The Pension of the Managerial Staff of the Leeds Industrial Co-operative Society ("the Scheme")

Chair's Statement 2019

Trustee Responsibilities

The Trustee is responsible for ensuring that the Scheme is managed appropriately and efficiently, in accordance with its rules and overriding law. The Trustee monitors and reviews the Scheme's processes and controls.

This Chair's statement is made to fulfil the requirements of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, with regard being had where appropriate to the Pensions Regulator's standards and expectations, as set out in its Defined Contribution Code of Practice. This statement covers the period to 30 November 2018. The Scheme is not used for automatic enrolment, has six members with pre-retirement benefits, all of which are invested in with-profits policies that benefit from guaranteed annuity rates, which is reflected in this statement.

Assessment

The Trustee has reviewed the Scheme's key governance functions to establish whether they are consistent with the standards introduced by the Pensions Regulator. The key areas covered are:

1. The investment strategy
2. The financial transactions of the Scheme
3. The charges and transaction costs within the Scheme
4. The Trustee's compliance with its knowledge and understanding (TKU) requirements

1. Investment Strategy

The Scheme does not have a default arrangement, as defined in section 3 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 as it is not a "qualifying scheme".

The Scheme's investment strategy is currently focused on the maintenance of members' guaranteed annuity rates with Royal London. The Trustee may consider taking further investment advice should it be considered appropriate.

2. Financial Transactions

Risks to the Scheme's members are low as the members' benefits are paid up with Royal London. This mitigates significant operational, financial and regulatory risks.

The Trustee regularly monitors the core financial transactions of the Scheme. These include transfers out of the Scheme and payments out, both to and in respect of members.

3. Charges and Transaction Costs

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of charges and transaction costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs and to help members understand the relative merits of different investment options in a DC scheme. The following table provides an illustrative example of the cumulative effect over time of the application of transaction costs and charges:

Projected pension pot in today's money RLCIS IB & OB Fund			
Years	Average Fund Value, with no investment growth	Before charges	After all charges & costs deducted
1	£8,883	£9,013	£8,922
2	£8,883	£9,145	£8,961
3	£8,883	£9,279	£9,001
4	£8,883	£9,415	£9,040
5	£8,883	£9,553	£9,080
6	£8,883	£9,692	£9,120

Notes:

1. *The projected pension values are shown in today's terms and take into account the effect of future inflation assumed at 2.5% pa.*
2. *There is currently only one fund available.*
3. *Values shown are estimates and are not guaranteed.*
4. *The number of years illustrated is based on the average term to retirement for a typical member with the scheme.*
5. *Transaction costs provided by Royal London are correct as at 31 December 2018.*

At present, all members' investments are limited to the Royal London with-profits policies (currently the RLCIS OB & IB Fund). These investments contain potentially valuable guaranteed annuity rates, and so there is minimal scope to change investment options at present without losing these. These are terminal bonuses, payable on the retirement of the member in question should they opt for an annuity with Royal London. Members are informed of their guaranteed rates every year.

The with-profits fund is relatively opaque in nature, both in terms of how returns are distributed to members and how charges and expenses are deducted.

The charges and potential charges vary depending on the action that Royal London may need to take under its Principles and Practices of Financial Management (PPFM)[1], but expense charges at Fund level can be up to 1% p.a. (or 1.25% in stressed conditions). The following table shows the projected growth rate as at 30 November 2018:

		% per annum	
Fund	Investment growth rate	Annual Management Charge	Transaction costs*
RLCIS IB & OB Fund	4.0%	1.00%	0.01%

**Transaction costs are incurred by asset managers as a result of buying. Selling, lending or borrowing investments. These costs are taken into account when annual bonuses are set for policies held within this fund.*

As members' benefits are in with-profits, assessing value for money is extremely difficult. The Trustee ensures that members get value for money by keeping costs low, using Co-op staff to manage members' benefits and liaison with Royal London at no cost to members.

The Trustee believes that members are fully informed in relation to their benefits as the Trustee receives copies of members' benefits statements for information and retains copies as required should members have any queries.

4. TKU Compliance

The Trustee's directors are experienced pensions professionals, supported by a team from the Co-op, many of whom have pensions-specific qualifications or equivalent professional qualifications.

During the year, the Trustee's directors have had management oversight of four pension schemes with combined assets of over £12 billion and held strategic roles in relation to pension and employment benefits, and are kept aware of emerging issues by advisers as needed.

[1] A copy of the PPFM is available online:
http://www.royallondongroup.co.uk/Documents/Coop/pdf/RLCIS_OB_and_IB_Fund.pdf

Action Plan

There are a number of areas in which the Trustee has improved, or is planning to improve the Scheme's controls and compliance:

- Greater choice and flexibility for retirement: Members are now offered the ability to take their benefits from the Scheme as a one-off lump sum. This gives members the flexibility to use their benefits from the Scheme in the way which they consider most appropriate.
- Future investments: There are no plans at present to move the investments away from Royal London, given the guaranteed investment rates available to members.
- Ongoing compliance: the Trustee has revised its business plan for the remainder of the year's business.

Signed:

Position: CHAIR.

Date: 9 May 2019