

# **The Architectural Association (Incorporated) Staff Retirement Benefits Plan – Defined Contribution Section**

## **Chair’s Statement – Year ended 31 July 2023**

In accordance with the requirements of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (‘the Regulations’), the Trustees are required to provide an annual statement relating to the governance of the defined contribution (‘DC’) benefits within the Plan. These rules are designed to help members achieve a good outcome from their pension savings.

This statement covers the period from 1 August 2022 to 31 July 2023 and has been prepared by acting Chair of the Trustees, Joel Newman.

The DC Section of the Plan is not required to produce a Statement of Investment Principles as it ceased active membership prior to April 2015. In addition, there are less than 100 members in the Section.

During the scheme year, a decision was taken by the Trustees to wind up the DC Section and the transition of assets away from the Plan will conclude in early February 2024.

### **Background to the Plan’s DC benefits**

The DC Section of the Plan consisted of 17 deferred members as of 31 July 2023. The Plan is closed to new members and no contributions are being paid in. This Plan is not used by the Employer for auto-enrolment purposes.

The DC Section is operated as an unbundled trust-based DC arrangement. This means that separate service providers supply investment management and administration services. Investment management is undertaken by Aviva with administration services being provided by First Actuarial.

The sponsoring employer meets the costs of governance, administration, communications, and support with decision making; members meet investment management charges.

At retirement, members can take up to 25% of their benefits in the DC Section as a tax-free lump sum and purchase an annuity with the balance. Should they wish to access wider retirement freedoms such as income drawdown, they will need to transfer to another pension arrangement.

# The Architectural Association (Incorporated) Staff Retirement Benefits Plan – Defined Contribution Section

## Governance of the default investment option

As of 31 July 2023, the DC funds under management with Aviva were:

Aviva fund	Funds under management (£)
<b>Default Funds</b>	
Aviva Lifestyle Retirement 2030	£71,067
Aviva Lifestyle Retirement 2035	£36,444
Aviva Lifestyle Retirement 2040	£51,923
Aviva My Future Consolidation	£37,015
<b>Self-Select Funds</b>	
Aviva Axa Framlington Global Sustainable Managed	£13,200
Aviva Baillie Gifford Managed	£15,239
Aviva Cash	£15,148
Aviva Ethical Distribution	£4,982
Aviva Global Distribution	£9,068
Aviva Higher Income	£16,213
Aviva Index-Linked	£2,116
Aviva Managed	£3,220
Aviva Property	£970
Aviva Reserve	£2,816
Aviva Retirement Distribution	£9,842
Aviva UK Equity	£1,387
Aviva With Profits	£14,961
<b>Total</b>	<b>£305,611*</b>

\*Figures shown also include AVC funds

The DC Section of the Plan has a designated default option i.e. a series of funds into which contributions are placed without the member having made a choice as to where the contributions are allocated. The Aviva Lifestyle Retirement fund is the chosen default and the allocation between the funds is dependent on the members retirement date.

The default arrangement is a 'lifestyle' retirement strategy, which automatically de-risks members' investments as they approach retirement, specifically targeting income drawdown. 10 years before retirement, investments are gradually moved into the Aviva My Future Consolidation fund, which has a higher allocation to more stable assets such as cash and fixed interest. Approximately 64% of funds are invested in the default investment strategy.

The Aviva Lifestyle Retirement strategies aim to provide an appropriate mix of assets for members who wish to build capital with the intention of making withdrawals from their pension savings in the form of a drawdown from the year stated in the fund name. The fund's allocation will change over time with the emphasis in the early years on growing the fund when the manager will invest in UK and global equities, directly or indirectly.

## The Architectural Association (Incorporated) Staff Retirement Benefits Plan – Defined Contribution Section

The Lifestyle strategies will gradually start to de-risk 10 years before the Lifestyle end date, moving from the Growth fund to Consolidation fund. As the expected year of retirement approaches the asset mix will change to include some fixed interest and cash. It targets a volatility level of 4% and seeks to generate a stable level of return. Through a range of passively managed funds, the fund invests mainly in UK government (including index-linked) and corporate bonds. It may also invest in UK and overseas equities (including emerging markets), overseas government and corporate bonds, money market instruments and cash.

Members that invest in the With Profits fund are entitled to bonuses arising from a share of the profits of the Aviva Life & Pensions UK Limited FLC With-Profits Sub-Funds. Members will receive a share of the profits as bonuses added to their policy. Aviva regularly review the bonus rates, and these can change at any time. Future bonuses cannot be guaranteed as they come from profits not yet earned. If the investment performance of the Sub-Funds is lower than that reflected in the bonuses Aviva have added to the policies and members move out of the With Profits fund either before or after their chosen retirement date, Aviva may reduce the value of units. This is known as a market value reduction (MVR). A terminal bonus or final bonus may also be payable.

### Charges and transaction costs

Costs and annual charges borne by members' funds may have a significant impact on their accumulated pension funds, so it is important to keep these to a minimum. To help with this, the Government imposed a charge cap of 0.75% p.a. from 6 April 2015 for the default investment options within schemes used for auto enrolment. This cap excludes transaction costs. While the DC Section of the Plan is not subject to the charge cap, it provides a useful benchmark for charges, and as such we have considered this cap in connection with the members.

The annual ongoing charges levied by the investment manager and deducted from members' investment depends on the funds used and the table below shows this charge. It has not been possible to obtain costs and charges to 31 July 2023 and the charges outlined are as of 31 December 2023.

Members invested in the growth phase of the default investment option are subject to an ongoing charge (Total Expense Ratio) of 1.01% per annum during the growth phase. The Aviva My Future Consolidation Fund is used in the final 10 years before target retirement date to reduce risk as members approach retirement. This fund has an ongoing charge (Total Expense Ratio) of 1.03% and therefore the charges vary minimally between the growth and retirement phases.

In addition to these explicit member charges, members can incur additional transaction costs. Transaction costs are defined in regulations as the costs incurred because of buying, selling, lending or borrowing investments and they can have a significant impact on members' fund values. Aviva previously confirmed that there are no additional transaction costs and therefore the Total Expense Ratio (TER) charge consists of the annual management charge and the additional yearly fund charge, as shown below.

The costs and charges made available to us are reviewed on an annual basis by our advisers, First Actuarial. This review covers both the default arrangement and the self-selected options chosen by members.

## The Architectural Association (Incorporated) Staff Retirement Benefits Plan – Defined Contribution Section

Aviva Fund	Annual Management Charge (AMC)	Additional Yearly Fund Charge	Total Charges (Total Expense Ratio)
<b>Default Funds</b>			
Aviva Lifestyle Retirement 2030	1.00%	0.01%	1.01%
Aviva Lifestyle Retirement 2035	1.00%	0.01%	1.01%
Aviva Lifestyle Retirement 2040	1.00%	0.01%	1.01%
Aviva My Future Consolidation	1.00%	0.03%	1.03%
<b>Self-Select Funds</b>			
Aviva Axa Framlington Global Sustainable Managed	1.20%	0.12%	1.32%
Aviva Baillie Gifford Managed	1.13%	0.05%	1.18%
Aviva Cash	1.00%	0.01%	1.01%
Aviva Ethical Distribution	1.00%	0.03%	1.03%
Aviva Global Distribution	1.00%	0.03%	1.03%
Aviva Higher Income	1.00%	0.02%	1.02%
Aviva Index-Linked	1.00%	0.04%	1.04%
Aviva Managed	1.00%	0.02%	1.02%
Aviva Property	1.00%	0.01%	1.01%
Aviva Reserve	1.00%	0.04%	1.04%
Aviva Retirement Distribution	1.00%	0.03%	1.03%
Aviva UK Equity	1.00%	0.01%	1.01%
Aviva With Profits	1.00%	0.00%	1.00%

### Cumulative costs and charges

The Trustees has conducted an analysis of the cumulative impact of the member-borne costs and charges within the various investment funds for typical members of the DC Section of the Plan, which is set out in the Appendix.

### Net investment returns for the DC Section

Statutory guidance confirms that returns should be annualised, net of all charges and calculated on a geometric mean basis. However, it has not been possible to obtain this information from Aviva at this time. The following table shows **gross** annualised performance for each fund to 31 July 2023. It has not been possible to obtain returns for the Aviva With Profits Fund.

## The Architectural Association (Incorporated) Staff Retirement Benefits Plan – Defined Contribution Section

Gross Annualised Investment Returns to 31 July 2023						
Aviva Fund	1 year	3 years	5 years	10 years	15 years	20 years
<b>Default Funds</b>						
Aviva Lifestyle Retirement 2030	4.99%	10.42%	4.51%	6.63%	7.21%	7.76%
Aviva Lifestyle Retirement 2035	7.65%	11.71%	5.36%	7.07%	7.50%	7.98%
Aviva Lifestyle Retirement 2040	7.72%	11.75%	5.37%	7.07%	7.51%	7.99%
Aviva My Future Consolidation	-1.38%	0.55%	1.83%	n/a	n/a	n/a
<b>Self-Select Funds</b>						
Aviva Axa Framlington Global Sustainable Managed	2.97%	3.79%	4.73%	6.31%	7.71%	8.77%
Aviva Baillie Gifford Managed	5.61%	0.56%	5.21%	7.92%	9.03%	9.15%
Aviva Cash	2.82%	1.10%	0.98%	0.72%	0.86%	1.86%
Aviva Ethical Distribution	-5.30%	0.31%	0.34%	3.34%	4.81%	4.88%
Aviva Global Distribution	-3.58%	2.50%	1.71%	4.30%	6.06%	6.55%
Aviva Higher Income	2.16%	10.00%	3.12%	4.48%	6.07%	6.46%
Aviva Index-Linked	-22.47%	-13.14%	-4.39%	1.57%	3.51%	4.41%
Aviva Managed	1.01%	6.24%	3.64%	5.91%	6.33%	6.90%
Aviva Property	-14.87%	3.95%	2.30%	6.56%	5.08%	5.13%
Aviva Reserve	-4.15%	-0.55%	1.20%	3.95%	3.97%	3.98%
Aviva Retirement Distribution	-3.54%	2.47%	1.74%	4.07%	5.53%	6.36%
Aviva UK Equity	7.33%	12.32%	4.37%	5.76%	6.75%	7.26%
Aviva With Profits	n/a	n/a	n/a	n/a	n/a	n/a

Source: FE Analytics

### Core financial transactions

The processing of any core financial transactions is regularly monitored by our administrators, First Actuarial, who have implemented internal control procedures that help ensure that such transactions are processed promptly and accurately.

No contributions are made by members and therefore the number of transactions is minimal.

The administration services typically monitored include the following “core financial transactions”:

- Transfers of assets relating to members into and out of the DC Section;
- Transfers of assets relating to members between different investments within the DC Section; and
- Payments from the DC Section to, or in respect of, members.

# **The Architectural Association (Incorporated) Staff Retirement Benefits Plan – Defined Contribution Section**

Other activities covered include controls and procedures to manage the accuracy of investment allocations and the settlement of benefits.

To help gain assurances that the administration is being dealt with promptly and accurately, we undertake on a review of regular administration reports provided by First Actuarial to assess how quickly and effectively the core financial transactions are completed. Any mistakes or delays are investigated, and action taken to put things right as quickly as possible.

There are no service level agreements in place with the administrators, First Actuarial, however the Trustees monitor the timing of benefit statements issued.

## **Value for members**

The DC Section of the Plan is in the process of winding up and therefore a value for member assessment has not been undertaken for the 2022/23 plan year.

## **Trustee knowledge & understanding**

The law requires the Trustees to possess, or have access to, sufficient knowledge and understanding to run the Plan effectively, including knowledge of the Trust Deed and Rules and other informal policies.

The Trustees record the training completed by each member of the board. The record is reviewed on an ongoing basis to identify any gaps in the Trustees knowledge and understanding. The Trustees then work with professional advisers to fill any gaps.

Trustees' knowledge and understanding is a regular agenda item at the Trustees meetings and a record of time spent on this is kept. Existing Trustees periodically attend trustee training courses, and all new Trustees attend training to ensure they have the required knowledge and understanding to undertake the role.

At the February 2023 Trustees meeting, papers on DC Section Wind Up Considerations and DC Provider Selection were presented by First Actuarial.

## **Member communications**

Annual benefit statements containing statutory money purchase illustrations were issued by the administrators to members. Communications were also sent to members to inform them of the winding up of the DC Section of the Plan and the options available to them.

# The Architectural Association (Incorporated) Staff Retirement Benefits Plan – Defined Contribution Section

## How to contact the Trustees

If you have any further queries regarding the Plan, please contact:

Trustees of the Architectural Association (Incorporated) Staff Retirement Benefits Plan  
First Actuarial LLP  
Fosse House  
182 High Street  
Tonbridge  
Kent TN9 1BE

Email: [chris.campbell@firstactuarial.co.uk](mailto:chris.campbell@firstactuarial.co.uk)

Telephone: 01732 207575



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Joel Newman

Acting Chair of the Trustees

28 February 2024

## The Architectural Association (Incorporated) Staff Retirement Benefits Plan – Defined Contribution Section

### Appendix

The Trustees has taken account of the statutory guidance when preparing these illustrations. The assumptions used to calculate the cumulative pension costs are based on actual plan information and are as set out under the tables.

#### Default Funds

Projected pension pot in today's money								
Fund	Aviva Lifestyle Retirement 2030		Aviva Lifestyle Retirement 2035		Aviva Lifestyle Retirement 2040		Aviva My Future Consolidation	
Years	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£18,673	£18,492	£18,748	£18,566	£18,748	£18,566	£18,453	£18,267
3	£20,097	£19,515	£20,339	£19,753	£20,339	£19,753	£19,392	£18,813
5	£21,629	£20,596	£22,066	£21,016	£22,066	£21,016	£20,379	£19,376
10	£25,988	£23,566	£27,050	£24,538	£27,050	£24,538	£23,073	£20,857
15	£31,227	£26,965	£33,159	£28,650	£33,159	£28,650	£26,124	£22,452
20	£37,522	£30,854	£40,649	£33,451	£40,649	£33,451	£29,577	£24,168
25	£45,086	£35,304	£49,830	£39,057	£49,830	£39,057	£33,487	£26,016
30	£54,175	£40,395	£61,086	£45,602	£61,086	£45,602	£37,913	£28,004
35	£65,096	£46,221	£74,883	£53,244	£74,883	£53,244	£42,925	£30,145
40	£78,218	£52,887	£91,797	£62,166	£91,797	£62,166	£48,600	£32,450

# The Architectural Association (Incorporated) Staff Retirement Benefits Plan – Defined Contribution Section

## Self-Select Funds

Projected pension pot in today's money				
Fund	Aviva Axa Framlington Global Sustainable Managed		Aviva With Profits	
Years	Before charges	After all costs and charges	Before charges	After all costs and charges
1	£18,677	£18,440	£18,575	£18,395
3	£20,109	£19,351	£19,781	£19,211
5	£21,651	£20,308	£21,065	£20,064
10	£26,042	£22,913	£24,652	£22,365
15	£31,324	£25,851	£28,850	£24,929
20	£37,677	£29,166	£33,763	£27,788
25	£45,319	£32,906	£39,512	£30,974
30	£54,511	£37,126	£46,240	£34,526
35	£65,567	£41,887	£54,114	£38,485
40	£78,866	£47,258	£63,329	£42,898

### Assumptions:

1. Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation
2. The starting pot size is assumed to be £18,000
3. Inflation is assumed to be 2.5% each year
4. Values shown are estimates and are not guaranteed
5. The projected growth rate for each fund are as follows:

Aviva Lifestyle Retirement 2030	3.74% above inflation	Aviva Lifestyle Retirement 2035	4.16% above inflation
Aviva Lifestyle Retirement 2040	4.16% above inflation	Aviva My Future Consolidation	2.51% above inflation
Aviva Axa Framlington Global Sustainable Managed	3.76% above inflation	Aviva With Profits	3.19% above inflation