

Hendre Retirement Benefits Scheme – ML98

Review of the Scottish Widows With Profits-Fund – February 2020

The Scottish Widows With-Profits Fund is the only fund utilised by the active pension scheme membership and this provides a Guaranteed Annuity Rate (GAR) on any contributions up to the level payable pre February 1999; equal to 9.09% at age 60 for females, and 11.11% for males at age 65.

The Scottish Widows With-Profits Fund invests in a mix of assets such as company shares, property, bonds and cash deposits. While shares and property have usually performed better producing greater growth than bonds and cash over longer periods of time, the return has been much more variable and as such involves greater investment risk for the investor.

With-profits investing includes a special feature called 'smoothing' which works by keeping back some of the gains earned in in good investment years and using them to pay bonuses in poor investment years but these are not in any way guaranteed. The benefit of a With-Profits Fund is that 'smoothing' will shield against large downturns in the markets.

The scheme is closed to new members and therefore, the membership profile is aging. The active scheme membership is predominantly aged 45 and over, with only 1 member aged between 35 and 44.

With this in mind the With-Profits Fund with its more cautious approach to investing is considered appropriate for the majority of scheme members, who choose to remain in active scheme membership.

Members who do not want to want to purchase an annuity and wish to withdraw their pension benefits flexibly or earlier than the ages mentioned above, or want to invest in an alternative investment fund have the option of redirecting all of their contributions to the employer's Qualifying Workplace Pension Scheme (QWPS) with Aegon.

The trustees review the investment objectives and the performance of the Scottish Widows With-Profits Fund at least every three years with the Scheme Adviser; Origen Financial Services Limited.

Having compared the GAR with the equivalent annuity rate on the open market for a female at age 60 and a male at 65, the GARs are much higher than the standard annuity rates available on the open market.

Male, age 65, £60,000 fund value	
Guaranteed Annuity Rate £6,666.66	Open Market Annuity Rate £2,867.76

Male, age 65, £45,000 fund value	
Guaranteed Annuity Rate £4,999.50	Open Market Annuity Rate £2,126.52

Female, age 60, £60,000 fund value	
Guaranteed Annuity Rate £5,454.60	Open Market Annuity Rate £2,397.72

Female, age 60, £45,000 fund value	
Guaranteed Annuity Rate £4,090.50	Open Market Annuity Rate £1,778.16

All figures are based on a level single life annuity, with a five year guarantee, payable monthly in advance. On this basis, the Guaranteed Annuity Rate for males aged 65 is 11.11% and for females aged 60 is 9.09%.

Whilst reversionary bonus rates remain low (0.25% for 2019) and there is non-disclosure regarding terminal bonus rates, the With-Profits Fund provides members with steady returns and low volatility with certainty over their pension income at their normal retirement age.

The scheme also entitles members to withdraw any tax free cash entitlement from any Unit Linked funds thereby maximising the fund remaining for annuity purposes.

The Scottish Widows With-Profits Fund adopts a diversified investment approach with an emphasis on lower risk investments. This together with the smoothing of returns provides an appropriate investment solution for the current scheme members.

It was agreed that no changes were necessary and that the next review will take place in 3 years; 2023.

Lorraine Blackstock, Corporate Consultant

Origen Corporate Solutions