

# DC Governance: Chair's statement

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New governance standards apply to trustees of most occupational pension schemes which provide defined contribution benefits from 6 April 2015. The new governance standards focus on the scheme's default arrangements, charges and administration processes. It is also a legal requirement that there is a Chair of trustees.

## **1 What is the Chair's statement?**

A key responsibility of the Chair is to sign off a yearly statement explaining how the scheme meets the new governance requirements. The law sets out what information has to be included in the Chair's statement. We have attached a template Chair's statement to this briefing. There are additional requirements for Master Trusts. Please ask your usual Linklaters contact for information about this if it is relevant to you.

For many trustees, complying with the new governance standards will be business as usual. However, in our experience one of the areas which is proving to be most challenging is the requirement to demonstrate that scheme membership provides good value for members. In part this is because there is no statutory definition of good value. We have included some ideas in the template as a starting point for your discussions about this.

## **2 What is the timetable for publishing a Chair's statement?**

The Chair's statement is due within seven months of a scheme's year end and must be included in the annual report and accounts.

The Chair's statement must be part of the first report and accounts relating to the scheme year ending on or after 5 July 2015. The statement only needs to cover the period from 6 April 2015 to the scheme year end. Where the scheme year end was after 5 April 2015 and before 6 July 2015, the first statement can be rolled forward and included in the following year's report and accounts.

## **3 What are the risks of not publishing a Chair's statement on time?**

Trustees will need to confirm that they have produced the Chair's statement in the scheme return submitted via Exchange. The Pensions Regulator can impose a fine of between £500 and £2,000 on trustees who are required to prepare a Chair's statement but do not do this.

## **4 What documentation should the Trustee keep as back up?**

The Trustee should keep a written record of what steps have been taken to back up the contents of the Chair's statement together with the relevant advice from its professional advisers. This evidence may be needed to explain to the Pensions Regulator why the trustees are confident that the scheme is well run should a check be made in future.

# Template Chair's statement

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## Annual governance statement by the Chair of Trustees

### Introduction

New governance rules apply to defined contribution pension arrangements like the *[insert name of Scheme and/or relevant section]* (the “**Scheme**”) from 6 April 2015. These were designed to help members achieve a good outcome from their pension savings.

As the Chair of the Trustees, I have to provide you with a yearly statement which explains what steps have been taken by the trustee board, with help from our professional advisers, to meet the new governance standards. The law sets out what information has to be included in my statement and this is covered in sections 1 to 4 below.

The Trustees are committed to having high governance standards and we have a number of dedicated sub-committees which meet regularly to monitor the controls and processes in place in connection with the Scheme's investments and administration. More information about the sub-committees is on page [●] of the Annual Report.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact *[insert relevant contact details]*.

### 1 Default investment arrangement

The default investment arrangement is provided for members who join the Scheme and do not choose an investment option for their contributions. Members can also choose to invest in the default investment arrangement which is set up by the Trustees. [This year [●]% of members had their contributions invested in the default investment arrangement.]

#### Setting an appropriate investment strategy

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme's default arrangement.

We have chosen *[insert name of investment fund[s]]* as the Scheme's default arrangement[s]. Details of the investment strategy and investment objectives of the default arrangement[s] are recorded in a document called the Statement of Investment Principles. This document is included as an appendix to the Annual Report and Accounts.

[In summary, the key points to note in relation to the default investment arrangement[s] are as follows: *[insert a summary of the following information from the SIP: the kinds of investments held; the balance between the different kinds of investment; the risks and how these are measured and managed; the*

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*expected returns; the realisation of investments; and the extent social, environmental or ethical considerations are taken into account in relation to investments].*

## **Reviewing the default investment arrangement**

The Trustees are expected to:

- review the investment strategy and objectives of the default investment arrangement at regular intervals, and at least once every 3 years; and
- take into account the needs of the Scheme membership when designing the default arrangement.

The [Scheme's investment committee/Trustee[s]] review[s] the investment objectives and the performance of the default arrangement at least [once a year] and on the advice of [adviser name], the Scheme's investment advisers.

*Either:* [We have not reviewed the default investment arrangement in the last scheme year. The next date which is planned for a review to be carried out is *[insert date]*.]

*Or:* [In the last scheme year we have reviewed the default investment arrangement. In carrying out this review we considered a number of factors including: *[Insert details of the review which may include: we have obtained information about the scheme members needs, attitudes to risk, retirement expectations; we have looked at independent market research about members' needs, attitudes to risk, retirement expectations to assess what an appropriate default arrangement will be for the Scheme. We also modelled with our investment advisers a variety of different investment strategies and revisions to the funds in the default investment arrangement before deciding on what changes would be appropriate at this time]*.]

As a result of the review this year, *[insert details of any changes to the default investment arrangement which have been made]*.

[The Trustees are monitoring the use of the default investment arrangement and the choices being made by members when benefits come into payment. This will help to inform us about changes which are appropriate in future. ]

## **2 Charges and transaction costs paid by members**

We are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments in the Scheme) which are paid by members rather than the employer. As you may know the employer pays *[insert details of any costs expenses and services paid for by the employer]*.

Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information.

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The level of charges and transaction costs applicable to the Scheme's default arrangement during the last scheme year were:

- *[insert details of charges; and]*
- *[insert details of transaction costs].*

The range of the level of charges and transaction costs applicable to the funds offered under the Scheme which are not part of the Scheme's default arrangement during the scheme year were:

- *[insert details of charges; and]*
- *[insert details of transaction costs].*

[We have been unable to indicate information in this statement about transaction costs in relation to [insert name of relevant fund[s]] offered under the Scheme. We are taking the following steps with [insert fund manager name] to obtain this information in the future:

- *[insert details of the steps being taken].*

### **Good value for members**

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which the investments options and the benefits offered by the Scheme represent good value for members when this is compared to other options available in the market.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our advisers and considered regulatory guidance.

*[Insert details of the good value analysis carried out which may include the following: As a starting point to assessing good value, we have compared the level of charges in each fund with the levels of return they have delivered to members. We have also considered how the charges and transaction costs borne by members (the costs of membership) compare against the services and benefits provided by the Scheme (the benefits of membership). The benefits of membership include (amongst other things): the design of the default arrangement and how this reflects the interests of members; the range of investment options and strategies; the efficiency of administration processes and the extent to which [insert name] as administrator met and exceeded its service level standards for the scheme year; the quality of communications delivered to members; and the quality of support services and scheme governance.*

*We have assessed members' investment returns and overall fund performance to ensure that the transaction costs borne by the members (e.g. costs associated with investment trading) are reasonable for each fund we offer under the Scheme and the outcomes expected from investment. Market factors*

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*have been taken into account noting that these will impact and vary fund cost. We considered, in particular, that higher transaction costs in specialist funds are usual and in the case of the funds we offer, justified.*

*[Due to the divergence of our membership, we decided to segment our assessment across different categories of member [insert detail] to ensure that the Scheme represents good value for each category of member.]*

Based on our assessment, we concluded that the Scheme represents good value for members.

### **3 Core financial transactions**

The Trustees are required to report to you about the processes and controls in place in relation to the “core financial transactions”. The law specifies that these include the following:

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

We must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme administrator. Our Scheme administration is delivered by *[insert details]*.

The Scheme administrator provides regular reports to the [Trustee board] [● committee of the Trustee board] which allows us to assess how quickly and effectively the core scheme financial transactions are completed. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

I am pleased that in the last scheme year there has been no material administration service issues which need to be reported here by the Trustees. 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.

[In addition, noting that we need accurate member data to process contributions and payments correctly, we are taking steps to review and correct any problems with the member data which is held by the Scheme administrator. *[Insert details of any recent data audit or the planned review dates for the next data audit.]*

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## 4 Trustee knowledge and understanding

The law requires the trustee board to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively. We take our training and development responsibilities seriously and keep a record of the training completed by each member of the board. This training record is reviewed annually to identify any gaps in the knowledge and understanding across the board as a whole. This allows us to work with our professional advisers to fill in any gaps.

All of the trustees have completed the Trustee Toolkit made available by the Pensions Regulator. Newly appointed trustees are expected to complete the Trustee Toolkit and have formal induction training within 6 months of joining the trustee board. *[Insert details of any other training qualifications held by the trustee board.]*

As a result of the training activities which have been completed by the Trustees individually and collectively as a board, and taking into account the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the board enables us to exercise properly our functions as the trustee of the Scheme.

**Linklaters LLP**

One Silk Street  
London EC2Y 8HQ

Tel: +44 20 7456 2000  
Fax: +44 20 7456 2222

[linklaters.com](http://linklaters.com)

### Author:

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