Canadian High Commission Locally Engaged Staff Pension Scheme (UK)

Member Newsletter – February 2023

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 the following topical pension issues that may affect you.

- Changes to the Trustee Board
- Pension scams
- Financial updates
- Impact of market volatility
- Changes to pension increases
- Taking benefits from age 60
- Transferring-in benefits
- How to contact us
- Going paperless
- ESG considerations for investing
- HMRC tax limits and allowances

Changes to the Trustee Board

Two new trustees have joined the Trustee Board. Mario Bot was appointed by the Treasury Board of Canada, and Isaac Che Suambe has been appointed as part of the member nominated trustee process. Your Trustee Board now includes the following:

- Dalriada Trustees Ltd, Employer Nominated and Chair, represented by Adrian Kennett and Greig McGuinness
- Greg Giokas, Employer Nominated
- Randolph Mank, Employer Nominated
- Mario Bot, Employer Nominated
- Michelle Cassidy, Member Nominated Trustee
- Isaac Che Suambe, Member Nominated Trustee

Changes to pension increases

During the summer, an uncertainty was identified in the Scheme's governing trust deed and rules about the cost of living measure used by the Scheme for increasing deferred pensions and pensions in payment. The Trustees have a duty to pay benefits in accordance with the Scheme's governing trust deed and rules. The Trustees therefore undertook an extensive review of the position, alongside the Employer, with significant support from their professional advisers. This review has led to a change in the way that the cost of living is measured in the Scheme. We include alongside this newsletter a letter setting out how this change will apply to you. You can also find the relevant letter for your circumstances on the Scheme website (see link in the section below).

Going paperless

To save on printing and postage, and to reflect that most of us communicate electronically, we intend to change our default method of communications to be electronic (rather than by post) in the near future. To help with this move, please can you do two things;

- Set up a **BWebstream account** with our administrators Barnett Waddingham, unless you've done this already.
- Visit the **Scheme's new website**; www.highcommissionofcanada-pensions.co.uk.

The default delivery option for all future correspondence, such as benefit statements, announcements and payslips will be via Barnett Waddingham's BWebstream online platform. If you haven't set up a BWebstream account, please contact Barnett Waddingham (details shown on page 6). Once you have an account, you will receive an email to let you know when new statements or information is available to download.

Continue to receive information by post: We understand that some members might want to continue to receive all correspondence by post. If so, please can you let Barnett Waddingham know, quoting your pension reference number on any correspondence. If you have done this already, there's no need to do it again as your records will already reflect your preferences.

Financial Update

An update of the Scheme's financial position to 30 June 2022 is set out below. Further on, we have provided commentary following volatile markets during September and October 2022. The good news is that the Scheme financial position continues to be in a healthy.

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, known as Defined Benefits or "DB".

Your contributions, and those from the Treasury Board of Canada and other participating employers (referred to as the "Employers") 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 undertakes a detailed assessment to see if 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 when will members retire, how long will they draw their pension, 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, if there is a shortfall, recommend more money to be paid in by the Employers.

As well as the triennial check, an annual update is carried out to monitor progress. The detailed assessment, known as an actuarial valuation, was last carried out as at 30 June 2020, and an annual update was carried out as at 30 June 2021 and 30 June 2022. The results of these reviews are shown in the table below, followed by commentary on developments over the last year.

£Million	**Actuarial valuation 30 June 2020**	**Update 30 June 2021**	**Update 30 June 2022**
Scheme assets	144.6	150.8	123.3
Expected cost of benefits	138.7	133.7	104.4
Surplus	**5.9**	**17.1**	**18.9**
Funding level	104%	113%	118%

Contributions being paid in

The actuarial valuation in 2020 showed the Scheme was in sound financial health, with a surplus of £5.9M at the valuation date. The surplus has increased steadily since then, which is covered in developments section below.

Active members contribute 6% of Pensionable Salary and the Employers agreed to increase their contributions from 37.6% to 53% of Pensionable Salaries to cover the cost of building up new benefits and meeting the Scheme's running expenses.

If there had not been a surplus, the Trustees would have asked the Employers to pay slightly higher contributions. However, as there was a surplus, the Trustees have allowed the Employers to pay a slightly lower rate. The Trustees believe this is appropriate because the Employers have paid significant contributions in the past which have helped put the Scheme in such a strong financial position.

The Trustees will continue to monitor the position carefully with their advisers and the contributions will be reviewed as part of the 30 June 2023 actuarial valuation.

Commentary on the financial developments to 30 June 2022

The Actuary's update at 30 June 2022 showed that the funding level had increased over the year to 118%, resulting in a surplus of £18.9M. The main reason for the increase in surplus was due to a change in the market conditions, which meant expected cost of the providing the benefits was lower. The change to CPI UN pension increases, which are expected to be slightly lower, has also improved the funding level.

The solvency position

The Actuary's valuation as at 30 June 2020 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 very secure, low growth assets. Margins are also needed to cover insurance companies' administration charges and profits. 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%. Most ongoing schemes have substantial shortfalls under this solvency test.

At 30 June 2020 the Actuary estimated that there would have been enough money to secure up to 67% of members' benefits earned up to that date with an insurance company, representing a shortfall of around £70M 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.ppf.co.uk provides further information.

Other information

We must also tell you if there have been payments to the Employers out of Scheme funds, or the Pensions Regulator has directed us to take certain action to better serve members' interests. We are pleased to say that neither of these events have happened.

Impact of market volatility on your pension

Following the UK mini-budget announcement, you might have seen the subject of pensions in the news headlines and be concerned about the impact this could have on your own pension.

As this is a Defined Benefit (or "DB") Scheme, your benefits don't depend on investment performance, so aren't immediately affected by the current situation. Having said that, the Trustees are responsible for the underlying investment strategy and must make sure there's enough money in the Scheme to pay pensions now and in the future. These recent developments might have caused fluctuations in the Scheme's funding levels, so the Trustees have kept a careful watch on what's happening in the markets.

The Scheme has remained in surplus during September and October 2022 and continues to be in a healthy financial position. The next detailed review will be undertaken in June 2023, with the results likely to be shared with you in early 2024. In the meantime, the Trustees will continue to monitor the position and keep you updated.

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

Pension scheme members in the UK continue to be targeted by pension scammers, frequently promising to unlock significant amounts of cash for you or offering 'opportunities' that promise high investment returns, often in overseas companies. Tempting though these offers may sound, the sad reality is that most individuals who accept them 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 can be 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 to review or cash-in your benefits
- Check who you are dealing with
- Don't be rushed or pressured
- Get impartial information and/or advice

Transferring benefits into the Scheme

Current employees that are members of the Scheme may transfer-in benefits from certain 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 a minimum level of 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 Barnett Waddingham – contact details shown at the end of this newsletter.

Drawing benefits from age 60

Current and past employees who have built up benefits in the Scheme can start to draw a pension from age 60 without reduction for early payment. If you are approaching age 60, or over age 60 and would like an illustration of the benefits you could receive then you can obtain an online illustration via **BWebstream**, Barnett Waddingham's member platform or you can contact Barnett Waddingham directly – details shown at the end of this newsletter.

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 encompass a more sustainable approach to investment, explicitly acknowledging the importance to the investor of creating or enhancing value for all stakeholders – employees, customers, suppliers and wider society including the environment. Therefore environmental, social and governance factors become a specific group of risks or opportunities to weigh up when selecting investments. This differs from ethical investing which is based upon a set of moral or ethical principles with which investments must align.

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 (SIP). From 1 October 2021, both the Scheme's SIP and an Implementation Statement setting out how the policies in the SIP have been followed, must be made available on a publicly accessible website: www.highcommissionofcanada-pensions.co.uk.

HMRC's Lifetime Allowance and Annual Allowance

You can accumulate as much retirement benefits as you want, through this Scheme 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 2022/23 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 any excess savings 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" unused amounts from the previous three years. In a "DB" arrangement, such as this Scheme, the calculation to determine how much allowance has been used up is 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 this 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 for 2022/23 is below £40,000 for those with taxable income exceeding £240,000. If you think your taxable income could exceed this level then it is important to carefully assess your position to avoid any unexpected tax charges. A financial adviser can help you work out what your annual allowance is and advise you accordingly.

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.

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 by the Scheme at the Trustees' discretion.

It is important to complete an Expression of Wish – so the Trustees know who to consider if paying benefits in the event of your death. If you cannot remember if you have completed a form, or if your circumstances have recently changed, such as getting married, divorced, or having children, then please review your wishes. The easiest way to update your wishes is via your Bwebstream account with Barnett Waddingham. Further information is provided below.

Normal Minimum Pension Age

Currently, the earliest age you can draw your benefits is 55. This is known as the Normal Minimum Pension Age (NMPA). The UK Government issued proposals to increase the NMPA to age 57 in 2028 to coincide with the rise of the UK State Pension Age to 67. A recent consultation on the proposals confirmed the increase in the NMPA will go ahead. Therefore from 6 April 2028 you will not be able to access your pension savings, including your benefits from this Scheme before age 57 unless retiring due to ill-health (subject to clarification of certain protections).

GMP equalisation

In May 2022 the Trustees completed a project to ensure that Scheme benefits are equalised between men and women for the effect of differences in Guaranteed Minimum Pensions (GMPs). Any retired members that were affected were informed of the increase to their benefits in June 2022. Benefits coming into payment for members that have not yet retired will be adjusted to make sure that what is being put into payment is correct.

Questions or need to find out more?

Online access – BWebstream – your membership platform

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

- View your benefit statements
- Check your membership records
- Use interactive tools to illustrate the benefits payable on retirement
- Update information, like your Expression of Wish Form or current address
- Email the Scheme's administrators with any questions about your benefits

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

50% of the membership already have an account. If you would like to set up an account please ask Barnett Waddingham to send you a registration key.

Additional information

The Trustees prepare various documents relating to their funding and investment decisions. Further details are available on request.

The Money and Pensions Service has been set up by the Government to provide free and impartial guidance to the public. You can access this guidance through their website at moneyandpensionsservice.org.uk. Its purpose is to provide guidance to help you better understand your options around your retirement savings.

Contact us

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

Barnett Waddingham, 3 Devon Way, Birmingham, B31 2TS

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 HR Officer at the High Commission of Canada, using the following details:

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

By law, the Trustees and the Scheme's administrators cannot give you advice about your pension arrangements. If you are thinking about making any changes, you should obtain independent financial advice first.