratio and property management costs.

Source: Prudential Assurance Company Limited

Transaction costs are not available from Aegon/BlackRock.

## With Profits

Some DB Structure members' AVCs are invested in the With Profits Fund. The charges and transaction costs for With Profits Funds are deducted from the overall fund before bonus rates are set for all policyholders. As a result, it is not possible to determine the exact charges and costs borne by members and this information is not available from the provider.

The Principles and Practices of Financial Management for the With Profits Fund state that the administration and investment charges should average 1.0%

It should be noted that the implicit costs and charges for the With Profits Fund cover the cost of guarantees and reserving as well as investment management and administration.

## Transaction costs

Transaction costs can arise when:

- The fund manager buys or sells part of a fund's portfolio of assets; or
- The platform provider or fund manager buys or sells units in an underlying fund.

Transaction costs vary from day to day depending on how each fund is invested and market conditions. Transaction costs can include: custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes). Transaction costs are taken into account when the funds' unit prices are calculated. This means that transaction costs are not readily visible, but will be reflected in a fund's investment performance. The Financial Conduct Authority (FCA) requires fund managers and providers to calculate transaction costs using the "slippage method", which compares the values of assets immediately before and after a transaction has taken place.

Unfortunately, neither Aegon/BlackRock nor Prudential have been able to provide transaction costs for the year to 31 March 2018. From the Trustee's discussions with its advisers, it is apparent that this unsatisfactory

situation is being experienced by many pension schemes with a number of providers. The Trustee has been unable to obtain full information on the transaction costs for the following investment options during the period covered by this Statement:

- Default funds
- Self-select funds
- AVC funds.

The following steps are being taken to obtain the missing information for the future:

- The Trustee is monitoring the providers' and fund managers' progress on implementing the FCA rules on transaction cost disclosure which came into force on 3 January 2018;
- With the help of its advisers, the Trustee is pressing for transaction costs for the unit linked funds from Aegon/BlackRock and Prudential;
- With the help of its advisers, the Trustee is pressing for greater disclosure of costs and charges for the Prudential With Profits Fund.

Prudential have provided the following statement with regards to the costs for the unit linked funds: "We are working closely with our fund management partners and have contracted with a third party firm to calculate transaction costs for Prudential's workplace pension funds in line with the requirements specified in COBS 19.8. We expect to be able to start reporting this information from Q4 2018 onwards."

Prudential's Trustee website also states: "From November 2018, we will have costs and charges information available on this website."

Aegon/BlackRock have confirmed to our advisers that they will not be producing transaction cost information for the year to 31 March 2018, but will commence to produce quarterly reports from September 2018, so that figures should be available for next year's Statement.

## Assessment of value for members

Each year the Trustee carries out an assessment of whether the charges and transaction costs for the default arrangement and other investment options, which are borne in full or in part by members, represent good value for members.

Value is not simply about cost – the Trustee also considers the quality of the services which members pay for. The Trustee uses the following approach to assessing Value for Members:

Definition	Summary
The Plan offers excellent Value for Members providing services within the top 20% quality/cost range compared with typical services or similar schemes.	Excellent
The Plan offers good Value for Members providing services at better quality/cost compared with typical services or similar schemes.	Good
The Plan offers average Value for Members providing similar services at similar quality/cost compared with typical services or similar schemes.	Average
The Plan offers below average Value for Members providing similar services at higher cost for similar quality compared with typical services or similar schemes.	Below Average
The Plan offers poor Value for Members compared with services or similar schemes.	Poor

## Approach

In keeping with the guidance from the Pensions Regulator, the Trustee's approach to this year's value for members' assessment was:

- The Trustee considered the features of the Plan where costs are fully or partially borne by members: Members in the DC Sections of the Plan bear the costs of the investment and administration services. The Value for Members' assessment only considers these two areas. As the Employers bear the costs of communication and governance, these aspects are excluded from the Value for Members' assessment.

- The Trustee considered that the investment services have the greatest impact on DC members' retirement benefits and so have weighted their assessment 75% to investment services (split equally between charges and the quality of the investment options) and 25% to administration services.
- With the help of its advisers, the Trustee has gathered information and evaluated how the services perform against the agreed metrics including other comparable pension schemes, taking into account cost, quality and scope of the investment and administration services.

#### Member borne charges and transaction costs assessment

The Trustee rated each aspect of the Plan as shown in the table below:

Category and weighting	Rating	Comments
<b>Investment options</b> <b>37.5%</b>	<b>Good</b>	<p>The CPS Sections' and CNPP GPS New Joiners (from 01/02/17) DC Structure default options moved to new funds incorporating some of the latest thinking during the previous Plan year, and there have been no material changes to the membership subsequent to this. As such, it is anticipated that the default options remain suitable for a majority of the CPS membership.</p> <p>Corresponding changes will be made to the GPS Section as soon as practicable.</p> <p>The investment options continue to perform in line with their investment objectives.</p>
<b>Member borne charges</b> <b>37.5%</b>	<b>Below average</b>	<p>The charges for the CPS Sections' and CNPP GPS New Joiners (from 01/02/17) DC Structure investment options cover both investment and administration costs.</p> <p>When considered in isolation, investment related charges for these Sections are rated <b>Good</b>, whereas the level of administration costs have in recent years become less competitive and so are rated <b>Below average</b>.</p> <p>The administration costs are such that the overall charge is higher than those for similar schemes in surveys conducted by the Trustee's adviser and the DWP.</p> <p>The GPS Section is provided through a contract with Prudential, where the charges for the GPS Section's investment options include both investment and administration costs.</p> <p>Member borne charges for the unit-linked funds used by the GPS Section are rated <b>Poor</b>. The overall charges are higher than similar schemes in surveys conducted by the Trustee's adviser and the DWP.</p> <p>The charges for With Profits, while lacking transparency which make assessment difficult are believed to be <b>Average to Good</b>.</p>
<b>Administration</b> <b>25%</b>	<b>Average</b>	<p>Financial transactions have been carried out efficiently and accurately.</p> <p>Enquiries by members and quotations of members' benefits have been handled promptly.</p> <p>Aegon/BlackRock and Aon for the CPS Sections and Prudential for the GPS and Nirex Section are well-resourced.</p>

Please note that the Government Regulations and the Pensions Regulator's guidance on assessing Value for Members do not take into account the level of pension contributions, which is a key driver of the level of benefits emerging at retirement.

The Plan offers members a Good level of contributions, which is not reflected in this assessment.

### **Key actions to enhance value for members for the future**

Over the last 12 months the Trustee has undertaken the following to improve Value for Members:

- Following advice from Aon Hewitt that it would withdraw from the administration market, undertook a wider review of the Plan's DB and DC administration arrangements.
- Reviewed options for transferring the GPS Sections to another provider's platform.
- From 1 April 2018 reduced the administration charge for the CNPP CPS and CNPP GPS New Joiners (from 01/02/17) DC Structures from 0.25% to 0.215%.

### **With Profits**

Value for members in respect of With Profits Funds cannot be easily measured due to the lack of transparency in how With Profits Funds in general are run.

Considering the operation of the Prudential With Profits Fund at a general level, the Trustee believes that:

- The average charges borne by members compare reasonably with other With Profits Funds;
- The financial strength and investment strategy of the Fund together with the process for turning investment returns into bonuses may be expected to deliver reasonable future investment returns to members over time; and
- The guarantees and smoothing of investment returns are likely to be of reasonable value to some members.

Overall, the Trustee believes that the Prudential With Profits Fund gives fair value for members.

### **Action plan**

In the coming year (which will be covered by the next Statement), the Trustee is intending to undertake the following to improve Value for Members:

- Transfer the Plan's DC and AVC investment and administration arrangements to an Aegon/BlackRock bundled arrangement from 1 April 2019 with the aim of reducing the charges borne by members. This follows the wider review of the Plan's administration arrangements and Trustee's agreement that the CPS and all GPS DC Structures and all AVCs be invested and administered by one platform provider.