DC CHAIRMAN’S STATEMENT

Bruce Rigby, Chairman of the MMC UK Pension Fund, provides the annual DC Chairman’s Statement which you can read overleaf.
Annual Statement regarding Governance of the Defined Contribution Section

Governance rules have been in force since 6 April 2015 which apply to the Fund’s defined contribution (DC) arrangements. These are designed to help members achieve a good outcome from their retirement savings.

The Trustee must provide an annual statement which explains what steps have been taken, with help from its professional advisers, to meet the new governance standards set out by law. This statement covers the period 1 January 2016 to 31 December 2016.

The Trustee is committed to having high governance standards and has a number of committees which meet regularly to monitor the controls and processes in place for the Fund’s investments and administration.

The default investment arrangement

The Fund’s default investment option is the “LifeStyle 35 – annuity”. The “LifeStyle 35 – annuity” option is a lifestyle investment strategy which invests in “growth funds” in the early years and then gradually and automatically switches a member’s savings into lower risk, less volatile investments as they approach retirement. The default option aims to target withdrawal of a 25% cash lump sum and the purchase of a fixed annuity.

Details of the investment strategy, underlying funds and investment objectives of the current default arrangement are recorded in the Fund’s Statement of Investment Principles (SIP) and included here as an appendix.

The Trustee also makes available a range of “FreeStyle” funds to enable members to choose their own investment strategies.

A formal review of the Fund’s investment options was carried out during 2015, taking into account the introduction of enhanced freedom and choice for members at retirement. The Trustee agreed a number of improvements that were implemented during 2016 (see below).

The Trustee keeps the LifeStyle and FreeStyle arrangements under regular review and will adjust them as appropriate, based on the likely requirements of the membership. The Trustee will be reviewing the LifeStyle arrangements during 2017.

Requirements for processing financial transactions

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately. The deduction and payment of Company contributions to the Fund is reviewed by the Trustee on an ongoing basis.

The Trustee has delegated the administration of Fund member records to Mercer Limited. The Trustee has agreed service levels with Mercer for processing requests, including payments and contributions. During the year, Mercer’s administration reports have been reviewed by the Trustee’s Finance and Operations Committee.

The Trustee also appoints an independent auditor to carry out an annual audit of the Fund, including the core financial transactions which have taken place during the Fund year.

Over the year to 31 December 2016 the service standards expected by the Trustee have been met for the processing of core financial transactions.
Charges and transaction costs

The Trustee is required to report on the charges and transactions costs for the investments used in the default arrangement (LifeStyle 35 – annuity) and their assessment on the extent to which the charges and costs represent good value for members.

The Total Expense Ratios (TERs) payable under the default option vary depending on how far a member is from their expected retirement date. As at 31 December 2016, the TERs of the underlying funds within the default option were as follows:

- LifeStyle Equity Fund – 0.514% p.a.
- Diversified Growth Fund – 0.788% p.a.
- Fixed Interest Bond Fund – 0.128% p.a.
- Cash Fund – 0.148% p.a.

The charges on the default funds comply with the charge cap legislation requirements.

As at 31 December 2016, the TERs for the Freestyle funds ranged from a minimum 0.128% p.a. to a maximum of 0.788% p.a.

The Trustee carried out a detailed review of the overall fees in 2015 and this was an important part of the decision taken to move to a new investment platform with Mercer Workplace Savings (MWS).

In common with other pension schemes, information on transaction costs in relation to the funds offered has not been made available to the Trustee.

Value for Money

In accordance with legislation, the Trustee has undertaken a review of the charges and transaction costs incurred by members in order to determine whether or not they represent good value for members.

There is no legal definition of “good value” and so the process of determining good value for members is a subjective one. The Trustee has received advice on how to assess good value from its advisers and has also considered regulatory guidance.

The Trustee has considered how the charges borne by members (the costs of membership) compare against the services and benefits provided by the Fund (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 the administration processes provided by Mercer; the quality of communications delivered to members; and the quality of support services and Fund governance.

In the Trustee’s opinion, the charges paid by members provide good value in relation to the benefits and services offered to members of the Fund.

Trustee knowledge and understanding

In accordance with legislation, the Trustee is required to maintain an appropriate level of knowledge and understanding that, together with professional advice available to it, enables it to properly exercise their functions and duties in relation to the Fund.

The Trustee undertakes ongoing training both within its regular meetings and externally, to keep aware of relevant developments.

In addition, the Trustee Directors undertake to complete the Pension Regulator’s Trustee Toolkit as updated from time to time.

As a result of the training activities which have been completed by the Trustee Directors individually and collectively as a Board, and taking into account the professional advice available to the Trustee, the Trustee is confident that the combined knowledge and understanding of the Board enables it to exercise properly its functions as the Trustee of the Fund.
Security of Fund assets

To protect your savings, the Trustee’s defined contribution (‘DC’) investments held on the Zurich platform and the Additional Voluntary Contribution (‘AVC’) investments held with a number of insurance companies are held via long term insurance policies. The insurers are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This type of investment approach is common amongst DC and AVC pension arrangements in the UK.

In the event of one of the insurers becoming insolvent, the Trustee is eligible for protection under the Financial Services Compensation Scheme. This means the Trustee could make a claim (on behalf of members) for up to 100% of the value of the Fund’s DC and AVC assets that are invested through the insurance policies.

Additionally, the Fund’s assets are ultimately held by the underlying investment managers’ custodians. This should provide an additional element of protection as the investment managers’ custodians operate a system of internal controls to ensure the security of assets in the investment funds is not compromised.

The Trustee has previously assessed the level of security of the assets held by the insurers. This included training for the Trustee. Following their assessment, the Trustee was satisfied with the level of protection available to members’ assets, and believes that risks to the security of assets are being minimised where possible. The Trustee will continue to keep this position under review.

Appendix: DC Investment Improvements

Members of the Fund with DC benefits now have much more flexibility in how they can access their pension savings at retirement as a result of the Government’s Pensions Freedom changes.

Taking these changes into account, as noted above, the Trustee agreed a number of changes to the investment options available to members that came into effect in June 2016.

• All members benefit from lower charges via a new investment platform.
  The Trustee negotiated significantly lower charges across all the fund options that are available to members. These reductions mean that more of a member’s money remains invested for their benefit when they retire. To deliver these lower fees, the Trustee agreed to change the Fund’s investment platform to a new provider, Zurich Assurance Limited (Zurich), through Mercer Workplace Savings (MWS).

• Three LifeStyle investment strategies are available to help members wishing to target the new flexible retirement options.
  These three strategies have been designed to allow savings to be invested in a way that supports how members may wish to take their savings at retirement, specifically whether they want to take their savings entirely as cash, buy an annuity (with the option of taking some of their savings as cash) or use income drawdown (outside of the Fund).

• New “FreeStyle” investment options were made available.
  The Trustee listened to feedback from members who wanted to make an active investment decision and wanted a wider fund range to choose from. Reflecting this, three new funds were added to the existing fund range. These are an active equities fund, an active emerging markets equities fund and a diversified retirement fund (aimed at members targeting an income drawdown arrangement).