The Canadian High Commission Locally Engaged Staff Pension Scheme (UK)

Member Newsletter – March 2020

The Trustees of the Canadian High Commission Locally Engaged Staff Pension Scheme (UK) (the Scheme) are pleased to issue this annual newsletter to all Scheme members, which provides an update on the Scheme's financial position as well as commentary on topical pension issues that may affect you.

Please read further to find out more about the following:

- Financial updates
- Transferring-in benefits
- Completing 35-years' service
- Investing for tomorrow
- Change in Scheme Actuary
- HMRC tax limits and allowances
- How to contact us

Financial Update

Each year we are required to let you know the financial position of the Scheme. This newsletter includes a financial update as at 1 July 2019.

Monitoring the Scheme's finances

The Scheme provides retirement benefits to members linked to their length of service and salary, as well as benefits to members' dependents.

Your contributions, and those from the Treasury Board of Canada and other participating employers (referred to as the "Employers") paid into the Scheme are invested by the Trustees across a portfolio of assets that are held completely separate from the employers. Members' benefits are paid out of this portfolio of assets. Members that have paid Additional Voluntary Contributions have those assets individually earmarked.

Every three years the Scheme's Actuary examines in detail whether the assets built up are sufficient to meet the expected cost of the benefits that members have earned. This requires the Actuary to make a number of assumptions, such as how long members live, the level of inflation, and the returns earned on the Scheme's investments, amongst other factors. The Actuary can then advise whether the Scheme has sufficient money already or, where there is a shortfall, recommend more money is paid in by the employers.

As well as the three-yearly check, an annual approximate update is carried out to monitor progress. The detailed full assessment, known as an actuarial valuation, was last carried out as at 1 July 2017, with annual updates carried out on each anniversary. The results of these reviews are shown in the table below, with commentary on the development over the last year further below.

£Million	Actuarial valuation 1 July 2017	Update 1 July 2018	Update 1 July 2019
Scheme assets	114.1	115.9	132.2
Expected cost of benefits	96.5	101.9	116.7
Surplus	**17.6**	**14.0**	**15.5**
Funding level	118%	114%	113%

Contributions being paid in

The results of the actuarial valuation showed the Scheme to be in good financial health, with a surplus of £17.6M. Active members contribute 6% of Pensionable Salary and the Employers currently contribute 37.6% of Pensionable Salaries to cover the cost of building up new benefits and meeting the Scheme's running expenses. The Trustees would have asked the Employers to pay higher contributions if the Scheme had not been in surplus. However, as the Scheme has a surplus the Trustees have agreed to reduce the Employers' contribution requirement. The Trustees believe this is appropriate because the Employers have paid significant contributions in the past to improve the Scheme's funding position. The Trustees expect the surplus to be eroded over a 15-year period as a result of contribution relief provided to the Treasury Board.

The Trustees will continue to monitor the position carefully with their advisers and the contribution requirements, including the use of any surplus, will be reviewed at the next actuarial valuation, which is due as at 1 July 2020.

Commentary on the financial developments to 1 July 2019

The Actuary's update at 1 July 2019 showed that the funding level had fallen only slightly over the year, from 114% to 113%. The small deterioration is expected, as the Trustees are eroding the level of surplus over a 15-year period. The Trustees are grateful that the Employers elected to pay a special contribution of £1.6M over the year, which although not required, demonstrated the support the Employers provide to the Scheme.

The full solvency position

The Actuary's valuation as at 1 July 2017 included a test of whether the Scheme could afford to secure all of its benefits with an insurance company, for example if the Scheme were to wind up.

The solvency position is a much harsher test, as it reflects that insurance companies have to invest in low-risk assets, which are likely to give low returns and also acknowledges that their terms will include administration charges and a profit margin. This means that even if a Scheme is fully funded on its long-term plan, the solvency figure is likely to be less than 100%. Virtually all schemes have substantial shortfalls under this solvency test.

At 1 July 2017 the Actuary estimated that there would have been enough money to secure up to 65% of members' benefits earned up to that date with an insurance company, representing a shortfall of around £60M based on insurance company terms. **However, there is no intention of winding-up the Scheme for the foreseeable future.**

The Pension Protection Fund (PPF)

If the Employers were unable to support the Scheme, for example if they became insolvent (which is very unlikely) and there was insufficient money in the Scheme, then the PPF may take over the Scheme and pay compensation to members. The PPF does not provide full protection, so members would still see a reduction to their retirement benefits if compensation became payable. The PPF's website www.pensionprotectionfund.org.uk provides further information.

Other information

We must also tell you if there have been any payments to the Treasury Board out of Scheme funds since the last statement and we can confirm that there have not been any such payments.

The Pensions Regulator can change the Scheme, give directions about working out its technical provisions or impose a Schedule of Contributions. We are pleased to say that it has not used its powers in this way for our Scheme.

Working beyond 35 years of service

Some members go on to complete over 35 years of service with the Employer, but the maximum number of years that can count towards your Scheme pension is 35. On completing 35 years of pensionable service, you stop paying contributions. To make sure you pension keeps pace with the cost of the living while you remain in employment, it will increase each year in line with the higher of your salary growth or the increase that you would have otherwise received if you had left employment (broadly RPI inflation).

Members can opt out of the Scheme at any time. If you choose to opt-out, you must put your request in writing to the Trustees with one months' notice. If you opt-out, your pension will be treated as if you left employment and so increase each year up to age 65 broadly in line with RPI inflation.

For any members who are nearing this milestone it is important that they consider their options, and possibly seek independent advice if unsure.

Pension scams – don't let a scammer enjoy your retirement

Pension scheme members in the UK continue to be targeted by pension scammers, typically promising to unlock significant amounts of cash for you or offering 'opportunities' that assure high investment returns, often in overseas companies. Tempting though these offers may sound, the sad reality is that most individuals end up losing almost everything and it's devastating.

Pension scams can be hard to spot. Scammers can be articulate and financially knowledgeable, with credible-looking websites, testimonials and materials that are hard to distinguish from the real thing. Please remain vigilant if contacted about transferring your pension benefits. There is a ban on cold calling individuals about their pension savings – but scammers often find loopholes or simply break the law. More information on scams is available from the FCA's website www.fca.org.uk/scamsmart/how-avoid-pension-scams but a summary of their guidance is:

- Reject unexpected offers
- Check who you are dealing with
- Don't be rushed or pressured
- Get impartial information and/or advice.

Transferring benefits into the Scheme

Active members of the Scheme may transfer-in benefits from any previous retirement benefit arrangements. Transfers-in will be used to secure additional service credits within the Scheme and are subject to certain restrictions, including:

- The option to transfer-in benefits is only available to active members
- Transfers-in are limited to a maximum of £25,000 in total for each member
- Transfers-in must be at least £1,000 (in order to secure the minimum 1 month service credit)
- The Trustees have overriding discretion on whether to accept a transfer-in

If you are considering transferring benefits into the Scheme, please contact the Scheme's administrator Barnett Waddingham – contact details shown at the end.

Environmental, Social and Governance factors for investing

From 1 October 2019, it became a requirement for Trustees to include Environmental, Social and Governance (ESG) considerations and stewardship approaches into their investment decision making for the Scheme.

ESG considerations support a sustainable approach to investment that explicitly acknowledges the relevance to the investor of the long-term health and stability of the market as a whole. It targets the environmental, social and governance factors as a specific group of risks. This differs from ethical investing which is based upon holding a fundamental set of moral or ethical principles with which investments must align to.

With the assistance of their advisers, the Trustees have considered how ESG and ethical factors should be taken into account within their investment strategy and updated the Scheme's Statement of Investment Principles, which is available on request.

HMRC's Lifetime Allowance and Annual Allowance

You can accumulate as much retirement benefits as you want, through the Scheme and/or other retirement arrangements, but if you exceed the Lifetime Allowance or Annual Allowance you will have to pay a tax charge.

The **Lifetime Allowance** will be £1.073 million for the 2019/20 tax year and for illustration, a member of the Scheme with a pension of £15,000 pa at retirement would have a Lifetime Allowance value of £300,000, excluding any other forms of benefit in this or other schemes. So for most members, the Lifetime allowance will not be an obstacle to saving, but if you exceed the Lifetime Allowance, the value of excess will be taxed at an effective rate of 55%.

The **Annual Allowance** is the amount of pension savings that you are allowed to build up in a single tax year. This cap is currently £40,000, although if you have any unused allowances you can "carry forward" up to the last three years unused amounts. In final salary arrangements the calculations to determine how much allowance has been used up are more complex. The administrators will issue a statement before October each year to those members who have exceeded the Annual Allowance – but importantly this only measures pension savings in the Scheme and not any other arrangements. It is your responsibility to monitor your own position if you make contributions to other pensions arrangements. A pension savings statement can be provided to any member on request – please contact Barnett Waddingham for more information.

The Annual Allowance is reduced for those with taxable income in excess of £110,000 on a tapered basis with those with taxable income and pension savings of more than £210,000 only receiving tax relief on £10,000 of pension savings.

Anyone who has taken money out of a Defined Contribution (DC) pensions arrangement will have a reduced £4,000 DC Annual Allowance for the tax year. This does not affect the level of savings allowed in a final salary arrangement such as the Scheme, but would affect those members paying into a defined contribution arrangement, like the AVC scheme.

HMRC limits can be complex, so please ask if you have any questions.

Money and Pensions Service (MAPS)

The Money and Pensions Service has been set up by the Government to provide free and impartial guidance to the public. It is the new central body for pension's information, encompassing the three previous financial guidance bodies: PensionWise, the Money Advice Service and The Pensions Advisory Service.

You can access this guidance through their website at moneyandpensionsservice.org.uk.

Please note that the Money and Pensions Service does not provide individual financial advice, but will provide guidance to help you understand the options.

Expression of Wish forms

One of the Trustees' roles is to determine who to pay lump sum benefits to in the event of your death. These are valuable benefits paid free of inheritance tax, but only if paid from the Scheme at the Trustees' discretion.

This is why you were asked to complete an Expression of Wish form when you joined the Scheme – so the Trustees know who to consider. If you cannot remember if you have completed a form, or if your circumstances have changed since you last completed one, say you have recently married, divorced, or have had a child, then please review your wishes. The easiest way to update your wishes is via Barnett Waddingham's online platform – but you will need to have an online account with Barnett Waddingham first. Further information is provided below.

Change of Scheme Actuary

We would like to notify members of a change to the Scheme Actuary from Paul Hubbold to John Lawton, both of Barnett Waddingham LLP. We would like to thank Paul for the services he has provided to the Scheme and look forward to working with John, who has been working alongside Paul since we appointed Barnett Waddingham as our actuarial advisers in 2017.

Please note that this is a change of Data Controller under GDPR and this newsletter fulfils the requirement under GDPR to notify members of this change. There is no material change to the content of the Privacy Notice issued around May 2018.

Questions or need to find out more?

Online access – Barnett Waddingham's online platform

With a secure online account with the Scheme's administrators you can:

- check the membership and financial records held on your behalf
- obtain a projection of your retirement benefits
- update information, like your Expression of Wish Form (see above) or current address
- email the Scheme's administrators with any questions

Access to the online platform is via this website: **www.logon.bwebstream.com**

40% of members have already set up an account. If you would like to set up an online account please ask Barnett Waddingham to send you a registration key.

Additional information

The Trustees prepare a number of documents relating to their funding and investment decisions. Annual accounts are also prepared by the Scheme's auditor. Copies of these documents are available on request.

Contact us

If you need any further information please contact the Scheme administrators at:

Barnett Waddingham, 2 Topaz Way, Bromsgrove, B61 0GD

Tel: 0333 11 11 222 e-mail: CHC@barnett-waddingham.co.uk

If you are a current employee and have questions about your pension benefits, you can also contact the Canadian High Commission HR Officer, Tina O'Shea, using the following details:

Tel: 020 7004 6157 e-mail: Bettina.O'shea@international.gc.ca

By law neither the Trustees nor the Scheme administrators can give you advice about your pension arrangements. If you are thinking about making any changes, you may want to obtain independent financial advice.