

# INDUSTRY-WIDE COAL STAFF SUPERANNUATION SCHEME

## Defined Contribution Governance Statement

### For the period 1 January 2020 to 31 December 2020

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) were amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 to include the requirement for the Trustee to prepare an annual statement regarding governance of Defined Contribution funds within the IWCSSS, which must be included in the annual report.

This statement for the IWCSSS covers the period from 1 January 2020 to 31 December 2020 and describes how the Trustee has met the statutory governance standards in relation to:

- The default investment strategy,
- Processing of core financial transactions,
- Charges and transaction costs paid by members,
- The assessment of value, and
- Trustee knowledge and understanding.

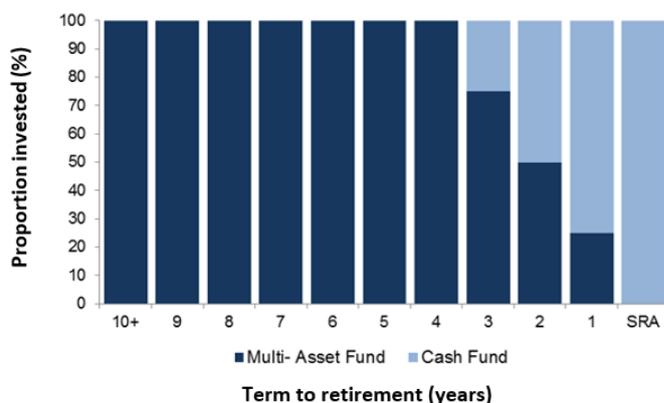
#### 1. The Default Investment Strategy

The DC section of the Mines Rescue Service Limited section of the IWCSSS ('the DC section') is used as a Qualifying Scheme for auto-enrolment purposes.

The Trustee is responsible for the governance of the Scheme's investments. This includes setting and monitoring the default investment strategy, which is provided for members who do not choose an investment option for their contributions to the DC section.

The default investment strategy is the Legal & General Cash Lifestyle strategy. This strategy aims to provide members with potential for higher levels of growth during the accumulation phase of their retirement savings through exposure to growth assets, whilst spreading risk by investing in a range of asset classes. From three years before selected retirement age, funds are gradually switched to cash to reduce the risk of volatility on the fund and to target the format in which the Trustee expects members to access their DC benefits i.e. as a cash lump sum.

The structure of the default investment strategy is illustrated in the chart below (note SRA = Selected Retirement Age):



Further details of the objectives and the Trustee's policies regarding the default investment strategy can be found in a document called the 'Statement of Investment Principles' (SIP) which governs decisions about investments in the DC section and has been prepared in accordance with regulation 2A of the

Occupational Pension Schemes (Investment) Regulations 2005 (the “Statement of Investment Principles”). The Scheme's DC SIP is included as an appendix to this statement.

The Trustee, with assistance from its investment advisers, undertook a review of the DC section's investments during the period covered by this statement, including formally reviewing the default investment strategy. The review concluded on 23 July 2020, and the decision was taken to maintain the current default investment strategy as the Trustee is satisfied that it remains appropriate.

The review covered the following:

- Suitability of the default investment strategy: this considered membership demographics, how members are expected to take their benefits at retirement and member outcomes modelling to help assess the suitability of the default investment strategy to the membership. Following this assessment, the Trustee is satisfied that the default investment strategy remains appropriate.
- Performance of the default investment strategy: this assessment considered the performance of the default investment strategy relative to the relevant sector comparators over various time periods. Following this assessment, the Trustee is satisfied that the default investment strategy was performing in line with expectations, and in line with the aims and objectives set out in the SIP.

The Trustee is expected to review the investment strategy of the DC section at regular intervals (at least every 3 years), and the next formal review is therefore due to take place by 23 July 2023.

### **Processing of Core Financial Transactions**

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. These include, but are not limited to:

- Investing DC/AVC contributions in the Scheme,
- Transferring assets relating to members into and out of the Scheme,
- Transferring assets relating to members between different investments within the Scheme,
- Making payments from the Scheme to or on behalf of members.

The Secretariat for the Trustee (The Trustees Office Limited) is responsible for overall monitoring of the Scheme's providers.

### **Legal & General**

Legal & General is the provider of the DC section. The Trustee has a Service Level Agreement ('SLA') in place with Legal & General that covers the accuracy and timeliness of all core financial transactions. The target service levels for some example administration tasks are shown below:

<b>Transaction</b>	<b>SLA</b>
Receipt of contributions/cash allocation	24 hours
Fund switches	24 hours
Surrender of fund (transfer or retirement)	5 working days
Issue of statements/leaver & retirement packs	5 working days
General member enquiries	5 working days

Legal & General reports to the Trustee on a quarterly basis on the time taken to complete various administration tasks, including all core financial transactions, compared to the SLA. These reports also show the number of calls from members and any member complaints received, which serve as an

indicator of the quality of service received by members. The reports provided by Legal & General allow the Trustee to monitor core financial transactions for the DC section.

Legal & General uses automated processes wherever possible, to avoid the need for manual intervention. It also has a workflow management system in place to manage administration tasks that are not automated and processes in place to ensure manual tasks are completed promptly and accurately. These processes include:

- The same Operating Procedures that are used every time.
- Quality / in-line checking of tasks by another individual.
- Quality sampling, where a number of cases per process and/or per member of staff are sampled to be checked by more senior or experienced members of staff, who are in turn subject to checks by another team.
- Daily monitoring of bank accounts and daily processing of both contribution files and cash allocation.

Legal & General failed to meet the SLA for two fund surrenders during Q3 2020 but met its SLA 100% of the time for all other transactions.

### **Hymans Robertson**

Hymans Robertson are the Scheme administrators. The Trustee has an SLA in place with Hymans Robertson and service is monitored against this via a quarterly governance report and monthly review meetings with the administration team leader. Hymans Robertson had no SLA failures during the year.

### **Aviva**

Aviva is the AVC provider. The Trustee does not have an SLA in place with Aviva. This is in line with standard practice for AVC arrangements. The Trustee Office has direct online access to Aviva's systems and is therefore able to extract data and monitor core financial transactions as required. Aviva also has its own target service levels and these are set out in the table below for core financial transactions which are processed manually.

<b>Transaction</b>	<b>Target service level</b>
Fund switches	5 working days (but using the unit prices of the day the fund switch request was received, if received by 5pm)
Payment of transfer / retirement claims	20 working days

Aviva report on the AVC arrangements on request and to date this has been on an annual basis as part of the preparation of the annual Trustee Report and Accounts.

Aviva has a number of processes in place to ensure tasks are completed promptly and accurately. These processes include:

- Regular quality checks of all processes.
- Assignment of requests to a single person who will take responsibility for that request until it has been completed.
- Automation of tasks to improve processing times.
- Authorisation of all financial transactions so no financial payments can be made until the correct level of authority has approved the payment.
- Annual Audit and Assurance Faculty reporting which tests the robustness of Aviva's controls around how they administer workplace pensions.

There were some minor service level delays with administration of the AVC arrangement during the year. The Trustee has reviewed the internal processes in place and has made changes particularly for the authorisation of payments and this is being monitored.

There have been two occasions during the year when the payment of an AVC was received late by Aviva due to a delay in the processing of the payment:

- March 2020 paid to Aviva 6 May 2020
- October 2020 paid to Aviva 4 December 2020

The Trustee is satisfied that the late payments were isolated incidents, and no further action is required.

### Conclusion

The Trustee is confident that the processes and controls it has in place with the providers are robust and will ensure that it can continue to monitor that the financial transactions which are important to members are dealt with properly.

The Trustee is satisfied that over the period:

- the administrators and providers were operating appropriate procedures, checks and controls and, where relevant, operating within the agreed SLA;
- there have been no material administration errors in relation to processing core financial transactions; and
- with the exception of the two fund surrenders which took longer to process than the target timescale, and the payment of two AVC contributions to Aviva, all core financial transactions have been processed promptly and accurately during the Scheme year.

### 3. Charges and transaction costs paid by members

The Trustee is expected to monitor and disclose the following costs:

- explicit charges, such as the Annual Management Charge and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio and
- transaction costs (i.e. the costs of buying and selling investments in a fund) that are paid by members.

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

#### 3.1. Explicit charges

The default investment strategy for the DC section has levied a Total Expense Ratio ('TER') of less than the charge cap of 0.75% p.a. of assets under management for all members during the period 1 January 2020 to 31 December 2020. The actual TER was between 0.46% and 0.50% p.a. depending upon the members' term to retirement.

The TER on all funds available through the DC section and the funds members invest their AVCs in is shown in the table below. AVC members can invest in any fund available through Aviva's Group AVC contract therefore it is not practical to show the TER of all available funds here. We have shown the TER on all funds members invested in over the period covered by this statement.

#### 3.2. Transaction costs

The Trustee requested details of transaction costs for the period 1 January 2020 to 31 December 2020 for all funds members invested in from Legal & General and Aviva.

The transaction costs on the funds available through the DC section and the funds held by members of the AVC arrangements are shown in the tables below.

DC section	TER (%)	Transaction costs (%)
Legal & General (PMC) Multi-Asset Fund <sup>1</sup>	0.50	0.04

Legal & General (PMC) Pre-Retirement Fund	0.49	0.10
Legal & General Cash Fund <sup>1</sup>	0.46	0.00

<sup>1</sup>Funds that make up the default investment strategy

The TER and transaction costs on the default investment strategy for the DC section are determined by the costs and charges on the underlying funds, so the TER was between 0.46% and 0.5% and the transaction costs were between 0.00% and 0.04% depending upon the members' term to retirement.

AVC	TER (%)	Transaction costs (%)
Aviva Global Equity Fund	0.46	0.1815 <sup>2</sup>
Aviva BlackRock World ex-UK Equity Index Fund	0.46	0.0682
Aviva Property Fund	0.46	0.1401 <sup>2</sup>
Aviva Managed Fund	0.46	0.0756 <sup>2</sup>
Aviva My Future Consolidation	0.46	0.1140
Aviva My Future Growth	0.46	0.1983
Aviva Pre-Retirement Fixed Interest	0.46	0.0000 <sup>3</sup>
Aviva With Profits Fund	0.46	0.1070
Aviva Cash	0.46	0.0000 <sup>3</sup>

<sup>2</sup>These transaction costs have not been calculated using the prescribed "slippage method" set by the Financial Conduct Authority.

<sup>3</sup>Transaction costs are shown for the 12-month period to 31 December 2020 although members were not invested in these funds for the full year

### 3.3. Illustrations to show the cumulative effect of costs and charges

The Trustee is required to illustrate the effect of the costs and charges typically paid by a member on the value of their fund at retirement (as a "pounds and pence figure").

The Regulations allow the Trustee to exercise its discretion with regards to the illustrative examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme's membership.

The Trustee has taken account of the statutory guidance when preparing these illustrations.

We have used the TERs shown in the tables above and the average transaction costs incurred over the last two or three years (as available). We have also taken transaction costs to be zero where they were reported as negative.

#### **DC section**

For the DC section, we have decided to illustrate three example members as follows:

Example	Member type	Current Age	Retirement Age	Fund value	Total monthly contribution <sup>1</sup>
1	Youngest active member	56	60	£45,200	£720
2	Average active member	59	60	£45,200	£1,070

<sup>1</sup> This is the employer and employee contribution. We have taken account of the reduction in employer contribution from 12% to 10% with effect from March 2022

3	Youngest deferred member	54	60	£1,000	N/A
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We have produced illustrations to demonstrate the effect of costs and charges for the default investment strategy and the two most popular self-select funds which are the Multi-Asset Fund and the Cash Fund, in order to show the effect of different charges and likely risk/return profiles.

Illustrations are shown in the tables below.

#### Example member 1:

For the youngest active member invested in the default investment strategy, the Multi-Asset Fund or the Cash Fund, the estimated impact of charges on accumulated fund values ('FV') is shown in the table below.

At age:	Default investment strategy			Multi-Asset Fund			Cash Fund		
	FV (before charges)	FV (after charges)	Impact of charges on FV	FV (before charges)	FV (after charges)	Impact of charges on FV	FV (before charges)	FV (after charges)	Impact of charges on FV
60	£75,882	£74,704	£1,178	£79,091	£77,808	£1,283	£71,557	£70,525	£1,032

#### Example member 2:

For the average active member invested in the default investment strategy, the Multi-Asset Fund or the Cash Fund, the estimated impact of charges on accumulated fund values is shown in the table below.

At age:	Default investment strategy			Multi-Asset Fund			Cash Fund		
	FV (before charges)	FV (after charges)	Impact of charges on FV	FV (before charges)	FV (after charges)	Impact of charges on FV	FV (before charges)	FV (after charges)	Impact of charges on FV
60	£57,171	£56,931	£240	£58,378	£58,113	£265	£56,768	£56,536	£232

#### Example member 3:

For the youngest deferred member invested in the default investment strategy, the Multi-Asset Fund or the Cash Fund, the estimated impact of charges on accumulated fund values is shown in the table below.

At age:	Default investment strategy			Multi-Asset Fund			Cash Fund		
	FV (before charges)	FV (after charges)	Impact of charges on FV	FV (before charges)	FV (after charges)	Impact of charges on FV	FV (before charges)	FV (after charges)	Impact of charges on FV
55	£1,010	£1,005	£5	£1,010	£1,005	£5	£979	£974	£5
60	£1,012	£982	£30	£1,060	£1,028	£32	£878	£854	£24

#### Notes

- Fund values shown are estimates and are not guaranteed.
- For active members, contributions are assumed to increase in line with inflation each year.
- Inflation is assumed to be 2.5% p.a.
- The projected growth rates used in the illustrations are 1.0% per annum above inflation (assumed to be 2.5% p.a.) for the Multi-Asset Fund and 2.2% per annum below inflation for the Cash Fund (the Multi-Asset and Cash Funds are the funds used in the default investment strategy, as well as being available as self-select funds).
- For the default investment strategy, the illustration takes into account the changing proportion invested in the different underlying funds over the term to retirement.

- The transaction charges used in illustrations have been averaged over a 3-year period in line with statutory guidance. They are 0.027% p.a. for Multi-Asset Fund and 0.000% for the Cash Fund. A floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.

## AVC Arrangement

For the AVC arrangement, we have decided to illustrate three example members as follows:

Example	Member type	Current Age	Retirement Age	Fund value	Monthly contribution
4	Youngest active member paying AVCs	56	60	£19,300	£500
5	Youngest member not paying AVCs	49	60	£900	N/A
6	Average member not paying AVCs	55	60	£19,400	N/A

Over 80% of AVC members are invested entirely in the With Profits Fund. We have produced illustrations to demonstrate the effect of costs and charges on the With Profits Fund and the Managed Fund, which is one of the most popular self-select funds, in order to show the effect of different charges and likely risk/return profiles.

Illustrations are shown in the tables below.

### Example member 4:

For the youngest active member paying AVCs invested in the With Profits Fund or the Managed Fund, the estimated impact of charges on accumulated fund values is shown in the table below.

At age	With Profits Fund			Managed Fund		
	FV (before charges)	FV (after charges)	Impact of charges on FV	FV (before charges)	FV (after charges)	Impact of charges on FV
60	£43,373	£42,677	£696	£44,623	£43,956	£667

### Example member 5:

For the youngest member not paying AVCs invested in the With Profits Fund, or the Managed Fund, the estimated impact of charges on accumulated fund values is shown in the table below.

At age	With Profits Fund			Managed Fund		
	FV (before charges)	FV (after charges)	Impact of charges on FV	FV (before charges)	FV (after charges)	Impact of charges on FV
50	£909	£904	£5	£918	£913	£5
55	£954	£923	£31	£1,011	£980	£31
60	£1,001	£943	£58	£1,113	£1,052	£61

### Example member 6:

For the average member not paying AVCs invested in the With Profits Fund, or the Managed Fund, the estimated impact of charges on accumulated fund values is shown in the table below.

At age	With Profits Fund			Managed Fund		
	FV (before charges)	FV (after charges)	Impact of charges on FV	FV (before charges)	FV (after charges)	Impact of charges on FV
60	£20,365	£19,813	£552	£21,368	£20,830	£538

## Notes

- The fund values shown are estimates and are not guaranteed, and they do not take account of any possible final bonus on the With Profits Fund.
- The value of members' funds invested in the With Profits Fund will depend upon the bonuses declared on the With Profits Fund and any final bonus added at retirement.
- For the members paying AVCs, contributions are assumed to remain a fixed amount and not to increase each year.
- The projected growth rates used in the illustrations are 1.0% per annum above inflation (assumed to be 2.5% p.a.) for the With Profits Fund and 2.0% per annum above inflation for the Managed Fund.
- The transaction costs have been averaged over a 3-year period for the Managed Fund and over a 2-year period for the With Profits Fund, in line with statutory guidance to reduce the level of volatility. The transaction costs used in illustrations are 0.107% per annum for With Profits Fund and 0.071% for the Managed Fund. A floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.

## 4. Value assessment

The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by members and the extent to which those charges and costs represent good value for money for members, when compared to other options available in the market.

This assessment covers both the DC section and AVC Arrangement.

There is no legal definition of "good value" and the process of determining this for members is a subjective one.

The Trustee has received advice on how to assess good value from its advisers and has considered the regulatory guidance. The value assessment has covered the following:

- We have assessed fund performance after charges to ensure fund performance has been in line with expectations and therefore that (where sector comparators are relevant) the costs borne by members have not led to under-performance compared to each funds' sector peers.
- We have considered how the costs of membership compare against the services and benefits provided by the Scheme; such as scheme governance, the quality and range of investment options available, the efficiency of administration, the quality of support services (particularly at retirement) and communications to members.
- We have considered available benchmark and industry information in each of the listed areas in the assessment of the services and benefits provided by the Scheme. For example, we have referred to the standards required under The Pension Regulator's Code of Practice and the Pensions and Lifetime Savings Association Pension Quality Mark to measure the Scheme's governance, administration and investment options (as well as Aon's DC Survey data to benchmark against other Schemes).

## Conclusion

Having undertaken an assessment of the Scheme over the period, the Trustee has concluded that the costs and charges represent good value for members.

## **5. Trustee Knowledge and Understanding**

The law requires Trustees to have, or have access to, sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively. These requirements are set out in Sections 247 and 248 of the Pensions Act 2004.

The Trustee takes training and development responsibilities seriously. The Trustee has considered the Regulator's guidance on 21<sup>st</sup> Century Trusteeship and was satisfied that much of the governance mentioned by the Regulator was undertaken by the Trustee Board. This guidance is considered as part of the Trustee Board's annual Effectiveness Review. As part of the Trustee Board's annual Board Effectiveness review in 2018, the Trustee agreed that at minimum, those Trustees who sit on the Sub-committee responsible for the governance of the Scheme's DC benefits should complete the additional DC elements of the Pension Regulator's Trustee Toolkit which has been achieved. The remaining Trustees completed the DC elements of the Toolkit during 2020.

Trustees are encouraged to undertake additional external training to meet individual needs. The Trustee also has membership and access to the resources of the Pensions and Lifetime Savings Association.

The Trustee receives quarterly updates on changes to pensions guidance and legislation and other matters which may impact the operation of the Scheme as a whole.

Additionally, the Scheme's advisers provide regular training on topical issues and if appropriate ahead of consideration of changes affecting the Scheme.

The Trustee Board's training is reviewed regularly to identify any gaps in the knowledge and understanding of the Trustee board as a whole. This allows us to work with our professional advisers to fill any gaps.

In the event of a change to the Trustee Board, the Secretary would assess the needs of the new Trustee and, depending on their experience / knowledge, a training plan would be agreed.

When making changes to key Scheme documents, including the Statement of Investment Principles and the Scheme Rules, the Trustee Board are provided with meeting papers explaining any proposed change and any regulatory requirements and risks. Trustees have access to all key Scheme documents.

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 Board is confident that the combined knowledge and understanding of the Trustee Board enables it to exercise its functions properly.

The statement regarding DC governance was approved by the Trustee of the Industry-Wide Coal Staff Superannuation Scheme on 17 June 2021 and signed on its behalf by:

**Heather McGuire**  
**Chair**