

# The Pension of the Managerial Staff of the Leeds Industrial Co-operative Society (“the Scheme”)

## The Chair of the Trustee’s Annual Governance Statement 2022

This Statement has been prepared to fulfil the requirements of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended. This Statement covers the period from 1 December 2020 to 30 November 2021 (the “Scheme Year”). 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.

The Trustee has reviewed the Scheme’s key governance functions to establish whether they are consistent with the statutory governance standards over the Scheme Year in relation to:

1. The investment strategy
2. The financial transactions made within the Scheme
3. The charges and transaction costs within the Scheme
4. The Trustee Director’s compliance with their 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” for auto-enrolment purposes.

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

The Trustee regularly monitors the core financial transactions of the Scheme to ensure that they have been processed promptly and accurately during the Scheme Year. These include transfers out of the Scheme and payments out, both to and in respect of members.

The Trustee is satisfied that over the period covered by this statement 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.

### 3. Charges and Transaction Costs

The Trustee is required to include information on charges and transaction costs in this Statement, each year, to improve transparency on costs and to help members understand the relative merits of different investment options in a DC scheme.

Transaction costs are the costs of buying and selling securities. These can be easily identifiable ‘explicit’ costs (i.e. charged to and paid directly by the fund) which include Brokers Commission, Research Commissions, Transaction Taxes and Fees, or, not directly observable ‘implicit’ costs which relate to the market impact when the investments are bought and sold. Implicit costs can, therefore, be difficult for managers to identify and disclose.

In addition to the above, the Trustee is also required to present the costs and charges typically paid by a member as a “pounds and pence figure”. 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	£11,536	£11,620	£11,504
2	£11,536	£11,705	£11,472
3	£11,536	£11,791	£11,441

**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 30 November 2021.
6. Member data, including the fund value and contribution levels were last reviewed on 30 November 2021.

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)<sup>1</sup>, 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 2021:

Fund	% per annum		
	Investment growth rate	Annual Management Charge	Transaction costs*
RLCIS IB & OB Fund	3.25%	1.00%	0.00%

\*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 policies, 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.

<sup>1</sup> A copy of the PPFM is available online:

<https://www.royallondon.com/siteassets/site-docs/about-us/corporate-governance/rlcis-ob--ib-fund-ppfm---1-october-2020-v3.pdf>

#### **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 Scheme Year, the Trustee's directors have had management oversight of over five pension schemes with combined assets of over £11 billion and held strategic roles in relation to pension and employment benefits and are kept aware of emerging issues by advisers as needed.

The Trustee's directors are familiar with and have access to copies of the Scheme's governing documentation, including the Trust Deed and Rules.

Further, the Trustee's directors consider that they have sufficient knowledge and understanding of the law relating to pensions and trusts of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties. Taking into account the knowledge and experience of the Trustee's directors with the specialist advice available to them, the Trustee's directors believe they are well placed to exercise their functions as Trustee's directors of the Scheme properly and effectively.

**Signed: Gary Dewin**

**Position:** Chair

**Dated:** 24 May 2022