

GOVERNANCE AND ADMINISTRATION OF CORPORATE PENSIONS.

ADMINISTERED BY MATURE SAVINGS

This is not a consumer advertisement. It is intended for trustees of pension schemes and their advisers only.

ABOUT LEGAL & GENERAL.

The Legal & General Group, established in 1836, is one of the UK's leading financial services companies. As at 30 June 2018, the total value of assets across the group was £984.8 billion, including derivative assets. We also had over 9.5 million customers in the UK for our life assurance, pensions, investments and general insurance plans.

INTRODUCTION.

Since 6 April 2015, **trustees** of **DC schemes** need to meet new requirements on governance standards, **charge controls** (subject to certain exceptions) and communicating about pension flexibilities. These were updated in 2018.

The requirements include:

- Meeting certain governance standards and explaining this in an annual **chair's statement**.
- Appointing a chair of **trustees** who signs the annual statement.
- Meeting new **charge controls** for their **default investment strategy** where the scheme is being used by employers to comply with their **automatic enrolment** duties.
- Deciding whether to use the adjustment measure so that the charge cap won't apply for a particular default arrangement.
- Informing members about the increased range of options they have at retirement.

This guide focuses on the changes that have been introduced by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (as updated in 2018) but also provides a summary of some of the wider aspects of scheme administration. It is only a guide. To ensure that you are familiar with the requirements, **you should also read the Codes of Practice produced by The Pensions Regulator** (please see the 'Background' section on page 4 for more information).

The primary audiences for this document are occupational pension scheme **trustees**, employers and their advisers. The guide is intended to support the completion of the annual **chair's statement** focusing on the core aspects that impact on the delivery of the statement.

Where your scheme with Legal & General is being used as an Additional Voluntary Contribution (AVC) alongside a defined benefit (DB) scheme or if it is an Executive Pension Plan, then the duties of the trustees may be different to those set out in this document.

The range of contracts covered by this guide includes all the trust-based occupational pension scheme contracts sold by Legal & General prior to 2001.

These products were not designed within the framework of the current regulatory environment. As such they cannot be used by employers to satisfy their obligations under the **automatic enrolment** regulations.

For details on how we use your personal information, please read our privacy policy. You may wish to share this with your scheme members. Our most recent version is on [legalandgeneral.com/existing-customers/privacy](https://www.legalandgeneral.com/existing-customers/privacy)

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TRUSTEE RESPONSIBILITIES.

BACKGROUND.

The Regulatory Framework

The Pensions Act 2004 provides the underlying regulatory framework for governance requirements on occupational pension schemes. The Act requires **trustees** and managers to have in place **internal controls** to ensure their pension scheme is administered and managed in accordance with the scheme rules and requirements of law. Other key requirements are also contained within the Pension Schemes Act 1993, 1995, 2008, 2014 and 2015.

To support these obligations The Pensions Regulator has a number of key objectives for DC trust-based schemes: promoting good scheme administration, employer requirements for payment of contributions, ensuring compliance with employer auto-enrolment duties and ensuring appropriate retirement outcomes for scheme members. The main focus of the Regulator's objective is to ensure member benefits are protected.

To support **trustees** and managers the Regulator has published a number of guides around the updated governance requirements including a summary of DC pension scheme 'quality features'.

All of these aspects are captured in Code of Practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits. **Trustees** should be aware that on 6 April 2018, changes to pensions legislation came into force which are directly relevant to this code of practice. Although this guide references the changes, you should take your own legal advice to determine how the 2018 regulations affect your scheme.



There are 15 codes of practice provided by The Pensions Regulator, which can be found on their website:
[thepensionsregulator.gov.uk/en/document-library/codes-of-practice](https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice)

CHAIR'S STATEMENT.

A summary of the key points to include in the **chair's statement** is given below.

There are strict dates (associated with the scheme year-end date) by when the statement should be completed. Please refer to The Pensions Regulator's website: [thepensionsregulator.gov.uk](https://www.thepensionsregulator.gov.uk)

1. How the requirement to process core financial transactions promptly and accurately has been met.
2. In relation to charges and transaction costs:
 - The level of charges and transaction costs applied to the **default investment strategy** during the year or, where the scheme has more than one default strategy, the range of the levels of charges and costs applied to those arrangements.
 - The range of the levels of charges and transaction costs for funds which are not part of the **default investment strategy**; and in which assets relating to members are invested during the scheme year. Please ask us if you need this information.
 - Information on transaction costs which the **trustees** or managers have not been able to obtain and an explanation of what steps are being taken to get that information in the future.
 - The extent to which the charges and transaction costs represent good value for members.

3. How the **trustees'** requirements for knowledge and understanding have been met throughout the year and an explanation of how the **trustees** or managers have, or have access to, all the competencies necessary to properly run the scheme.
4. In relation to each default investment strategy where applicable:
 - The statement of investment principles governing decisions about investments in the default arrangement.
 - Any review of the **default investment strategy** or performance of funds underlying the default strategy carried out during the year and changes resulting from such a review.
 - Where no review was carried out during the year in question, the date of the last review.
5. Make available an illustrative example of the cumulative effect over time of the charges and transaction costs on the value of members' benefits.
If you need help to produce the illustrative example, please ensure you ask us at least three months before you intend to produce your **chair's statement**.
6. A signature by the chair on behalf of the **trustees** or managers.



Trustees should also review the guidance issued by the Department for Work and Pensions to ensure they comply with the new **chair's statement** requirements and the publication of the relevant information on a website.

VALUE FOR MONEY.

The Pensions Regulator defines ‘Value for Money’ in relation to an occupational pension scheme as being an arrangement where the costs and charges deducted from members provide good value in relation to the benefits and services they receive when compared to other options available in the market. For example, if a scheme has higher costs and charges it should offer improved benefits and services.

There is no common definition of what represents value for money. **Trustees** need to understand what their members will value most when assessing the overall value of the scheme and its individual components.

Costs and charges have a significant impact on members’ pension savings. **Trustees** will need to consider on an annual basis whether the costs and charges borne by members represent good value for them and explain how in the **chair’s statement**.

The Legal & General Schemes operate a combination charging structure, which will include any of the following:

- Installation charge
- Contribution charge (where the allocation rate is less than 100% during the initial period)
- Bid/offer spread of up to 5%
- Monthly plan fee
- For unit-linked funds there is an Annual Management Charge (AMC) that varies depending on the fund and version of the product between:
 - 0.5% and 1.0% for accumulation units
 - 3.75% and 4.75% for initial units
- For with profits there is no explicit AMC but:
 - Allowance is made in the calculation of the bonus rate for expenses, other sources of surplus and smoothing.
 - The deduction varies for different bonus pools.
 - There is a higher deduction made on initial units.
- Initial Unit Reduction Factor, which applies if initial units are held and the plan is closed early.
- For any conventional with profits policies, all charges are taken into account in the bonus rates declared each year, and no other charges listed above will apply.

For details of the charges and transaction costs that apply to your Legal & General Scheme, please contact us using the details at the back of this guide.



The value for members section of The Pensions Regulator’s guidance gives more details on how **trustees** could approach assessing good value for money at: thepensionsregulator.gov.uk/en/trustees/managing-dc-benefits/5-value-for-members

GOVERNANCE.

The new governance standards apply to occupational pension schemes that provide money purchase benefits and will require you to:

1. Explain how you meet the requirements for having, or having access to, sufficient knowledge and understanding to effectively run the pension scheme.

The Pensions Regulator provides support to **trustees** in helping them understand the scope and range of their duties and has a toolkit that can be used to assist in trustee learning:

thepensionsregulator.gov.uk/en/trustees/understanding-your-role/an-introduction-to-trusteeship-/trustee-education-and-free-online-learning

COMMUNICATIONS.

Trustees are required to communicate certain pieces of information to members of the pension schemes that they run. The information that forms part of any communication should be accurate, clear, understandable and engaging. It should be designed to meet members' needs from joining to retirement.

Certain information must be communicated to scheme members. This includes:

- Basic information within two months of the member joining including an explanation of lifestyling where it is offered by the scheme, when it is likely to be adopted, and outlining its advantages and disadvantages.
- A **SMPI** showing, for example, the member's projected pension and an annual benefit statement providing details of contributions credited to the member in the preceding scheme year. The annual benefit statement must also inform the member that certain information from the **chair's statement** is:
 - available on a website,
 - the location of the information on the website,
 - how to access it and
 - when the information is available in hard copy format.

2. Assure yourselves that core scheme financial transactions are processed promptly and accurately.

Trustees will need to review the information they receive from the administrator and discuss with them whether it is sufficient to enable them to meet this new standard. They should also consider whether the administration processes and controls that are in place minimise the likelihood of errors or delays in processing core scheme financial transactions.

- Certain documents are available on request, such as the Trustees Annual Report, Scheme Rules, Statement of investment principles, and ad hoc benefit statements and transfer values.
- Information about the member's options at retirement.
- Where the scheme offers lifestyling, an explanation of it and when it is likely to be adopted (or if it has been adopted) 5 to 15 years before a member retires, and its advantages and disadvantages.
- Information when other specific events happen, such as when a member leaves the scheme or the scheme winds up.

For unit linked policies, Legal & General provide information about the member's pension arrangements via the trustees for onward transmission to the member. For example, annual benefit statements and retirement options illustrations. All communication materials are written in clear, straight forward language and are periodically tested within the framework of our risk monitoring process.

LEGAL & GENERAL INTERNAL CONTROLS.

OUR APPROACH TO GOOD GOVERNANCE

Legal & General strives towards the highest standards of corporate governance and we review our compliance with the UK Corporate Governance Code ('the Code') and associated policies on an annual basis.

Good governance is the foundation of building trusted relationships and ensures a sound decision-making process. Legal & General operates a formal governance structure which includes delegated authorities, decision-making protocols and oversight committees.

Risk Management Framework

Our risk management framework enables us to identify, manage and minimise risks that may impact our customers or prevent significant financial loss or damage to our reputation. The core elements of the framework are set out below:

FRAMEWORK	
RISK APPETITE	Sets out the ranges and limits of acceptable risk taking
RISK-TAKING AUTHORITIES	Committees in place that ensure our managers make decisions that are consistent with our appetite for risk
RISK POLICIES	Formal policies are in place to define our approach to risk management and outline the control standards we apply
RISK IDENTIFICATION AND ASSESSMENT	Sets out processes under which we regularly consider changes in the profile of existing and emerging risks
RISK MANAGEMENT INFORMATION	Our mechanism to report and review on-going and emerging risks
RISK OVERSIGHT	Review and challenge by the Group Chief Risk Officer (CRO) of the effectiveness of our risk identification and management process
RISK COMMITTEES	Various committees, up to Board level, oversee the risk management framework, its effectiveness, and review and challenge specific risks to the group

Legal & General operates a 'three line of defence' risk governance model:

1. First Line of Defence

Each business unit is accountable for the management of risks in line with published policies and procedures.

2. Second Line of Defence

Provide risk control and oversight via compliance management and the Group Risk committee.

3. Third Line of Defence

The internal audit function provides independent assurance on the operation and effectiveness of risk management and group risk oversight. Provides a mechanism to challenge processes that support the Group's risk management framework.

Internal Control Framework

The requirements for the provision of key **internal controls** are defined in legislation within the Pensions Act 2004 with additional guidance provided within The Pensions Regulator's Code of Practice 13. This includes but is not limited to:

1. Arrangements and procedures to be followed in the administration and management of the scheme.
2. Systems and arrangements for monitoring that administration and management.
3. Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

For each type of risk identified, Legal & General has defined internal control standards which are monitored through the risk management system described earlier. Key controls are assessed by management and a monthly feedback mechanism is in place to confirm that the controls have operated as required. Where controls fail or an adverse event occurs, we record these on our risk management system and monitor to ensure mitigations are implemented. Our governance forums review control issues and adverse events to ensure they are addressed and to identify systemic root causes.

We identify and monitor controls in all our business processes. The following are examples of some of the specific controls we monitor in our corporate pension business that is administered in our Mature Savings division:

Financial Crime

Legal & General is committed to preventing financial crime and to ensuring that none of its stakeholders are exposed to the impact of financial crime. Legal & General therefore has policies and procedures in place designated to identify and report potential financial crime situations and suspicious behaviour. Where any incident of financial crime is discovered or reported it will be investigated accordingly. Legal & General does not tolerate any dishonesty, deception, false accounting, concealment, bribery or deprivation of funds, assets or data from the business or the deliberate causing of financial loss, or any other illegal behaviour, be it internal or external, and whether perpetrated by customers, agents, executives or staff.

Business Continuity Arrangements

Legal & General operate a Business Continuity Management (BCM) framework of plans, processes, roles and responsibilities, which are designed to ensure the organisation is prepared for and is able to respond effectively to operational disruptions ranging from minor system failures to a major location-wide disaster. It is an essential element of corporate governance, which focuses on the risks to our infrastructure and our people.

Internally we maintain a set of business continuity management standards, which requires risk assessments, impact analysis, plan updates, communications tests, team rehearsals and alternative site technical tests to be completed at least annually. Each recovery team and business area has a plan that is regularly tested and updated, and which is designed to meet the Legal & General Group recovery objectives.

In the event of an incident that either directly or indirectly has the potential to disrupt our services we would normally contact you and we would aim to do this as soon as practical after becoming aware of the situation. We aim to minimise any disruption to our services and ensure business continuity, such as, that data will continue to be available and accurate, core financial transactions can continue to be processed, computer hardware and software will be maintained, records are secure and retrievable and data is backed up.

Information Protection

Our Information Protection Team have put in place a series of group wide policies to ensure that Legal & General provides adequate protection to all the information it processes, and that it remains compliant with the various data protection and privacy regulations that govern its activities.

Information Security

The processing and holding of information is an integral part of Legal & General's business. Legal & General Group adheres, to the best of its ability, to all relevant regulation and legislation in order to protect information from unauthorised or inappropriate disclosure. We have put in place appropriate systems and controls in order to ensure that such information is appropriately protected and safeguarded. We will report any breaches in data security.

IT Security

The IT security architecture team work alongside our colleagues and IT partners to ensure that IT solutions adhere to regulatory and legal requirements and comply with our security policies. Personnel access to all our locations is strictly controlled for security purposes. Our buildings access system is activated by personal security passes. Strict guidelines on general computer access and usage are in place, with failure to comply being a disciplinary matter. Mandatory procedures are followed to remove systems access from leavers. Secure email encryption is used for transmission of information electronically.

Legislative and Regulatory Change

Changes to regulations are incorporated into our processes under guidance from product and technical experts. Such changes are subject to rigorous testing prior to release.

Legal & General's Regulatory Reporting Obligations

Internal procedures are in place to ensure data integrity is reviewed prior to populating any returns that Legal & General are responsible for. Legal & General maintain representation by subject matter experts with regulatory bodies to ensure a positive relationship exists to facilitate good working practices and swift resolution of issues.

Procedures are in place to ensure that the relevant information is provided to the various regulatory bodies in a timely fashion and in accordance with prescribed guidelines.

ADMINISTRATION.

Our primary focus is to ensure that our pension schemes are administered in accordance with the scheme rules and in accordance with the **trustees'** legal obligations.

New entrant members to schemes will be set up accurately on our administration systems and done so in a timely manner. Systems are designed to facilitate automation wherever possible, and contain controls to prompt data entry. Validation is in place to ensure information is in the appropriate format and there are reasonability checks to minimise the risk of error.

Workflow controls are in place to monitor delivery to service level agreements with regular management information produced to provide a measure and review mechanism. Quality assurance sampling is undertaken to ensure accuracy.

We have agreed procedures and protocols that require premiums to be collected and allocated in a timely fashion and that fund switches are conducted promptly. Where appropriate, transactions will be checked for accuracy.

Output and reconciliation data is monitored and reviewed.

Metrics are in place in the form of Service Standards to enable us to measure the length of time it takes to carry out activities, for example, the number of errors recorded. Performance against these standards is reviewed regularly by the relevant governance committee.

There are policies and practices in place to ensure that administrative staff are informed and adequately trained. Processes are documented and regularly reviewed.

It is important to provide accurate quotations of transfer values with documentation provided in a timely manner to allow members to consider their options. Our claims systems contain functionality to produce transfer values in line with scheme rules and regulations. In addition, benefits must be implemented in a timely manner, in accordance with scheme rules and following assessment of relevant reasonable evidence or documentation.

Segregation of duties in respect of any financial payments leaving Legal & General is built into all payment systems. Regular reviews of systems access are undertaken to ensure this is restricted to only those with responsibility for processing payments.

INVESTMENT FUNDS.

The **trustees** are offered a range of investment solutions which are governed and monitored by the appropriate fund governance committees at Legal & General.

The unit-linked pension funds are pooled investment vehicles provided by Legal & General Assurance Society Limited and are held under an insurance policy issued to the **trustees**. The funds are traded and priced daily which means that under the Fair Value Hierarchy, these funds are classed as Category A under **SORP**, and level 1 under **IFRS**.

When managing our unit-linked funds and the investments we hold for policyholders we follow several key principles:

- We invest the contributions and transfer payments into funds chosen by the policyholder and are clear on how many units are held in each fund.
- We only take charges in line with those that have been disclosed.
- We make sure the funds policyholders are invested in are allowed by the Financial Conduct Authority.
- We manage the funds in line with the contract terms and conditions. We also follow industry best practice and the Financial Conduct Authority's rules.
- We manage our funds in a fair way and in the best interests of the policyholders and all our other investors.
- We aim to resolve any issues or problems as soon as we can in an open and fair way and in the interests of all policyholders.

The performance of unit-linked funds will be monitored against the fund objectives and managed in accordance with protocols outlined in the **A guide to how we manage our unit-linked funds** document that can be found on our website: legalandgeneral.com/files/library/investments/brochures-and-guides/guide-unit-linked-funds.pdf

For those schemes with access to either a unit linked or conventional with profits investment option – these options will be managed in line with our **Principles and Practices of Financial Management** guide that can be found on our website: legalandgeneral.com/with-profits/guides

Details of the funds available for our products can be found in our **Investment Options** brochure: legalandgeneral.com/library/pensions/brochures-and-guides/W11837.pdf

When preparing your **chair's statement** about the effect of charges and transactions on members' benefits, consider, with your professional advisers, whether members need to understand the effect of charges on fund performance. For example, cash can be useful as part of a balanced portfolio of funds, but it's not designed as a long-term investment. Interest rates are at historically low levels and the charges could be higher than the amount of interest being earned.

CONTACT US.

If you would like to contact us for details about any aspect of your scheme, or with regards to any area of our administration and governance, our details are as follows:



Legal & General Assurance Society Limited
Corporate Administration
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GLOSSARY.

Automatic Enrolment	Employers have legal duties to enrol eligible jobholders into a qualifying workplace pension scheme and make contributions towards it. The jobholder cannot be required to take any action in order to become an active member of the scheme. A jobholder who has been automatically enrolled is free to opt out within a given time period and get a refund of the contributions they have paid.
Chair's Statement	If the DC governance standards apply to a scheme, the trustee board must have an appointed chair of trustees. The chair is responsible for signing an annual chair's statement, a document that details how the trustees have met the new governance standards. There are some restrictions on who can be the chair which the legislation sets out.
Charge Controls	Since April 2015 trustees need to ensure a DC pension scheme complies with the charge controls - including a 'charge cap' and a ban on 'active member discounts' - if employers are using it to comply with their automatic enrolment duties.
DC Scheme	Defined contribution scheme. A scheme in which a member's benefits are determined by the value of the pension fund at retirement. The fund, in turn, is determined by the contributions paid into it in respect of that member, any investment returns and charges. Also known as 'money purchase' scheme.
Default Investment Strategy	In the context of a DC pension scheme, a default investment strategy is the fund or mix of funds in which contributions will automatically be invested in the absence of any explicit fund choices by that member. This is also known as the 'default arrangement'.
IFRS	International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events would be reported in financial statements.
Internal Controls	Internal Controls are the formally defined processes and procedures to be followed in the administration and management of the scheme. They form a framework of procedures and policies to alert trustees and managers to potential problems and help mitigate the impact of any problems should they occur.
SORP	Statement of Recommended Practice - guidance on best accounting practice for the presentation of financial information prepared by the particular sector to which the SORP relates (in this case, occupational schemes).
SMPI	Trustees must provide most members with a 'Statutory Money Purchase Illustration' (SMPI) which illustrates a member-specific projected pension, and an annual benefit statement which provides details of contributions credited (before deductions) to the member in the preceding scheme year. This information has to be provided within 12 months of the end of each scheme year.
Trustees	An individual or company appointed to carry out the purposes of a trust in accordance with the provisions of the trust instrument and general principles of trust law. In this guide, the term 'trustees' should be taken to also mean 'managers' or 'board of managers' in the case of schemes with no trustee, and directors of a corporate trustee (unless the context suggests otherwise).



[legalandgeneral.com](https://www.legalandgeneral.com)

Legal & General Assurance Society Limited

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