Aviva Independent Governance Committee

2022 Annual Report for the year to 31 December 2021

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Welcome to our report

Welcome to our report

This report assesses the value for money, provided by Aviva for your workplace pension. It covers the 12 months from 1 January 2021 to 31 December 2021, but also looks forward to future developments.

Rather like the last two years, we're all facing many different challenges right now. That makes it especially important for your pension provider to provide good value, ensuring your pension is appropriately invested and well managed on your behalf.

Managing risk

Investment market turbulence caused by geo-political and domestic events – such as the war in Ukraine and the steep rise in energy costs – happened largely after the period covered by this report. However, the main Aviva investment funds have shown good resilience and provided a degree of stability and protection in this period.

It's never wise to put all your eggs in one basket, so Aviva designed the main default funds with a high degree of diversification. This means there's not too much risk in any one area, and this became vital in early 2022 when the economic climate became more challenging. So far in 2021 and 2022, the Aviva Funds have performed well in their investment returns against comparable funds.

The COVID-19 pandemic

The practical impacts of the COVID-19 pandemic on pension administration are now, hopefully, well behind us. But 2021 did include the substantial wave of winter 2020/21 and the severe lockdown in the first months of 2021, which is covered by the timeframe of this report.

While that was bound to have some impact, the Aviva teams had the resources and high-quality technology to deal with this. Aviva had strong continuity of service despite increased volumes of queries from members wishing to discuss their pension.

Responsible investing

When it comes to managing financial risk – especially from climate change – and enhancing performance, we feel environmental, social and governance (ESG) factors remain of major and ever-increasing importance. We continue to focus discussions with Aviva in this area.

Aviva already had ambitious and market-leading commitments as an organisation including their default investment funds. Aviva is turning this ambition into actions, although there is always more to do. It has integrated more and more ESG factors into the main default funds throughout 2021 and 2022. Aviva wants to lead the way in this area – you can find out more about this in the ESG section of this report.

The Financial Conduct Authority (FCA) has amended and increased the remit and requirements of IGCs between our 2021 and 2022 reports.

The main change is that the FCA now defines three specific areas of assessment of value for money:

- costs and charges
- investment performance, and
- servicing for members

Each of the three headlines covers a number of points within them.

The FCA has also prescribed that the Independent Governance Committee (IGC) selects specific and appropriate "comparator" pension arrangements against which to compare value for money.

While we covered these three areas in previous years, the new requirements are more specific. You can read the summary of our assessment in the next section of this report and the individual areas in further sections.

Also, for the first time, there is a value-for-money assessment of investment pathways. These are four specific investment funds available to members starting to draw benefits at retirement. As Aviva launched these early in 2021, this is the first assessment for these pathways.

In a nutshell...

Our value for money assessment is largely positive, although we have challenged Aviva to improve in a few areas.

Aviva provides most of you with good value for money	**Aviva needs to look at the charges for the small proportion of members with older pension policies**	**Aviva needs to further integrate ESG factors within investment funds and to do so faster**	**Aviva needs to continue improving services and developing greater member engagement facilities**

- Our primary challenge relates to older employer arrangements (often referred to as legacy arrangements), which have higher charges than more modern policies (this is the case for most providers who have pension policies dating to pre-2000s). These older policies affect only a small proportion of workplace pension members. On the positive side, charges on these policies are now capped at 1% a year, with an average of below 1% - we cover this in the section on costs and charges. We are talking to Aviva about this issue and potential actions they could take to improve value for those members.

  The IGC met with Aviva senior leaders to raise a challenge over higher charges, asking them to consider reducing charges to a maximum of 0.75%. We appreciate that this would be a significant financial commitment for the company, but have been assured that they are giving this matter their due consideration. We will receive a written response to our challenge which unfortunately will not be before the publication of this year's report. We will of course share the outcome of our discussions with you next year.

- We encourage you to use the range of tools provided by Aviva on the MyAviva website and app, where you can log in, manage your pension, assess the retirement benefits you may receive and find a wealth of useful information.
- If you provide Aviva with your email address, it makes it easier for Aviva to contact you to provide further helpful pension information and ideas. Aviva also run seminars on topics relevant to you at specific points in your journey to retirement. Please take a look if you think these would be helpful.

Finally, I would like to thank Robert Talbut who retired from the IGC at the end of December 2021. Robert has served the IGC and pension members very strongly since the IGC's formation in 2015. He was a key part of the work of the Committee and assisted greatly in our assessments and challenges to Aviva.

We were delighted that Georgia Stewart joined to replace Robert in February. With extensive experience in ESG investing and member engagement, Georgia is a valuable addition to the IGC.

I would like to thank the other IGC members also for their support. You can find details of the IGC members later in the report.

We will continue to assess the value for money you receive next year. Should you want to get in touch with us, please email us at IGC@aviva.com – we welcome any feedback or questions you might have.

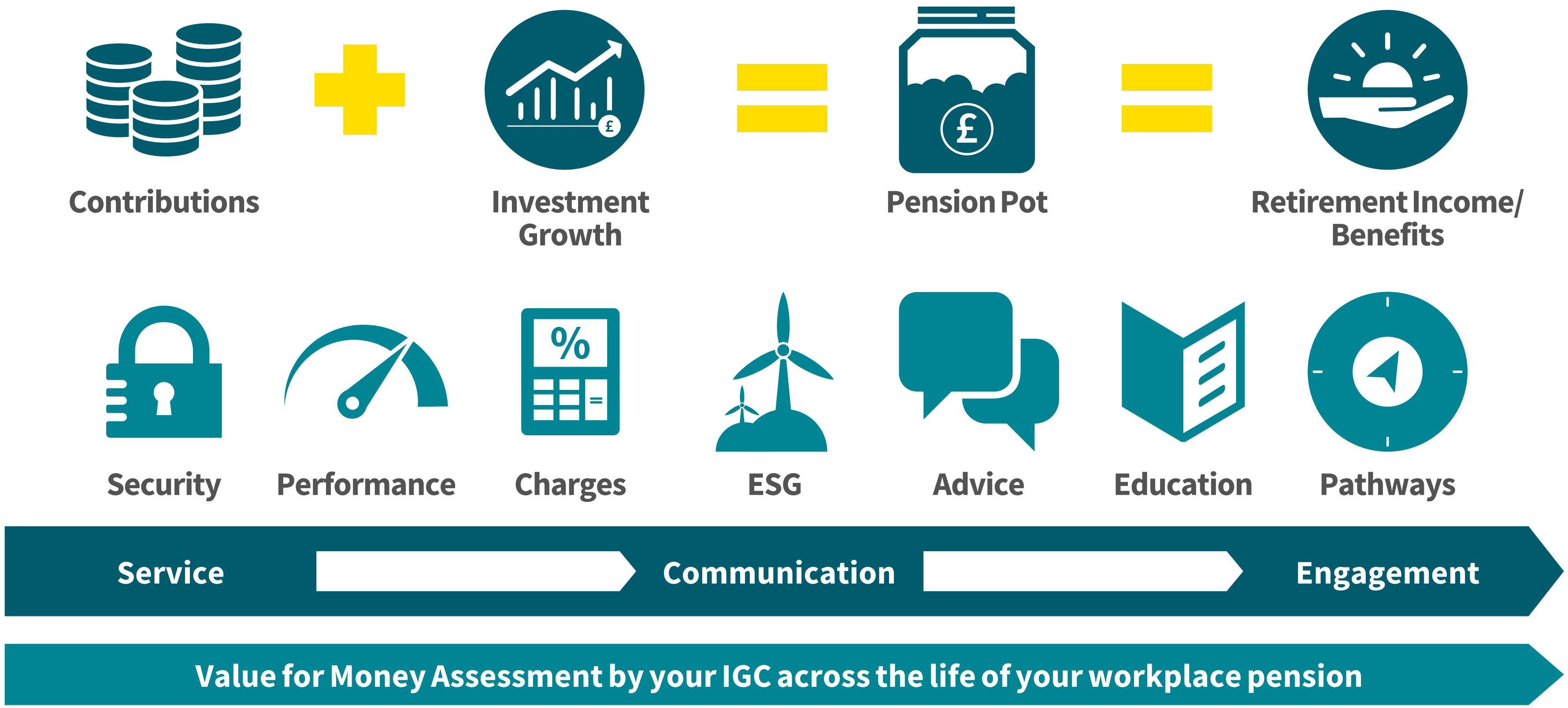
I hope all readers stay safe and well through the year ahead.

Colin Richardson
Independent Chair – Aviva IGC

Summary report

Summary report

Better member outcomes
The role of the IGC



This is a brief summary of our findings in relation to value for money. You can read more detail in the main body of the report for each of the areas of our assessment.

To help IGCs this year, many of the largest providers of workplace pensions, including Aviva, participated in a study with Redington, an independent investment consultancy. The study compared a number of areas including charges, investments, service, communications and member engagement. The market coverage was significant, with almost 150,000 workplace pension schemes, 13 million members and over £260bn of assets in scope of the study.

Under new FCA rules, IGCs can create cohorts of employers based on similar sizes of membership and assets under management for comparison against other providers. The Redington study created a number of these cohorts, which we've chosen to retain for our assessment.

We have observed good progress against all of our 2021 priorities as outlined in this summary report. Our 2022 priorities are to:

- continue to challenge Aviva on charges – it's our opinion that more can and should be done for members not protected by the auto-enrolment charge cap who are paying more than 0.75% for their workplace pension
- continue to monitor service levels across Aviva and expect continued improvements in this area
- work closely with Aviva to understand more about how they measure progress against their ESG targets. We have also challenged Aviva to increase their ESG allocation within their default funds, and to speed these changes up where possible.

Costs and charges

The charges you pay for your pension determine how much value you will lose between now and your retirement – the lower the charges you pay, the less your pension will be eroded. Usually, your employer will choose your pension provider for you, sometimes in consultation with their adviser.

Costs and charges are seen by many employers and their advisers as the most important factor when selecting a provider to operate their pension scheme.

The workplace pension market is extremely competitive and there are now only a handful of very large, active pension providers in the market. This means workplace pensions costs are quite consistent from provider to provider.

Charges are set based on several criteria, such as the number of employees in a scheme, the average contribution levels, the turnover of staff and the likely size of assets in the scheme. So, it's no surprise to see average charges for all participants in the Redington study were broadly similar.

Redington concludes Aviva is very competitive on charges for modern products, being slightly lower than the average industry charge and particularly competitive for larger schemes. We have no concerns in this area for modern policies.

We can't give the same value assessment for those of you in older policies, representing a very small proportion of the membership. These are schemes your employer doesn't use for auto-enrolment and which generally cost in the region of 1% a year. Over 90% of members in these policies have now left their employer, so it is no longer possible for your ex-employer to take action on your behalf.

Aviva is undertaking an exercise to engage with around 12,000 customers with small pots – defined as £3,500 or lower – to remind them they have options to consolidate their pension pots into modern policies. This is a pilot – there are significantly more members with small pots, so we will be monitoring progress in this area.

While we see this as a positive step, it does not address those remaining customers paying higher charges and we will be raising fresh challenges with Aviva to consider options to reduce charges for the affected members.

Our conclusion

The vast majority of you receive value for money in this area and, for those of you with higher charges, we have taken action to challenge Aviva.

Investment performance

Investment performance is important because the better the returns you receive on your investments, the better off you will be in retirement.

We can't look at every single fund which Aviva offers, so we concentrated our efforts on its default investment funds. You will be in the default fund unless you have opted to select your own investments. You could also be invested in a different default fund selected by your employer or their advisers.

While we don't assess all investments, Aviva is undertaking a value-for-money assessment of their entire investment portfolio. This will look at the cost of the investment and the investment returns generated and will also look to make sure fund managers are meeting fund objectives. Aviva will share these findings with us, which will significantly improve the way we undertake our investment assessment in future years.

It is never appropriate to take a short-term view on performance when you could be invested for over 40 years. The comfort we can give you is that:

- charges for your investments are low
- the oversight of your investments to make sure they are performing as expected is extremely good (the Redington study identified this as a particular strength), and
- the returns have been strong both in the last year but also over a longer period.

Aviva has two default investment funds: MyFuture and MyFuture Focus, although there are a minority of you who may have an employer with a different default fund. Your annual benefit statement will tell you if you are invested in one of these two funds. Both have a growth phase and a consolidation phase:

- The growth phase is designed to maximise returns in the early years of your savings
- The consolidation phase is designed to reduce the risk of losses as you approach retirement

Both default funds performed well in 2021 (particularly MyFuture) when compared against their peers, although Aviva are making some changes to MyFuture Focus to try and improve returns further. While past performance can't be a guide to what lies ahead, performance over three and five years has also been good.

Financial markets generally dictate the performance of all investments. The current uncertainty over the war in Ukraine, the cost-of-living crisis and increasing inflation rates mean it is difficult to predict how markets will react. Aviva's default funds manage market volatility to minimise the impact on investment returns. This has proved valuable over the last year.

Default funds are not available to members investing in older policies, but 35% of members in these policies are invested in Aviva's with-profit funds, which have seen excellent returns. Equally, the Aviva managed fund has seen strong returns in 2021 (11%), and many employers selected this as their scheme's chosen investment strategy.

Our conclusion

Aviva's default investment funds have performed well over 2021 and longer periods.

Service and communications

While not necessarily having the same impact on your outcomes in retirement as charges and investment returns, service and communication to members is important.

If you have a good service experience and receive good, clear communications, it's likely your engagement with Aviva will improve, making it easier for you to manage your pension and make better informed decisions. The quality and accuracy of the service and communications you receive is important as it helps to build trust in your pension provider.

This has been one of the more difficult areas to assess against Aviva's peers. First, no pension providers publish their servicing times or make their pension communications widely availible, so we can only look at the data provided in the Redington study. Second, pension providers use different ways to measure service and so it is very difficult to make a meaningful comparison.

Our main consideration must be the time it takes Aviva to process financial transactions – both promptly and accurately. That could be investing your contributions, settling your retirement claims, or transferring your money into or out of Aviva.

In the post-pandemic era, servicing levels have started to return to normal. We were pleased to see that after a relatively poor start to 2021, the position improved significantly by the end of the year. Both servicing times and telephony times had improved at the end of 2021.

The Redington study identified several areas where Aviva fell behind competitors in the time taken to complete servicing tasks. That could be because of the way providers measure service, or that Aviva could just be worse. That said, Aviva performed well in other areas of service, such as complaint handling, tracing customers who had "gone away" and they had more services available to members online.

The study concluded that Aviva was mid-table in terms of turnaround times but would have appeared higher if they had reported on automated tasks.

Aviva also measures customer service through direct feedback using the Net Promoter Score (NPS) method. The results of this feedback are good – sometimes very good. You can read more about how you have rated Aviva in this area in the main body of our report.

We don't just review the administration service you receive. We also looked again this year at the financial advice and financial education services Aviva offer and found both to be very strong areas where Aviva can add value.

We've reviewed a selection of key communications sent to you by Aviva and find them to be clear, well written and informative. The Redington study suggested limited distinction between major pension providers, all of whom will employ experts to design the communications which must be sent to you at certain times during the life of your pension.

Our conclusion

Aviva's service and communications are good.

Environmental, social and governance considerations

When we talk about environmental, social and governance (ESG) policies, we are thinking about future-proofing your workplace pension. The sustainability of companies held within your funds will affect your outcome in retirement financially, as well as in other non-financial ways, such as the flood or fire risk of the areas you live in.

We are required to consider Aviva's environmental, social and governance (ESG) policies both from a financial and non-financial perspective. In terms of the financial considerations, we believe Aviva is taking strong steps to embed ESG into its default investments and more widely. We are speaking with Aviva to ensure that sufficient ESG allocation is being made. Ultimately, we want Aviva to speed up integration, albeit not at the expense of members.

Aviva has set ambitious net-zero targets which it aims to achieve by 2040. By Aviva's own admission this will not be easy, and the metrics used throughout the industry are sometimes limited and difficult to measure and so we'll be closely monitoring how the company measures progress against these targets.

Our conclusion

Aviva's ESG activities are leading the market.

Investment pathways

This is the first year we have had to assess value for money for Aviva's investment pathways after they were launched last year. To help us with this, we asked Isio, an independent benefit consultant, to undertake analysis of the pathways compared to other providers.

This concluded costs and charges for pathways were reasonable in comparison with other providers, although investment performance lagged behind some providers due to a lower equity allocation in Aviva's pathways. Assessing investment performance over such a short period of time, however, is not representative of likely, longer-term performance.

Our conclusion

Aviva's investment pathways provide good value and are appropriately constructed. We're pleased to see ESG factors integrated into the pathways.

As summarised in this section, we've concluded Aviva is providing good value for money for your workplace pension. The exception to this is the costs and charges element for the small percentage of you with charges over 0.75% a year. For that small proportion of you, those without valuable policy features (such as with-profit funds or loyalty bonuses) have higher costs and charges than other modern policies. This is an area we are discussing actively with Aviva. For the vast majority of you this concern does not apply.

Our assessment shows good value for money for other areas such as investment performance, servicing and communications. There is always more that can be done and we will continue to assess all areas where there is the potential to provide additional value with Aviva.

Costs and charges

Costs and charges

The first consideration in our value-for-money assessment is costs and charges – what you pay for your workplace pension with Aviva.

Charges we consider

FCA rules require us to consider all charges relating to your workplace pension. That includes administration costs and costs connected to your investments, such as fund expenses and transaction costs.

- For Aviva members with modern policies, the charges for administration and investment management are wrapped up in an annual management charge.
- Some members with older policies may have other charges, although Aviva has taken steps to make sure the overall charges are no more than the equivalent of 1% a year. This is largely due to the challenges we have made over the last few years.
- In addition, there are transaction costs incurred in investment transactions which are levied on the investment funds.

This section of the report considers whether these charges represent value for money.

Modern policies

Generally those started by employers after 2000

Older policies

Generally those started by employers before 2000

Using cohorts to compare value for money

The ultimate assessment would be to compare value for money for all employer arrangements on an individual employer basis, but FCA rules accept it may not be practical to do so. This means IGCs can make a comparison based on cohorts of employers. Given that there are more than 30,000 employers within the Aviva workplace estate, this is the only sensible option.

As noted in our summary report, Redington undertook a study for IGCs to help in value-for-money comparisons for most of the UK's workplace pension providers.

- The study grouped employers into cohorts which had been debated and agreed between the providers participating in the study.
- The study grouped employers in bandings according to the number of employers and members, and assets under management.

We have chosen to use these same cohorts for the purpose of comparing costs and charges, given that comparative information is available – you can see the cohorts in Appendix A. Aviva considered policyholders in the modern book only.

The breakdown shows:

- the largest cohort of 23% of policyholders pay between 0.3% and 0.4%
- over 90% of policyholders pay less than 0.75%
- no policyholders pay more than 1%.

Aviva's results compare favourably with the other pension providers in the study.

Modern policies

Usually started after 2000, many of these will continue to accept ongoing contributions and will mostly also be used for auto-enrolment purposes.

They have only one charge levied by Aviva combining the investment management and administration charges. All employer arrangements being used for auto-enrolment will have a maximum charge of 0.75% a year.

The Redington study highlighted that around 5.9% of modern policies had charges between 0.75% and 1.0% a year. This means they are earlier arrangements which the employer has chosen not to use to satisfy their auto-enrolment obligations.

The FCA rules require IGCs to:

- assess value for money by comparison against "scheme comparators", and
- select a small number of reasonably comparable scheme comparators (including those which could potentially offer better value for money).

The Redington study has proved useful in helping to understand how Aviva compares with key competitors across various areas of their workplace pensions.

All such studies have limitations in terms of the items being compared and the data collection process allowing an accurate comparison on a "like for like" basis. However, it was the best study available to give a meaningful comparison on costs and charges with broad market coverage.

Nonetheless, the study assumed that charges for a particular employer were based on the default fund charges for both Aviva and the other providers in the study. This does not invalidate the comparison between providers, but it does mean the analysis of charges is not totally accurate. This is because it doesn't account for charges for members who choose their own investment funds (which tend to be more expensive) rather than the default fund.

You can see the main results of the analysis in Appendix A.

In summary, for Aviva's modern products:

- Aviva has the same proportion of policyholders with charges over 0.75% a year as the average for all eight providers (5.9% of policyholders)
- Aviva's charges for the remaining 94.1% of the Policyholders are slightly lower than the average for all eight providers – only by a small margin, but the difference between say, a 0.3% to 0.4% charge and a 0.2% to 0.3% charge is significant over the life of your pension

Older policies

Usually taken out before 2000, there are dozens of variants of older policies within the Aviva estate. This is a legacy of numerous mergers and acquisitions which now makes Aviva the largest UK provider of workplace pensions.

With these products comes a wide range of different charging structures, most of which were designed to recoup the commission paid to advisers over the life of the policy. As a result of continued IGC challenge, Aviva has brought the vast majority of these outdated charging structures more in line with modern policies.

The issue remains that none of these products can be used for auto-enrolment, so they don't benefit from the protection of the auto-enrolment charge cap of 0.75%. For that reason, very few employers kept these schemes open as they either chose an alternative Aviva product or went elsewhere to a provider who could satisfy their auto-enrolment obligations.

Charges on these older policies are generally higher than modern policies, ranging between 0.75% - 1% a year. A large proportion of such policyholders were paying more than 1% a year charges when IGCs began operating in 2015. But successive reductions in charges have led to an effective maximum of 1% a year for nearly all such policyholders.

There remain some exceptions, which are limited to a few policies which could not have some charges removed or reduced. Aviva monitors these policies and, should the member die, retire or transfer away from Aviva, they refund the excess charges. In 2021, Aviva identified just over a hundred of these policies and paid an average refund of £357 to members or the member's estate.

In 2020, a small number of other policyholders were found to be paying more than 1% a year, but Aviva have since taken steps to reduce the charges to 1% a year for these.

Comparators for older policies for costs and charges

The purpose of the comparators in the FCA rules is to compare value for money with providers to whom the employer could choose to move if they offer better value for money.

It is not easy to consider comparators for costs and charges for the older policies. The main reason for this is that it is not clear what options – if any – other pension providers would offer employers with such older policies. They tend to be complex and some may be invested in with-profits funds or have guarantees, so comparisons can be difficult.

This is compounded by the fact that employers can't force a move for existing pension funds if they choose another provider for future contributions only. They can merely offer members the option to transfer their existing funds if they wish to do so.

Older policies will have a small number of employees and membership will be mostly or even entirely those who have left employment, making no further contributions. This means other providers are even less likely to offer terms to take on these policies.

Comparing with NEST

Recognising the difficulties above, the IGC chose to compare with NEST.

We chose NEST because there is a greater chance an employer could move members to NEST for future contributions and be accepted by NEST. This means it is a move to a real "live" comparator, even if the transfer of existing funds would be a member choice and future contributions might be small in comparison to the size of the fund built up.

The comparison is not like for like with older policies from other providers as these were not available to us. Instead, we show that better value may be available elsewhere due to modern contracts having lower charges.

This comparator does have the advantage of information being available from the Redington study.

As described above, other providers are unlikely to offer the same terms as for their modern policies or not offer terms at all. The comparisons do serve to highlight the charging differences between modern and older policies. The IGC believes that discussing the differential and potential charge reductions with Aviva is likely to be more productive than highlighting to employers the possibility of moving the policies to other providers. Aviva communicating directly to members who have left employment is likely to have more impact as they constitute the majority of members in older policies.

Cohorts for older policies for costs and charges

For the costs and charges comparison, there is little to be gained from so many cohorts as with the modern policies. The cost and charge information is not so related to number of policyholders or the amount of assets as in the modern book. Because of this, we've used cohorts of employers in charging bands according to the level of charges.

The Aviva older policy portfolio (excluding with-profits policies) breaks down as follows:

Annual Charge Band	Plans
1. 0% to <=0.3%	5,459
2. >0.3% to <=0.4%	2,136
3. >0.4% to <=0.5%	19,627
4. >0.5% to <=0.6%	20,858
5. >0.6% to <=0.75%	55,370
6. >0.75% to <=0.85%	11,541
7. >0.85% to <=0.95%	17,745
8. >0.95% to <=1%	553,066
9. >1% to <=1.05%	14
10. >1.05% to <=1.25%	342
11. >1.25%	328

Source: Aviva

The number of plans does not relate to the number of individual members in older products. These products were complex, and each time a member increased their regular contribution under their policy, it created a new plan. Some members had up to 20 plans under their policy, many with different annual charges. This doesn't change our challenge to Aviva, which needs to look at charges for the 85% of members paying more than 0.75% a year.

Comparison of older policies against other providers modern policies

The average charge for modern policies is around 0.61% a year across all the main providers. The average charge for Aviva's older policies is 0.9% a year. On this comparison, we conclude that policies in Bands 6 and above of the Aviva older policies are paying charges materially above the modern policies average.

We acknowledge other providers might not offer any reduced terms, but this difference in charges warrants further consideration by Aviva. This could be by either reducing the difference or encouraging action by employers or members for the policies in these bands.

Comparison of older policies against NEST

The charges in NEST are constructed differently with a charge based on the member's fund value and a charge is levied on contributions made.

To quote from NEST:

"Charges are made up of two parts:

- *a contribution charge of 1.8% on each new contribution into your pot*
- *an annual management charge (AMC) of 0.3% on the total value of your pot each year*

So, if you paid £1,000 into your pot over the year, your contribution charge would be £18. If your pot was then worth £10,000, you'd pay an AMC of £30.

The total charge would come to £48. That's just under 0.5% of the total value of their retirement pot."

The overall level of charge in NEST depends on both existing funds and new contributions. Members who join NEST with no transfer of existing funds pay a very high charge of 1.8% and until the contributions have built up into a sizeable fund the overall charge will be high.

Consider a member paying £200 per month into NEST. The overall charge as a percentage with different levels of existing funds in NEST would be approximately as follows:

			Annual Charge	
Current Pot Total	Annual Contribution (1.8% charge)	New Pot Total (0.3% AMC)	Total Charge (£)	Total Charge (%)
£0	£2,400	£2,400	£50.40	2.10%
£5,000	£2,400	£7,400	£65.40	0.88%
£10,000	£2,400	£12,400	£80.40	0.65%
£20,000	£2,400	£22,400	£110.40	0.49%
£30,000	£2,400	£32,400	£140.40	0.43%
£50,000	£2,400	£52,400	£200.40	0.38%
£100,000	£2,400	£102,400	£350.40	0.34%

Source: Aviva

The table shows NEST charges become more competitive the larger the level of funds held by the policyholder.

As a comparator, NEST is more expensive if an employer switches future contributions to NEST until a sizeable existing fund is built up. Should members choose to transfer their existing funds into NEST, charges become more reasonable, particularly with pot sizes more than £20,000.

The crossover point compared to Aviva older policies is around when a fund equal to three years (or just under) of contributions has been built up – which in fact is not a long period. However, should members close to retirement be moved to NEST without transferring their funds, it is likely they would never be better off.

Therefore, other than in the short term, Aviva older policies which charge over 0.75% a year do not compare favourably against NEST in terms of costs and charges.

What do charges over 0.75% tell us?

We have identified three groups of members where higher charges apply. They apply equally to older policies and modern policies.

Group 1 – Employers continuing to contribute
This is the least common of the three groups. If charges are over 0.75%, by law the employer can't use the scheme for auto-enrolment and must have an alternative scheme in place for that purpose. They may be choosing to continue contributions to benefit from valuable features such as With Profits, loyalty bonuses or historical higher investment returns.

We still need to consider whether these schemes could benefit from lower charges elsewhere but will also be discussing the situation with Aviva to see if any actions they can take could benefit members.

Group 2 – Employers not contributing, members still in employment
We would expect this group to be predominantly made up of employers who chose not to auto-enrol staff under their older Aviva product. They may have chosen to take up a new workplace pension with Aviva on better terms or on a more modern platform or chose to take up a new scheme with another provider.

It would be of no benefit to another provider to take these schemes – with no contributions and no guarantee that existing assets would be transferred, they would be extremely unlikely to offer terms. One alternative could be to communicate with these employers and propose they encourage members to transfer assets to their auto-enrolment scheme, but if any members have significant With Profits holdings there could be unintended consequences.

For smaller employers in this group (which will be the majority), there could also be an unwillingness to pay for financial advice, and so we will be discussing actions with Aviva which could provide any potential solutions.

Group 3 – Leavers
Leavers will be by far the largest group. Broadly speaking, leavers fall into three categories:

- Those in older policies which represent a significant majority of members
- Those in modern policies who left employment before auto-enrolment regulations came in, and who will not benefit from the 0.75% charge cap – this will again be a significant number
- Those in modern policies who left employment after auto-enrolment came into force, but who had charges increased under the terms of their policy. This practice has now been banned by the FCA, and so any member leaving an auto-enrolment scheme after ceasing employment will continue to pay the maximum 0.75% charge.

One option available to leavers would be to consider a move away from Aviva to another provider (of which there are several) who offers lower charges. They could also consider a product within Aviva which offers lower charges, but we feel that this would require action on Aviva's part to make those options available. The pilot exercise for small pots mentioned later may help us to understand how members react to communications offering solutions.

Transaction costs

This section applies for both the modern policies and older policies.

Aviva has provided the transaction costs for all main funds used by all policyholders for both default and self-selected funds.

The table on the right shows the figures for the default funds and the more commonly used funds as at 31 December 2021. The costs are calculated using the methodology prescribed by the FCA for workplace pensions and are supplied to Aviva by the investment managers.

These costs are reasonably low, notwithstanding that the My Future Growth fund and some of the other funds are index-tracking funds. In what was a volatile period for investment markets, more trading took place, so we would expect higher transaction costs.

The IGC considers that the transaction costs for the major funds were reasonable and are collected and monitored by Aviva.

Fund	%
My Future Growth	0.096
My Future Consolidation	0.063
My Future Focus Growth	0.051
My Future Focus Consolidation	0.032
Aviva Pension BlackRock (50:50) Global Equity Index Tracker	0.053
Aviva Pension BlackRock (60:40) Global Equity Index Tracker	0.083
Aviva Pension BlackRock World ex UK Equity Index Tracker	0.047
Aviva Pension Global Equity	0.023
Aviva Pension Managed	0.059
Aviva Pension Mixed Investment (40-85% Shares)	0.046
Aviva Pension Multi-Asset Index Growth	0.094
Aviva Pension Stewardship Managed	0.176
Aviva Pension BlackRock Consensus	0.004
Aviva Pension Mixed Investment (0-35% Shares)	0.046

Source: Aviva

Conclusion

Overall, our conclusion for modern policies is that Aviva's charges are marginally lower, on average, for similar, large UK workplace pension providers.

We do not see any particular issues with the annual management charge component of costs and charges.

We will further discuss the small proportion of modern policyholders with charges greater than 0.75% a year with Aviva as this may require changes or further communication to employers.

The significant number of members who are leavers with older policies warrant further discussion with Aviva. We believe the only way to address charges for these members is either to reduce them or engage directly with members to encourage them to take action.

Aviva's costs and charges for older policies are higher, on average, than the average charges for modern policies for other large UK workplace pension providers. This is not a surprising result.

Comparisons have limitations:

- Employers can't force a transfer of existing funds, only re-direct future contributions.
- Based on data for existing policies for other providers, this doesn't mean an employer could move to such a provider and be accepted on terms similar to those shown in the study. A provider would offer a fresh price or may not even accept the employer's scheme – especially with no guarantee of existing funds transferring.
- The vast majority of members in these older policies (around 90%) have left employment and so the employer could not include them in any move to another provider. Of the balance, few are making ongoing contributions as they are contributing to another scheme. That makes it even less likely that an employer could move to another provider.

The Aviva older policies have higher charges than NEST once a fund has been built up equal to around two years' worth of contributions, even if no existing fund transfer is made to supplement any new contributions. This represents a very small population and for those members with investments in with profits funds (around 35% of members), a move away is almost certainly not a good idea.

Our conclusion

Aviva has made substantive charge reductions between 2015 and 2021 to make sure charges are no higher than 1% a year for all policyholders. However, we will further discuss the charges at the upper end of the range (0.75% to 1% a year) with Aviva as we believe more can be done here. We don't believe charges greater than 0.75% a year offer good value for money, particularly given several years of auto-enrolment in the UK, where members benefit from a charge cap of 0.75% a year for default funds.

The IGC met with Aviva senior leaders to raise a challenge over higher charges, asking them to consider reducing charges to a maximum of 0.75%. We appreciate that this would be a significant financial commitment for the company, but have been assured that they are giving this matter their due consideration. We will receive a written response to our challenge which unfortunately will not be before the publication of this year's report. We will of course share the outcome of our discussions with you next year.

The "Total Charge" in the table below includes the administration charge (the "Annual Management Charge", or AMC), and the cost of your investment (the Fund Expense) and the transaction costs incurred by the default investment fund in 2021. Please note that the transaction costs are excluded from the regulatory charge cap of 0.75%. The report covers all schemes offering a default investment fund.

Product	Number of employers in charge bands				
	0-0.3%	0.31-0.5%	0.51-0.6%	0.61-0.7%	0.71% or over
My Money Flexible Retirement Account	24	233	70	140	71
Friends Life Group Personal Pension Plan	27	394	262	233	1,083
Lamda Group Personal Pension Plan	0	4	12	17	167
Unisure Group Personal Pension Plan	155	3,150	3,462	4,923	10,783
Unisure Group Stakeholder	1	166	119	56	210
Total employers in charge band	**207**	**3,947**	**3,925**	**5,369**	**12,314**

Source: Aviva

You can find further details on scheme charges (administration costs, fund charges and transaction costs) at this website:

library.aviva.com/tridion/documents/view/sp991783.pdf

You can also see the charges you pay for your Aviva policy on your annual benefit statement, or the charges you would pay for your Aviva workplace pension, and the effect those charges have on your pension, by following this link:

aviva.co.uk/retirement/schemecharges

You will need your policy number, which you can find on correspondence you have received from Aviva.

Investments

Investment choices and returns

Investment performance is the second of the three areas specified by the FCA for us to assess value for money and to compare against other comparable providers.

Investment markets

It's important to summarise the background of investment market conditions in 2021 before looking at the actual investment performance results for the main funds and comparative competitors. The year to 31 December 2021 was a mixed year for investment markets for a number of reasons, but the largest equity markets showed strong performance for the year as a whole.

Global equities

There was a clear preference among investors for developed market equities in the 12 months to the end of 2021.

At the start of the year, investors soon shifted their focus from US political risk to the rollout of countries' COVID-19 vaccination programmes and the planned reopening of economies in the spring. Data showed vaccines were reducing serious illness from COVID-19. On this basis, the International Monetary Fund (IMF) revised its forecasts for global economic growth upwards in January 2021, in its words 'reflecting expectations of a vaccine-fuelled recovery'.

This backdrop was increasingly supportive for a full-scale global economic recovery. This gathered speed in the spring in line with the gradual reopening of UK and European economies and better data regarding COVID-19. However, the positive environment for global equities started to lose momentum in late summer due to the arrival of the Delta variant of COVID-19. Investors were forced to acknowledge the illness would remain a major risk to the financial markets for some time, despite the successful rollout of vaccinations across the world. News of the Delta variant was accompanied by higher energy prices, as well as goods and labour shortages which created bottlenecks in the global supply chain.

This situation only added to the inflationary pressures building in the global economy. Bond markets priced in higher interest rates and stock markets fell heavily. Remarkably, developed equity markets demonstrated their resilience particularly during a period in November when the arrival of Omicron, a highly contagious strain of COVID-19, put markets under renewed strain.

After the initial panic subsided, investors looked past the threat of tighter restrictions on people's movement to focus on the positive factors of both the health crisis and the economic situation. This was at a time when central banks wanted to rein in their support for their economies.

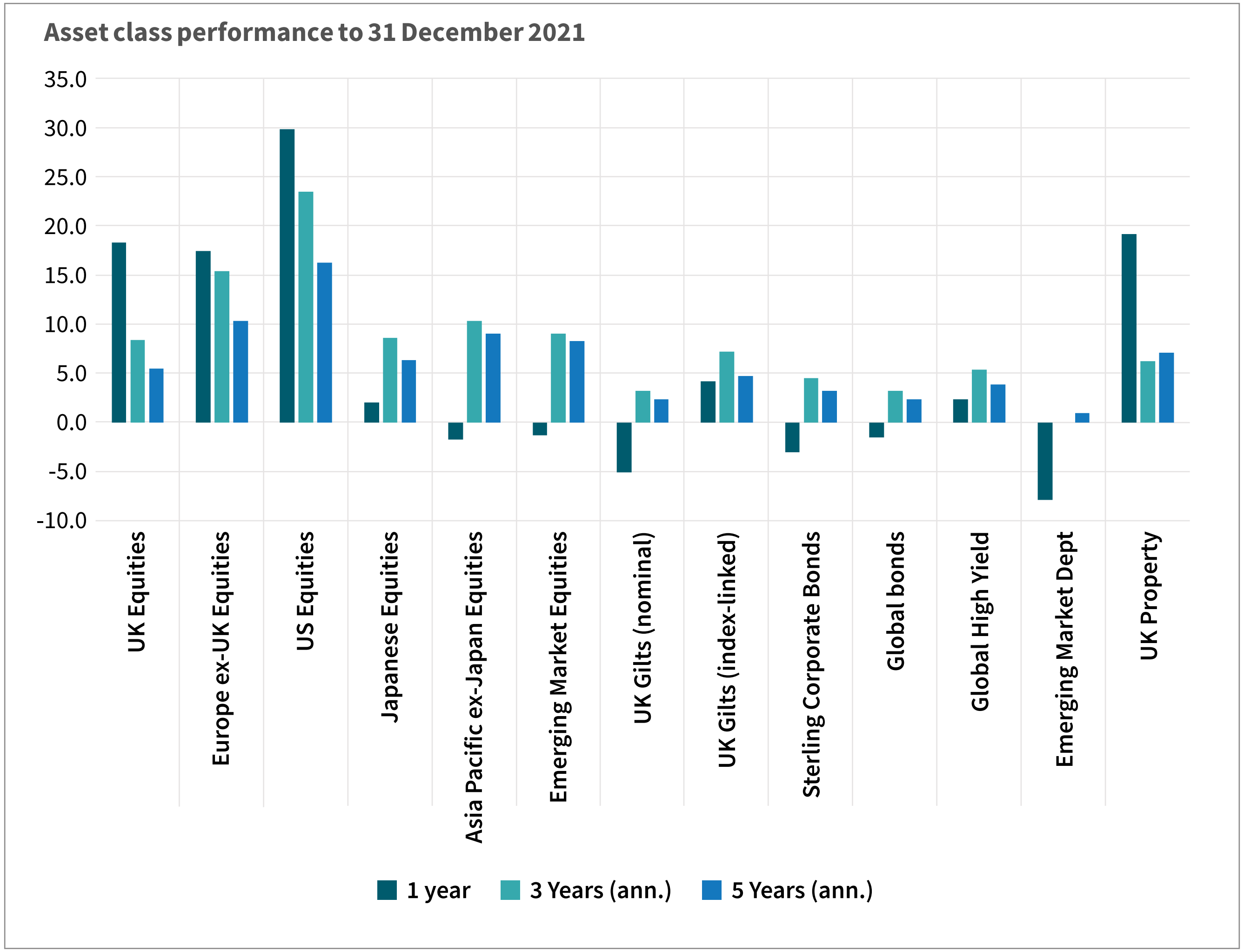
US, European and UK equities built on their solid performance from earlier in the year, thanks to robust company earnings growth, positive economic data and central bank support, underpinned by investors' appetite for yield. Even the Bank of England's decision to go ahead and raise UK interest rates in December, despite Omicron, did little to upset equity markets. In the same way, markets appeared to take the US central bank's intention to raise interest rates in 2022 in their stride. US equities went on to finish 2021 at record highs.

Bond and credit investments

Government and corporate bonds lost value in 2021 amid a persistent rise in inflation in 2021 and an increasingly hawkish stance from central banks on tightening monetary policy to tackle the price pressures in the economy. With vaccination programmes proving successful at leading to a decline in serious illness from COVID-19, economies reopened as planned in the spring of 2021 and global economic data continued to beat expectations.

UK government bonds did experience moments of respite in 2021 – such as in November following the news of Omicron – as investors sought out more secure assets amid the renewed uncertainty.

The table to the right shows how different asset classes performed over the period to 31 December 2021.



Source: Financial Express

Performance of Aviva default funds

Unless you actively choose an alternative fund, you will be invested in your employer's default investment fund. Over a million of you invest in Aviva's two core default funds – My Future and My Future Focus.

- **My Future** invests in passively managed funds, with BlackRock Investment Management Limited responsible for deciding the allocation between the different types of investments within the funds.
- **My Future Focus** invests in both passively and actively managed funds, with Aviva Investors Multi-Asset investment team responsible for deciding the allocation between the different types of investments.

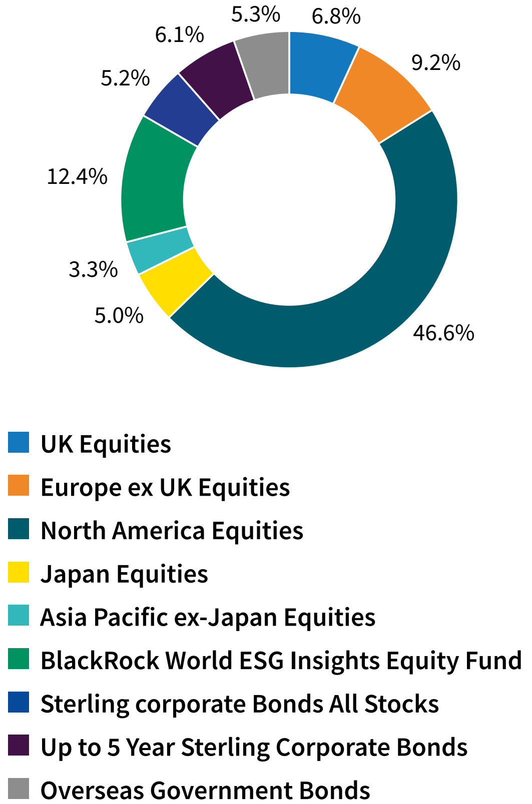
Both core default funds aim to achieve growth with a controlled level of investment volatility.

The different asset allocation for Aviva's default funds is shown on the right. Some of the key differences between the two default funds include:

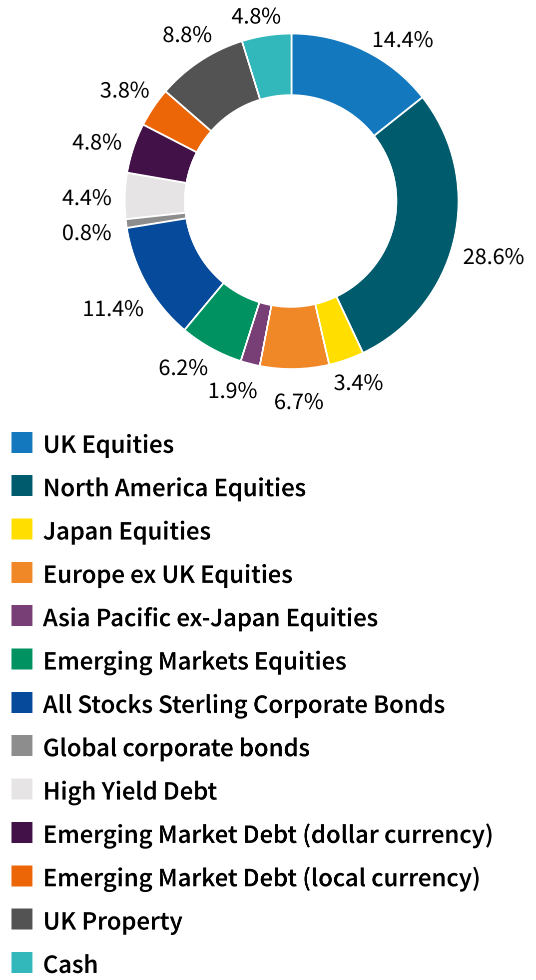
- a broader range of asset classes in My Future Focus to provide more diversification and to spread investment risk
- different amounts of investment in UK, European and US markets
- slightly different volatility levels because of the different investment mix.

These differences mean the performance of the two default funds will not be the same much of the time because of market conditions, how different asset classes perform and geographical sectors.

My Future Growth



My Future Focus Growth



Source: Aviva – data as at 31 December 2021

Following a review of My Future Focus in late 2021, the strategic asset allocation of the solution changed in the second quarter of 2022. The aim is to enhance the diversification of My Future Focus and the expectation for growth over the longer term. The changes were completed in May 2022. The pie chart above shows the solution before the changes.

The solution's allocation to global equities has increased and its exposure to UK equities reduced. The other main changes have included reducing the allocation to UK corporate bonds and increasing the allocation to overseas corporate bonds. The exposure to money market instruments also reduced.

The actual performance delivered by the Aviva default funds (My Future and My Future Focus) is shown in the table on the right. The growth funds show the performance of the funds when members are many years from retirement and the consolidation funds are those used in the period a few years from retirement. We've also highlighted a comparison with a mix of indices showing the performance relative to the broader investment market.

The benchmark of market indices in each case is a mixture of equity and bond indices which reflect similar asset mixes as for the Aviva default funds.

Aviva default fund performance to 31 December 2021

% returns to 31 December 2021	1 year	3 years (p.a.)	5 years (p.a.)
Funds			
My Future Growth	17.7	15.5	10.0
My Future Focus Growth	11.3	11.1	7.9
75% FTSE Developed World Index and 25% ICE BofAML Sterling Broad Market	16.2	15.1	10.5
Indices and sector average against which fund performance can be compared			
My Future Consolidation	4.6	5.8	3.9
My Future Focus Consolidation	1.6	4.3	2.8
25% FTSE Developed World Index and 75% ICE BofAML Sterling Broad Market	3.2	6.4	4.5

Source : Financial Express

The table highlights that the My Future default funds (both Growth and Consolidation) have performed consistently with the combined market indices. However, the My Future Focus default funds delivered recent performance to end 2021 lower than the comparable market indices. The primary reason is the high level of diversification within My Future Focus which delivers very well when there is enhanced volatility or shocks to markets (such as early 2022) but less well when the main equity markets have very strong returns (such as 2021). We remain very supportive of the diversification within My Future Focus.

My Future has outperformed My Future Focus over the one, three and five years to end December 2021.

The main reasons for the difference in performance include:

1. Larger US equity allocation in My Future compared to My Future Focus

US equities performed very well compared to UK and European equities. Having a bigger position in US equities meant My Future was able to take advantage of the stronger performance of US equities relative to other regional equity markets over one, three and five years to December 2021.

2. Smaller UK equity allocation in My Future

My Future has a smaller allocation to UK equities than My Future Focus – a targeted weighting of 7.3% in My Future Growth compared to 14% in My Future Focus Growth as at 30 July 2021. As UK equities have underperformed US and European equities over the three and five years to end of December 2021, having a bigger position in other markets – and US and European equities in particular – contributed to the better performance of My Future Growth.

3. Emerging market equity allocation in My Future Focus

My Future Focus invests in emerging market equities, while My Future does not invest in this asset class. Emerging market equities have underperformed developed market equities over these time periods.

4. Cash position in My Future Focus

My Future Focus Growth has an allocation to cash, which My Future Growth doesn't have. While this has helped in the shorter term and during the heightened market volatility, having a cash position rather than being more invested in equities – like My Future Growth in previous years – has held back the performance of My Future Focus Growth.

Comparison of performance with other providers' default funds

Comparison of the investment performance of all default funds depends on the different asset classes held (for example, equities, bonds, government bonds, etc), so the underlying investment risk involved will vary from fund to fund.

For this reason, we also look at the performance of the Aviva default funds compared to some of its peers in the marketplace both from an investment return and risk point of view.

We chose a group of the largest and closest competitor providers' default funds for this comparison which we consider appropriate.

The table on the right highlights how Aviva's default funds compare to other pension providers but also shows the volatility levels (eg, how much variation in each fund might be expected because of the different risks associated with the assets held in each fund). The greater the volatility level, the more ups and downs members may experience in their pot values, but the benefit may be better overall returns over a longer period.

This table highlights that the My Future Growth default has performed strongly against the group of providers which we've chosen for comparison purposes in the market over the three years to 31 December 2021 and is near the top of the group. However, the My Future Focus Growth fund has performed well against half the market but is very much in the "middle of the pack" when looked at across all providers in this table.

Comparison of risk and investment return for different providers over 3-year period to 31 December 2021

Fund	3-year return to 31/12/2021 (% annualised)	3-year volatility to 31/12/2021 (annualised)
Aegon LifePath Flexi 2070-72	17.6	15.2
My Future Growth	15.5	10.8
Nest 2040 Retirement	13.1	9.8
The People's Pension Global Investments	12.5	11.4
Scottish Widows Pension Portfolio Two Pension Series 2	11.9	13
Aegon Default Equity and Bond Lifestyle	11.7	11.1
Mercer Growth/Balanced Risk Fund	11.6	11
My Future Focus Growth	11.3	10
L&G Pathway 2065-70	10.7	10.6
Royal London Governed Portfolio 4	10.4	10.7
L&G Multi-Asset	9.7	9.1
Standard Life Passive Plus III	7.1	8.5
Fidelity Diversified Markets	5.3	9.2

Source: Financial Express

Generally, over the past two to three years, those default funds that had invested more in equities performed better and – as highlighted earlier – those investing less in UK markets and more in US markets delivered stronger performance. Furthermore, 2021 was a poor year for government and corporate bonds compared to equity asset classes (as shown by the graph at the start of this section), so funds holding higher amounts in bonds would have been adversely affected.

Performance of 10 largest funds by asset size (excluding default funds)

In previous annual reports, we've also shown the performance of the 10 largest Aviva funds measured by asset size. These are shown in the tables below over different time periods and against different performance comparators.

Equity fund performance to 31 December 2021

% returns to 31 December 2021	1 year	3 years (p.a.)	5 years (p.a.)
Funds			
Aviva Pension BlackRock (50:50) Global Equity Index Tracker	16.9	12.2	8.4
Aviva Pension BlackRock (60:40) Global Equity Index Tracker	17.2	11.3	7.8
Aviva Pension BlackRock World ex UK Equity Index Tracker	23.4	20.6	13.7
Aviva Pension Global Equity	19.5	15.4	10.1
Indices and sector average against which fund performance can be compared			
CPI inflation	5.4	2.4	2.5
Bank of England + 4%	4.1	4.4	4.4
FTSE World	22.1	19.1	13.2
FTSE All Share	18.3	8.3	5.4
ABI Global Equities sector	18.0	16.1	10.6

Source: Aviva

Multi-Asset funds (at least 40% invested in equities) performance to 31 December 2021

% returns to 31 December 2021	1 year	3 years (p.a.)	5 years (p.a.)
Funds			
Aviva Pension Managed	11.0	11.2	7.3
Aviva Pension Mixed Investment (40-85% Shares)	11.1	9.8	6.5
Aviva Pension Multi-Asset Index Growth	17.3	14.7	9.6
Aviva Pension Stewardship Managed	12.3	16.6	11.7
Aviva Pension BlackRock Consensus	12.2	11.1	7.5
Indices and sector average against which fund performance can be compared			
CPI inflation	5.4	2.4	2.5
Bank of England + 4%	4.1	4.4	4.4
ABI Mixed Investments 40-85% shares sector	10.3	10.0	6.5
Combination of global equity market and global bond market indices	16.2	15.1	10.5

Source: Aviva

The asset allocation of some of these larger funds (by asset size) makes comparison with a single comparator difficult. That's why we've shown comparisons with inflation (Consumer Prices Index (CPI), bank base rates plus a margin and some composite benchmarks (for example, a mixture of equity and bond indices which reflect similar asset mix for the Aviva mixed funds). These funds will generally be chosen by members on a self-select basis, so it's important members regularly review their choices.

Aviva continuously reviews all funds as part of its investment governance process (see later in this section) to make sure all funds on their platform continue to meet their objectives and aims.

Multi-Asset fund (no more than 35% invested in equities) performance to 31 December 2021

% returns to 31 December 2021	1 year	3 years (p.a.)	5 years (p.a.)
Funds			
Aviva Pension Mixed Investment (0-35% Shares)	3.4	6.1	4.2
Indices and sector average against which fund performance can be compared			
CPI inflation	5.4	2.4	2.5
Bank of England + 2%	2.1	2.4	2.4
ABI Mixed Investments 0-35% shares sector	2.3	5.0	3.1
Combination of global equity market and global bond market indices	3.2	6.4	4.5

Source: Aviva

Value for members assessment – default funds

The IGC is required by the Financial Conduct Authority (FCA) rules to select two or more comparator schemes from the market when carrying out their value for member assessment each year.

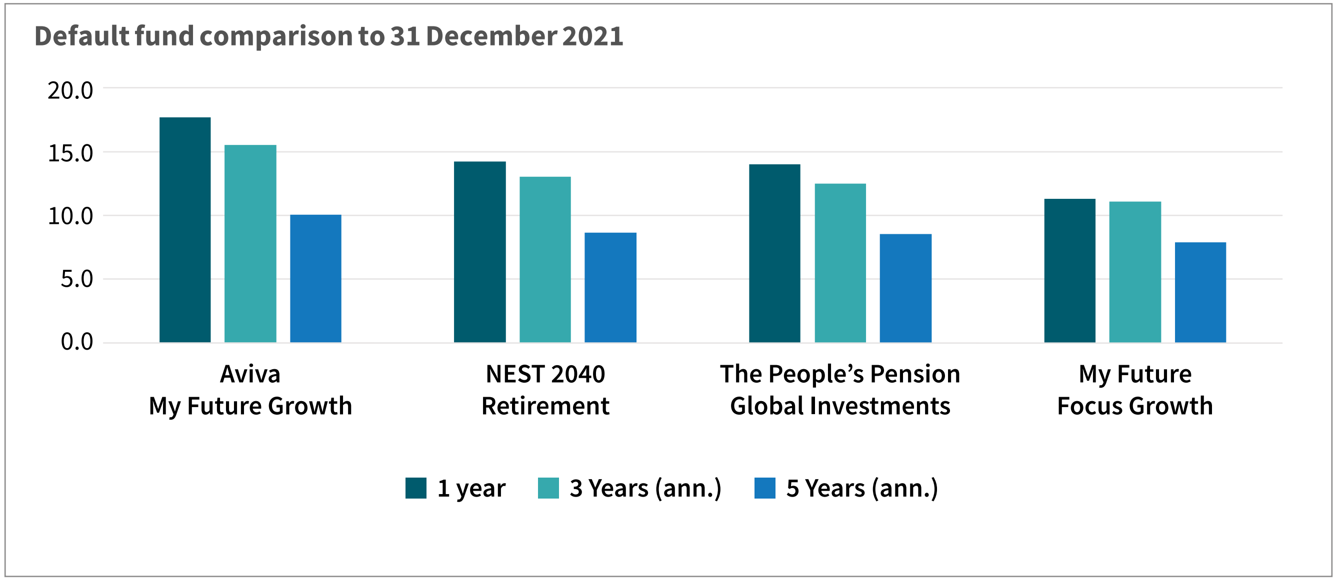
Earlier in this report we highlighted the areas that we look at when assessing value for money and these include investment. We also explained why we selected NEST for our charges comparison. For investment performance comparators, we have selected NEST and The People's Pension.

The relative investment performance between default funds can sometimes be due to different asset allocations. However, in looking at NEST and The People's Pension, we noted they both have around 70% in global equities and the remainder in more cautious/defensive assets such as bonds, gilts, property and so on. The Aviva default funds also have around 60 -70% invested in equities and the balance in other more defensive assets.

In practice, this means the comparison shown in the graphs on the right is reasonable.

It's important to note that past performance is not a guide to future investment performance as returns can't be guaranteed.

The tables clearly highlight that the Aviva My Future Growth default has performed well ahead of NEST and The People's Pension over the 3-year period, exceeding their performance by more than 2.0% a year and more than 1% a year over the 5-year period.



Source: Financial Express

The performance of My Future Focus Growth compared to NEST and The People's Pension is behind both providers, trailing by some 1.5-2.0% a year over the 3-year period and about 0.6% a year over five years.

As highlighted above, past performance for My Future Focus Growth is sitting in the middle of the pack when compared to the broader market. Against the background of the volatile markets and the UK cost of living crisis, all funds have fallen in value over the first 3 months of 2022. However, My Future Focus Growth has fallen less in value compared to NEST and The People's Pension. This is in part due to the greater diversification of asset classes in My Future Focus. This means funds will perform differently to each other depending on market conditions, which is why performance should be considered over a longer period.

Nevertheless, the IGC has been in discussion with Aviva to better understand its plans for improving the returns delivered by My Future Focus. Our assessment has highlighted that holding a higher amount in UK equities and less in US equities has been a key factor in the weaker returns delivered by My Future Focus. Aviva carries out a strategic review of each default fund on a periodic basis and has just concluded a recent review. This has led to some changes as follows:

Proposed changes

- Increase in equity allocation
- Reduction in cash and corporate bonds
- Reduction in bias towards UK in equities and corporate bonds
- Introduction of global investment grade and global sovereign debt

Potential benefits of these changes

- Increase expected returns
- Increase diversification

The IGC welcomes these changes, which were agreed and implemented in the second quarter of 2022. We believe they should help improve member investment returns in future, albeit these can't be guaranteed as future returns will depend on market conditions.

Investment governance

As you would expect, Aviva operates a strong oversight process when selecting funds to add onto their platform and for the ongoing monitoring of funds, both internally and externally managed. This looks at how funds are being managed against their objectives, benchmarks and expected returns.

Where funds are not meeting expectations, this will be discussed with the fund managers involved and the fund will be put onto a review/watch process to check progress and improvement. Where changes or improvements are not delivered, Aviva will look to remove or close funds on their platform and replace them with alternative, similar funds.

The table on the right highlights some of the changes made as a result of the Aviva governance process over 2021. The IGC has no concerns about the investment governance process. The IGC attend investment governance forum meetings from time to time and have seen a strong and active process.

2021 Fund launches & closures

Closures	
Closed for failing Aviva's governance	7
Closed in response to fund manager closing underlying fund	7
Closed due to low level of assets under management invested in the funds	11
Fund launches	10

Source: Aviva

Conclusion

When assessing value for members across the different areas set out by the FCA, the IGC forms a view for each area.

The FCA rules require the IGC to consider specifically the investment performance over the year ending 31 December 2021. The 1-year performance comparison was very similar to the more representative 3-year comparison described above.

Our conclusions are more broadly based on a number of factors, including:

- appropriateness of the default fund design
- level of risk or volatility
- past performance measured over various time periods, and
- the diversification of asset types within the funds.

We have also taken into account the changes that are being made to funds.

Our conclusion

After assessing the default funds against the two comparators, we find that My Future has performed above the market average and My Future Focus has met the average performance. We welcome the asset allocation changes to My Future Focus aimed at improving future returns.

Service and communications

Service and communications

The last of the three areas we are required to assess when considering value for money is the level of service you receive. That includes the communications Aviva sends to you.

Service

Over the course of the pandemic, service suffered due to a number of factors. Not all staff were able to work from home, either because they didn't have laptops or because they didn't have a suitable internet connection. This is particularly true of third-party administrators working in India where the roll out of suitable IT equipment was either slower or didn't happen at all.

The position within the UK was far better with Aviva mobilising quickly to make sure staff had access to adequate equipment very quickly in March/April 2020. This carried on throughout 2020 and 2021.

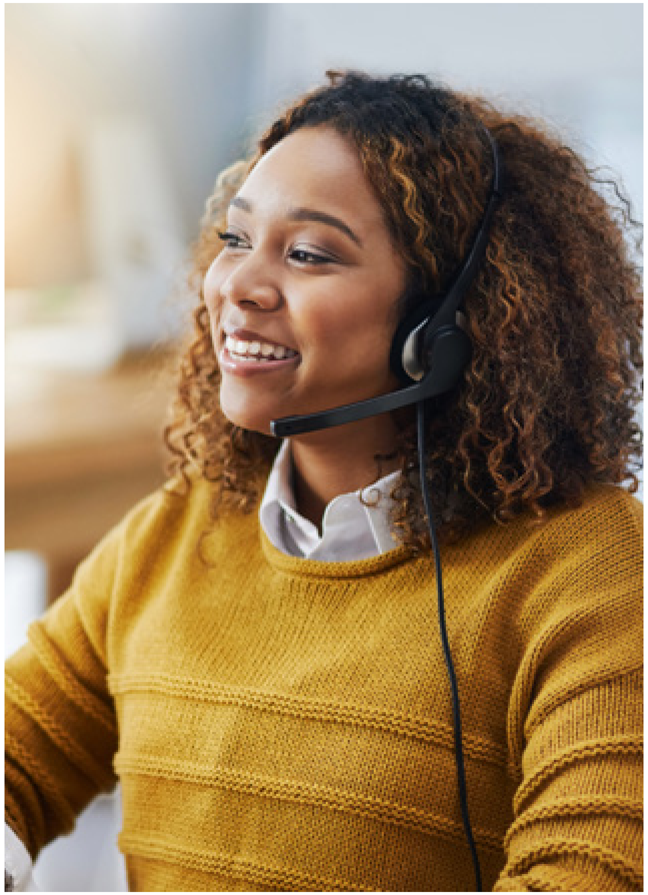
We saw a decline throughout 2020 in the time taken for most servicing tasks. It is pleasing to see that service levels in 2021 generally returned to pre-pandemic levels. We are also aware that there have been further improvements in 2022 as the pipeline of member demands has reduced. The recovery was a little slower for third party suppliers but not markedly so.

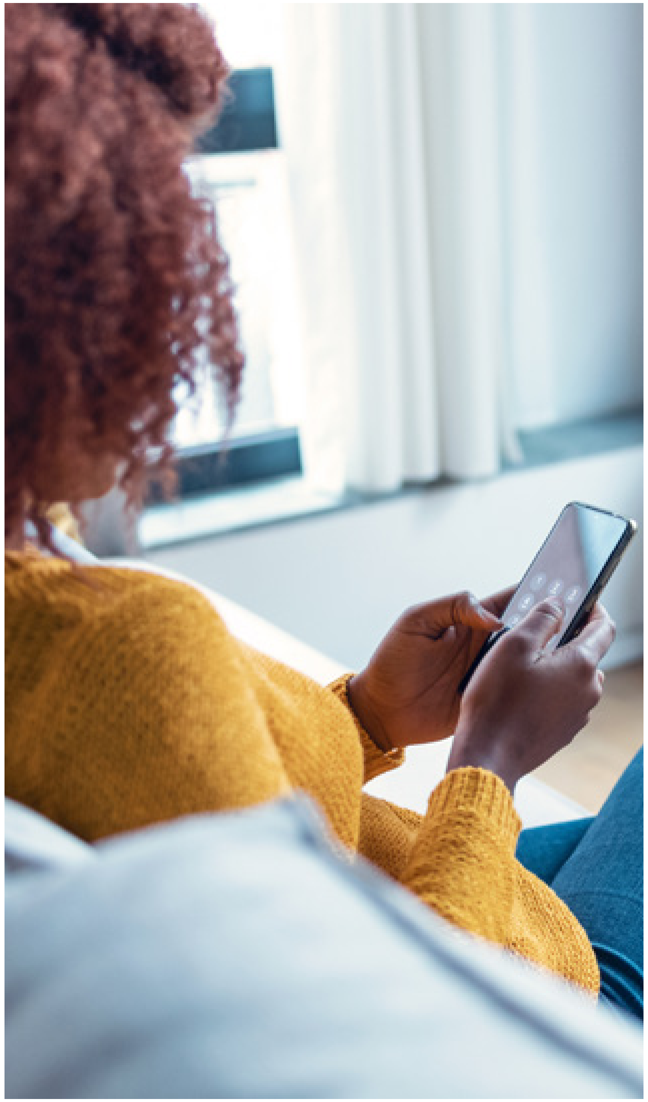
While all of the service you receive is important, we are particularly interested in financial transactions which should be undertaken promptly and accurately. This includes payments in and out, such as death claims, retirements and transfers.

The table below shows death claims and transfers into the company have taken longer in 2021 when compared to 2020, but other tasks are taking around the same length of time to complete.

Customer Demand	E2E Times 2019 (days)	E2E Times 2020 (days)	E2E Times 2021 (days)
Death Claims	8	9	14
Transfer In	31	25	31
Transfer Out	6	7	8
Information Request	6	7	7
Change Details	2	2	2
Retirement Settlements	11	14	14

Source: Aviva





Aviva has still not returned to the pre-pandemic levels of 2019, but all things considered, we still support the efforts they have made to keep a good level of service during a very difficult period.

Many transactions are undertaken behind the scenes without having to be handled by Aviva's servicing teams. Monthly contributions into your pension for example are loaded and processed by your employer, as is the upload of new members (either in bulk or individually).

Assurance report on internal controls on pensions administration services (AAF 01/20 report)

The IGC has reviewed Aviva's assurance report covering internal controls of the pensions administration services for the year to 31 December 2021. This is produced in line with reporting standards set out by the Institute of Chartered Accountants in England and Wales.

The report covered controls applying to the NGP and MyMoney platforms and the customers whose policies sit on those platforms.

It highlighted that the majority of the controls were operating effectively and correctly. In particular, the report found that all controls relating to administration records, data access and flow of contributions are working robustly and being carried out in line with Aviva's controls and processes. Aviva also handles receipt of contributions, settlement of benefits, transfers in and out in a timely manner.

The report identified some minor areas where Aviva could make improvements, but these did not relate to contributions or investment of funds. The IGC will review these matters with Aviva during the next 12 months.

The MyAviva app

Many of you can do tasks online, such as:

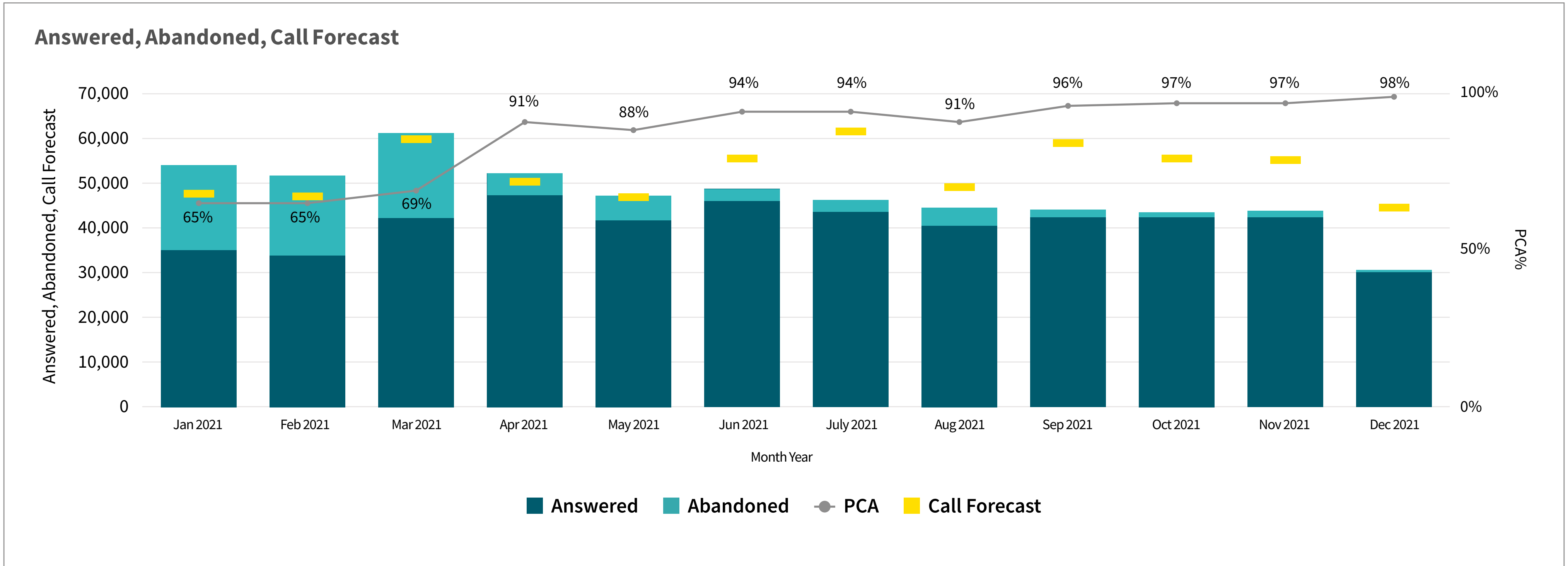
- switching funds
- changing where you invest future contributions
- updating your address details,
- or adding or changing your nominated beneficiary.

We would encourage as many of you as possible to download the MyAviva app which gives you access to your Aviva workplace pension to allow you to engage more in the planning of your retirement.

Telephone support

Telephone support has remained strong with around 98% of calls answered and wait times for customers reducing towards the end of 2021.

The wait time does vary between those serviced by Aviva call centres and those serviced by third-party administrators, but we still feel that call wait times are within an acceptable level.

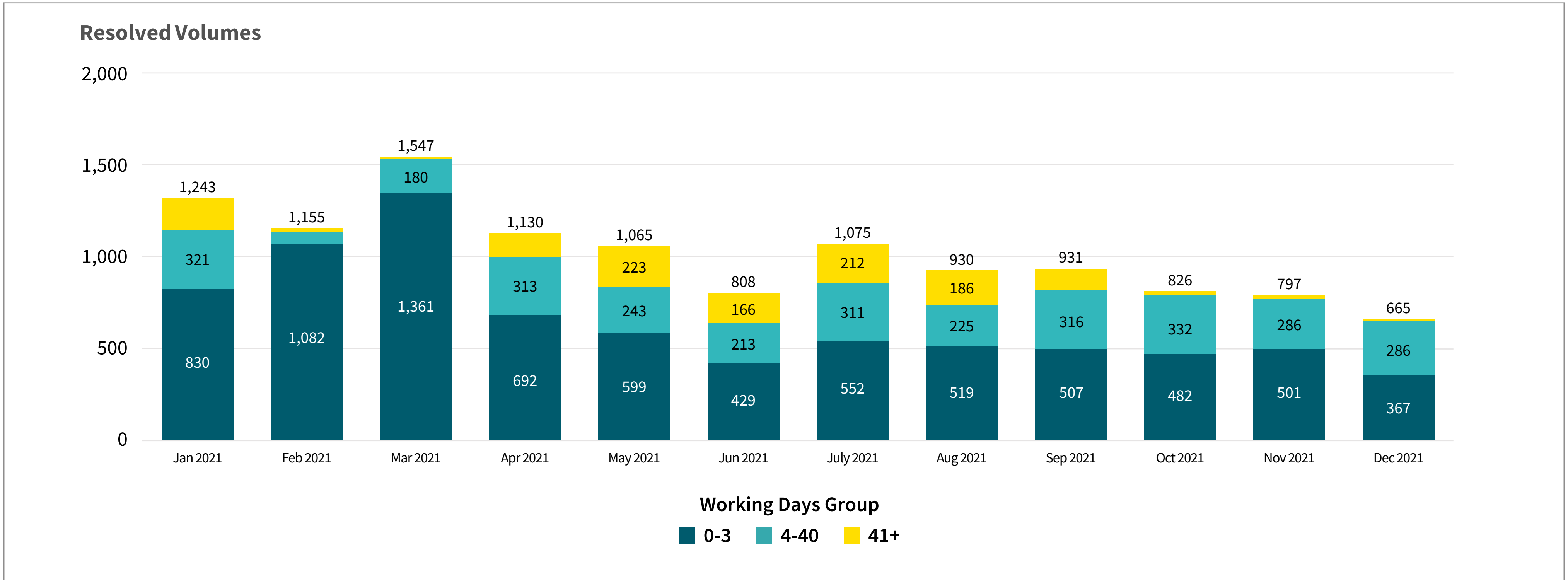


Source: Aviva

Complaints

When things go wrong, we expect Aviva to put them right. We have seen a downward trend in the number of complaints received again this year.

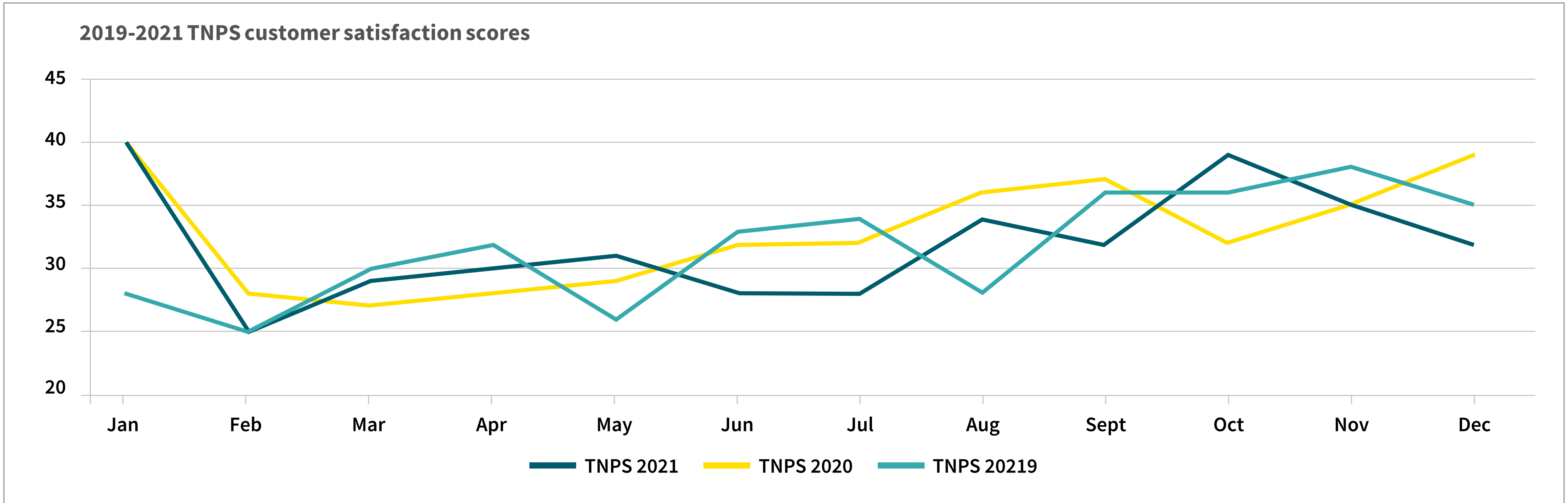
More importantly, the time it takes Aviva to settle your complaint (whether that be finding in your favour or otherwise) has improved. Around a third of complaints are resolved within three days, and only around 2% remain unresolved after six weeks.



Source: Aviva

TNPS

Aviva gathers feedback from customers about their experience of the service they have received. The company set itself an ambitious target for 2021 hoping to see an improvement on previous years. However, that target was set before the COVID-19 lockdown. You can see from the table below that TNPS satisfaction scores have broadly followed the trend of 2019 and 2020. Over the three years, there is only a one-point difference in the average TNPS score achieved.



Source: Aviva

The IGC feels that a score of 30 is good, 30-60 is very good and above 60 is excellent.

Consistently being very good is the challenge for Aviva.

Product governance

Aviva has its own internal controls in place to make sure your workplace pension is performing as expected. Its product governance teams monitor both complaints data (looking for any systemic issues) but also Aviva's regular reviews of products to make sure everything is working as it should.

At the end of 2021, the number of open risk events had increased slightly over 2020 levels although many of these were low risk events and have already been closed. Risk events are prioritised based on the number of members impacted and the actual or likely financial detriment.

Where a member suffers any loss as a result of Aviva's failings, they will be compensated to make sure they won't be any worse off than if the event hadn't happened. Where members have retired or died before the event is identified, Aviva will make sure it pays appropriate redress either directly to the member or to their estate.

Assessing service

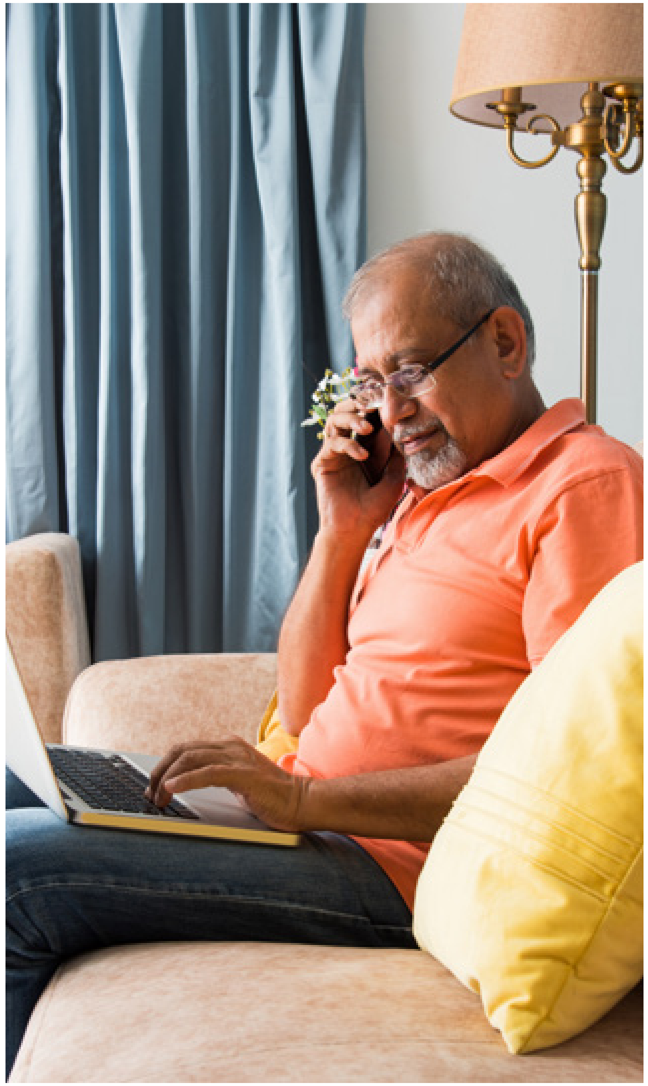
The findings in the Redington survey were mixed for Aviva. They certainly weren't leaders in terms of service but very much middle of the pack. However, there are different ways to measure service. There are two main ways:

- End-to-end – this is where the clock starts ticking the moment the member's request is received and doesn't stop until the request has been closed. Aviva uses this method.
- Stop-the-clock – this is where the clock starts ticking when the member's request is received, but the clock is stopped each time the firm needs to wait for information (either from the member or another provider).

We believe this doesn't create a level playing field when measuring service levels and would be hopeful that upcoming guidance from the regulators creates a common method for measuring service. Equally, Aviva have invested in digitising tasks, and this is not measured in any way.

Aviva's programme of automation has continued over the last 12 months with improvements to speed up processing. This includes the ability to provide multiple projections, automated production of divorce and pension sharing packs, and further automation of the transfer out and retirement journey. This has made the processes more efficient and reduces the risk of any errors.

Additionally, Aviva has improved its digital online journeys, increasing the threshold for transfers in to be completed online. It also introduced a digital online journey for you to explore your options at retirement and the ability to begin some retirement claims online.



Additional services

Service isn't simply limited to the amount of time Aviva takes to respond to your demands and questions. There are other areas we assess which are designed to improve your experience with Aviva.

First, Aviva has a Financial Education Team which aims to reach as many members as possible, whether that be by individual employer presentations or multiple employer sessions. It was great to see that with 5% fewer sessions last year, they managed to reach 39% more members.

Multiple employer sessions include the following:

- **Career stage sessions**
- My retirement, my way
- Mid-Life MOT
- Your Financial Future

- **Subject based sessions**
- Pension basics
- Managing your account online
- Consolidating pensions
- Understanding investments

- **Hot topics**
- Cost of Living (added in 2022 but relevant to the current climate)
- Gender Pension Gap
- Realising your early retirement dreams
- ESG

Aviva collects member feedback after these sessions, and taking one example of an individual employer session, 100% of members said they would take action regarding their pension. That could have included speaking to their IFA, consolidating their pension pot, or reviewing their contribution levels or their investment choices.

We are very supportive of financial education and are pleased to see such a significant increase in members taking advantage of this free service.

Second, Aviva has its own advice network which provides financial advice to members should they need it. Not all members will need advice, but when they do, we feel it's important that it is easily accessible and reasonably priced. We have found the service to be easily accessible, and:

- **Initial meetings are free** and with no obligation
- Available **online, over the phone or in person**
- **Personalised recommendations** for members' financial goals
- **No sales incentives**.

Costs for this service compare well against other providers.

<table>
<tr><th>Pension fund size from</th><th>To</th><th>Report Fee</th><th>Advice fee</th></tr>
<tr><td>£0</td><td>£100,000</td><td rowspan="5">Either:
Without defined benefit advice
£625
or
With defined benefit advice
£1,525</td><td>2.00%</td></tr>
<tr><td>£100,001</td><td>£300,000</td><td>1.75%</td></tr>
<tr><td>£300,001</td><td>£500,000</td><td>1.25%</td></tr>
<tr><td>£500,001</td><td>£1,000,000</td><td>0.25%</td></tr>
<tr><td>£1,000,000+</td><td>33.9</td><td>0.00%</td></tr>
</table>

Source: Aviva

The fee for ensuring the advice provided remains valid for the customers circumstances in future years, is one of the lowest in the market at 0.45% and capped at £2,200. It is not uncommon in the market for this to be in the region of 1% of assets and uncapped - a further demonstration of good value for Aviva Financial Advice customers.

We remain comfortable this service is readily available and is good value for money.

Communications

As part of our assessment this year, we have reviewed several key communications Aviva sends to members. These include:

- Your annual benefit statement (sent to you every year to give you a valuation, details of your charges, and your investments
- Your retirement wake-up pack, sent to you before you are approaching your retirement date to remind you that you need to start thinking about your retirement options
- Your retirement options pack, sent to you when you are closer to your retirement date setting out the options available to you and what actions you need to take
- Investment Pathways journey – we cover Pathways later in this report, but these communications explain the four Pathway options and how you can access them.

Overall, we are happy that the communications are clear, of a high quality and easy to read. There are always areas where communications could be improved and we have provided several suggested changes to communications, mainly aimed at increasing member engagement.

We have also reviewed communications aimed at members with small pots (defined as less than £3,500). These policies are largely no longer receiving contributions and there is a concern they have been forgotten. With contributions not being paid, the ongoing charges (particularly fixed charges) could erode value resulting in a poor customer outcome. It's important to note here that these are not just workplace members but all customers, of which there are around 270,000.

Aviva has split these customers into two groups – members aged under or over age 55 – as the options available to them are very different. We see this as a very positive exercise but have asked Aviva to keep us informed of the outcomes, particularly whether members take action.

One of the issues with this group of customers is that around 50% don't have a current address registered with Aviva, which suggests they have forgotten about their pension. To address this, Aviva employ a third-party to trace members, which has a very good degree of success. We will report more on this in next year's report, but any engagement with members in this area to drive consolidation is welcome.

We anticipate pension dashboards being a major catalyst for many pension savers to engage with their pensions. We will monitor how this impacts engagement levels among Aviva policyholders. Aviva is well prepared for this development. Nevertheless, we'll continue to challenge them to maximise this opportunity for greater engagement, particularly for those policyholders with older policies, who will potentially benefit by consolidating their pension savings in modern products.

Conclusion

Service is probably the most difficult of the three areas we cover to compare. Little or no information is available from other providers and until such time as the regulators create a standard set of measures for providers to use, that will remain the case.

Plans have been mooted for the FCA and The Pensions Regulator to create league tables to give more transparency, and we hope to hear more on this later in 2022.

There will never be a time when all customers receive perfect service, and that will not be unique to Aviva. How they recover from those errors in service is important, and we believe Aviva does this well.

Next year will see a more extensive service update as things continue to improve. This year, Aviva acquired the business of Succession Wealth, which will be integrated into their advice network.

We will expect to see a continued improvement in service levels and look for ways of comparing Aviva's service with that of other providers should those measures become publicly available, which is likely to be from other IGC reports.

Our conclusion

We believe members receive good service and that communications are good.

Environmental, social and governance (ESG) considerations

"Everyone in the UK will be touched by the climate crisis, so all of us depend on shifting the economy to net zero as soon as possible. Preventing the worst impacts of climate change will take all businesses developing ambitious, consistent transition plans to get us to a low carbon future."

Amanda Blanc, Aviva CEO

In addition to the three core elements of value which we cover above, the FCA requires us to comment on:

- the adequacy and quality of Aviva's policy in relation to both ESG **financial and non-financial matters**
- how Aviva takes these considerations into account in its investment strategy and decision making
- the adequacy of Aviva's policy in relation to stewardship.

Adequacy of Aviva's policies

The Aviva ESG Leadership Team is chaired by the Aviva Investors CEO with the Aviva UK Life Chief Investment Officer and other senior management as members. It was established to co-ordinate Aviva's approach to ESG investing. This includes:

- how ESG considerations are integrated into investment processes across Aviva
- the approval of ESG investment policies, and
- the monitoring of stewardship activities.

Aviva has a suite of policies on ESG and Stewardship which we consider to be best in class.

These policies aim to improve the sustainability and societal impact of companies Aviva invests in or lends to and Aviva aims to apply the same or better standards to themselves as well.

The Redington report shows that Aviva has set itself the most ambitious net-zero targets amongst report participants: net zero for its own operations and supply chain as well as shareholder and customer investments by 2040.

The policies cover areas such as those described in the diagram below and cover investment strategies as well as policies on their own day to day operations.

E **Environmental** – eg pollution, water management, greenhouse gas emissions, renewable energy, waste etc.

S **Social** – eg labour standards, workforce productivity, supply chain practices, talent management etc.

G **Governance** – board diversity and accountability, anti-bribery and corruption, lobbying activity etc.

Reports such as The Aviva Responsible Investment Report highlight Aviva's approach and the various policies in place.

Aviva has set itself some other financial targets to help them to reach their net-zero goals. These include:

- a commitment to invest £10bn of assets in their auto-enrolment default funds and other policyholder funds into low carbon strategies by the end of 2022
- to invest £6bn in green assets including £1.5bn of policyholder funds by 2025 – Aviva has invested £4bn of assets since 2020
- for Aviva Investors to invest £2.5bn in low carbon and renewable energy infrastructure by 2025.

Aviva is seeing an increased amount of new customer investment into sustainable impact or net zero aligned funds, with 22% of new customer money being invested.

To help customers make investment choices in line with their values, Aviva created an ESG profiling tool and has plans to enhance customer and adviser tools to make ESG choices simpler and easier.

Aviva's climate goals

Climate change is a critical area and Aviva is driving change internally to support its policies.

2021 — 2022 — 2025 — 2030 — 2040

By the end of 2021

- Aviva stopped underwriting insurance for companies making more than 5% of their revenue from coal or unconventional fossil fuels, unless they have signed up to Science Based Targets

By the end of 2022

- Divest from companies which make more than 5% of their revenue from coal unless they have signed up to Science Based Targets
- Expected to invest a further £10bn of assets from auto-enrolment default fund and other policyholder funds into low carbon strategies (of which £5bn has already been announced)

By the end of 2025

- 25% cut in carbon intensity of investments
- 100% renewable electricity for all offices, which total 230,231m2
- 100% electric/hybrid vehicles new leases for our 1,540-strong motor fleet
- Aviva will invest £6bn in green assets, including £1.5bn of policyholder money into climate transaction funds
- Aviva investors will invest £2.5bn in low carbon and renewable energy infrastructure and deliver £1bn of carbon transaction loans

By the end of 2030

- 60% cut in carbon intensity of investments
- Net Zero operations
- Net Zero supply chain
- £100m committed to nature-based solutions

By the end of 2040

- Net Zero company with Net Zero carbon investments

Source: Aviva

Investment strategy and decision-making

Aviva has integrated ESG into the design and management of My Future Focus and embedded 23 ESG specialists within their investment teams who provide quantitative and qualitative research.

They have many activities underway to achieve their ambitious ESG targets:

Actively managed funds

ESG analysis considered alongside traditional financial metrics to support portfolio manager's decision-making process

Passively managed equity funds

Optimised to have a higher ESG score than their respective benchmarks combined with a carbon intensity reduction pathway:

- 25% reduction by 2025

- 60% reduction by 2030

- 100% reduction by 2040

Exclusion policies

Controversial weapons and civilian firearms; thermal coal producers; unconventional fossil fuels (arctic oil, tar sands); tobacco producers and distributors; and companies that fail to meet UN Global Compact principles

Engagement and voting

Engaging meaningfully with companies to encourage them to develop good corporate practice and governance

Source: Aviva

Aviva Investors has recently undertaken a strategic asset allocation review of My Future Focus which intends to improve outcomes for members while also integrating ESG considerations further:

Desired impact

- Increase return expectation
- Increase diversification
- Improve ESG integration and carbon intensity reduction

Key changes

- Increase in allocation to growth assets (eg, equities) and reduction in allocation to defensive assets (eg, bonds and cash)
- Reduction in UK bias in equities and corporate bonds
- Introduction of global investment grade and global sovereign debt
- Enhance integration of ESG, including climate consideration

My Future Focus

ESG integration is already significant, and it is one of the UK's leading pension default funds in this regard.

We support the recent asset allocation changes. With all funds, continual review and refinement to allow for new developments and investment practices is needed, so we expect future evolution of the fund over time.

My Future

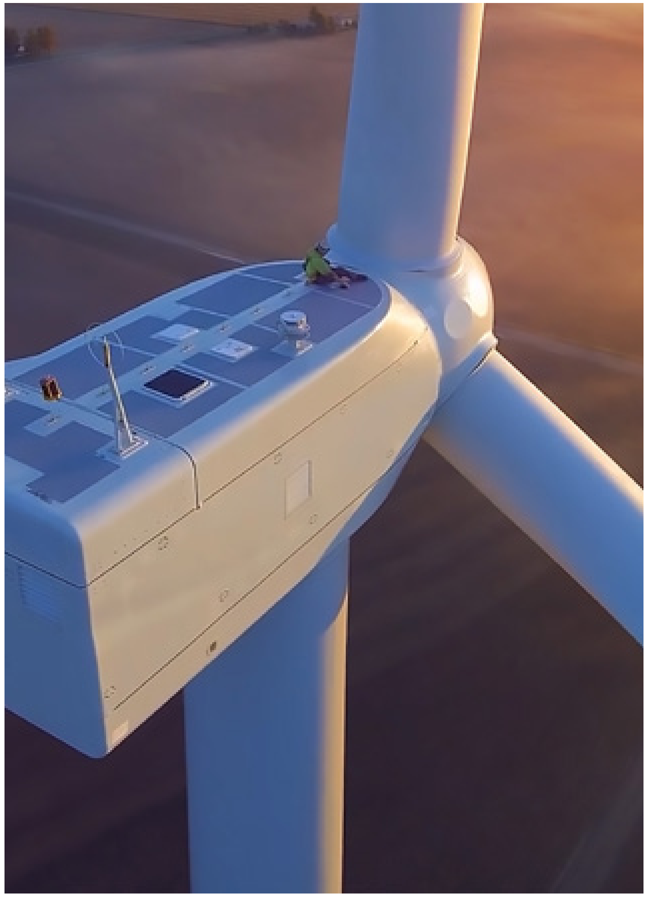
ESG integration has been slower as the fund is managed by BlackRock rather than Aviva Investors. There is a gradual move to integrate the BlackRock World ESG Insights Equity strategy.

The maximum current proposed allocation to the ESG fund is 50% of the equity allocation of My Future Growth and My Future Consolidation (40.5% and 12.5% respectively). It should be noted that the My Future default fund, managed by Blackrock, now also abides by Aviva Investors' own voting policy – as opposed to Blackrock's – which we see as a positive given Aviva's lead on ESG stewardship (see more on this below).

The target date of this level of ESG integration is the end of the first half of 2023. We have challenged Aviva to move faster on this. Large transition investments could result in high transaction costs for members, so we have asked Aviva to carefully consider the balance between transition costs and the benefit of moving faster.

We would also like the target percentage of My Future equity funds allocated to specific ESG funds to increase from 50%. We have asked Aviva what can be done.

Aviva has responded to our challenge and confirmed that they are actively pursuing ways of further ESG integration within the My Future funds for both the residual 50% of equity funds which are regional funds and the non-equity elements. The details are not yet finalised, but we welcome their considerations and hope to report on this integration next year.



Stewardship policy

Aviva's presence in the financial services industry, and especially their role as a significant shareholder of many companies through their asset management business, allows them to influence the actions of large companies.

Aviva uses its voting rights at shareholder meetings to vote for or against issues relating to ESG and other matters. In 2021, Aviva voted on over 70,000 resolutions. 82% of their votes were in favour of climate and social shareholder proposals. 27% of their votes were against management resolutions, whether that be on director remuneration, working conditions or board diversity amongst others.

At the beginning of 2022, Mark Versey, Aviva Investors Chief Executive Officer, wrote to 37 finance ministers and central bank governors for countries whose sovereign debt they hold under Aviva Investors' Climate Engagement Escalation Initiative. Aviva is also engaged with the 30 largest carbon emitters globally.

Giving customers visibility of ESG matters

Member understanding and engagement are important if we are to help pension scheme beneficiaries secure the best possible retirement and understand the impact their investments have on the world around them.

To that end, Aviva continues to work with Tumelo. This is a solution which gives members more visibility of the companies they are invested in through their employer pension.

- Through Tumelo, members can share their views on ESG votes ahead of the shareholder meetings of companies in their pension scheme with Aviva Investors.
- Aviva Investors can retrospectively compare this sample of views with their actual voting decisions on the same votes.
- Members may be comforted to know that Aviva Investors' voting decisions are very aligned with their views.
- Tumelo's data shows that Aviva Investors vote in the same way as pension members using Tumelo 72% of the time.
- This statistic places Aviva Investors at the top of the fund manager leader board for alignment with the engaged member population.

Conclusion

Aviva is under no illusion that a transition to a net zero carbon business will be easy. In fact, on their corporate website they state the following (with which most would agree):

"Will getting to Net Zero be easy?

No, it will be incredibly hard. No one has ever decarbonised an entire economy before. But the impacts of uncontrolled climate change are far more daunting than making this transition.

It will happen if enough people, companies and governments not only make commitments, but deliver them. Each company that sets a goal like we have today adds to the momentum and increases the chance we all succeed.

There are plenty of challenges: the data is imperfect and entirely missing for parts of private markets. Carbon accounting definitions are filled with double counting. Methodologies are incomplete, for example not yet covering sovereigns or underwriting. And there is no consistent global set of standards.

But this is no reason not to act. Instead, it underlines the urgency of the situation, and the need for all of us to do more. As the UK's leading insurer, Aviva has a responsibility to act on behalf of our people, our customers, our shareholders both today and in generations yet to come. We are committed to playing our part in full."

We will be working closely with Aviva's ESG teams to understand how they are overcoming these challenges, particularly with regard to the measurement of carbon intensity both in their operations and investments.

We have reviewed many of Aviva's policies relating to ESG and stewardship. You can all see these together with many other reports on their work in this area by visiting their corporate website

aviva.com/sustainability/climate

We have already spoken about the difficulty in measuring carbon intensity bother from a corporate and investment perspective.

Aviva will continue to pressure governments and policymakers to ask for a standard set of measures to be introduced, including a requirement for companies to disclose action plans which align their business strategies to science-based climate goals. This includes both short- and medium-term milestones.

The improvements Aviva is making to its default investment solutions are welcome, but we will continue to press for a speedier and deeper conclusion for My Future.

We rate Aviva very highly in this area of our assessment. We're grateful to several individuals from both Aviva and Aviva Investors for their significant contributions to the IGC this year.

Our conclusion

We continue to view Aviva as being the market leader on matters relating to ESG and stewardship. Their policies are strong, and their ambitions are even stronger. It will be delivering on those ambitions which will set them apart from others.

Investment pathways

Investment pathways

As outlined in last year's IGC report, Aviva introduced a series of funds in February 2021 aligned to the four investment pathways introduced by the FCA. These are available to members who have decided to start drawing benefits.

Aviva also operates a partnership with Mercer Workplace Savings, who created their own investment pathway solutions. The Mercer investment pathways fall under the remit of the IGC because Aviva acts as the pension provider.

At launch, the IGC looked at the design of both the Aviva and Mercer pathways and concluded that they were very similar in terms of objectives, broad asset allocation and associated risk involved. Because of this, most of the commentary in this section applies to both solutions. We have highlighted where there are differences.

The Pathways are broadly based around the pension options available to members at retirement and are common to all pension providers. They are designed for members who don't have their own independent financial advisers but are also available to members with such advice.

The four investment pathways

Pathway 1 Invest	The member has no plans to touch their money in the next five years
Pathway 2 Annuity	The member plans to use their money to set up a guaranteed income (annuity) within the next five years
Pathway 3 Income	The member plans to start taking their money as a long-term income within the next five years
Pathway 4 Cash	The member plans to take all of their money within the next five years

Members can choose one of these funds in line with their own circumstances.

Benchmarking review

The FCA requires IGCs to review and compare pathway solutions with one of more comparators from the market to assess relative value for money for members.

To help with this, we commissioned Isio, an external consultant, to undertake a pathways benchmarking exercise comparing Aviva's pathways offering at 31 December 2021 with a number of other providers.

We are satisfied the other providers assessed by Isio in their comparative study were appropriate as comparators under the FCA requirements and representative of key competitors in this area.

The key comparison areas in Isio's report are set out below. Due to the confidential nature of the benchmarking, we have had to anonymise the other providers in the benchmarking exercise. However, we can confirm they are all major pension providers in the current marketplace, and all started offering pathways in early 2021 as did Aviva. Provider I in the tables represents the Mercer investment pathway solutions.

The key comparisons made in the Isio report are:

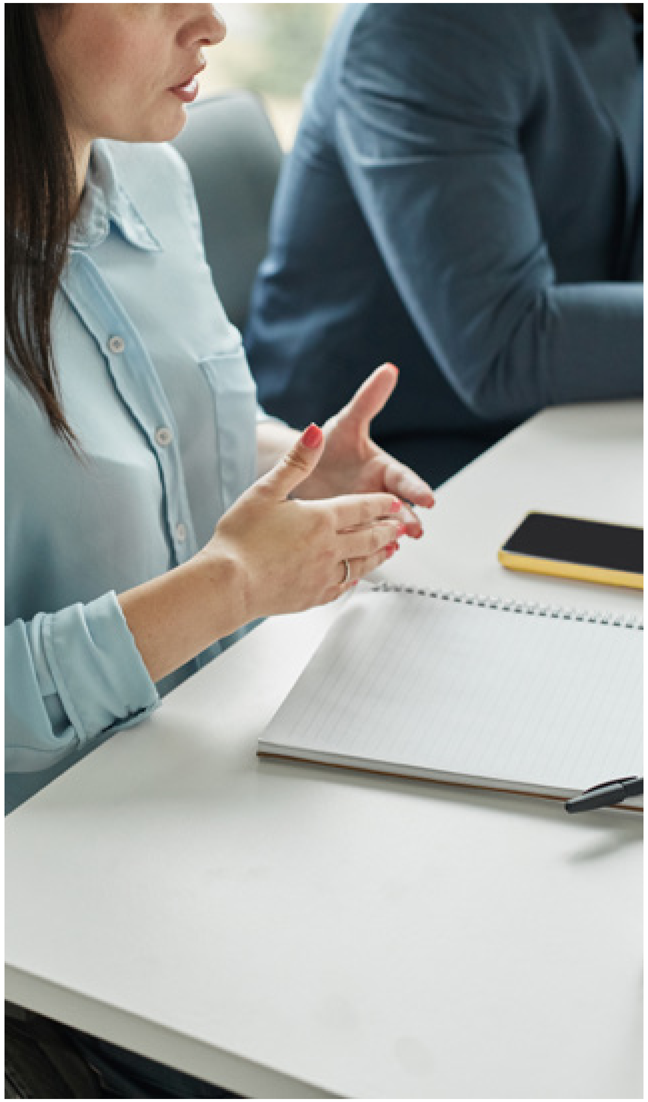
- Costs and charges to members
- Investment design and performance
  - the design of each pathway (ie, underlying investment strategy, asset allocation and expected levels of risk and return)
  - Approach to ESG integration within each pathway
- Quality of services provided, including:
  - Level and format of communications delivered to members
  - Member take-up experience to date

Where possible, we have included some of the findings from the Isio benchmarking report to highlight how the different pathways compare across each area.

Costs and charges to members

The key findings from the Isio report were as follows:

- On average, Pathway 4 is the lowest priced option due to the high percentage of low-risk investment (ie, cash) held within the investment strategies, while Pathway 1 and Pathway 3 have higher charges due to the greater allocation to growth assets.
- The range of fees charged to members varies significantly from provider to provider and there are some complicated discounts in some cases that make comparisons difficult. Some providers have only shown the fund management charge rather than fund management plus platform/administration charge. However, where the total expense ratio is shown, this is normally the total charge applying. The Aviva charges shown represent the total charges which are in the range 0.55% - 0.75% a year.
- Aviva's charges vary depending on the platform used by members.



Costs and charges to members (1)

	Pathway 1	Pathway 2	Pathway 3	Pathway 4
Aviva	**NGP & MyMoney** • Platform cost: 0.1%; Product charge: mirrors existing policy charges (range of 0.1%- 0.75%) subject to a cap of 0.75% p.a. **Unisure** • Platform cost: 0.0%; Product charge: mirrors existing policy charge (range of 0.1% -0.75%) • Unisure IPPs: existing policy charges range from 0.55% -0.7% • Unisure 98 series/pre -95s: existing policy charges range from 0.6% -1% (capped at 0.75% if invested in pathway) **OIS** • Platform cost: 0.15%; Product charge: 0.4% (reducing for investments over £50k). Total charge capped at 0.55% p.a.			
Provider F	TER = 0.41% p.a.	TER = 0.40% p.a.	TER = 0.41% p.a.	TER = 0.33% p.a.
	Charges above are the TERs for their Platform A (based on bundled approach). Unbundled Platform B charges = 0.05% p.a			
Provider C	TER = 0.40% p.a.	TER = 0.50% p.a.	TER = 0.40% p.a.	TER = 0.41% p.a.
	TER includes admin, FMC and expenses			
Provider A	TERs not provided – client specific			
Provider D	FMC = 0.14% p.a.	FMC = 0.15% p.a.	FMC = 0.30% p.a.	FMC = 0.00% p.a.
	Retail platform fee is 0.45% p.a. but clients receive scheme -specific discount on that (typical platform fee ranges between 0.2% -0.45%). TER = FMC + platform fee – discount			

Source: Isio

Costs and charges to members (2)

	Pathway 1	Pathway 2	Pathway 3	Pathway 4
Provider E	FMC= 0.16% p.a.	FMC = 0.14% p.a.	FMC = 0.33% p.a.	FMC = 0.12% p.a.
	TER = FMC above plus AMC as per members' factsheets			
Provider I	FMC = 0.22% p.a.	FMC = 0.07% p.a.	FMC = 0.22% p.a.	FMC = 0.08% p.a.
	Platform fees in line with those charged for Aviva – and subject to a cap of 0.75% p.a.			
Provider H	TER = 1.00% p.a. for all pathways			
	No additional pathway fee charged. TERs shown above are before scheme-specific discount is applied			
Provider G	TERs not provided – client specific			
	AMC = 0.10% p.a. for all pathways			
Provider B	TER = 1.02% p.a.	TER = 1.01% p.a.	TER = 1.01% p.a.	R = 1.02% p.a.
	TERs shown above are before scheme-specific discount is applied			

Source: Isio

In the table above, FMC stands for fund management charge. TER stands for the total expense ratio. This is a consistent defined calculation of the total of direct member charges expressed as a percentage of the average fund value over the period.

These tables show that a meaningful comparison can't be made at this early stage less than one year after their introduction. *However, where a sensible comparison is possible, it shows that Aviva (and Mercer pathways) charges on their various platforms are either at the competitive end or middle of the range across the market.*

Investment design and performance

The design and investment performance of each pathway will differ significantly because of the varying aims and objectives. In practice, this means a higher or lower allocation to growth or defensive asset classes.

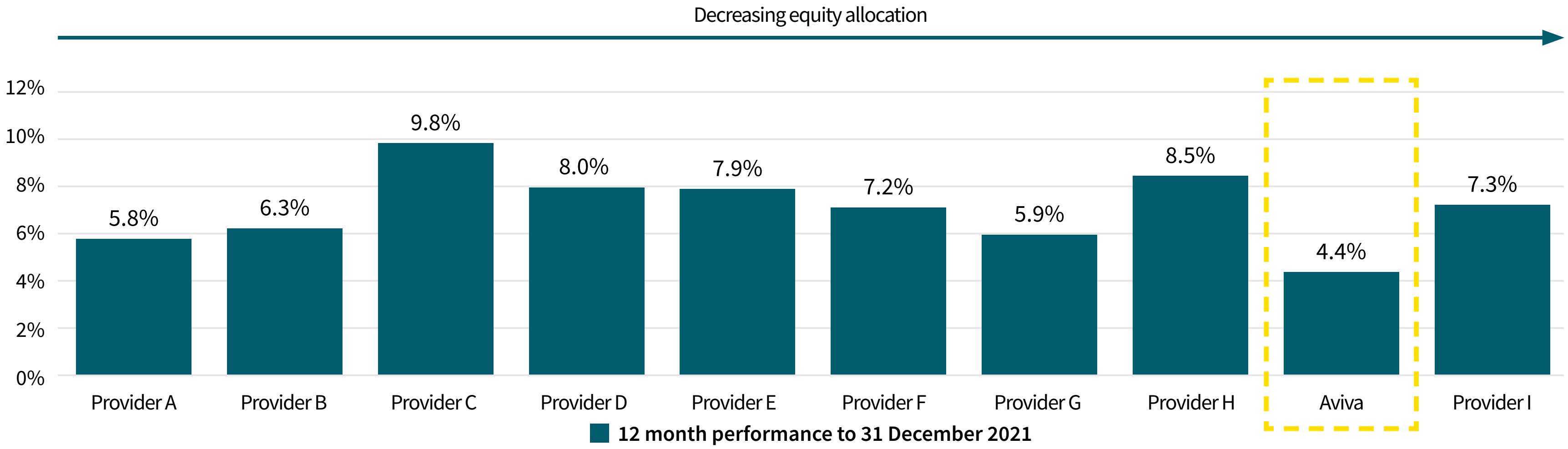
The key findings from the Isio report for the year ending 31 December 2021 were as follows:

- Pathway 1 and Pathway 3 delivered strong returns with those providers with the higher allocations to equity assets performing better. This is due to strong equity markets in 2021. As Aviva have lower equity allocations this placed them in the bottom three performing providers over the very short period since pathways were introduced. See the tables below relating to Pathway 1 and 3. We have shown tables of performance and also of the asset allocation of some providers to illustrate how the asset mix affects the actual performance. For Mercer (Provider I), the performance for both Pathway 1 and Pathway 3 was towards the upper end of the average in the market. This is again due to higher equity allocations.
- Pathway 2 delivered negative returns for the majority of providers, including Aviva as outlined in the table below.
- Pathway 4 showed a mixed set of returns. Those providers who retain some equity delivered positive returns. Those invested in corporate and government bonds performed negatively (this included Aviva) and those investing 100% in cash showing negligible returns – see table below.

Performance to 31 Dec 2021 – Pathway 1

I have no plans to touch my money in the next five years

Pathway 1



12 month performance to 31 December										
	Provider A %	Provider B %	Provider C %	Provider D %	Provider E %	Provider F %	Provider G %	Provider H %	Aviva %	Provider I %
Performance	5.8	6.3	9.8	8.0	7.9	7.2	5.9	8.5	4.4	7.3
Benchmark	3.1	7.3	10.0	n/a	10.8	7.3	6.5	6.7	n/a	0.1
Relative	2.7	-1.0	-0.2	n/a	-2.9	-0.1	-0.5	-1.7	n/a	7.2

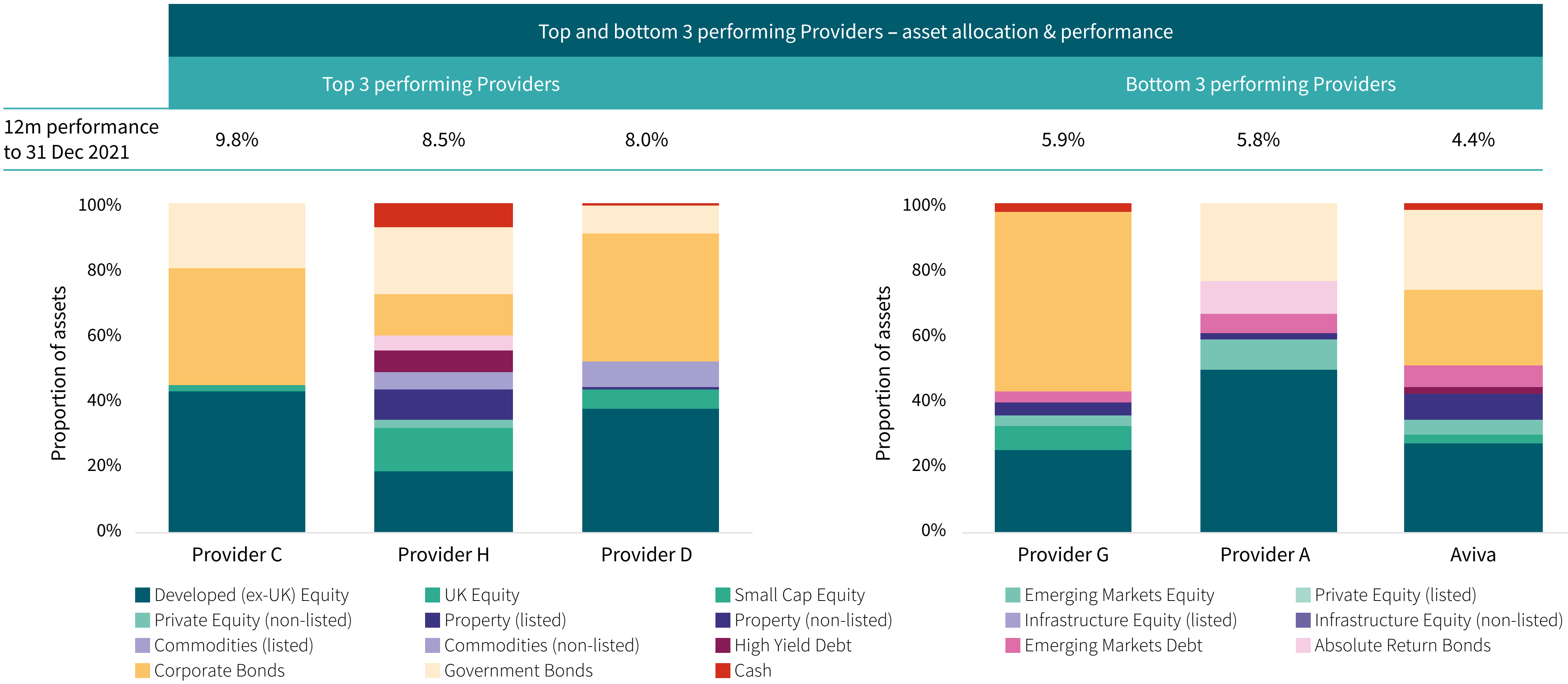
Source: Isio

Notes: Data as at 31 December 2021. Performance shown gross of fees.

Asset allocation vs performance – Pathway 1

I have no plans to touch my money in the next five years

Pathway 1



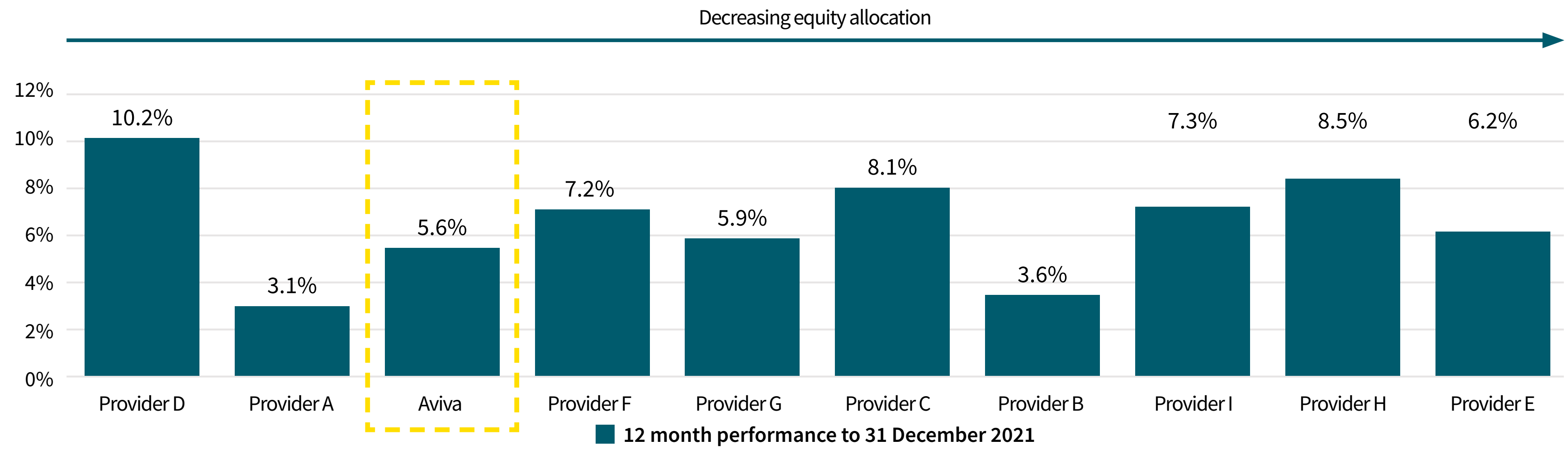
Source: Isio

Notes: Data as at 31 December 2021. Performance shown gross of fees.

Performance to 31 Dec 2021 – Pathway 3

I plan to start taking my money as a long-term income within the next five years

Pathway 3



12 month performance to 31 December	Provider D %	Provider A %	Aviva %	Provider F %	Provider G %	Provider C %	Provider B %	Provider I %	Provider H %	Provider E %
Performance	10.2	3.1	5.6	7.2	5.9	8.1	3.6	7.3	8.5	6.2
Benchmark	5.4	n/a	n/a	7.3	6.5	8.2	5.1	0.1	6.2	3.6
Relative	4.8	n/a	n/a	-0.1	-0.5	-0.2	-1.5	7.3	2.3	2.6

Source: Isio

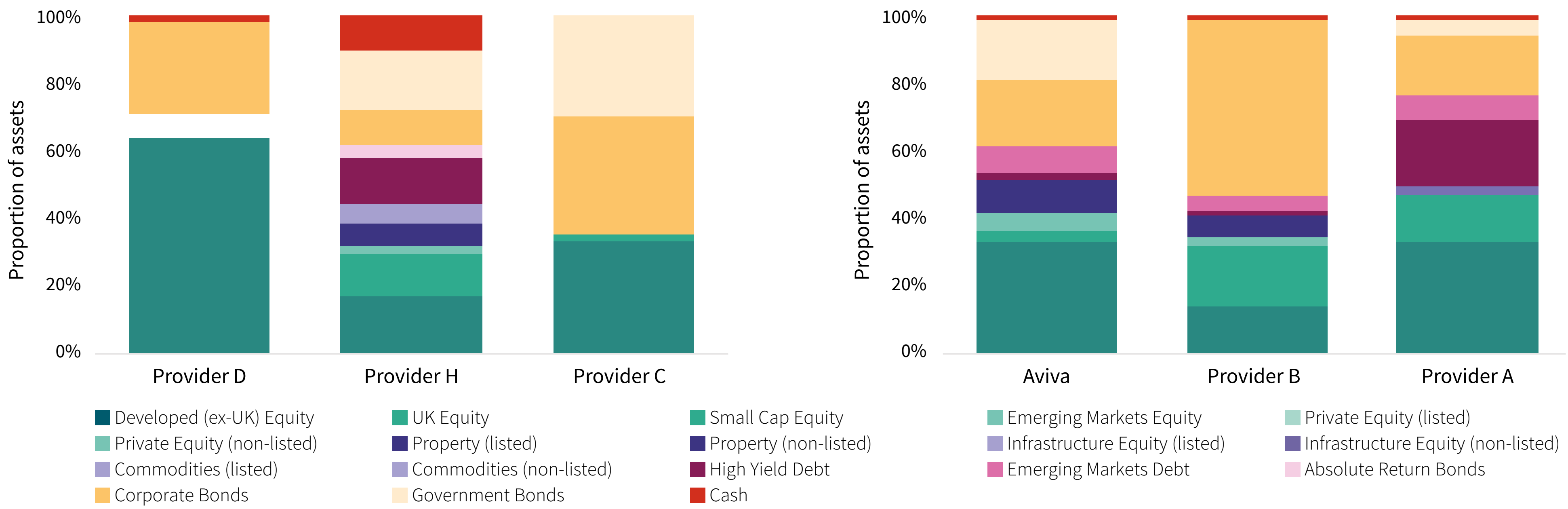
Notes: Data as at 31 December 2021. Performance shown gross of fees.

Asset allocation vs performance – Pathway 3

I have no plans to touch my money in the next five years

Pathway 3

Top and bottom 3 performing Providers – asset allocation & performance						
	Top 3 performing Providers			Bottom 3 performing Providers		
12m performance to 31 Dec 2021	10.2%	8.5%	8.1%	5.6%	3.6%	3.1%



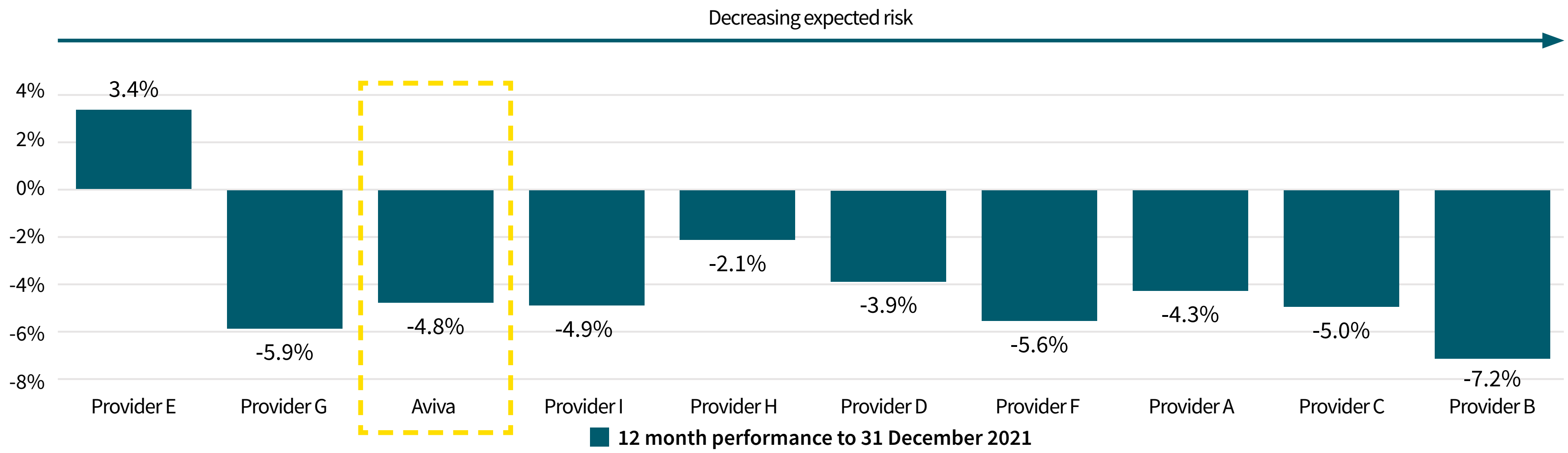
Source: Isio

Notes: Data as at 31 December 2021. Performance shown gross of fees.

Performance to 31 Dec 2021 – Pathway 2

I plan to use my money to set up a guaranteed income (annuity) within the next five years

Pathway 2



12 month performance to 31 December	Provider E %	Provider G %	Aviva %	Provider I %	Provider H %	Provider D %	Provider F %	Provider A %	Provider C %	Provider B %
Performance	3.4	-5.9	-4.8	-4.9	-2.1	-3.9	-5.6	-4.3	-5.0	-7.2
Benchmark	4.9	-6.2	n/a	-4.8	-0.2	-4.8	-5.7	-5.3	-4.9	-5.7
Relative	-1.5	0.3	n/a	-0.1	-2.0	0.8	0.1	1.0	0.1	-1.6

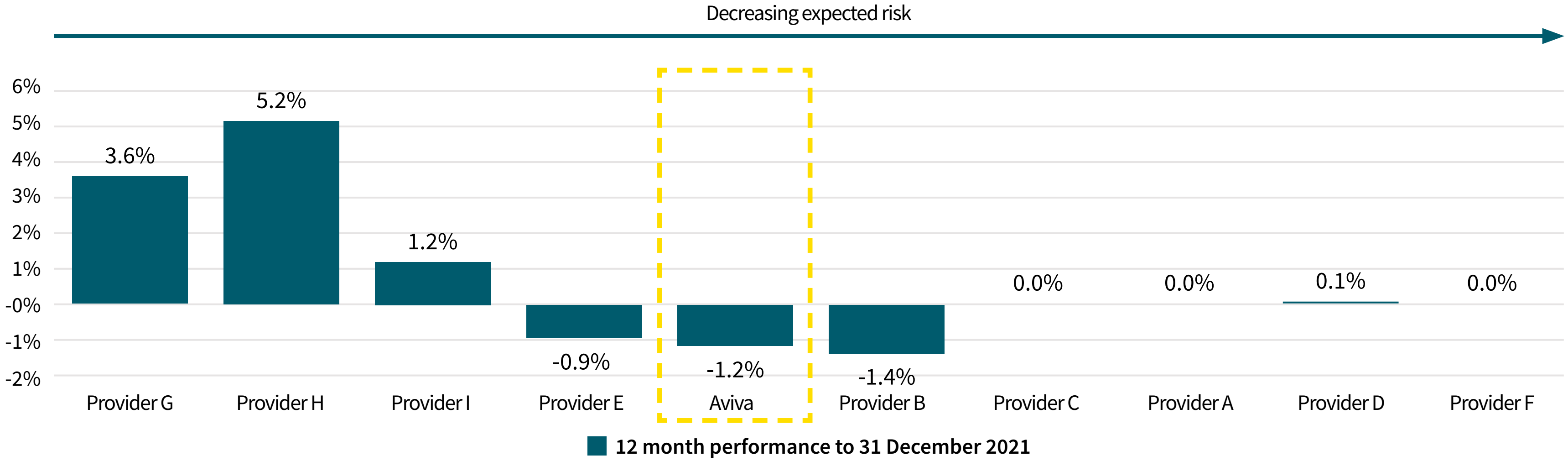
Source: Isio

Notes: Data as at 31 December 2021. Performance shown gross of fees.

Performance to 31 Dec 2021 – Pathway 4

I plan to take out all of my money within the next five years

Pathway 4



12 month performance to 31 December										
	Provider G %	**Provider H %**	**Provider I %**	**Provider E %**	**Aviva %**	**Provider B %**	**Provider C %**	**Provider A %**	**Provider D %**	**Provider F %**
Performance	3.6	5.2	1.2	-0.9	-1.2	-1.4	0.0	0.0	-0.1	0.0
Benchmark	5.9	3.7	0.1	-0.7	n/a	-0.3	-0.1	0.0	n/a	-0.1
Relative	-2.3	1.5	1.1	-0.2	n/a	-1.1	0.0	0.0	n/a	0.1

Source: Isio

Notes: Data as at 31 December 2021. Performance shown gross of fees.

Assessing investment performance returns over such a short period and against the backdrop of great volatility in investment markets (which has continued into 2022) is difficult.

We consider it's too early to gauge whether Aviva needs to review its investment strategy for each pathway. Furthermore, as described earlier in this report, investment returns in 2021 were impacted by both how much was invested in equity markets and the relative allocations between UK, European and US equities – the latter having contributed significantly to delivering good performance. At the time of writing, investment markets have had different experience so far in 2022.

However, as highlighted in the Investment section of this report, we will be discussing the findings of Isio's review with Aviva with particular emphasis around the following questions:

1. **Do Pathway 1 and Pathway 3 have sufficient allocation to equity to maximise returns for members? Is Aviva likely to be changing the allocations to UK and US markets?**
2. **Should Pathway 4 have a higher allocation to different lower risk asset classes other than cash to try and improve returns?**

In summary, pathways have been in existence for such a short while and performance over a 12-month period should not be regarded as representative of what is likely to happen over longer periods.

We do not feel there are any changes required at the present time. We also have no significant reason to suggest Aviva pathways are not representing value for members from an investment perspective.

Quality of services and support

As outlined in last year's annual report, we looked at Aviva's design of each pathway in the period before launch. We will continue to engage with them on the rationale for their solutions, especially as more member experience data becomes available.

We cover ESG matters elsewhere in this report but for pathways integration, the Isio report confirmed our own findings to date. Aviva's approach is a strong one with ESG factors considered throughout the investment/ research process and integrated as far as possible across their strategy. This compares favourably to many other providers who make allocations to specific ESG funds.

The Isio report also confirmed Aviva pathways' member communication compares well with other providers in both the wider range of formats and information available and additional support available to members as they approach retirement age. The Mercer communications are based on the Aviva materials , hence the same conclusions apply.

Member take-up of pathways seems relatively low across the market and this is also true at Aviva. This is perhaps not a surprise given pathways are still very new and against the backdrop of the economic challenges many members are facing. The definitions of each pathway are quite broad, and many members may consider they wish to have a different investment fund choice and not use any of the pathways.

However, we have noticed a higher percentage of Aviva members taking up pathway solutions if their retirement process is a digital one (rather than a paper-based communication exercise). We will explore this further with Aviva over the coming year. The table below shows member behaviours based on the limited information available to date.

The table highlights a number of factors, including:

- the significantly larger number of members retiring with Aviva compared to the other providers in the market
- Pathway 1 and Pathway 3 appear to have greatest take up, followed by Pathway 4. This highlights the need to make sure these maximise returns for members without taking too much risk.

Member take-up - last 12 months to 31 December 2021

	Take-up of any investment pathway (No. of drawdown retirees)	Split of take-up between each Pathway (%)			
		Pathway 1	Pathway 2	Pathway 3	Pathway 4
Aviva	4,507 (out of 22,093 drawdown retirees)	40.0%	4.0%	27.0%	29.0
Provider F	653 (out of 1,306 drawdown retirees)	38.5%	1.6%	47.2%	12.6
Provider C	39	33.5%	3.4%	45.0%	18.2
Provider A	590 (out of 9,848 drawdown retirees)	34.0%	3.0%	31.0%	31.0
Provider D	26 (out of 346 drawdown retirees)	64.0%	0.0%	36.0%	0.0
Provider E	568 (out of 2,272 drawdown retirees)	15.0%	3.0%	24.0%	58.0
Provider I	2	0.0%	0.0%	27.7%	72.3
Provider H	4,494	40.0%	4.0%	23.0%	33.0
Provider G	7,193 (out of 12,956 drawdown retirees)	42.0%	4.0%	27.0%	27.0
Provider B	7,790	38.3%	5.6%	20.5%	36.6

Source: Isio

Appropriateness of pathway design

In addition to the independent research commissioned with Isio by the IGC, Aviva has again used eValue to prepare an independent report on the appropriateness of each of the four pathways.

Looking at the design of the investment solution, the target risk levels and communications, eValue concluded each pathway was appropriate.

Conclusion

In recent years, it's clear that many policyholders over age 55 have accessed their pension pots to take a tax-free lump sum because of financial challenges against the backdrop of a tough economic climate.

This makes it difficult to gauge whether the member take-up of pathways and the options members take will prove to be a true indicator of their long-term behaviours.

The Isio review showed charges were broadly competitive, but this will become clearer over the next few years. Nevertheless, this is something we will continue to monitor, especially as more data becomes available on member behaviours and on the longer-term investment performance of the pathways.

Our conclusion

After comparing Aviva's pathways (including Mercer Workplace Savings) with other providers, our overall assessment is that they are appropriately designed and continue to provide value for money for policyholders.

Appendix A
Redington Costs and Charges Cohorts.

The following table is taken from the Redington report and shows the cohorts selected by providers based on the number of members in each employer arrangement. The breakdown shows that the largest cohort of almost 23% of policyholders pay between 0.3% and 0.4% a year and over 90% of policyholders pay less than 0.75% a year. No policyholders pay more than 1% a year. Aviva's results compared favourably with the other firms in the study.

Scheme Membership Bands	Charge Distribution (TER or RIY) - by number of members and number of employer arrangements in the default strategy or 'deemed default' fund																TOTAL BAND % POLICYHOLDERS	POLICYHOLDERS TOTAL BAND % EMPLOYER ARRANGEMENTS
	Band 1		Band 2		Band 3		Band 4		Band 5		Band 6		Band 7		Band 8			
	0% to <=0.3%		>0.3% to <=0.4%		>0.4% to <=0.5%		>0.5% to <=0.6%		>0.6% to <=0.75%		>0.75% to <=0.85%		>0.85% to <=0.95%		>0.95% to <=1%			
	PH	EA	PH	EA	PH	EA	PH	EA	PH	EA	PH	EA	PH	EA	PH	EA		
Orphaned/Individual leavers																	0.00%	0.00%
0-10	0.04%	0.64%	0.13%	2.16%	0.33%	6.14%	0.33%	6.05%	1.59%	30.19%	0.08%	1.69%	0.03%	0.68%	0.02%	0.41%	2.55%	47.97%
11-50	0.32%	0.97%	0.73%	2.43%	1.59%	5.18%	1.29%	4.38%	5.01%	17.72%	0.14%	0.48%	0.05%	0.19%	0.07%	0.22%	9.21%	31.57%
51-100	0.51%	0.58%	0.89%	1.01%	1.38%	1.52%	1.08%	1.26%	3.04%	3.53%	0.12%	0.14%	0.06%	0.07%	0.07%	0.07%	7.14%	8.17%
101-199	0.83%	0.49%	1.64%	0.93%	2.05%	1.17%	1.52%	0.89%	3.19%	1.92%	1.92%	0.11%	0.10%	0.05%	0.06%	0.04%	11.32%	5.60%
200-299	0.80%	0.27%	1.27%	0.43%	1.52%	0.52%	1.00%	0.34%	1.62%	0.55%	0.17%	0.05%	0.09%	0.03%			6.47%	2.19%
300-399	0.63%	0.15%	1.00%	0.24%	1.24%	0.30%	0.60%	0.14%	0.79%	0.19%	0.16%	0.04%	0.02%	0.00%	0.07%	0.02%	4.51%	1.08%
400-499	0.47%	0.09%	1.09%	0.20%	1.20%	0.22%	0.51%	0.09%	0.50%	0.09%	0.02%	0.00%	0.16%	0.03%			3.95%	0.73%
500-749	0.90%	0.13%	1.99%	0.27%	1.72%	0.23%	0.92%	0.12%	1.17%	0.16%	0.21%	0.03%	0.11%	0.02%	0.03%	0.00%	7.05%	0.96%
750-999	0.70%	0.07%	1.67%	0.16%	1.27%	0.12%	0.53%	0.05%	1.02%	0.10%	0.04%	0.00%	0.04%	0.00%			5.26%	0.51%
1,000-4,999	6.58%	0.27%	7.98%	0.33%	4.76%	0.22%	2.98%	0.13%	1.89%	0.09%	0.94%	0.03%	0.09%	0.00%	0.07%	0.00%	25.28%	1.09%
5,000-9,999	3.17%	0.03%	2.37%	0.03%	1.21%	0.02%	0.29%	0.00%	1.07%	0.02%	0.33%	0.00%	0.69%	0.01%			9.12%	0.11%
10,000-24,999	1.55%	0.01%	0.59%	0.00%	1.82%	0.01%	2.26%	0.01%	0.58%	0.00%							6.81%	0.04%
25,000-49,999			1.33%	0.00%													1.33%	0.00%
50,000-74,999																	0.00%	0.00%
75,000-99,999																	0.00%	0.00%
100,000+																	0.00%	0.00%
TOTAL (EXCL. Orphaned)	16.51%	3.70%	22.68%	8.18%	20.08%	15.64%	13.31%	13.47%	21.46%	54.56%	4.12%	2.59%	1.44%	1.09%	0.39%	0.76%	100.00%	100.00%

- Aviva does not have any policyholders or employer arrangements that have charges over 1%
- Even though the largest proportion of employer arrangements (c. 48%) have between 0 10 policyholders, this represents only 2.5% of total policyholders.
- Most policyholders (c.23%) are in employer arrangements with a TER of between 0.30 0.40%.

Source: Redington

The same charging bands were used in the following table, but rather than the number of members, it shows the assets under management in each employer arrangement. Almost 30% of members are in schemes with more than £250m of assets.

Assets Under Administration	**Charge Distribution (TER or RIY) - by number of members and number of employer arrangements in the default strategy or 'deemed default' fund**																**TOTAL BAND % POLICYHOLDERS**	**POLICYHOLDERS TOTAL BAND % EMPLOYER ARRANGEMENTS**
	Band 1		Band 2		Band 3		Band 4		Band 5		Band 6		Band 7		Band 8			
	0% to <=0.3%		>0.3% to <=0.4%		>0.4% to <=0.5%		>0.5% to <=0.6%		>0.6% to <=0.75%		>0.75% to <=0.85%		>0.85% to <=0.95%		>0.95% to <=1%			
	PH	**EA**	**PH**	**EA**	**PH**	**EA**	**PH**	**EA**	**PH**	**EA**	**PH**	**EA**	**PH**	**EA**	**PH**	**EA**		
Orphaned/Individual leavers																	0.00%	0.00%
£0-£9999	0.26%	0.56%	0.01%	0.26%	0.02%	0.73%	0.02%	0.80%	0.18%	8.32%	0.00%	0.00%	0.00%	0.02%	0.00%	0.02%	0.48%	10.70%
£10,000-£19,999	0.02%	0.46%	0.01%	0.17%	0.02%	0.56%	0.02%	0.94%	0.21%	5.71%			0.00%	0.01%	0.00%	0.01%	0.28%	7.86%
£20,000-£29,999	0.01%	0.40%	0.01%	0.23%	0.02%	0.47%	0.03%	0.70%	0.20%	3.96%					0.00%	0.02%	0.27%	5.76%
£30,000-£39,999	0.01%	0.39%	0.01%	0.10%	0.03%	0.46%	0.03%	0.60%	0.17%	2.88%	0.00%	0.00%			0.00%	0.02%	0.24%	4.45%
£40,000-£49,999	0.01%	0.32%	0.01%	0.14%	0.02%	0.43%	0.03%	0.49%	0.18%	2.31%			0.00%	0.00%			0.25%	3.70%
£50,000-£99,999	0.14%	1.59%	0.04%	0.54%	0.12%	1.64%	0.11%	1.48%	0.76%	7.17%			0.00%	0.02%	0.00%	0.05%	1.17%	12.50%
£100,000-£249,999	0.41%	2.79%	0.15%	0.92%	0.33%	2.44%	0.28%	1.96%	1.19%	6.71%	0.00%	0.01%	0.00%	0.04%	0.01%	0.13%	2.38%	15.00%
£250,000-£499,999	0.64%	2.60%	0.21%	0.70%	0.41%	1.69%	0.29%	1.03%	0.91%	3.25%			0.00%	0.02%	0.01%	0.08%	2.45%	9.36%
£500,000-£999,999	1.12%	2.63%	0.28%	0.72%	0.58%	1.45%	0.37%	0.75%	0.96%	2.29%	0.00%	0.02%	0.00%	0.01%	0.00%	0.06%	3.32%	7.93%
1,000,000-£4,999,99	4.56%	4.58%	1.38%	1.58%	2.24%	2.18%	1.23%	1.24%	3.32%	3.34%			0.00%	0.01%	0.01%	0.02%	12.74%	12.97%
£5,000,000-£24,999,999	7.27%	1.93%	2.94%	0.99%	4.11%	0.84%	1.56%	0.38%	1.82%	0.37%	0.00%	0.00%					17.71%	4.52%
£25,000,000-£49,999,999	14.62%	4.53%	1.64%	0.19%	0.86%	0.06%	0.20%	0.01%									17.32%	4.80%
£50,000,000-£99,999,999	3.01%	0.16%	1.23%	0.05%			0.46%	0.01%	0.42%	0.00%	0.09%	0.01%	0.03%	0.00%			5.23%	0.24%
£100,000,000-£249,999,999	5.26%	0.15%	0.81%	0.02%									0.22%	0.00%			6.29%	0.17%
£250,000,000+	29.66%	0.05%									0.22%	0.00%					29.87%	0.05%
TOTAL (EXCL. Orphaned)	66.99%	23.14%	8.73%	6.64%	8.76%	12.94%	4.62%	10.39%	10.31%	46.32%	0.31%	0.05%	0.25%	0.13%	0.02%	0.39%	100.00%	100.00%

- The largest proportion of Aviva's policyholders are members of schemes with more than £250m in assets

Source: Redington

The following table shows a comparison between all of the providers who took part in the study (Aviva is highlighted by the red, dotted line. This only compares modern products, not older products. The percentage of employer arrangements is shown in the blue column, while the percentage of members is highlighted in green.

Charge (%)																		
>1.25	0.5	0.1					0.6	0.1										
>1.05 to <=1.25	0.8	0.2					0.8	0.2										
>1 to <=1.05	0.3	0.1					0.3	0.1										
>0.95 to <=1	23.6	3.3			52.7	2.0	3.3	0.7			0.8	0.4			59.8	13.2	1.3	0.1
>0.85 to <=0.95	0.9	0.6			1.2	0.6	1.4	0.7			1.1	1.4			0.5	0.3	0.4	0.1
>0.75 to <=0.85	1.7	1.6			1.7	2.9	2.6	1.9			2.6	4.1	1.3	0.1	2.0	0.7	0.2	0.0
>0.6 to <=0.75	30.7	21.5	0.6	0.3	33.0	17.6	62.2	49.7	52.7	27.5	54.6	21.5	8.0	6.1	33.9	49.1	0.7	0.3
>0.5 to <=0.6	18.9	21.2	16.6	6.2	4.6	19.8	14.9	17.5	9.8	10.3	13.5	13.3	89.7	93.8	1.5	7.3	0.7	1.7
>0.4 to <=0.5	21.4	20.4	38.1	24.4	5.2	32.6	9.8	17.5	13.1	14.7	15.6	20.1	0.4	0.0	1.5	12.6	87.2	41.4
>0.3 to <=0.4	7.7	18.4	27.6	28.4	1.6	24.6	3.5	9.1	14.6	25.1	8.2	22.7	0.1	0.0	0.6	7.9	5.4	29.4
0 to <=0.3	5.9	19.6	17.1	40.6			0.7	2.4	9.9	22.4	3.7	16.5			0.2	8.8	4.0	26.9
	Average		Provider A		Provider B		Provider C		Provider D		Provider E		Provider F		Provider G		Provider H	
Size of cohort (schemes)				181		886		22,052		9,767		23,661		825		30,318		14,171
Size of cohort (pholds)				267,171		99,181		767,487		633,816		1,945,465		145,104		2,154,049		963,205

- Aviva distribution of schemes and policyholders across the charge bands is broadly in line with the average for the study

Source: Redington

Appendix B
About your IGC members

Colin Richardson (Independent Chair)

Colin joined the IGC (representing PTL Governance Limited) as Chair in July 2018 and has been one of the leading people in defined contribution (DC) pension governance in recent years. Colin has been on the Trustee Board of the Aviva Master Trust since 2014, chairing from 2015 to 2020, and has formerly been a member of other IGCs (Aegon and Blackrock) and other Master Trusts.

Colin also acts as trustee for several employer DC pension schemes and was Pensions Insight DC professional trustee of the year in 2017. He also acts as a trustee for defined benefit (DB) pension schemes and has helped construct new standards for professional trustees. Colin is an actuary who moved into pensions governance after 25 years in pensions actuarial work.

Colin has two children who now live away from home, and lives in Epping Forest although his work is based in many places. He enjoys reading, various sports, socialising and economics.

Georgia Stewart (Non-Independent Member)

Georgia became a member of Aviva's IGC in March 2022.

She co-founded and is CEO of financial technology scale-up, Tumelo, a platform that gives investors and pension members visibility of the companies they are invested in and a shareholder voice on the environmental and social issues those companies are facing.

She studied Natural Sciences at Cambridge and campaigned for the university to be a more responsible shareholder. She has experience from across the sustainable investment sector, including equity investment analysis at Jupiter, cleantech venture capital at IP Group and conservation projects at Fauna and Flora International.

Georgia lives in London with her partner. Outside of work, she enjoys spending time with family and friends, running, cycling, growing her own vegetables and sometimes even foraging.

Marcia Campbell (Independent Member)

In all her roles, Marcia has pushed technology and simplicity to help employees understand and improve their pensions.

She is an independent non-executive director with over 30 years' experience in the financial services industry, with roles covering pensions administration, strategy, IT and operations. She is currently on a range of Financial Services company Boards in the UK and France, spanning banking, asset management and insurance. The main part of her executive career was with Standard Life plc, where she was a member of the Group Executive Committee.

Marcia lives in Edinburgh with her family and is actively involved in the local Women in Banking and Finance group, mentoring young executives and small businesses.

Ian Baines (Independent Member)

Ian is an experienced pension professional who has helped manage many workplace pensions plans for several large UK employers. He was formerly head of pensions at Nationwide Building Society.

Ian and his team at Nationwide are passionate about providing a quality service to the trustee boards, stakeholders and pension plan members they support. At the heart of this is a desire to help pension members understand better and engage more with their pension savings so they can maximize their financially security at retirement.

Ian says, “the pension savings industry needs to be better at helping savers and for me this includes embracing technology to deliver regular, personalised and above all simple messages which nudge people to take action or which signpost sources of further information, help etc.”

Outside work Ian lives in the Essex countryside spending as much time with family & friends, walking his dogs and going to the odd football, cricket and rugby match.

Gurmukh Hayre (Independent Member)

Gurmukh has been in the pensions industry for over 35 years. He has worked with two leading pension providers and spent 28 years with KPMG advising employers and trustee boards on all areas of pensions including administration, risk management, investment and communications strategy.

He is now a professional independent trustee and governance advisor for both defined benefit and defined contribution schemes.

Gurmukh says he is “pleased to see that the pensions regulator is at last giving more focus and attention to defined contribution pension savings to ensure they deliver value and good outcomes for members”.

Gurmukh is a passionate cyclist in his spare time and enjoys coaching his sons to play decent Hockey.

Thank you for reading

Aviva Independent Governance Committee (IGC) 2022