

CHAIR'S DC GOVERNANCE STATEMENT – 2023

Introduction

Trustees of pension schemes which provide part or all of the benefits on a defined contribution (DC) basis are required to produce an annual statement, signed by their Chair, setting out a number of prescribed matters.

Although the Plan is predominately a defined benefit pension arrangement, it also has a section of membership entitled to pension benefits which accrued on a defined contribution basis. There are seven such members. It is this section to which this Statement relates.

The Plan was set up on 29th September 1956. The DC section was established in 1999. This is the Plan's December 2023 annual report.

The Scheme operates under a Trust Deed and Rules dated 12th June 2003 (as amended). A copy is available to view from Chris Slater at the RHA's Head Office in Peterborough.

Do you need to do anything as a result of this statement?

This Statement is for noting. You do not need to take any action. If you have any questions or require any further information you should contact the Scheme Secretary (Martin Ralph) at Simplicity Pensions by email on martin.ralph@simplicitypensions.co.uk or by telephone on 01892 576 290.

PLAN SPECIFIC INFORMATION

The Plan's default investment strategy

Whilst the Plan is a 'relevant scheme' as prescribed under pension legislation and regulations, the DC Section is not used for automatic enrolment purposes and therefore does not have a 'prescribed' default investment arrangement. As such it is not subject to the full requirements and disclosures covering costs and charges.

However, the Plan uses a default investment strategy in which members' monies were invested whilst the Plan was receiving contributions, and in which the members' monies remain invested in. This investment strategy is overseen by the Trustee and the assets are invested in funds managed by Legal & General Investment Management (LGIM). The funds that are currently used are the LGIM Multi-Asset Fund (formerly the Consensus Index Fund), the LGIM Over 15-year Gilts Index Fund and the LGIM Cash Fund.

Monies are moved between the three funds according to age, with the multi-asset fund being used until a member reaches age 55, from which point monies are progressively switched on a quarterly basis from this fund to the gilts fund, with 20% being invested in the cash fund as a member reaches retirement age.

Default strategy investment objectives

- The investment objective of the Multi Asset Fund is to deliver long-term investment growth through exposure to a diversified range of asset classes. The Fund will invest in a range of assets which may include equities, bonds, cash, infrastructure, private equity, global real estate companies and other asset classes. Exposure to each asset class will primarily be through investing in passively managed funds. The Fund aims to meet the criteria of the ABI Pension Mixed Investment 40-85% Shares Sector. The Fund is expected to have a level of risk which is equivalent to two thirds of the volatility of a global equity portfolio, over the long term.
- The investment objective of the Over 15 Year Gilt Fund is to track the performance of the FTSE Actuaries UK Conventional Gilts Over 15 Years Index to within +/-0.25% each year for two years out of three. It seeks to do this by employing an index tracking strategy, aiming to replicate the strategy of its benchmark.

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- The objective of the Cash Fund is to provide capital protection with growth at short term interest rates. The fund invests in the short-term money markets such as bank deposits and Treasury Bills. The fund does not invest in any asset types where the capital value can fall, such as fixed interest securities.

Review

- A review of the default investment approach was last undertaken in 2017-18. The review recommended the continued use of the current default approach.

Statement of Investment Principles (SIP)

The DC Section is not subject to the legislation requiring the Trustee to prepare and publish a SIP covering prescribed default investment arrangements as it does not have such an arrangement. However, the Plan does have a SIP which can be found online at the following address:

<https://www.rha.uk.net/About/Defined-Benefit-Pension-Scheme>

Plan specific Investment fund performance net of all charges and transaction costs

As part of the disclosure regulations, we are required to report in this Statement the return on the investment funds, net of charges and transaction costs, for the previous five years ending on 31st December 2023. This is shown in the table below:

Fund Performance	Net annualised performance to 31 st December 2023		
	1 year (2023)	3 years (2021-2023)	5 years (2019-2023)
Multi-Asset Fund	8.12%	1.55%	4.94%
Over 15Yr Gilts Index Fund	1.56%	-17.43%	-6.44%
Cash Fund	4.53%	1.88%	1.27%

Plan specific charges and transaction costs

As the DC Section does not have a 'prescribed' default investment arrangement, it is not subject to the requirements and disclosures covering costs and charges. However, we can confirm that the maximum total charges that could be applied to the investment funds used by the DC Section during the year were 0.08% (Gilts Fund) - 0.35% (Multi-Asset Fund). There were no other transaction costs. All other costs of the management of the DC section are met by the RHA as the sponsoring employer.

The Trustee's assessment of the extent to which the charges and transaction costs represent good value for members is that the charges do represent good value, when taken in consideration of the Government's overall charging cap of 0.75% for default arrangements and given that the remainder of any charges and costs are met by the RHA.

Processing of core financial transactions

During the year there were core financial transactions affecting the DC section of the Plan and the DC assets. As no new contributions are made to the DC Section these transactions are limited to:

- The transfer of assets relating to members into and out of the Plan (*nil transactions*)
- The transfer of assets relating to members between different investments within the Plan (*4x transactions – 1 per quarter*)
- Payments from the Plan to, or in respect of, members (*1x transaction*).

The Trustee ensures that any financial transactions are processed promptly and accurately by having an agreement with their service provider committing them to defined service level agreements ("SLAs"). These were adhered to. The Trustee agreed to review the administration service provide in 2023. This review concluded in June 2024 and a new provider is in the process of being appointed.

TRUSTEE'S VALUE FOR MEMBERS ASSESSMENT

Background

The Government expects that members should be in well run schemes that deliver optimal value for them over the long term. If this cannot be achieved in their existing scheme it is expected that it can be achieved by consolidation with other DC schemes.

Under Regulation 25(1)(b) of the Administration Regulations, and The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021, trustees are now required to assess the extent to which their own pension scheme represents good value for members. This is done by comparing their scheme with three comparison pension schemes in the areas of:

- charges and transaction costs paid by the members
- fund performance (net investment returns)
- and how the pension scheme is administered and governed.

The Trustee's approach to the assessment

As the DC section of the Plan is closed to contributions and is very small, with just six deferred members (at the date of this Statement – now five) and around £158,000 in assets, we have taken a proportionate approach to the value for members assessment. The comparator schemes used and our process is outlined below.

Comparator schemes

As required by the regulations, three comparator schemes have been selected for the purposes of the value for members assessment. The schemes are:

- Smart Pension Master Trust (SPMT)
- National Employment Savings Trust (Nest)
- The People's Pension (TPP).

All three schemes operate as what are known as 'master trust' pension schemes and are subject to the same underlying pension law as the Plan.

- The SPMT took on the assets and liabilities of the CMT which was used for last year's comparison. The SPMT is a medium-sized master trust pension arrangement with around £5bn in assets. Like the Plan, it uses a lifestyle strategy and investment funds primarily managed by LGIM for its default investment strategy.
- Nest is the largest master trust pension scheme in the UK and was established by the government (although it operates as an autonomous private sector arrangement) for the purposes of providing pension saving for any and all employers, employees and workers as wish to join it. Nest makes use of target dated funds based on a member's retirement date as its default investment strategy.
- TPP is one of the largest master trusts in the UK and operates on a not-for-profit basis. It uses a lifestyle strategy as its default investment strategy.

Process

We have taken a proportionate approach to the assessment and where appropriate, for the costs and charges, and investment returns, we have made comparisons based on the investment strategy that would be used for a member aged 58, this being broadly the average age of our DC membership.

Assessment

Annual charges and transaction costs borne by the member (averaged over the last 5 years)

The annual charges and costs of the Plan's default arrangement are shown compared against the other schemes' default arrangements for a member aged 58 with a fund value of £25,000, even though the investment strategy may not be identical.

Average annual costs & charges	The RHA Plan	SPMT	Nest	TPP
Investment management costs	0.1204%	0.3289%	0.3%	0.352%
Transaction costs	0.0872%	0.0837%	0.058%	0.044%
Other investment costs	Nil	Nil	Nil	Nil
Additional administration costs	Nil	0.084%	Nil	0.018%
Total	0.2076%	0.4966%	0.358%	0.414%

Where lifestyle is used, the charges have been proportioned between the different funds used for a member aged 58. The SPMT fund costs are as at 30 June 2023 The Nest 2030 fund costs are as at 31st March 2023. The TPP fund costs are as at 5 April 2023..

Assessment - based on these findings, we believe that the Plan has provided **good** value in this area over the Plan year. This is in part due to the Employer meeting all fees in relation to the administration and running of the Plan.

Fund performance (net returns)

The net investment fund performance of the Plan's default arrangement is shown compared against the other schemes' default arrangements for a member aged 58, even though the investment strategy may not be identical.

	RHA	SPMT	Nest 2031	TPP
Net investment return over 5 years (annualised basis)	1.244%	7.49%	7.57%	3.67%

Where a lifestyle strategy is used with more than one fund, we have calculated an estimated weighted net return based on the split between the growth and consolidation funds at age 58.

Assessment - based on these findings, we believe that the Plan has provided **poor** value in this area over the Plan year. The Plan makes use of a multi-asset fund and a long-dated Gilts fund – whilst both funds reflected positive performance during 2023, both had significant negative returns during 2023 which has negatively impacted the five-year return. The Trustee has recently appointed a new investment consultant who will be asked to review the current investment strategy should the section be maintained.

Governance and administration

When assessing the value provided by the Plan we have reviewed a number of specific areas.

- **Ongoing trustee governance** – the Trustee Board meets at least three times per year. In recent years the Trustee has been reviewing the future of the DC section, with the intention of closing this section and as such, the ongoing governance has not been as robust as that for the comparator schemes which are much larger than the Plan and are dedicated DC arrangements with more substantial resources. Given this and the expected costs of the ongoing management of the section, the Trustee has been reviewing its options both for closing the DC section and for maintaining and managing this on an ongoing basis. A proposal has been made to RHA Limited to move to close the section. A response is awaited at the time of drafting this Statement.

We rate this area as having provided poor value over the plan year.

- Suitability of investment strategy and choice – due to the review of the DC section, the suitability investment strategy was last reviewed in 2018. It was found to be appropriate at this time. Like many schemes, including two of the comparator schemes, the Plan operates on a risk-reducing lifestyle basis, as a member nears retirement age. The Plan targets an annuity purchase and cash sum being elected at retirement. No investment choices are offered outside of the default.

Should the current review of the options for the future of the Section result in this being maintained, the investment strategy and choice will be considered for review. The Trustee has recently appointed a new investment consultant who will be asked to review the current investment strategy.

We rate this area as having provided poor – average value over the Plan year. Several larger pension arrangements offer the option of an investment strategy to target income drawdown at retirement. It is unlikely to be cost-effective to adopt a similar approach given the relative size of our DC membership, the average fund value and the potential closure.

- Member options at retirement – the Plan does not offer members the option of a pension paid directly from the Plan. However, members have a number of different options: the option to take a transfer of the full value of their benefits to an alternative pension arrangement; the option to take a tax-free cash sum from the Plan (an uncrystallised pension fund lump sum) and transfer the remaining fund to an alternative pension policy offering drawdown flexibility; the option to use the value of their pension fund to purchase an annuity through an external provider, with the added option to take a tax-free cash sum from the Plan. Whilst the Plan does not provide a directly paid pension income, we believe that members have sufficient options when compared to the other pension schemes.

We rate this area as having provided good value over the Plan year.

- Quality of administration records – the Plan maintains a high level of data quality across all of its records. In common with many pension schemes, we do not routinely hold details of marital status or spousal / partner dates of birth for the DC members, instead requesting this when a member chooses to take benefits. Address traces and mortality screening is carried out on a regular basis.

We rate this area as having provided good value over the Plan year.

- Member communication and engagement – the ongoing review of the Plan has resulted in no additional or specific communications to members. The Trustee is considering a communication and member engagement plan should the DC section be maintained. The extent of member communication and engagement will depend on whether the DC section of the Plan is maintained in the future.

We rate this area as having provided poor value over the Plan year.

Assessment – based on these findings, we believe that the Plan currently provides **average** value in this area. Whilst certain areas have been assessed as being good, further development and robust processes are required to be implemented in other areas.

Overall findings

Taking the findings in each of the three headline areas as a whole, we believe that the Plan provided **average** value for its members over the Plan year ending 31st December 2023:

- Charges and transaction costs paid by the members – **good**
- Fund performance (net investment returns) – **poor**
- How the pension scheme is administered and governed – **average**.

Action plan for the future

Our action plan for the remainder of the 2024 year and beyond will be driven by the decision as to whether the DC section of the Plan is maintained on an ongoing basis or consolidated with another arrangement and the section closed through amendments to the Plan Rules once all liabilities are transferred out.

- Should the section be maintained, we will work with our advisers to address our lower scores in the areas of the investment strategy and choice, and the governance and member communication through an investment review and the implementation of a robust governance process.
- Should we continue with a consolidation and closure of the DC section, we will seek to find a suitable pension arrangement to which we can transfer the members' monies and liabilities. Initial discussions have been held with TPP in relation to this.

Knowledge and understanding of the Directors of the Trustee

The Directors' relevant knowledge and understanding is continually assessed and training provided at every meeting as appropriate. The knowledge of the Board continues to be enhanced and strengthened through the ongoing appointment of an independent professional trustee firm, HS Trustees.

The Trustee's approach to meeting the Trustee Knowledge and Understanding requirements include:

- The receiving of training at Trustee meetings from their advisers to ensure that the Board maintains an appropriate level of knowledge and understanding of current and general issues affecting pensions.
- The circulation to each Director of 'hot topics' and general updates from advisers and investment managers relating to matters relevant to the Plan, where available.

Directors also undertake training through reading of additional and appropriate material. The knowledge and experience of each Director, together with advice from their advisers and the additional training and learning, enables them to properly exercise their Trustee duties. Each Director maintains a log of both required and voluntary training.

Signed on behalf of the Trustee

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Chrys Rampley, Chair

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Date