

# Middleton Maintenance Services Pension Scheme Q1066

## Annual statement regarding governance

Under legislation set out in regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee of the Middleton Maintenance Services Pension Scheme Q1066 (the 'Scheme') are required to prepare a statement (the 'Statement') on governance in the annual report.

This statement describes how the Trustee has governed the Scheme during the year 1 October 2018 to 30 September 2019.

The statement covers four principal areas:

- 1. Investment**
- 2. Internal controls**, with particular focus on the processing of core financial transactions and administration.
- 3. Value**, with particular focus on charges and transaction costs deducted from members' funds.
- 4. The knowledge and resources available to the Trustees**, including how the Trustees are in the process of obtaining the required levels of knowledge and understanding of the Scheme including the actions taken after the year end.

### The default arrangement

The Scheme does not have a default arrangement for auto-enrolment purposes.

The Scheme is not and has never been a qualifying arrangement for auto-enrolment compliance purposes and as such, there is no legislative requirement to have a default arrangement. Further, the Scheme is closed to new members and to new contributions.

The majority of members are invested in the With Profits Fund with Equitable Life.

### Requirements for processing financial transactions

As required by the Administration Regulations, the Trustee must monitor that core financial transactions are processed promptly and accurately. Core financial transactions include (but are not necessarily limited to):

- Investment of contributions made to the Scheme by members and their employer(s);
- Transfers into and out of the Scheme of assets relating to members;
- Switches of members' investments between different funds within the Scheme; and
- Payments from the Scheme to or in respect of members (e.g. payment of death benefits).

However, no contributions are invested for this Scheme as all members are deferred and the majority of members are invested in a single investment, the focus on financial transactions relates to the payment of benefits or the transfer out of benefits to another arrangement.

The administrator for the Scheme is Equitable Life Assurance Society ('Equitable Life'), and all aspects of administration and investment of member monies is delegated to Equitable Life. There have been no member complaints brought to the attention of the Trustee.

Equitable Life operate a set of service level standards, rather than targets at product or scheme level, to reply to requests within 10 working days and complete payments within 5 working days where possible. These are well within statutory timescales.

There have been no member movements in the period.

Equitable Life's Annual Report and Accounts to 31 December 2018, published in April 2019 reports on the internal controls and states within the Internal controls and risk management system:

*"On behalf of the Board, the Audit and Risk Committee has reviewed the effectiveness of the risk management and internal control systems for the year ended 31 December 2018, both in regard to the execution of the Society's strategy and the delivery of business-as-usual activities. That review took into account matters arising up to the date of this report.*

*The review demonstrated that the Society has in place a comprehensive set of risk management and internal control arrangements. These include the identification, assessment, measurement, monitoring, reporting and management of risks. The review also confirmed that the Society is compliant with the Systems of Governance requirements under Solvency II. There have been no material changes to the Society's Systems of Governance in 2018.*

*A programme of internal audits and compliance monitoring takes place to provide assurance that the Society's controls are fit for purpose and that regulatory requirements are being met. No material control issues arose in 2018 and there were no material risk events or breaches during the year. If significant failings or control deficiencies were to be identified, the committee would confirm whether or not appropriate remedial action had been taken. The review concluded that the Society's risk management and internal control systems are operating effectively."*

In addition, Equitable Life has adopted the following processes to help meet the service standards:

- Internal standards which ensure that staff are properly trained, qualified, supervised and monitored.
- Automated and manual processes are subject to checking and/or regular quality sampling.
- Administration procedure manuals are regularly reviewed and updated.
- The adequacy and effectiveness of Governance and control over Data Protection, Information Security and Cyber Security is periodically reviewed by their Internal Audit function.

I am pleased that in the last scheme year there have been no material administration service issues which need to be reported here by the Trustee. We are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly (both promptly and accurately).

## Charges and transactions costs

As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments used in the Scheme and their assessment of the extent to which the charges and costs represent good value for members.

Members only pay for the costs relating to the fund management charges of the investments in which they are invested.

Explicit charges known as the Total Expense Ratio (TER) consist principally of the manager's annual charge for managing and operating a fund, but also includes the costs for other services paid for by the fund, such as the legal costs, registration fees and custodian fees. However, they exclude other costs that are also member borne and which can therefore have a negative effect on investment performance such as transaction costs and interest on borrowings.

Transaction costs are the expenses associated with a member trading into and out of a fund as well as the investment manager trading a fund's underlying securities, including commissions and stamp duty.

The available transaction costs and charges information provided by Equitable Life have been reported separately in the table below.

Equitable Life Funds	Fund Annual Management Charge (% p.a.)	OEIC Net Transaction Cost <sup>1</sup> (%p.a.)	Stocklending <sup>2</sup> (%p.a.)	Transaction Cost <sup>3</sup> (%p.a.)	Total Charges Impact <sup>4</sup> (%p.a.)	Total Transaction costs (%p.a.)	TER (% p.a)
With Profits	1.00	N/A	0.004	0.063	1.07	0.067	1.00
European	0.75	0.252	0.002	0.002	1.01	0.257	0.75
Far Eastern	0.75	0.199	0.003	0.002	0.95	0.201	0.75
Property	1.00	0.114	0.000	0.014	1.57	0.128	1.44

**Source: Equitable Life**, as at 30 June 2019

<sup>1</sup> The costs to date are not calculated on the full arrival price slippage methodology, instead using industry supplied expected spreads for each asset category. The With-Profit Fund does not invest in OEICs but in direct assets.

<sup>2</sup> When a fund lends stock it is entitled to receive 80% of the income earned. The remaining 20% belongs to the stocklending agent. The costs suffered by the fund are disclosed but not the income.

<sup>3</sup> This is the cost incurred on the Fund when it purchases or sells the underlying asset (OEIC) as the price may include a dilution adjustment. The purpose of dilution is to ensure the OEIC is not impacted by large investments or disinvestments

<sup>4</sup> The total charges impact to policyholders on each Equitable Life Fund (With-Profit and Unit-Linked) of costs at both Fund and underlying OEIC level and include the annual management charge.

## Illustration of the effect of transaction costs and charges on members' benefits

Using the charges and transaction cost data provided by Legal and General and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, Equitable Life has assisted the Trustee with preparing illustrations detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The illustrations below, have taken into account the following elements:

- Savings pot size;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

As mentioned previously this is a paid up arrangement, with no contributions being paid in and therefore the illustrations do not make any assumption about future contributions.

The illustration includes all member costs, including the TER, transaction costs and inflation. It is important to note that the values shown are estimates and are not guaranteed. The term of investment has been based on the youngest member of the Scheme.

Term	With-Profits		European		Far Eastern		Property	
	Before Charges (£)	After Costs and Charges Deducted (£)	Before Charges (£)	After Costs and Charges Deducted (£)	Before Charges (£)	After Costs and Charges Deducted (£)	Before Charges (£)	After Costs and Charges Deducted (£)
1	1,010	994	1,020	1,010	1,020	1,010	1,020	1,004
3	1,030	983	1,060	1,029	1,060	1,031	1,060	1,013
5	1,050	973	1,101	1,049	1,101	1,052	1,101	1,021
10	1,102	946	1,213	1,101	1,213	1,107	1,213	1,043
15	1,157	920	1,336	1,156	1,336	1,165	1,336	1,065
20	1,214	895	1,472	1,213	1,472	1,226	1,472	1,088
25	1,275	870	1,621	1,273	1,621	1,290	1,621	1,111

### Notes:

- 1) Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- 2) The starting pot size is assumed to be £1,000, with no future contributions
- 3) Inflation is assumed to be 2.5% p.a.
- 4) Values shown are estimates and are not guaranteed
- 5) The projected growth rates are:  
With-Profits: 3.5% p.a.  
European: 4.5% p.a.  
Far Eastern: 4.5% p.a.  
Property: 4.5% p.a.
- 6) The Scheme has a guaranteed roll-up rate of 3.5% p.a. for With-Profits

## Value for members

The Trustee, with assistance from their advisors, has assessed the value for members (based on the information supplied by Equitable Life) in November 2019 for the period 1 October 2018 to 30 September 2019.

The Trustee notes that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been taken into account in the assessment of value to members.

The Trustee has concluded that overall the Plan provides **reasonable** value in relation to the costs that members meet. The reasons for this conclusion are as follows:

Whilst this is a bundled arrangement with members meeting the investment and administration charge, the Company meets the cost of the Trustee and advisors.

Whilst the absolute performance of the unit linked funds, after fees have been accounted for, over the Scheme year and over the longer term have been mixed, the Property fund in particular has had poor performance although the Property fund represents less than 1% of the total assets. However, fees fall in the lower to medium quartile compared to other active funds of a similar asset size. In addition, the other services that members receive are outdated compared to those currently available with other providers on more modern platforms.

Providing a comparison between one with-profits fund and its peers is extremely difficult. Each with-profits fund offers different terms and guarantees and, hence, will invest very differently from one another, which in turn impacts the performance received through payouts. Indeed, a specific with-profits fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. The available universe of with-profits funds is not sufficiently alike to enable relative assessments based on just past or potential performance.

Assessing the value for money of a with-profits fund is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that a with-profits fund provides guarantees; whether that is a guaranteed pension, investment return or "just" capital security. Therefore, whilst the Trustee considers it inappropriate to reach a general conclusion on value for members of the with-profits funds as this will vary from policy to policy and by member, based on a broad comparison of With Profits Funds, the Equitable Life With Profits Fund's, underlying performance has been mixed, with performance in the 3rd bottom and lowest quartiles for the last 3 years. Similarly, actual payouts have also been mixed.

There are a number of areas which are being actively considered to improve value for members, such as the possibility of winding-up of the Scheme. The Trustee is working with its advisors to weigh up the advantages of possible improvements against the constraints arising as a result of the paid up status of the fund especially in light of the proposed transfer to Utmost Life and Pensions in January 2020.

## Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee Directors are required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Scheme.

The Trustee has only recently become aware of its duties in relation to this Scheme as this Scheme was acquired as part of an acquisition. With the Corporate Trustee being comprised of the Company directors and as such over the Scheme year the Trustee has been undertaking investigative work to establish the Rules of the Scheme currently in place, associated policies and procedures and their legislative duties in respect of a DC Trust based arrangement.

As such the Trustee Directors are in the process of becoming conversant with the Scheme Documents such as Trust Deed and Rules and documents setting out the Trustee's compliance. As there are less than 100 members and there is not a default arrangement there is no requirement to hold a Statement of Investment Principles.

In addition, the Trustee has employed the services of professional advisors in respect of this Scheme and has received training on their legislative requirements. The Trustees are putting an action plan in place to consider the next steps of the Scheme and have already undertaken a number of activities relating to the closure of Equitable Life that involved giving detailed consideration to pensions and trust law, the Scheme's governing documents and investment principles. These include:

- Considering the closure of Equitable Life and impact of the move to Utmost Life and Pensions (and the possible alternatives)
- The interplay between underlying policy guarantee, capital distribution and potential uplift
- Voting and communication requirements
- Record Keeping requirements

The Trustee Directors are receiving professional advice from their advisors to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules. The advice received along with their own experience will allow them to properly exercise their function as Trustee. If there are any ambiguities over the interpretation of the Rules legal advice will be sought from their legal advisors.

Whilst there have been no new Trustee Directors appointed in the year, an induction process for new Trustees will be as follows:

- Newly appointed individuals to have completed the Pensions Regulator's Trustee toolkit within six month of initial appointment;
- Supplemented with targeted individual training, for example in relation to conflicts of interest, based on analysis of learning needs;
- Facilitate familiarisation with the Scheme, stakeholders, advisers and providers and working methods.

The Trustee Directors, as part of the plan to meet their duties, are currently in the process of completing the Trustee toolkit.

### Chair's declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee of the Middleton Maintenance Services Pension Scheme Q1066.

I confirm that the above statement has been produced by the Trustee to the best of their knowledge.

Signature: Ben Hancock.

Name: BEN HANCOCK

Position: Chair of the Trustee

Date: 11/11/19