

THE STANDARD RAISING
**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**

DC CHAIR'S STATEMENT DRAFTING TEMPLATE





THE PLSA

Our mission is to help everyone achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

We represent the defined benefit, defined contribution, master trust and local authority pension schemes that together provide a retirement income to 20 million savers in the UK and invest £1 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs and others who play an influential role in the governance, investment, administration and management of people's financial futures.



INTRODUCTION

Defined Contribution (DC) pension schemes are required by law to produce an annual governance statement that illustrates, among other things:

- ▶ The scheme's investment strategy and its governance;
- ▶ The processing of core financial transactions;
- ▶ The disclosure of member-borne transaction costs and charges;
- ▶ The assessment of value for members; and
- ▶ How the trustees have met trustee knowledge and understanding requirements.

Guidance released by the Pensions Regulator (TPR) suggests that the statement should be written clearly enough for members to understand. This means finding a balance between having sufficient information to meet the requirements and providing a meaningful narrative without over-complicating matters.¹ Trustees may wish to prepare an additional member friendly summary version of the statement to help them address this concern.

The statement should be a standalone document within the annual report and accounts so that all the required information (as set out in TPR's checklist) is in one place. However, it is acceptable to attach to the statement any additional required information or documents (e.g. the Statement of Investment Principles).²

For many trustees, complying with these requirements is a business as usual activity. However, PLSA members have raised concerns about how some of the legislative requirements regarding the statement are being applied in practice. It is for this reason that several PLSA members have come together to develop a template statement which is designed for a standard occupational DC pension scheme.

This template is not suitable for any scheme which is a relevant multi-employer scheme (which may be a 'master trust') but could be adapted for such use by the addition of further material required by legislation.

The template is based upon the requirements of regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 as at 1 February 2020 and TPR's Quick Guide (and Technical Appendix) on chairs' statements published in September 2018. Trustees will need to tailor the template to reflect the particular circumstances of their schemes.

Trustees should be aware that many of the legal requirements are subjective and that TPR will form its own view as to whether the statement complies with the statutory requirements. There is no guarantee that adopting the template will ensure compliance. Additional information will need to be added and some of the content will need to be adjusted to suit the particular circumstances of each scheme.

¹ TPR, [A Quick Guide To The Chair's Statement](#) (2018)

² Schemes should provide these documents in a clearly labelled appendix and refer to them in the statement itself (or a link provided if a scheme makes the statement and documents available on a website).

When putting together such a statement, trustees should take care to make sure that:

- ▶ the contents of the statement are correct and that the trustees can provide evidence to support any information contained within it;
- ▶ the statement of investment principles (which includes the statement of investment principles for the default arrangement) meets the relevant statutory requirements under The Occupational Pension Schemes (Investment) Regulations 2005; and
- ▶ in preparing the illustrative example of the cumulative effect of the charges and transaction costs on the value of a member's savings, the trustees have regard to the DWP's statutory guidance. If they consider that elements of the guidance are not appropriate, it is helpful if they can demonstrate consideration of the guidance by including an explanation.

This template has been prepared by the PLSA in conjunction with the following firms as at the 5th May 2020:

Arc Pensions Law

EVERSHEDS
SUTHERLAND

HYMANS 
ROBERTSON

 **LCP** INSIGHT
CLARITY
ADVICE


Pinsent Masons

Sackers

TRIVERS.
SMITH

Please note that the preparation of the template does not constitute legal or investment advice from any of the firms listed above or the PLSA, who accept no liability for its use.

Trustees seeking to adopt the template should speak to their own advisers who will be able to help them to tailor the document so that it is suitable for their own needs and complies with their legal obligations.



TEMPLATE FOR AN ANNUAL STATEMENT REGARDING GOVERNANCE

1. Introduction

Drafting note: The requirement to produce an annual statement regarding governance applies to most occupational money purchase schemes. Schemes which are exempt include:

- ▶ those where the only money purchase benefits provided are AVCs; and
- ▶ relevant small schemes, often referred to as small self-administered schemes.

AVCs should be treated in the same way as other DC benefits for the purposes of the statement. Although DB schemes with AVCs are exempt, **if a hybrid scheme has other DC benefits in addition to AVCs and therefore needs to provide an annual statement regarding governance, any AVCs should be included within that statement.** Guidance from the Pensions Regulator (“TPR”) about [DC communications](#) also states that “monies arising from a transfer in from another non-AVC arrangement in order to secure money purchase benefits” do not count as AVCs.

Governance requirements apply to defined contribution (“DC”) pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee[s] of the [scheme name] (the “Scheme”) [is/are] required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- ▶ the investment options in which members’ funds are invested (this means the “default arrangement” and other funds members can select or have assets in, such as self-select or “legacy” funds);
- ▶ the requirements for processing financial transactions;
- ▶ the charges and transaction costs borne by members;
- ▶ an illustration of the cumulative effect of these costs and charges;
- ▶ a ‘value for members’ assessment; and
- ▶ Trustee knowledge and understanding.

This statement covers the period from [Start of Scheme Year] to [End of Scheme Year].

2. Default investment arrangements

Drafting note: If there is no default arrangement then this section can be reduced to just explain why this is. For this reason, no sample wording is provided here, and we would recommend you seek legal advice on this point if you believe this is the case for your Scheme. This sample wording covers the most common scenario for a default arrangement but in other situations (e.g. the “80% selection threshold”) different wording may be needed. If you are unsure, please do seek professional advice.

[The Scheme is [not] used as a Qualifying Scheme for auto-enrolment.]

Members who join the Scheme and who do not choose an investment option are placed into the [name of default arrangement], (the “default arrangement”).

Drafting note: If there is more than one default arrangement then this section should be expanded to include all of them, and the SIPs related to them. This includes any legacy default arrangements plus any default arrangements that have arisen where members have been transferred without consent into a new fund or strategy. This also includes the situation where self-select funds have been transferred without consent and could include situations where new contributions have to be directed to a different fund because the previously selected one has closed.

[A number of other funds are also classified as default arrangements for some members following past investment changes where members’ funds have been transferred without the members expressing a choice. These are [name of default arrangement(s)].]

The Trustee[s] [is/are] responsible for the Scheme’s investment governance, which includes setting and monitoring the investment strategy for the Scheme’s default arrangement(s).

Details of the objectives and the Trustee[’s/s’] policies regarding the default arrangement(s) can be found in a document called the ‘Statement of Investment Principles’ (“SIP”). The Scheme’s SIP covering the default arrangement(s) is attached to this annual statement regarding governance.

Drafting note: The SIP that covers the default arrangement(s) must be included in full and attached to the annual statement regarding governance, and not just attached to the back of the annual report and accounts. It is important that the default arrangement SIP complies with the requirements set out in Scheme Administration Regulation 23(1)(a)(i). If the SIP does not include all relevant information, the annual statement regarding governance may not be compliant. This should be the latest SIP that has been signed, even if this occurred after your scheme year end (i.e. the period this statement covers). Usually that happens where a change to investment strategy has taken effect after the scheme year end and before the annual statement regarding governance has been completed, if this happens to you, key details of the SIP that was in place during the Scheme year will also need to be included, which your DC consultant or legal advisor can help you with.

The aims and objectives of the default arrangement(s), as stated in the SIP, are as follows:

Drafting note: Example wording below, but this should be replaced by the exact wording from the Scheme’s actual SIP. If the SIP has been amended during or since the period covered by the statement, that should also be explained. The objectives for any legacy default arrangement should likewise be included in the SIP and annual statement regarding governance.

- ▶ [significant long-term real growth whilst members are far from their target retirement date;
- ▶ gradually reducing the risk taken in the investment strategy as members become close to their target retirement date which means that members’ assets are automatically moved between different investment funds as they approach their target retirement date; and
- ▶ having an asset allocation at the target retirement date that is appropriate and consistent with how most members are expected to take their retirement savings.]

Drafting note Alternative 1: If the date of the last investment strategy review was not in the time covered by the statement then use the wording below.

The default strategy and the performance of the default arrangement were not reviewed during the period covered by this statement. The last review was completed on [DAY, MONTH, YEAR].

Drafting note: A specific date is required by the Pension Regulator for this review, which may be before or after the period covered by the statement. If the review of the default strategy and the review of the performance of the default were carried out separately, a date will be needed for each. The date the review was completed should be justifiable, e.g. either the date of the trustee meeting where the review was discussed or the date of a relevant advice letter.

The Trustee[s] regularly monitor[s] the performance of the default arrangement and will formally review both this and the strategy at least every three years (the next review is intended to take place by

Drafting note: Next review date = no more than 3 years after last review date

or immediately following any significant change in investment policy or the Scheme’s member profile.

Drafting note Alternative 2: OR, where review did occur during period covered by statement example wording is below:

The default strategy and the performance of the default arrangement are reviewed at least every three years and were last reviewed on [DAY, MONTH, YEAR].

Drafting note: A specific date is required by the Pension Regulator for this review. If the review of the default strategy and the review of the performance of the default were carried out separately, a date will be needed for each. The date the review was completed should be justifiable, e.g. either the date of the trustee meeting where the review was discussed or the date of a relevant letter. It is important to clarify that the review covered both (i) the investment strategy and (ii) the performance of the default arrangement, or if separate reviews were carried out for these two elements of the statutory review. Describe details regarding the review and provide a full explanation of any changes that were made as a result for instance: who carried out the review, whether external advice was sought, what information was considered e.g. member experience/activity and membership profile. In particular, as a minimum the trustees should set out how they have assessed the extent to which performance is still consistent with the aims and objectives of the default arrangement SIP. Where changes were made to the default arrangement(s) during the scheme year, you must explain in detail the reasons for the change(s) and exactly what the change(s) were.

The Trustee[s] [is/are] satisfied that the default remains appropriate due to

Drafting note: Please provide a detailed explanation of the review process that was completed and a more detailed explanation as to why no changes were made.

In addition to the strategy review the Trustee[s] also review[s] the performance of the default arrangement(s) against their aims, objectives and policies on a [quarterly] basis. This review includes an analysis of fund performance and member activity to check that the risk and return levels meet expectations. The Trustee['s/s'] review[s] that took place during the Scheme year concluded that the default arrangement(s) were performing broadly as expected and is consistent with the aims and objectives of the default as stated in the [default] SIP.

Drafting note: In this section you should also include some wording to make it clear that the Trustee(s) has looked at both the performance and the strategy of the default arrangement.

3. Requirements for processing core financial transactions

Drafting note: As noted in the introduction, any AVC arrangements should be included in this section and, as previously noted, if a hybrid scheme has DC benefits and therefore needs to provide an annual statement regarding governance, any DC AVCs in the scheme should similarly be included within the statement.

The Trustee(s) ha(s)(ve) received assurance from the Scheme’s administrator [name of administrator] and has taken steps to try and ensure that there were adequate internal controls to ensure that core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme Year. This includes the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

[The Scheme has a service level agreement (“SLA”) in place with the administrator which covers the accuracy and timeliness of all core financial transactions. The key processes adopted by the administrator to help it meet the SLA are as follows:]

Drafting note: In this section you should provide details of what processes you undertake. For example, confirm that the trustees have a SLA with the administrator which covers the accuracy and timeliness of all core financial transactions and give a brief summary of those requirements. Real life examples are helpful, e.g. audit reports. A broad description of what the SLAs cover, using some examples, would also be helpful. Confirm that the trustees receive regular reports to help them monitor SLAs are being met. Summarise processes adopted by the administrator to meet the SLAs; e.g. daily monitoring of bank accounts; dedicated contribution processing team; at least two persons involved with checking investment and banking transactions. Note that TPR’s Quick Guide gives an example of a “common mistake” being where “It is unclear what action the trustees have taken to ensure that processes and controls are in place to monitor the accuracy and timeliness of core financial transactions; the administrators have confirmed that core transaction requirements have been met but no explanation has been provided as to how this has been established, or the accuracy of core financial transactions has been checked but makes no mention of timeliness”.

The Trustee[s] receive[s] [quarterly] reports about the administrator’s performance and compliance with the SLA; using information provided by the administrators, [which has been reviewed by the auditors], the Trustee[s] [is/are] satisfied that over the period covered by this statement

Drafting note: Amend this wording as appropriate:

- ▶ the administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA;
- ▶ there have been no material administration errors in relation to processing core financial transactions; and



- ▶ all core financial transactions have been processed promptly and accurately during the Scheme year.

Drafting note: Add further details about why the trustees are satisfied. How have the trustees satisfied themselves that the administrator’s services are competitive? What does the quarterly report (or other review, such as a one-off exercise) cover? Does it enable trustees to verify that transactions are performed in line with the SLA? How do trustees measure accuracy of financial transactions? Do they carry out sampling or external auditing on certain transactions? Do they monitor the end to end process for contribution payments? What do trustees do to reduce the chance of issues arising? Is there an annual data review or cyber security exercise? When was such an exercise last completed and when will the next be undertaken? Will a member reading this understand how the trustees are monitoring these transactions? If there have been any material administration issues, errors or unreasonable delays, explain what has happened and how it has been corrected or what plans there are to tackle any outstanding unresolved issues.

4. Member-borne charges and transaction costs

The Trustee[s] [is/are] required to set out the on-going charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio (“TER”). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges [also include any costs, e.g. administration and investment costs, since members incur these costs OR exclude any costs, e.g. administration and investment costs, since these are not met by the members].

Drafting note: consider who pays for the charges and delete wording as appropriate.

The Trustee[s] [is/are] also required to separately disclose transaction cost figures that are borne by members. In the context of this statement, the transaction costs shown are those incurred when the Scheme’s fund managers buy and sell assets within investment funds .

Drafting note: Be aware that references in this statement to “transaction costs” need to be carefully considered with your investment adviser.

The charges and transaction costs have been supplied by the [name of scheme’s platform provider and/or investment managers] who are the Scheme’s [platform provider/ investment managers]. [There is not any missing transaction cost data].

Drafting note: If all transaction costs have been obtained and none are outstanding this should be stated. Where there is missing transaction cost data the statement should explain what is missing and what steps have been and will be taken to try and obtain the missing data. If you have negative transaction costs you should discuss with your investment adviser how they should be recorded.

When preparing this section of the statement the Trustee[s] [has/have] taken account of the relevant statutory guidance.

Drafting note: The DWP’s [statutory guidance](#) on “Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes” referred to concerns about the production of the illustration of charges and disclosure costs. If there is any deviation from the approach set out in the guidance, this should be explained here. The FCA’s transaction costs reporting [requirements](#) for fund managers from came into force on 3 January 2018, and so there should not be any reason why figures can’t be provided. If managers insist that they are not able to provide figures, then note their reasons here. We would recommend using the [Cost Transparency Initiative’s](#) templates to ask your platform and managers for these costs. It is a legal requirement that where transaction cost information has not been obtained this should be indicated and an explanation given of what steps are being taken to obtain the remainder (for example, are the trustees chasing the provider on a regular basis or escalating the issue higher in the organisation?).

4.1 Default arrangements

Drafting note: All of the default arrangements that you covered in section 2 should also be covered here.

[The default arrangement is [name of default arrangement]. [The default arrangement has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested].

For the period covered by this statement, annualised charges and transaction costs are set out in the table below. The member borne charges for the Scheme's default arrangement complied with the charge cap.

Drafting note: If the charges and transaction costs have changed during the relevant scheme year, including because of a fund mapping exercise, the pre-change charges should also be included.

Default arrangement charges and transaction costs

Years to target retirement date	TER ³	Transaction costs
20 or more years to retirement		
15 years to retirement		
10 years to retirement		
5 years to retirement		
At retirement		

Drafting note: The details set out in the Transaction costs column will depend on whether transaction costs have been obtained – if transaction costs have not been provided, specific reasons why and details of what steps the trustees are taking to obtain them must be included in section 4 above. If there are multiple default funds, then the charges and costs for each of these should be set out. The above table is just an example; the layout of these rows is not mandatory, and the rows will vary depending on each scheme's circumstances. E.g. if the costs are all the same until 10 years to retirement then delete the first two rows and add "or more" after 10 years in the third row. You should consider quoting costs and charges in £p (in addition to %), as this is encouraged in both TPR's [guidance](#) on "Communicating and Reporting" and DWP's [statutory guidance](#) on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes". You should also set out ad valorem charges, where applicable.

³ TER - total expense ratio

4.2 Self-select options

[In addition to the default arrangement, members also have the option to invest in [two other lifestyles, targeting annuity purchase and cash withdrawal and several other self-select funds]

Drafting note: Amend as relevant.

The annual charges for these lifestyles during the period covered by this statement are set out in the tables below.]

Drafting note: include tables for each alternative lifestyle, like the table in 4.1.

The level of charges for each self-select fund (including those used in the default arrangement) and the transaction costs over the period covered by this statement are set out in the following table. The underlying funds used within the default arrangement are shown in bold.

Self-select fund charges and transaction costs

Manager – Fund name	TER	Transaction costs
[Manager and fund name]		

Drafting note: You should consider quoting costs and charges in £p (in addition to %), as this is encouraged in both TPR’s [guidance](#) on “Communicating and Reporting” and DWP’s [statutory guidance](#) on “Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes”. You should also set out ad valorem charges, where applicable. Any AVC arrangements should be included in this section 4.2 and, as previously noted, if a hybrid scheme has DC benefits and therefore needs to provide an annual statement regarding governance, any DC AVCs in the scheme should similarly be included within the statement. Additionally, if the scheme has any “legacy” funds then these also need to be included. Further explanation about the charges and transaction costs may need to be included where the scheme holds with-profits investments.

4.3 Illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member’s pension savings can reduce the amount available to the member at retirement. The Trustee[s] [has/have] set out [below/in the Appendix to this statement] illustrations of the impact of charges and transaction costs on different investment options in the Scheme. The illustrations have been prepared in accordance with the DWP’s statutory guidance on “Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes” on the projection of an example member’s pension savings.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee[s] [has/have] had to make a number of assumptions about what these might be. The assumptions are explained below:

- ▶ The “before costs” figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The “after costs” figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- ▶ The transaction cost figures used in the illustration are based on those provided by the managers over the [past five years].

Drafting note: The transaction cost figures should be those for the specific funds provided by the platform or fund manager. The figure used should be an annualised average of the past five years’ figures or however long you are able to obtain if less than this. It is possible to have a negative transaction cost figure and, where this is the case, the Trustee(s) should explain this. If your managers have not been able to provide transaction costs figures, then include the wording: “Given that the Scheme’s managers have not been able to provide transaction costs, these are not included in the projection.”

- ▶ The illustration is shown for the default arrangement

(Drafting note: Insert name of default arrangement)

since this is the arrangement [with the most members invested in it

Drafting note: Remember to check that the default does have the most members in it

where members are automatically enrolled], as well as a range of funds from the Scheme’s self-select fund range. The self-select funds shown in the illustration are:

- ▶ the fund that has attracted the greatest volume of contributions during the Scheme Year other than the default fund – this is the [fund name]
- ▶ the fund with the highest before costs expected return – this is the [fund name]
- ▶ the fund with the lowest before costs expected return – this is the [fund name]
- ▶ the fund with highest annual member borne costs – this is the [fund name]
- ▶ the fund with lowest annual member borne costs – this is the [fund name].

Drafting note: In line with the example in the [DWP guidance](#), we suggest projecting the arrangement with the most members invested in it (which will likely be the Scheme’s main default arrangement – if it is not then we suggest including the default arrangement and the arrangement with the most members invested; in some cases you may have more than one default).

As a minimum, the self-select funds you might want to produce the illustration for are the fund that has attracted the greatest volume of contributions other than the default fund, as well as the fund with highest expected return, the lowest expected return, the highest member borne cost (i.e. fees plus transaction costs) and the lowest cost. If there is overlap between these (e.g. the highest return fund is also the highest cost fund) then then we suggest using the fund with the second highest or second lowest gross investment return / total fees accordingly.

DWP guidance requires the saving pot size to be “broadly representative of the actual pot sizes of members of the scheme”; therefore, if just one pot size is used then the guidance suggests the median pot size within the scheme might be a useful benchmark. However, there is also a case for using a zero or £1,000 pot size if the scheme has young members at the start of their careers. State clearly your assumptions for the projections and how this follows the DWP guidance.

The guidance also states that the illustration “should reflect the approximate duration that the youngest scheme member enrolled has saving until they reach the scheme’s Normal Pension Age set out in scheme rules”. However, the example in the guidance uses a 40-year projection where “contributions are assumed from age 22 to 68” so we think that in the case of an ongoing open scheme a 40-year projection should be acceptable.

The purpose of the illustration(s) is to provide information relevant to the scheme membership, so you will want to think about what will be relevant to the majority of your members.

You should consider the specific circumstances of your scheme (e.g. if it is closed, or if the sponsoring employer has a very young workforce) and extend or decrease the projection period as appropriate. You might want to think about including projections relevant to young members, deferred members and, where relevant, active members.

There is a clear tension in the guidance between using the median pot size on the one hand and projecting the duration until the youngest member reaches their target retirement date (because the youngest member is very unlikely to have a fund equal to the median pot size, so such a combination is unrealistic). We are aware that some schemes are using a blanket approach for all their schemes of, e.g. quoting £100 starting fund value and a fixed timescale of 50 years. We recommend ensuring this is appropriate for your scheme’s circumstances before using these projections.

Whatever pot size and projection timescale is used, you should be prepared to justify them if challenged, so clearly document the rationale. Alternatively consider using multiple pot sizes and projections (which all should be clearly stated).

If flexi-access drawdown in retirement is available within the scheme, one or more expected representative future withdrawal rates should be assumed. DWP guidance also requires that schemes should not use gross real investment returns higher than those used for SMPI assumptions – to avoid the chance of breaching this rule the approach we suggest that you use either your latest SMPIs gross return assumptions or the assumptions permitted by the FCA’s Conduct of Business Sourcebook and use those figures in this illustration. You should state which set of assumptions you have used.

Drafting note: DWP uses the table below as an example of how an illustration can be prepared, but you do not need to follow that format.

Projected pension pot in today’s money								
Fund choice								
	Default arrangement		Fund A		Fund B		Fund C	
Years	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1								
3								
5								
10								
15								
20								
25								
30								
35								
40								

Notes

- ▶ Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. [The numbers shown in the illustration are rounded to the nearest £100 for simplicity].
- ▶ Projected pension pot values are shown in today’s terms, and do not need to be reduced further for the effect of future inflation.

Drafting note: References in these bullet points to salary assumptions and contributions can probably be deleted if your scheme is not accepting DC contributions.

Annual salary growth and inflation is assumed to be [2.5%].



▶ **Drafting note:** This should either be in line with that assumed in your SMPIs or the assumptions permitted by the FCA’s Conduct of Business Sourcebook.

Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.

The starting pot size used is [$£X,000$].

Drafting note: Please see commentary above about what figure to use here.

The projection is for [X] years, being the approximate duration that the youngest scheme member has until they reach the scheme’s Normal Pension Age.

Drafting note: Please see commentary above the table about what figure to use here.

▶ The starting salary is assumed to be [$£X0,000$]

Drafting note: Similar considerations as for what pot size to use apply here. Some options include using the median salary for active members or using a lower salary representing a younger employee at the start of their career. In all cases it is important is to choose a figure which is representative and justifiable.

▶ Total contributions (employee plus employer) are assumed to be [$X.0\%$] of salary per year.

Drafting note: This should be representative of the contributions in your scheme, so ideally use the median for active members; explain figure used here.

▶ The projected annual returns used are as follows:

- ▶ Default option: [$X.0\%$] above inflation for the initial years, gradually reducing to a return of [$X.0\%$] above inflation at the ending point of the lifestyle.
- ▶ [Self-select Fund A] [$X.0\%$] above inflation
- ▶ [Self-select Fund B] [$X.0\%$] above inflation
- ▶ [Self-select Fund C] [$X.0\%$] above inflation
- ▶ [Self-select Fund D] [$X.0\%$] above inflation
- ▶ No allowance for active management has been made.

Drafting note: This should be consistent with the approach taken in your SMPI’s. There is no requirement to have an allowance for active management.

5. Value for members assessment

Drafting note: The wording below requires tailoring for your scheme. Legislation requires that trustees assess whether charges and transaction costs are good value for members every year. TPR’s guide states that trustees must explain exactly why they believe that the charges and transaction costs represent good value.

[The Trustee[s] [is/are] required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of “good value”, but the Trustee[s] consider[s] that it broadly means [set out details of your policy for example using TPR’s suggested value for member wording - “that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme membership as a whole, when compared to other options available in the market”]. [The assessment was undertaken taking account of the Pensions Regulator’s Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).]

The Trustee[s] review[s] all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. [The date of the last/ next review was/ is: [DAY, MONTH, YEAR].] The Trustee[s] note[s] that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. [The Trustee[’s/s’] [investment/DC] advisers have confirmed that the fund charges are competitive for the types of fund available to members.

Drafting note: Add additional detail here, in particular any hard evidence the trustees have obtained - eg. If you have carried out formal benchmarking of costs, charges, fund performance, service levels, “value add” services for members etc.

The Trustee[’s/s’] assessment included a review of the performance of the Scheme’s investment funds (after all charges) in the context of their investment objectives.

Drafting note: This should include a description of the process that you have followed.

[The returns on the investment funds members can choose during the period covered by this statement have been consistent with their stated investment objectives.

Drafting note: If the funds did not achieve their objectives then add details about reason for this and whether any action has been considered in relation to underperforming funds.



In carrying out the assessment, the Trustee[s] also consider[s] the other benefits members receive from the Scheme, which include

Drafting note: Amend for your own circumstances and for what your members pay or share:

- ▶ the oversight and governance of the Trustee[s], including ensuring the Scheme is compliant with relevant legislation, such as the charge cap, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- ▶ the design of the default arrangement and how this reflects the membership as a whole;
- ▶ the range of investment options and strategies;
- ▶ the quality of communications delivered to members;
- ▶ the quality of support services [such as the Scheme website where members can access fund information online]; and
- ▶ the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards for the Scheme year.

Drafting note: TPR will expect an explanation of how each factor listed above is relevant, how the factors were weighed against each other and how this led to the conclusion reached. If there is any documentary evidence to back up conclusions (e.g. benchmarking), this should be included too.

[As detailed in the earlier section covering processing of financial transactions, the Trustee[s] [is/are] comfortable with the quality and efficiency of the administration processes.]

[The Trustee[s] believe[s] the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and we expect this to lead to greater investment returns net of fees over time.]

Overall, the Trustee[s] believe[s] that members of the Scheme are receiving [good/reasonable/fair] value for money for the charges and cost that they incur. The Trustee[s] believe[s] this because [add key reasons for conclusion in previous sentence; e.g. perhaps the scheme benchmarks well against other schemes.] [The Trustee[s] aim[s] to improve this in future through [by taking the following steps:]

Drafting note: The methods of assessment/how this was assessed in practice should be set out clearly. Note any areas where improved value for members may be delivered in the future and where issues identified in previous statements have been addressed during this Scheme year. If the trustees have concluded that the scheme is not offering value for members in any particular respect, they should set out why and describe what action they are taking to address this.

6. Trustee knowledge and understanding

The Scheme's Trustee[s] [Directors] are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee [Director] must:

- ▶ Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy for the time being adopted by the Trustee[s] relating to the administration of the Scheme generally,
- ▶ Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as trustee [director], knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The Trustee[s] [has/have] measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

Drafting note: In this section you should confirm your procedures for meeting the requirements in relation to conversance and Trustee knowledge and understanding, for example documenting completion of TPR's Trustee Toolkit, as well as what that action achieved. It is important that you demonstrate how this has been done during the Scheme Year to which this statement relates, and it would be helpful to identify which of the specific actions described have taken place during that time. Detailed examples will be needed here. Confirm details of any training, conferences etc the trustees have undertaken during the period covered by the statement and include details of what the training involved in this section (e.g. by including a table setting out the sessions completed during the scheme year). Have any knowledge gaps been identified and, if so, how are they being addressed? Note that TPR's Quick Guide checklist explicitly requires that a compliant annual statement regarding governance will:

- ▶ demonstrate the trustees have a working knowledge of the trust deed and rules, the current SIP and of all documents setting out the trustees' current policies;
- ▶ demonstrate the trustees have sufficient knowledge and understanding of the law relating to pensions and trusts, and of the principles relating to the funding and investment of DC schemes; and
- ▶ explain as to how the combined knowledge and understanding of the trustees, together with available advice, enables them to properly exercise their functions. This should include details of any particular skills or experience on the trustee board, including whether there are any professional independent trustees on the Board and what relevant experience they have.

Sample TKU wording follows which will need adjusting to reflect your specific circumstances. In general, more detail provides greater reassurance that appropriate steps have been taken during the Scheme year:



The Trustee[s], with the help of [its/their] advisers, regularly consider[s] training requirements to identify any knowledge gaps. The Trustee[’s/s’] investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee[’s/s’] advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this statement, the Trustee[s] received training on the following topics: {add details}

All the Trustee[s] [Directors] are familiar with [and have access to copies of] the current Scheme governing documentation, including the Trust Deed & Rules (together with any amendments), the SIP and key policies and procedures. In particular, the Trustee[s] refer[s] to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme and, where relevant, deciding individual member cases, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme’s investments.

Drafting note: Only include reference to a SIP review if it has taken place during the Scheme Year.

Further, the Trustee[s] [Directors] consider that they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

All the Trustee[s] [Directors] are required to commit to completing the training, either at the relevant meetings or by personal study. [All the Trustee[s] [Directors] have completed the Pensions Regulator’s Trustee Toolkit (the Trustee Toolkit is a free online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law).

Drafting note: If possible, include details of when the trustees completed the toolkit. For example, did all trustees complete the toolkit within [6 months] of being appointed as a trustee?

Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Scheme year.

[A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. Additionally, the Scheme has in place a structured induction process for new trustees.]

Drafting note: Add further details about why the process is appropriate and how this was implemented for any new trustees during the scheme year. Consider setting out in detail what financial services and pensions experience the trustees have and highlight if there is an independent trustee.



Drafting note: Include a paragraph explaining Trustee experience and wider skills, and also consider the diversity of the Trustee board and its viewpoints.

[A questionnaire is used to carry out an annual evaluation of the Trustees['s/s'] knowledge and to help to identify training needs. The Trustee[s] also carry out an annual evaluation of the performance and effectiveness of the Trustee Board as a whole as measured against the objectives of the Scheme's business plan.

Drafting note: Add detail about how this evaluation was carried out and measured e.g. peer review; an external agency review; or by issuing a questionnaire to all trustees. Also include its findings and any steps that will be taken as a result.

Drafting note: Include a paragraph explaining what advice the Trustee receives and from which advisers. Are they present at each Trustee meeting, or otherwise available to provide appropriate advice and support? How are advisers reviewed?

Taking into account the knowledge and experience of the Trustee[s] [Directors] with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisers (e.g. investment consultants, legal advisors), the Trustee[s] [Directors] believes they are well placed to exercise their functions as Trustee[s] [Directors] of the Scheme properly and effectively.

Date: _____

Signed by the Chair of Trustees of the [XYZ Pension Scheme]

Drafting note: Ensure the document is signed and append the latest SIP that meets the requirements of a default arrangement.