Winchester Diocesan Board of Finance Retirement Benefit Scheme for Clergy

Annual statement regarding the governance of defined contribution arrangements

Scheme year - 1 January 2020 to 31 December 2020

# Introduction

* 1. This statement has been prepared by the Trustee of Winchester Diocesan Board of Finance Retirement Benefit Scheme for Clergy (“the Scheme”), to report on compliance with governance standards.
	2. The governance standards apply to defined contribution (DC) arrangements and are designed to help members achieve good outcomes from their pension savings.

# The Scheme

* 1. The Scheme provides benefits on a DC basis only.
	2. The Scheme is non-contributory for members. Employer contributions to the Scheme ceased prior to April 2015.
	3. The Scheme is a wholly insured scheme whereby all the benefits are provided by earmarked policies held with Family Assurance Friendly Society Limited (“OneFamily”).
	4. OneFamily is the Trustee’s service provider for administration and investment services. OneFamily outsources their administration services to Barnett Waddingham LLP (“Barnett Waddingham”).

# Default investment arrangements

* 1. The Scheme has never been used as a ‘qualifying scheme’ for the purposes of automatic enrolment, so has no default arrangements within the meaning of the governance regulations.

# Core financial transactions

* 1. The Trustee has a duty to ensure that ‘core financial transactions’ are processed promptly and accurately.
	2. With the Scheme having a single investment option and being closed to further contributions, core financial transactions comprise transfers out and payment of benefits out of the Scheme.

## Controls and monitoring arrangements

* 1. The controls in place in relation to ensuring the promptness and accuracy of core financial transactions are:
		1. OneFamily has a Service Level Agreement (SLA) in place with Barnett Waddingham. The SLA sets out the timeline expected for each step of the Scheme’s main administration tasks, including core financial transactions. Barnett Waddingham aims to process at least 95% of core financial transactions within the service level for each type of transaction.
		2. OneFamily and Barnett Waddingham hold regular meetings to discuss Barnett Waddingham’s monthly performance against the SLA and overall service to OneFamily’s clients, including feedback from both members and trustees. All feedback is recorded on Barnett Waddingham’s centralised database and overseen by the Administration Partner responsible for the contract. OneFamily receives a full report on Barnett Waddingham’s administration services on a half-yearly basis.
		3. Checking is a vital part of Barnett Waddingham’s internal control environment to help maintain the quality of work produced. The administrators work to set controls and processes, of which checking by a senior team member is a standard procedure.
		4. Barnett Waddingham’s controls and processes are subject to a formal external audit for their annual assurance report on internal controls.
		5. Any material issues uncovered regarding inaccuracies with core financial transactions would be discussed in Barnett Waddingham’s regular reporting to OneFamily and highlighted to the Trustee.
		6. Benefit payments are processed and authorised by OneFamily. On receipt of the payment instructions from Barnett Waddingham, OneFamily authorises and processes the payments promptly and accurately. As part of OneFamily’s internal control processes, all payments are peer checked by a senior team member.
		7. OneFamily also processes pension payments on behalf of the Trustee. Tax is deducted under PAYE rules and pension increases are calculated each year. OneFamily maintains a record of all monthly/annual payments and deductions and issues P60s to pensioners once a year.
		8. OneFamily is required to report retirement income flow data to the Financial Conduct Authority twice a year and maintains a history of all core financial transactions for its defined contributions occupational pension schemes to satisfy this regulatory requirement.
		9. OneFamily’s internal controls are audited by an external auditor.
		10. OneFamily undertakes annual checks on data quality.

## Performance during the scheme year

* 1. OneFamily received monthly reports from Barnett Waddingham during the scheme year and were satisfied with their performance against the SLA.
	2. Barnett Waddingham’s reports identified no material issues with the accuracy of core financial transactions.
	3. Barnett Waddingham and OneFamily made necessary adjustments to cope with the impact of the Covid‑19 pandemic, continuing to operate as expected but largely from ‘remote working’ locations and with meetings in a ‘virtual setting’.

## Assessment

* 1. In view of the controls and monitoring arrangements in place, and the lack of material issues experienced during the scheme year, the Trustee believes that core financial transactions have been processed promptly and accurately.

# Member-borne charges and expenses

* 1. The Scheme’s investments are held in the OneFamily (ELL) With Profits Fund, to which OneFamily applies administration and investment management charges and apportions expenses. Further details are available in the Principles and Practices of Financial Management document for the OneFamily (ELL) With Profits Fund.
	2. The overall effect of the charges and expenses applied over the scheme year was 1.45%, comprising maintenance expense charges of 1.20% and investment expense charges of 0.25%.
	3. No charges or expenses are applied for members age 65 and over.

## Impact of charges and expenses

* 1. To demonstrate the impact of charges and expenses on members’ fund values over time, the Trustee has produced illustrations and these are set out in the appendix.

## Value for members

* 1. The Trustee is required to assess the extent to which the member-borne charges and expenses represent good value. In the Trustee’s view, these are likely to represent good value for members where the combination of member-borne costs and what is provided for the costs is appropriate for the scheme membership as a whole, and when compared to other options available in the market.
	2. The member-borne charges and expenses relate to: investment, administration and communication services.
	3. The Trustee concluded that the Scheme offers reasonable value in relation to the charges and expenses borne by members.
	4. In reaching this conclusion, the Trustee recognised:
		1. Whilst the Scheme offers a single investment option only, the with-profits basis and associated guaranteed value are broadly suitable for low value pension savings that are rarely taken early.
		2. The administration requirements of deferred DC pension savings with a single investment option only relate mainly to good record keeping and controls for core financial transactions. The Trustee is satisfied with Barnett Waddingham’s processes and reporting to, and monitoring by, OneFamily.
		3. The communication services provided to members are basic, but nevertheless could be regarded as broadly sufficient for low-value, deferred DC pension savings with a single investment option and limited retirement options.
		4. The charges and expenses are broadly in line with other traditional with-profits investments and there is very limited opportunity for the Trustee to change either the investment strategy or service provider.

# Trustee knowledge and understanding

## The Trustee

* 1. The Trustee is Winchester Diocesan Board of Finance (The).

## Trustee knowledge and understanding requirements

* 1. Trustees are required to be conversant with a scheme’s main documents, and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets.

## Assessment

* 1. Although aware of the obligations placed on it by The Pensions Regulator, the Trustee has, up until now, largely relied on OneFamily and Barnett Waddingham for the day-to-day management and operation of the Scheme. The Trustee is aware of the Codes of Practice issued by The Pensions Regulator and believes the Scheme is being run in accordance with these codes but acknowledges deficiency in the governance reporting.
	2. With regard to the requirements for trustee knowledge and understanding, the Trustee has rated itself as follows using a RAG (Red Amber Green) rating basis:

|  |  |
| --- | --- |
| Knowledge of the Trust Deed and Rules (the Scheme is not required to have a Statement of Investment Principles) | Amber |
| Knowledge and understanding of the law relating to pensions and trusts (recognises the services provided by OneFamily and Barnett Waddingham for the day-to-day management and operation of the Scheme) | Green |
| Knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes (recognises the Scheme is a wholly insured DC scheme) | Amber |

* 1. The Trustee plans to wind up the Scheme in the coming months, in view of the:
* increasing governance requirements placed on trustees of DC occupational schemes;
* associated costs of adhering to these requirements; and
* small value of the Scheme’s investments.
	1. The Trustee has received information from OneFamily and Barnett Waddingham on a proposed wind-up process, and is considering this.
	2. The Trustee Directors are aware of and will refer to The Pensions Regulator’s winding up guidance. The Trustee believes that this, together with available guidance and advice, will enable it to properly exercise its functions for the remaining term of the Scheme.

Chair’s declaration

This statement has been prepared by the Trustee in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015, and reflects the Scheme’s arrangements to the best of its knowledge.

 …………………………………………………………………………. ……………………………………………

<insert name>, Chair of the Trustee Date

# Appendix – Illustrations on the impact of charges and expenses

* 1. To demonstrate the impact of member-borne charges and expenses on the value of members’ pension savings, the Trustee has produced illustrations in accordance with statutory guidance.

## Parameters used for the illustrations

* 1. The membership were analysed in determining the parameters to be used.
	2. Fund value: a value of £2,900 has been used, representing the approximate fund value of the remaining members below age 65 as at 31 December 2020.
	3. The illustrations recognise that no future contributions are payable.
	4. Timeframe: the illustrations are shown over a 15 year timeframe, covering the approximate duration that the youngest member below age 65 would take to reach age 65 (from when no charges or expenses are applied).
	5. The overall charges and expenses and the assumed investment return are shown below:

|  |  |  |
| --- | --- | --- |
| Investment option | Assumed return after inflation\* | Charges and expenses\*\* |
| OneFamily (ELL) With Profits Fund | -1.00% | 1.45% |

\* Projected growth rate, gross of charges and expenses, is 1.50% per year before inflation and -1.00% per year after inflation.

\*\* Recognises maintenance expense charges of 1.20% per year and investment expense charges of 0.25% per year. Although the guidance suggests using a five year average of ‘transaction costs’, this terminology is not directly applicable to the with-profits investments.

## Guidance to the illustrations

* 1. For each illustration, the fund value has been projected twice: firstly for the assumed investment return gross of charges and expenses; and secondly for the assumed investment return net of charges and expenses.
	2. Projected fund values are shown in today’s terms, so do not need to be reduced for the effects of future inflation. Inflation is assumed to remain constant throughout the term of the illustrations, at 2.5% per year.
	3. Values shown are estimates and are not guaranteed.
	4. The starting date for the illustrations is 31 December 2020.
	5. The illustrations do not make any allowance for maturity or death guarantees, which may mean higher payouts than the illustrations suggest, irrespective of the level of actual returns earned or charges applied.
	6. The illustrations do not make any allowance for distribution of profits, which again may mean higher payouts than the illustrations suggest.

## Illustrations

* 1. The table below illustrates the impact of charges and expenses on the member fund values.

| Years from age 65 | Starting fund value £2,900 |
| --- | --- |
| Before charges | After charges |
| 0 | £2,900 | £2,900 |
| 1 | £2,870 | £2,860 |
| 3 | £2,810 | £2,780 |
| 5 | £2,760 | £2,700 |
| 10 | £2,620 | £2,520 |
| 15 | £2,490 | £2,350 |

* + 1. How to read this table: Noting the guidance in A1.11 and A1.12, for a member age 55 with a fund value of £2,900 on 31 December 2020, the fund value could change to £2,620 if no charges are applied but to £2,520 with charges applied when the member reaches age 65 in 10 years’ time.