

**TPT Retirement Solutions**

# **Chair's Annual DC Governance Statement 2017**

**DC Governance Standards 1 October 2016 - 30 September 2017**

**Annual Governance Statement for the Scheme year ended 30 September 2017  
prepared in accordance with the Occupational Pension Schemes (Scheme  
Administration) Regulations 1996.**

## **1 | Introduction**

Welcome to my third and final DC Governance Statement as Chair of Verity Trustees Limited. At the end of this 2017/18 scheme year, I will be stepping down. However, I am pleased to report that the defined contribution (DC) offering is more durable, financially sustainable and more likely to provide members with better retirement outcomes than ever before. Over this period the Trustee has worked very hard to make improvements to the DC pension and service that TPT provides its members and employers.

Back in 2013 we made significant improvements to our investment options and reduced member charges, and in more recent years we have focused on improving our administration services and governance structure.

My focus for 2018 will be on engaging with DC members and striving to improve member outcomes as a result, as well as ensuring a smooth handover to my successor in September.

### **1.1 Background to statement**

The Trustee is committed to maintaining high governance standards across all areas. The information below is focused on specific areas of scheme governance which we must, by law, disclose. We, as a Board, recognise the importance of good scheme governance and adopt good practice governance standards across all areas of scheme management, to meet the expectations as set out in the Pensions Regulator's (TPR) DC Code.

This Governance Statement demonstrates our compliance with the statutory governance regulations, which are central to the running of TPT's DC sections and schemes. The governance standards exist to help members achieve a good outcome from their pension savings.

The Trustee is Verity Trustees Limited, and all references to TPT refer to The Pensions Trust (the Scheme) - an occupational pension scheme established in 1946, which was rebranded to TPT Retirement Solutions in 2016. TPT is a hybrid Master Trust providing defined benefit (DB) and DC benefits to 39 schemes, of which 31 are DB schemes, two are standalone DC schemes and six are hybrid arrangements.

### **1.2 TPT Governance achievements**

TPT achieved a 'PQM ready' status in 2013 and has retained the Pensions Quality Mark in subsequent years. 'PQM ready' means that TPT has been independently assessed as a top quality pension scheme run by properly qualified persons, and provides its members with regular, easily understandable communications.

In October 2015, TPT was independently assessed against the Master Trust Assurance Framework, and in March 2016, was added to TPR's list of approved Master Trust providers as having obtained Master Trust Assurance. Since then, TPT has completed two further Type 2 reports (an annual Report required by TPR to remain on its list of independently assured Master Trusts) with the latest report (for the year ended 30 September 2017) being signed on 19 December 2017. Completion of the work required to achieve this accreditation has led to a stronger governance structure for our DC products and services.

TPT is currently preparing for compliance with the Pension Schemes Act 2017, and the process that will lead to Master Trust authorisation. We believe that the work that we have completed to improve our schemes over the last few years puts us in a strong position that will lead to TPT becoming an Authorised Master Trust in 2019.

## 2 | Default investment arrangement

Members who do not choose an investment option for their contributions are provided with a default investment arrangement from a range of Target Date Funds (TDFs). The specific TDF is based on their assumed normal retirement date (age 65), although members can set their own target retirement date. Similarly, a series of Ethical Target Date Funds (ETDFs) are available as the default option for members of The Ethical Fund (TEF). Approximately 96% (2016: 97%) of TPT's DC members are invested in a default investment arrangement.

We believe that the Target Date Funds offer our members an excellent investment default that will be suitable for the majority of the membership. However, where some members prefer to make their own investment choices to suit their individual beliefs and circumstances, we also offer a wide range of 'self-select' investment options, which are listed on the TPT website.

### 2.1 Aims and objectives of the default strategies

The aim and objectives of the default strategies and policies are agreed by the Trustee Board and reviewed annually. Details of the default arrangement are contained in the Statement of Investment Principles (SIP). The SIP was reviewed and updated in September 2017, and can be found on the TPT website, at [www.tpt.org.uk/investments/our-investment-beliefs](http://www.tpt.org.uk/investments/our-investment-beliefs).

TPT's default investment strategy is designed to help ensure that the funds deliver the best possible outcome for the majority of members at retirement. Our aim is for each TDF to grow more in the earlier years and move towards less risky asset allocations as the target retirement date (default or as selected by the member) approaches. Over the life of the TDF, the manager has the objective of out-performing the inflation rate so the investment grows in real terms.

The Trustee designs the strategy of each TDF so that it is suitable for a member's own target retirement date. The Trustee believes that it is in the best interests of the members to provide a default strategy made up of funds which reflect the amount of time left before the member's target retirement date. The Trustee further considers that the default strategy should not require the member to make investment choices or switch funds as they approach retirement.

Following the 'Freedom and Choice' reforms in 2015 which increased the retirement options available to members of DC Pension schemes, TPT undertook a series of surveys to try and better understand what members intend to actually do with their retirement pots at retirement. This information was gathered so as to inform how we invest members' money, particularly during the approach to retirement. This led to a decision to increase the cash allocation in the TDFs in the lead up to a member's target retirement date, because many members told us that they intended to withdraw higher proportions of their fund as cash than previously expected. TPT monitors retirement trends on an ongoing basis and may run the formal member surveys again in the future as the DC retirement market matures.

## 2.2 Investments held

The investments held in the default arrangement are varied over the life of each TDF so that they meet the specific performance and risk objectives of the TDF. The funds have a range of underlying securities under a long term insurance contract and include a balance of;

- growth seeking investments including a range of equity funds;
- balanced investments and diversifiers including global properties; and
- cautious investments including cash, corporate bonds and UK government bonds.

The Trustee Board is committed to responsible investment, and believes that environmental, social and governance factors can impact financial performance. We make ethical options (ETDFs) available in all of our DC arrangements. ETDFs invest in equity funds, which track the FTSE4Good Indices, and UK government bonds. The Investment Committee (IC) keeps the investment strategy of the ETDFs under regular review and seeks to provide further diversification within these funds as alternative strategies become available at appropriate costs.

## 2.3 Reviewing the default arrangement and strategies

The Trustee has delegated the task of reviewing the default strategies on an ongoing basis to the IC and receives a report on these activities on an annual basis. This was done in September 2017 when the IC confirmed that returns were in line with the SIP. The IC delivers a report to the Management Board after each quarterly IC meeting and also reports any important issues up to the Management Board and the Trustee Board as soon as possible.

The IC receives an annual stewardship review from the investment manager of the default funds, and spends a full day discussing and considering this with the investment manager and the IC's advisers. This review was undertaken on 18 May 2017 and will be undertaken again on 1 May 2018. The stewardship report outlines the suitability of the default strategies, performance objectives and actual performance the investment manager's strategy, the charging structure and its impact on performance and also considers the nature of the schemes' membership and considers whether the performance of the funds is appropriate for their situations. Following this review, and based on the recommendation from the IC, the Trustee formally decides whether the default strategy remains suitable for the needs of members, and this was agreed in July 2017.

The investment management team monitors performance on an ongoing basis and reports to the IC which formally monitors the performance of the default investment arrangements (and the self-select funds) every quarter, and reviews them annually in conjunction with the managers of the funds. The formal annual review was undertaken on 18 May 2017 and the next annual review is scheduled for 1 May 2018. Target Date Funds have performed consistently against the aims and objectives of the default strategy which is considered and set annually by the Trustee. The IC considered the likelihood of members reaching their retirement objectives in May 2017 following an assessment undertaken by the investment manager and work is ongoing to assess the potential impact of investment performance on the different groups of members within the funds.

After consideration by the IC on 18 May 2017, it was decided that no changes to the performance objectives of the funds were required. At a meeting of the Trustee in September 2017 it was agreed that TPT should remain on the existing investment manager's platform for the default investment choice (TDFs).

## 3 | Costs and charges

Member charges are monitored by the IC on an ongoing basis and formally reviewed every year. The last such review was undertaken on 18 May 2017. TPT is required to explain the charges and transaction costs paid by members and this is included in our VFM report which is included on our website.

TPT is committed to transparency in this area, and TPT reviewed the way that costs and charges are communicated to members in July 2017. Following this review, and with agreement of the Trustee, TPT made an amendment to its policy on the Annual Management Charges (AMCs) so as to include any fixed costs as the Trustee believes that this makes it easier for members to understand the total charges made. This means that TPT now includes platform charges in its published AMC, where applicable. All Member literature was updated following the review and an announcement made on each of the DC websites in August 2017.

### 3.1 Annual Management Charges (AMC)

**Target Date Funds** – The AMC is 0.5% a year of the annual fund value and all funds are priced daily.

**Ethical Target Date Funds** – The AMC is 0.7% a year of the annual fund value and all funds are priced daily. The higher charge for ETDFs reflects the additional screening required to ensure they meet the ethical standards required. Members who joined the Ethical Fund before 1999 pay a lower AMC of 0.5% a year because they paid a fixed price on joining the fund (as required by the scheme rules at this time).

**Self-select Funds** – The IC undertakes checks to help ensure that the charges of self-select funds are accurate and appropriate. The following AMCs apply:

Self-select Fund	AMC (pa)
Bond Fund	0.45%
Cash Fund	0.45%
Global Equity Fund	0.45%
Index-Linked Gilts Fund	0.45%
Socially Responsible Investment Fund	0.45%
Diversified Growth Fund	0.97%
Property Fund	1.00%

The higher charges associated with the Diversified Growth Fund and the Property Fund reflect the higher costs associated with actively managed funds. Other funds have a lower AMC than the default fund because platform charges do not apply for these investments.

### 3.2 Additional fund expenses

On some funds, varying additional fund expenses are also payable over and above the AMC. The additional charges are payable on the TDFs, the ETDFs and the cash self-select fund. The expenses vary between each fund and from month to month. All of our member communications state when and where additional fund expenses may be payable, and state the maximum level of expenses that TPT would expect to incur over the course of a year. Fund fact sheets detail the actual fund expenses charged over the previous quarter.

### 3.3 Transaction costs

Transaction costs are payable by members in addition to the AMC and the additional fund expenses described above. TPT's Investment Team is working with its investment managers to obtain more information on transaction costs which can be presented to members in a straightforward way. The Financial Conduct Authority has produced a policy statement on the disclosure of transaction costs, and the Department for Work and Pensions (DWP) has recently published its response to the consultation on the disclosure of costs and charges in DC occupational pension schemes. TPT does not currently disclose portfolio transaction costs, typical or otherwise, to members, as we believe that there is not enough consistency in industry practice currently to make this information useful to members. TPT does state that transaction costs apply within all member literature. Further details will be provided to members in accordance with the regulations, once published.

The Trustee is strongly supportive of industry initiatives to improve the clarity of this information for members and will be ensuring that new requirements for member information on costs and charges are incorporated into member communications in a clear way and a timely fashion.

### 3.4 Life cover

Some employers choose to provide life cover to employees via one of the TPT schemes. The costs associated with the provision of life cover vary from scheme to scheme. Members who require details of the costs associated with the provision of life cover should contact TPT for full details. Depending on the Rules of the Scheme and the arrangements agreed with the individual employer, the cost of providing this life cover may either be met by a deduction from employer contributions before investment, or by a separate charge on the employer.

The Trustee has recently initiated a project to review life cover to ensure that charges are consistent across each of the TPT schemes and offer good value to scheme members and employers.

### 3.5 Value for members

The Trustee Board is highly aware of the importance of keeping costs and charges low without reducing the quality of the DC arrangements, to maximise chances of delivering good outcomes for members. We carried out a value for money assessment in 2017, and a formal report was approved by the Trustee Board in December 2017. The report can be accessed via the TPT website. The Trustee Board considered the extent to which the cost of membership compares against the services and benefits provided by the Scheme. The majority of members within TPT invest in the default target date fund which offers competitively priced\* investment options which the Trustee has judged to be 'best in class'. The TDFs have overall performed at or above their respective benchmark since inception, delivering good returns for members.

*\* The Trustee compared its own member charges to those of six other large DC Master Trusts to confirm that pricing remains competitive.*

The administration service offered to members is good and in line with the service level agreements between the administrator and the Trustee and offers members online access and a dedicated telephone helpline in addition to traditional administration services. Issues are, on the whole, resolved quickly and where a member suffers financial detriment it is the Trustee policy to put the member back into the position that he/she would have been in had the issue not arisen. The annual Master Trust Assurance audit demonstrates the good practice that is attributable to the scheme.

The review concluded that our DC arrangements offer members good value for money as a result of robust governance and oversight by the Trustee Board, as well as the provision of comprehensive member communications, a good administration service and the opportunity to access a suite of carefully managed investment options. In addition, member costs and charges are carefully managed, are in line with our competitors and are below the government 'charge cap' in respect of default funds.

### **3.6 How member charges are deducted**

With the exception of life cover, all costs and charges are taken directly from the members' funds, which means that the unit price provided to members is calculated after all costs and charges have been made. The Trustee understands that this can make it difficult for members to understand the 'pounds and pence' cost of their DC arrangement and will be working to include this information in future years in a way that is meaningful to members.

## 4 | Core financial transactions

Our DC administration services are outsourced to JLT Benefits Solutions Limited (JLT). TPT regularly monitors the processes and controls in place in relation to the core financial transactions, to ensure that they are processed promptly and accurately. TPT has a Service Level Agreement (SLA) in place with JLT which covers accuracy and timeliness of all core transactions. The Trustee receives regular reports through its Management Board to help them monitor performance in line with the SLA. Core financial transactions are specified in law as:

- investing contributions paid into the Trust;
- transferring assets related to members into or out of the Trust;
- transferring assets between different investments within the Trust; and
- making payments from the Trust to or on behalf of members.

Core financial transactions are considered as part of the audit for Master Trust Assurance purposes, and in order to comply with control objective 13, which states that core financial transactions must be processed promptly and fairly, TPT carries out its own audit of JLT's processes, in addition to reviewing JLT's own annual assurance report (AAF 01/06), in order to ensure that standards are met. TPT's audit took place in September 2017.

TPT operates an in-house Internal Audit function which provides assurance to the Board, the Audit, Risk & Compliance Committee and the Senior Management Team over the management of outsourced services. The strength of the processes and controls which govern the outsourcing of DC administration to JLT were independently assessed during 2016 and 2017 Master Trust assurance reviews (undertaken at 30th September each year). Further assurance activity is also planned for 2018.

The outsourcing of services and the inherent risks which relate to such activity, have been recognised within TPT's risk management framework and therefore receive oversight, challenge and support from TPT's governance framework. This includes on-going review and consideration by the Audit, Risk and Compliance committee at each quarterly ARCC meeting.

TPT undertakes the following activities in order to assure the Trustee Board that core financial transactions are processed promptly and accurately, and that standards of administration undertaken by JLT are maintained:

- Monitoring JLT administration services against SLAs and the extent to which member transactions have been processed on time. The report produced by JLT is discussed at monthly meetings with JLT and outlines any anomalies and the actions taken. Where standards are not being met, issues are escalated to the Head of Administration and the Senior Management Team for rectification and then reported to the Management Board via the Administration report.
- Review of capacity at JLT and the level of resources available.

- Annual reporting by JLT to the Senior Management Team and to the Management Board on the completeness and accuracy of common and conditional data.
- Monthly review of reconciliations of investment transactions and member units.
- Annual audits by TPT's DC Contract Manager of the core financial transactions undertaken by JLT, including member investment allocations and other aspects of the DC investment cycle. Any issues raised by the annual audit will be discussed as part of the monthly meetings between TPT and JLT and escalated to the Management Board as necessary.
- Annual review of the AAF 01/06 Pensions Administration assurance report prepared by JLT, which is scrutinised as part of TPT's own DC governance process.
- All monthly contributions and member data are collected by a dedicated employer support team within TPT. The process includes verification by the employer that the contribution schedules submitted are correct, and verification by TPT that the contributions received meet the contribution schedules. Where standards are not being met, issues are escalated to the Head of Administration and the Senior Management Team for rectification and then reported to the Management Board via the Administration report. If necessary the Audit Risk and Compliance Committee may also be notified of an issue.

The Trustee believe that the decision to invest contributions into TDFs (for the majority of DC) members presents a significantly lower risk of switching investments incorrectly than would be apparent in a traditional life styling arrangement, as investment switches are completed automatically by the Investment Manager rather than through manual intervention by the administration team.

As noted earlier, TPT chose to comply with the requirements of the Master Trust Assurance Framework. The scope of this framework focuses on key areas of administration and provides additional assurances to the Trustee Board that relevant key administrative control procedures are suitably designed and operating effectively. The review in respect of the 2016-17 scheme year was signed off on 21 December 2017 and submitted to the Pensions Regulator for inspection. TPR have since confirmed that TPT continues to meet the requirements of the MTAF and have confirmed that TPT will remain on their list of accredited Master Trusts.

The Trustee Board is confident that:

- the processes and controls in place are sufficiently robust to ensure that all financial transactions, are dealt with properly; and
- the requirements for processing core financial transactions specified in the Administration Regulations have been met.

## 5 | Trustee knowledge and understanding (TKU)

Sections 247 and 248 of the Pensions Act 2004 requires the Trustee to possess, or have access to, sufficient knowledge and understanding to run the Trust effectively. The Trustee recognises the importance of having the right mix of skills, competencies and personalities on the Trustee Board to ensure that the Scheme is well governed and properly managed.

For the reporting period of this Statement, the Trustee consisted of nine directors - three nominated by the members, three nominated by the employers and three who, including the Independent Chair, were co-opted onto the Trustee Board by the member and employer-nominated directors. The Trustee role of the directors nominated by the members and employers within TPT means that they do not 'represent' members and employers, but they are instrumental in ensuring that consideration of the members and employers is factored into all Trustee decision making. Two of the three co-opted directors are independent professional directors who bring additional skills and expertise in the areas of pensions, investment and overall business management to supplement the skills of the member and employer nominated directors. For the purposes of succession planning, a rolling plan of all Trustee Board and sub-committee appointments is maintained. A competency based selection process was introduced in 2017 for the purpose of appointing Member and Employer Nominated Directors. This selection process involves the submission of an application and a panel interview with existing members of the Trustee Board and volunteer member or employer representatives who have experience in the recruitment activities to ensure the selection process is transparent to the TPT members and employers. Prior to 2017, Member and Employer Nominated Directors were elected by the members and employers respectively. However, candidates in the election were required to meet minimum criteria before being eligible for election.

Two positions of co-opted directors are filled by virtue of other positions held within TPT. One co-opted trustee is the CEO of TPT Retirement Solutions and the other is the Chair of the Management Board. Both of these positions were filled following a fair and transparent recruitment process that involved a detailed competency based selection criteria. The other co-opted Trustee is the Chair of the Board. The Chair is selected via a transparent recruitment process using professional recruitment consultants. All applicants are required to fulfil competency based selection criteria and the appointment is made following multiple panel interviews.

All Directors are required to meet the Trustee, Knowledge and Understanding standards required of a Trustee of a large Master Trust plus any requirements specific to their individual role on the Board, as described in the Trustee terms of reference (which are included in the Governance Document) within 6 months of appointment. The Trustee has received confirmation from the Board members that this is the case and such confirmation is subject to annual audit through the MAF process.

The Trustee is a company called Verity Trustees Limited and there are 9 trustee directors who comprise the Trustee Board. In the circumstances of the Scheme, the legislation requires that a majority of the trustee directors (including the Chair) must be non-affiliated with any undertaking which provides advisory, administration, investment or other services to the Scheme. In determining whether a trustee director is non-affiliated we have taken account of (in summary) the duration of appointment, employment or similar relationships with service providers (or connected businesses) in the past five years, any payments from service providers and any more general conflicts of interest. Non-affiliation of the trustee directors was confirmed when the legal requirement was introduced in 2015 and upon any subsequent appointment (undertaken under an open and transparent process described in the Chair's Statement for the relevant Scheme Year of appointment). We continue to monitor non-affiliated status by way of governance processes which include such things as maintaining records of the duration of the appointment and declarations of conflict as they arise and at trustee meetings. In particular, no trustee director has been in appointment for more than 10 years. On this basis, we are comfortable that all of the trustee directors of the Scheme were "non-affiliated" in the relevant Scheme Year (i.e. they are independent of the service providers to the Scheme).

All Directors are required to read and understand the Trust Governance Document which includes details of all of the Trust's governance arrangements, including conflicts of interest policy and the Trust Deed and Rules and the SIP, and confirm that they meet the requirements of their role (as described in the Governance Document). Directors are required to devote sufficient time to training in accordance with the requirements of the Trust. In addition to training provided at Trustee Board and Committee meetings, directors are responsible for their own training programme and for completing the Trustee Toolkit. TPT maintains a log of all training undertaken by the Trustees (collectively and individually) and organises training sessions as and when necessary.

At the end of the 2016/2017 Scheme Year, each director's performance was reviewed as part of a formal appraisal process which identifies training gaps and influences the individual and group training programme for the forthcoming year. In 2017 all Trustees undertook training specific to both DB and DC pension schemes as their individual roles demanded. Examples of training undertaken in the 2016/17 Scheme Year include; participation in industry wide pension conferences, investment training, DC seminars and risk management training. In 2017, all directors met or exceeded their specified training requirement to complete the Trustee Toolkit (new directors) and undertake a minimum of 25 hours' Trustee training within the Scheme Year.

The Trustee Board has access to the services of a range of professional advisers. All Trustee decisions are supported by professional advice where required, and this includes attendance of professional advisers at Trustee Board meetings. The Trustee's legal adviser attends each Trustee Board meeting and the investment adviser attends all Investment Committee meetings. In 2017, the Trustee Board and its delegates engaged with professional advisers on a number of occasions to help with a range of DC decisions, including review of investment funds and managers and DC Governance. The Trustee reviews all professional adviser appointments on a regular basis and, following formal reviews in 2017, replaced the incumbent investment consultant and boosted the resources it has available to draw on for legal advice.

Considering actions taken individually and as a Trustee Board, and the professional advice available to the Board, I am confident that the combined knowledge and understanding of the Trustee Board enables it to properly exercise our functions as Trustee.

### **5.1 Engaging with members - Member feedback**

Members who have concerns or queries about the operational processes of the Scheme can find contact details on TPT's website, where there is also an "Ask the Trustees" function. Using this function, members are able to submit a question of any sort to the Trustee and will receive an individual response. Members are provided with an annual newsletter from the Trustee as well as an annual benefit statement, both of which give contact details for TPT. Members' feedback is actively gathered on a monthly basis through surveys undertaken by an independent provider, the results of which are fed back to the management team to enable TPT to identify problems and make service improvements. At the beginning of each year, TPT defines the outcomes that it wants for its members and uses the member feedback gathered each month to continually measure, modify and improve services.

In conclusion, the Trustee Board is satisfied that it has continued to function properly as Trustee throughout the period, and has met the relevant legislative requirements.

### **5.2 Member and employer accountability - plans for the future**

The Trustee recognises the importance of engaging with members and employers in a meaningful way and has taken on board the feedback that suggests that this is an area that we could improve upon. In 2018, TPT will be undertaking a review of all of its communication with all DC customers, considering feedback and industry research and implementing changes for the future. The Trustee will also be running a series of member forums across the country in 2018 to hear the views of members and encourage member feedback.

Further information is available via the TPT website or from your usual TPT contact.

The DC Governance Statement was approved and signed for and on behalf of the Trustee on 28th March 2018.

**Sarah Smart**  
**Chair, Verity Trustees Limited,**  
**17 March 2018**

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