

# ECA LTD (1974) PENSION SCHEME

## CHAIR'S STATEMENT

YEAR ENDED 31 DECEMBER 2020

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### Introduction

I am pleased to present the Trustees' Statement of Governance, covering the DC Section of the Electrical Contractors' Association Limited (1974) Pension Scheme ("the Scheme") over the twelve-month period to 31 December 2020. In this statement, we describe the work carried out by the Trustees over the year to 31 December 2020 to ensure the Scheme continues to provide you with good value and the potential for a good outcome for life after work.

Preparing this Statement is a regulatory requirement and certain disclosures must therefore be provided. This statement covers four principal areas:

1. Investment, with particular focus on the Scheme's default investment option;
2. Internal controls, with particular focus on the processing of core financial transactions;
3. Value, with particular focus on charges and transaction costs deducted from members' funds;
4. The knowledge and resources available to the Trustees, including how the Trustees individually and the Board collectively has maintained the statutory levels of knowledge and understanding to govern the Scheme as well as the skills to ensure the Scheme remains a first-class savings vehicle.

I hope it helps you understand how the Trustees continue to work in your best interests.

### The Trustees' strategy

The Trustees' over-arching mission is to help all members achieve a good outcome for life after work. In order to ensure this is the case, the Trustees' objectives are to provide members with an appropriate range of investment options that suits their needs, enhancing members' investment understanding and avoiding overcomplicating the decision-making process.

### Governance structure and culture

Strong governance is essential to the Scheme continuing to be a successful savings vehicle that provides good value for members. The Trustees recognise that this requires not only the right resources but also the right board culture, including a commitment to challenge and debate, knowledge and learning and ongoing assessment of effectiveness. Additionally, the Trustees regularly take time away from routine operations to examine emerging best practices and ways of providing better value for members.

#### 1. The Default Investment Option

The Trustees are responsible for setting the Scheme's investment strategy and for appointing investment managers to carry out that strategy. They must also establish a default investment option ("Default") for members who do not select their own investment options from the fund range that is available.

The Default is the Mercer Target Drawdown Path, which is aimed at individuals who wish to transfer their savings in the DC Section of the Scheme to an income drawdown product at retirement, where they can take up to 25% of their savings as a tax-free cash lump sum and invest the remainder to make withdrawals as required. The Default gradually moves members' savings from growth-seeking assets into more defensive assets the closer they get to retirement to reduce the level of investment risk that savings are exposed to in the run-up to retirement.

The Trustees review how the funds within the Default (and the wider self-select fund options) have performed against their targets at each of their formal board meetings, taking input from their investment adviser. The Trustees also maintain a programme of ongoing review of the suitability of the Default in light of considerations that include how members withdraw benefits at retirement, the ages at which they do so and the value of their funds. The Default was changed in 2015 (from the Mercer Target Annuity Path to the Mercer Target Drawdown Path). The next formal Investment Strategy Review was postponed pending the Company's decision to move the DC Section to the Mercer Master Trust.

The Trustees have delegated the design and implementation of the investment strategy for the Default (as well as

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the other Mercer investment options available in the Scheme) to Mercer Limited (Mercer). Mercer formally carries out an interim investment strategy review of the Mercer Target Paths (Drawdown – the Scheme's Default, Annuity and Cash) on an annual basis via the Mercer Workplace Savings (MWS) arrangement. The latest review, entitled 'Mercer SmartPath Review & Covid-19 Response', was carried out during May 2020. There were no changes to the Scheme's investments as a result of this review. The exercise focused mainly on the following points:

- Analysis on the risks which Scheme members are exposed to at different ages. This exercise assessed whether a higher risk start to the glide path would improve outcomes. It was concluded that there would not be a significant enough improvement to outcomes to warrant a change;
- Assessment of whether the Mercer Growth Fund is providing the correct risk and return. The analysis concluded that the fund design continues to provide a good balance between risk and return;
- Review of the appropriateness of the de-risking phase. The analysis concluded that the current de-risking structures are still appropriate;
- Review of the current self-select fund range. This review concluded that the fund range continues to meet the relevant criteria;
- Review of the actions taken in response the market disruption during the COVID-19 pandemic. This review confirmed that while some short-term changes were made to the Scheme's investments, designed to better protect members, the long-term strategy was retained.

In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustees have appended the latest copy of the Statement of Investment Principles (SIP) to Appendix 1, prepared in accordance with regulation 2A F2 (default investment strategy) of the Occupational Pension Schemes (Investment) Regulations 2005 ("the Investment Regulations"). The SIP sets out the objectives for the Default and the other investment options in the Scheme.

#### **2. Core Financial Transactions**

A prompt and accurate administration service is essential to the Trustees' duty to pay the right benefits to the right members at the right time. The Trustees believe that providing members' with a positive ongoing experience of the Scheme's services will increase their confidence in pensions and their propensity to save more in order to achieve good outcomes for life after work. Considerable time and resource has therefore been allocated over the year to ensure the Scheme's data is up to date and accurate, contribution payments and other core financial transactions are reconciled and that member queries are addressed promptly.

The Trustees operate an outsourced operational model, with the Scheme's DC administration and management of the Trustee bank account delegated to Aviva via the Mercer Workplace Savings (MWS) platform. MWS has agreed timescales with Aviva for the processing of all member-related services, including core financial functions relating to contribution handling, quoting benefits and paying benefits. These timescales are well within any applicable statutory timescales. MWS's governance reports disclose the providers' performance against these agreed timescales and are reviewed at Trustee meetings together with the Scheme specific MI reports provided by Aviva. The Trustees receive additional disclosures in respect of any transactions and benefit processing activity that has not been completed within the agreed timescales including the cause of the delay, the extent to which agreed timescales were breached and the proposed remedial measures.

The table below sets out the Scheme's core financial transactions and the controls that existed during the year to ensure accuracy and promptness. Overall, the requirements have been met and core financial transaction have been processed promptly and accurately.

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Aviva's performance against these SLAs are outlined below.

	Year to 31 December 2020		
	Total	In SLA	%
<u>Platform Level SLAs:</u>			
2. Website Availability	2,853	2,825	99%
10. Helpline	26,642	25,621	96%
Total	29,495	28,446	96.4%
<u>Scheme Level SLAs:</u>			
3. Documentation	11	10	91%
4. Contribution Processing	1,250	1,250	100%
5. Investment Transactions	15	15	100%
6. General Enquiries	78	76	97%
7. Payment Out	20	17	85%
8. Payment In	9	9	100%
Total	1,383	1,377	99.6%

SLA performance has been at acceptable levels consistently throughout year. Most measures have achieved levels above target, where below target all have been within set tolerance levels. Overall performance across measures improved over the year.

The Trustees consider detailed statistics of the Scheme administrators' performance against their targets during their meetings (at least three a year). This gives the Trustees insight into member activity, completion timescales for administrative functions and the reliability of the Scheme's administration controls. The Trustees also monitor the accuracy of the Scheme's common data periodically.

### 3. Value for Members

#### Charges and Transaction Costs

The Trustees are required to report on the charges and transaction costs for the investments used by the Scheme, and the extent to which those charges represent good value to their members. The Scheme complies with regulations on charge controls introduced from April 2015. Specifically, all of the funds used in the Scheme's Default have a total expense ratio that is below the charge cap of 0.75% p.a. on member-borne deductions.

Explicit charges known as the Total Expense Ratio (TER) consist principally of the manager's annual charge for managing and operating a fund, but also includes the costs for other services paid for by the fund, such as the legal costs, registration fees and custodian fees. However, they exclude other costs that are also member borne and which can therefore have a negative effect on investment performance such as transaction costs and interest on borrowings.

Transaction costs are costs incurred by fund managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account by the fund managers when calculating the unit price for each of the funds, but are not included in the TER.

The transaction costs shown in this report are calculated on a methodology known as 'slippage cost'. This compares the price of the stocks being traded when a transaction was fulfilled with the price at which the transaction was requested. Market movements during any delay in transacting may be positive or negative and may also outweigh other explicit transaction costs. For this reason, overall transaction costs calculated on the slippage method can be

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negative as well as positive.

The table below provides details on charges (annual management charge (AMC), Total Expense Ratio (TER) and transaction costs) applicable to the funds within the default investment arrangement as well funds available to members if they wish to make their own investment choices.

Fund	AMC (%)	TER (%)	Estimated Transaction Cost (%) *
Mercer Defensive / Lower Risk	0.440	0.460	0.0113
Mercer Moderate Growth / Moderate Risk	0.480	0.520	0.0499
Mercer Growth / Balanced Risk	0.480	0.520	0.0793
Mercer High Growth / Higher Risk	0.480	0.520	0.0650
Mercer Diversified Retirement	0.460	0.520	0.1160
Mercer Cash Retirement Fund	0.380	0.380	0.0120
Mercer Target Drawdown 2022 Retirement Fund	0.560	0.640	0.0947
Mercer Target Drawdown 2023 Retirement Fund	0.560	0.640	0.0985
Mercer Target Drawdown 2024 Retirement Fund	0.540	0.610	0.1023
Mercer Target Drawdown 2025 Retirement Fund	0.520	0.590	0.0977
Mercer Target Drawdown 2026 Retirement Fund	0.500	0.560	0.0932
Mercer Target Drawdown 2027 Retirement Fund	0.480	0.530	0.0886
Mercer Target Drawdown 2028 Retirement Fund	0.460	0.500	0.0844
Mercer Active Emerging Markets Equity	1.120	1.210	0.4284
Mercer Diversified Growth	0.490	0.560	0.2065
Mercer Passive UK Equity	0.330	0.330	0.3641
Mercer Passive Overseas Equity	0.330	0.330	0.0794
BlackRock - Passive Global Equity (40:60)	0.300	0.300	0.1602
Aviva Pacific Basin	0.400	0.400	0.0661

Source: Aviva. Fees and transaction costs shown as at 31 December 2020.

\* Transaction costs reflect the total of the 'buying and selling' and 'lending and borrowing' costs (negative transaction costs are effectively a gain from transaction activity and hence benefit members).

### The Impact of Costs and Charges

Using the charges and transaction cost data provided by Aviva and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, Aviva have assisted the Trustees with preparing an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration, prepared by Aviva has taken into account the following elements:

- Savings pot size;
- Contributions;
- Investment returns above inflation, before charges and costs (also known as real terms investment return gross of costs and charges);
- Adjustment for the effect of costs and charges; and
- Time.

The illustration takes into account inflation as well as all costs borne by members, including the TER and transaction costs. These figures are shown in today's money, meaning they show what those pots could buy today. For example, the table shows that, in 40 years, an example pension pot invested in the Aviva Pension Mercer Growth/Balanced Risk Fund could buy what £56,900 could buy today. The figures shown below are just illustrations and are not a guarantee of future values. It is important to note that the values shown are estimates and are not guaranteed.

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Illustration of effect of cost and charges for typical funds within your scheme – Electrical Contractors Association Limited (1974) Pension Scheme										
	Av Mercer Growth / Balanced Risk- FPMMP3P		Av Mercer Cash Retirement- FPMECARP		Av Mercer Diversified Retirement- FPMERDDP		Av Mercer Target Drawdown 2025- FPMTD		Av Mercer Target Drawdown 2026- FPNBMTD2026	
	Assumed growth rate 4.1%		Assumed growth rate 0.5%		Assumed growth rate 2.4%		Assumed growth rate 2.9%		Assumed growth rate 3.1%	
	Assumed costs and charges 0.67%		Assumed costs and charges 0.39%		Assumed costs and charges 0.65%		Assumed costs and charges 0.7%		Assumed costs and charges 0.7%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,200	£1,190	£1,170	£1,170	£1,190	£1,180	£1,190	£1,180	£1,190	£1,190
2	£2,410	£2,390	£2,320	£2,320	£2,370	£2,350	£2,380	£2,370	£2,390	£2,370
3	£3,650	£3,610	£3,450	£3,430	£3,550	£3,520	£3,580	£3,540	£3,590	£3,550
4	£4,900	£4,830	£4,560	£4,520	£4,740	£4,670	£4,780	£4,720	£4,800	£4,740
5	£6,170	£6,070	£5,640	£5,590	£5,920	£5,820	£5,990	£5,890	£6,020	£5,920
10	£12,800	£12,400	£10,800	£10,600	£11,800	£11,400	£12,100	£11,700	£12,200	£11,800
15	£20,000	£19,000	£15,400	£15,000	£17,700	£16,800	£18,300	£17,400	£18,600	£17,600
20	£27,800	£26,000	£19,600	£18,900	£23,500	£22,000	£24,700	£23,000	£25,200	£23,500
25	£36,200	£33,200	£23,400	£22,400	£29,300	£27,000	£31,200	£28,500	£31,900	£29,200
30	£45,300	£40,700	£26,900	£25,500	£35,100	£31,900	£37,800	£34,000	£38,900	£35,000
35	£55,200	£48,600	£30,000	£28,200	£40,800	£36,500	£44,500	£39,300	£46,100	£40,700
40	£65,800	£56,900	£32,800	£30,700	£46,500	£41,000	£51,400	£44,600	£53,500	£46,400
45	£77,200	£65,500	£35,400	£32,800	£52,200	£45,300	£58,400	£49,800	£61,100	£52,100
50	£89,600	£74,500	£37,700	£34,800	£57,900	£49,500	£65,500	£54,900	£68,900	£57,700

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Illustration of effect of costs and charges for funds with different growth rates and charges within your scheme – Electrical Contractors Association Limited (1974) Pension Scheme								
	Av Mercer Cash-FPMCASHP		Av Cash-FPCASH_P		Av Mercer High Growth / Higher Risk-FPMMIP4P		Av Mercer Active Emerging Markets Debt-FPMAEMDP	
	Assumed growth rate 0.5%		Assumed growth rate 0.5%		Assumed growth rate 4.5%		Assumed growth rate 2%	
	Assumed costs and charges 0.34%		Assumed costs and charges 0.3%		Assumed costs and charges 0.68%		Assumed costs and charges 2.21%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,170	£1,170	£1,170	£1,170	£1,200	£1,190	£1,180	£1,170
2	£2,320	£2,320	£2,320	£2,320	£2,420	£2,400	£2,360	£2,310
3	£3,450	£3,440	£3,450	£3,440	£3,670	£3,630	£3,530	£3,420
4	£4,560	£4,530	£4,560	£4,530	£4,940	£4,870	£4,700	£4,490
5	£5,640	£5,600	£5,640	£5,600	£6,230	£6,130	£5,860	£5,540
10	£10,800	£10,600	£10,800	£10,600	£13,100	£12,600	£11,600	£10,400
15	£15,400	£15,000	£15,400	£15,100	£20,700	£19,600	£17,200	£14,600
20	£19,600	£19,000	£19,600	£19,100	£29,000	£27,000	£22,600	£18,300
25	£23,400	£22,500	£23,400	£22,600	£38,200	£34,900	£27,900	£21,600
30	£26,900	£25,600	£26,900	£25,800	£48,300	£43,200	£33,100	£24,400
35	£30,000	£28,400	£30,000	£28,600	£59,400	£52,200	£38,200	£26,800
40	£32,800	£30,900	£32,800	£31,200	£71,700	£61,600	£43,100	£29,000
45	£35,400	£33,200	£35,400	£33,400	£85,200	£71,800	£47,900	£30,900
50	£37,700	£35,100	£37,700	£35,400	£100,000	£82,500	£52,600	£32,500

### Notes:

- Projected pension pot values are shown in today's terms, and have taken inflation into account (assumed to be 2.5% a year).
- Contributions of £100 a month have been assumed, as well as a salary increase of 2.5% per annum.
- Values are estimates and are not guaranteed.
- Transaction costs may not have been included where data was not available.

### Assessing Value for Members

The Trustees annually (typically during the first half of each year – the most recent over May 2021), examine ways of providing better value for members. Underpinning the board's assessments of value is the belief that value is about using the resources at its disposal effectively to help members achieve a good outcome for life after work. Also, while some measures of value should be scrutinised carefully over the short-term (for example, the performance of the Scheme's administrator), the Trustees believe that others, such as the suitability and performance of investment funds, span several years. Additionally, some components of member value can be assessed quantitatively, but those that impact on members' experience of the Scheme and its services often require a more qualitative assessment.

The Trustees have assessed the value for members of the member-borne deductions within the Scheme, in counsel with their advisers. This assessment considered the funds offered to members in terms of:

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- Annual management charges for investment management;
- Scheme charges for administration services;
- Transaction costs;
- Investment performance (net of fees);
- Bundled administration services paid for within the Scheme charge;
- Aviva's performance as the platform provider;
- Investment manager ratings.

The Trustees concluded that the Scheme provides good value for members in relation to member-borne deductions. The reasons underpinning this conclusion include:

- Charges for the Default are below the charge cap of 0.75% per annum;
- Overall, charges are competitive relative to peers and alternative investment platforms. Investment Manager fees are challenged by the Trustees where necessary. The Scheme Charge reflects competitive terms as exclusively negotiated through MWS;
- The transaction costs are reasonable in relation to the overall fees and investment objectives of the funds;
- Most funds have met their long term objectives, and any manager performance issues are given due attention by the Trustees, with action taken as deemed necessary. Fees are competitive on the default investment option, and good value for the overall fund range.;
- The MWS governance structure (both provider oversight as well as delegated investments) means that Aviva's proposition, as used by the Scheme, remains market leading and will adapt their proposition offering following changes in legislation;
- There are no exit penalties or charges and no explicit transaction charges (switching funds / transferring out);
- Through MWS, the Scheme accesses contractual service level agreements that are enhanced against Aviva's standard;
- Softer elements of value remain strong. In particular administration is appropriately monitored and reviewed.

Moreover, additional services such as Trustee governance, adviser fees and additional communications that are paid for by the Sponsor further add value for members at a Scheme-wide level.

#### **Clerical Medical With-Profits Fund**

It should be noted that members historically had the option to invest in a With-Profits fund with Clerical Medical. Assessing value for money on a with-profits fund is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that the with-profits fund provides guarantees, whether that is a guaranteed pension, investment return or "just" capital security. Providing a comparison between one with-profits fund and its peers is extremely difficult. Each with-profits fund offers different terms and guarantees and, hence, will invest very differently from one another, which in turn impacts the performance received through payouts. Indeed, a specific with-profits fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. Also, the available universe of with-profits funds is not sufficiently alike to enable relative assessments based on just past or even potential performance. Hence, we feel that a general conclusion on whether a with-profits fund offers value for members, ignoring each investor's objectives, is inappropriate.

#### **4. Knowledge, understanding and resources**

The Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustees to exercise the function in question. Trustees must also be conversant with the Scheme's own documentation. These are described in legislation as the Trust Deed and Rules and the Statement of Investment Principles. Trustees must also be conversant with any other document recording current policy relating to the administration of the Scheme generally.

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The information below shows how these duties have been fulfilled and how the combined knowledge and understanding, together with the advice which is available to the Trustees, enables them to properly exercise their duties and responsibilities. Hence, over the period under review, the Trustees, with the support of their advisers, have met the requirements of sections 247 and 248 of the Pensions Act 2004 (requirements for knowledge and understanding).

The Trustees maintain a Training Plan which is designed to align closely with its longer-term strategy and business plans and is reviewed on an annual basis.

In the context of governing a pension scheme, 'skills' relate to knowledge of pensions and regulatory requirements, as well as the ability to identify opportunities, manage risks, challenge professional advice and understand the evolving needs of members. The Trustees believe that the best way to embed these skills is to have a Board that brings together individuals with different perspectives, experiences and beliefs. A more diverse Board enhances dialogue and reduces the risk of 'group think', leading to higher quality decision-making and monitoring.

During the year, the Trustees discussed their training needs as part of their meetings, having regard to the statutory requirements to have knowledge and understanding of pensions law and to be conversant with the Scheme's Trust Deed and Rules, Statement of Investment Principles and other documents recording the Trustees' policies. The Trustees undertook a number of activities that involved Trustees giving detailed consideration to various aspects of the Scheme. Examples include:

- As part of the requirement under the DC Code of Conduct, the Trustees reviewed the performance of each investment option against the relevant aims and objectives and take into account relevant industry benchmarks.
- At the meetings throughout the year, the Trustees have considered updates from their professional advisors on forthcoming changes to pension laws and their impact on the Scheme.

During the year period covered by this statement, at least one of the Trustees also undertook the following formal training:

- 01 April 2020 - Fiduciary Management Seminar (2)
- 08 April 2020 - Aviva Seminar: Pensions in the midst of Covid-19
- 14 May 2020 - Aviva Seminar: An update on supporting our customers through the Covid-19 crisis
- 21 May - Mercer Covid-19 seminar: Return to work
- 29 July 2020 - Master Trust
- 30 September 2020 - Mercer Cyber Security Webinar

Finally, the Trustees maintain a comprehensive induction training programme for new Trustees. This provides an overview of important pensions law and regulatory requirements as well as the Trustees' strategy, policies, and current activities. Its aim is to help new Trustees participate quickly in informed decision-making.

Signature: MR STEVEN HALL

Position: Chair of Trustees of Electrical Contractors' Association Limited (1974) Pension Scheme

Date: 21 July 2021

## APPENDIX 1 DEFAULT INVESTMENT OPTION

**The Statement of Investment Principles is attached. This includes a detailed description of the DC Section's Default Investment Option.**