

A quick guide to

The chair's statement

To be read alongside our DC code of practice no. 13,
Governance and administration of occupational trust-based
schemes providing money-purchase benefits

About this quick guide

This guide should be read alongside 'Code number 13, Governance and administration of occupational trust-based schemes providing money purchase benefits', and its accompanying suite of how-to guides (particularly 'value for members' and 'communicating and reporting').

It sets out the legal requirements in relation to the chair's statement and our expectations as to how trustees should meet them. We are not proposing any new requirements, merely seeking to clarify the expectations already set out in our code and accompanying guidance.

All DC schemes subject to the requirement should have, by now, completed at least one chair's statement. This guide addresses some common misunderstandings and omissions we've seen in those submitted to us so far, along with examples of what we would consider to be a 'good' or 'poor' chair's statement. There is a checklist at the end for trustees to use so they can be confident that they have addressed all areas sufficiently.

Penalties for poor statements

A poor statement is much more likely to be non-compliant and therefore result in the trustees or managers of the scheme being personally liable to pay a fine of between £500 and £2,000. We have no discretion over whether or not to issue a fine in these circumstances – read more about [mandatory fines](#) on our website.

Basic principles

Trustees should ensure that the statement is written clearly enough for members to understand. This means finding a balance between having sufficient information to meet the requirements and providing a meaningful narrative without over-complicating matters.

The statement should be a standalone document within the annual report and accounts so that all the required information (as set out in our checklist) is in one place. It is, however, acceptable to attach to the statement documents relevant to the required information (such as the default SIP). These should be contained in a clearly labelled appendix and referred to in the statement itself (or a link provided if the statement and documents are made available via a website).

All statements should clearly show which scheme year they refer to and the date on which they were signed off by the chair.

Chair's statements – what good and poor look like

The examples below are composites and have been inspired by real-life chair's statements we have received. They are for illustrative purposes only.

Good

Default SIP requirement

- ✓ The default SIP is attached to the chair's statement.
- ✓ The trustees have confirmed that they have carried out a general review as three years have elapsed since the last one.
- ✓ The aims and objectives of the default fund are set out in the statement and the trustees have confirmed that their review has revealed that the returns are consistent with these aims and objectives.
- ✓ The trustees have confirmed that, when carrying out the review, they took into account the impact of performance on different groups of members and are satisfied that it is on target for all groups.

Core financial transactions requirement

The statement confirms that:

- ✓ The scheme has a service level agreement (SLA) in place with the administrator which covers the accuracy and timeliness of all core transactions.
- ✓ The trustees receive regular reports to help them monitor that the SLA is being met.
- ✓ Processes adopted by the administrator to help meet the SLA include daily monitoring of bank accounts, a dedicated contribution processing team, and four eyes checking of investment and banking transactions.
- ✓ There were no issues during the year.

Good continued...

Charges and transaction costs requirement

- ✓ The charges borne by members in respect of all funds are clearly set out in a table.
- ✓ Some transaction costs have been provided and the trustees have set out what steps they are taking to obtain any missing information in the future.
- ✓ The trustees have clearly set out what they have taken into consideration when assessing whether charges represent value for members. They appreciate that low cost does not necessarily mean better value so they have also reviewed a range of benefits such as the quality of customer service, member communications and support, the efficiency of administration services, the robustness of scheme governance, fund management and performance of the funds in the context of the investment objectives.

Trustee knowledge and understanding requirement

The statement confirms that:

- ✓ A bespoke trustee training programme has been created by the scheme's advisers.
- ✓ The training programme is reviewed regularly to ensure it is up to date.
- ✓ After completing the training programme, trustees carry out regular self assessment to identify any knowledge gaps.
- ✓ A questionnaire is used to carry out an annual evaluation of all the trustees' knowledge in order to ascertain exactly what external specialist advice will be required, and in what circumstances.

Relevant multi employer scheme (including master trusts) requirement

The statement confirms:

- ✓ The total number of trustees and that the majority of trustees are non-affiliated.
- ✓ Which trustees are non-affiliated and how they meet the requirement.
- ✓ A recruitment process took place during the year to appoint a non-affiliated trustee, using an external recruitment agency.
- ✓ There is a message encouraging member feedback on the member scheme portal and that this message is also included in the annual benefit statements.

Poor

Default SIP requirement

- ✓ The SIP for the scheme's default arrangement does not form part of the chair's statement.
- ✓ A statement has been made that no review has taken place this year but no date has been provided for when the previous review was carried out.

Core financial transactions requirement

- ✓ Misunderstanding of the requirement has resulted in the statement only containing a confirmation that deductions have been taken from salary and paid to the scheme on time.
- ✓ A statement has been made that the administrators have confirmed that core transaction requirements have been met but no explanation has been provided as to how this has been established.
- ✓ It is unclear exactly what, if any, processes and controls are in place to monitor the accuracy and timeliness of core transactions.

Charges and transaction costs requirement

- ✓ Only the charges for the default fund have been set out, no explanation has been given as to why the charges for non-default funds have not been provided.
- ✓ Only annual management charges have been provided with no mention of transaction costs or whether any steps have been made to obtain these.
- ✓ A statement has been made that the trustees believe that the charges represent value for members but no explanation has been given as to how this has been assessed.

Trustee knowledge and understanding requirement

- ✓ Although the statement confirms that the scheme is compliant with the requirements, it offers no explanation as to how compliance has been achieved.
- ✓ Although the statement confirms that in-house training is offered, no details have been provided about that training.

Poor continued...

Relevant multi employer scheme (including master trusts) requirement

- ✓ Although the statement confirms that the majority of trustees are non-affiliated, it does not explain how the requirement has been met.

- ✓ No mention has been made as to whether or not a non-affiliated trustee was appointed during the year. It is therefore unclear as to whether a recruitment process took place which did not meet the requirement or that the need to recruit a non-affiliated trustee simply did not arise during the year.

- ✓ Although the statement confirms that arrangements are in place to encourage members to express their views, no detail of these arrangements has been provided.

Checklist: completing your chair's statement

Please tick the check box

Demonstrating how you have met the default SIP requirements

Have you attached a copy of the latest SIP for the default fund?

Have you provided details about any review carried out during the scheme year?

Have you provided a full explanation regarding any changes made as a result of the review?

If no review was carried out, have you provided the date of the last review?

Notes to help you complete this section

If you have carried out a review during the scheme year, we expect you to provide some detail, eg was it a general review or were you specifically focused on an element such as checking that performance is still consistent with the aims and objectives of the SIP?

If you decided that a change was required, provide the reasons for this and set out exactly what the change was, eg switching to a more appropriate fund that is more in line with the aims and objectives of the SIP. If you have not made any changes, we would expect you to make this clear, including the reasons you thought a change was not necessary.

If you do not have a default fund, it would be helpful if you could confirm this in the statement.

NB: there is no exemption for schemes with fewer than 100 members – if you have a default fund, you must have a default SIP in place.

Demonstrating how you have met the requirements regarding core financial transactions

Have you set out how you have ensured that core financial transactions have been processed promptly and accurately during the scheme year?



Notes to help you complete this section

We expect you to provide some detail about the processes you have in place to ensure that core transactions are processed promptly and accurately. For example, do you have an SLA in place with your administrator and broadly what does it cover?

What processes do you have in place to monitor compliance with the SLA? If any issues occurred during the scheme year, how did you resolve them? What plan do you have in place to tackle any outstanding unresolved issues?

Core financial transactions include (but are not limited to):

- ▶ investment of contributions
- ▶ transfer of members' assets to and from the scheme
- ▶ switching between investments within the scheme
- ▶ payments out of the scheme to members/beneficiaries

Demonstrating how you have met the requirements regarding the calculation of charges and transaction costs in respect of all funds and how they represent value for members

Have you clearly shown the level (or range if more than one default fund) of charges and transaction costs borne by members during the scheme year in respect of the default fund?

Have you clearly shown the range of charges and transaction costs borne by members during the scheme year in respect of the non-default funds?

Have you indicated what (if any) transaction cost information you were unable to obtain and explained what steps are in place to obtain it?

Have you provided a full explanation regarding your most recent assessment of the extent to which costs and charges represent good value for members?

Notes to help you complete this section

It is important that trustees provide enough information to demonstrate how they have considered value for members and to explain exactly why they believe that the charges and transaction costs incurred by their scheme represent good value for their members.

We understand that cheap doesn't necessarily mean better value but trustees must, as a minimum, show that they have taken into consideration the quality of the fund management and, for bundled schemes, administration and communications support and are regularly checking to ensure that quality is being maintained.

If your assessment concluded that the scheme is not providing value for members, we expect the statement to set out the steps trustees intend to take either to improve value for members or to explore transition to an alternative arrangement.

For useful tips on how to approach the assessment itself, please see our '**Value for members**' guide.

Demonstrating how you have met the requirements around trustees' knowledge and understanding

Have you described how, throughout the scheme year, the trustees have demonstrated a working knowledge of the trust deed and rules?

Have you described how, throughout the scheme year, the trustees have demonstrated a working knowledge of the current SIP?

Have you described how, throughout the scheme year, the trustees have demonstrated a working knowledge of all documents setting out the trustees current policies?

Have you described how, throughout the scheme year, the trustees have demonstrated that they have sufficient knowledge and understanding of the law relating to pensions and trusts?

Have you described how, throughout the scheme year, the trustees have demonstrated that they have sufficient knowledge and understanding of the principles relating to the funding and investment of occupational DC schemes?

Have you provided a full explanation as to how the combined knowledge and understanding of the trustees, together with available advice, enables them to properly exercise their functions?

Notes to help you complete this section

We would expect you to confirm that there is a structured induction process in place, and how this was implemented for a new trustee in the scheme year, along with a system to identify knowledge gaps for existing trustees and provide appropriate training where needed.

We would also expect you to provide some detail about the processes in place to ensure this is achieved and how these processes were applied over the scheme year. For example, knowledge gaps could be identified by each trustee carrying out some form of self evaluation during the scheme year in order to ensure they continue to have the necessary knowledge, understanding and skills for their particular role, and in this case the statement should cover this process.

If you have not managed to address all knowledge gaps identified during the scheme year, we would expect you to set out your proposals for doing so.

In order to be able to explain how the combined knowledge and understanding of the trustees and their advisers enables the trustees to properly run the scheme, we would expect trustees to confirm that an annual evaluation of the performance and effectiveness of the board as a whole has been carried out and that, ideally, this has been measured against the objectives set out in the scheme's business plan.

We would expect to see some detail about the method used to carry out this evaluation – for example via peer review, issuing a questionnaire or via an external agency.

If your scheme is a relevant multi-employer scheme (eg a master trust): demonstrating how you have met the requirements around non-affiliation and encouraging member feedback

Have you set out how, during the scheme year, you have ensured that the majority of trustees (including the chair) are non-affiliated?

If a non-affiliated trustee was appointed during the year, have you provided details as to how you ensured the process was open and transparent?

Have you provided details of the arrangements that are in place to encourage members, or their representatives, to make their views about the scheme known to the trustees?

Notes to help you complete this section

We expect you to confirm that the requirement for the majority of trustees to be non-affiliated has been met and explain how each non-affiliated trustee meets the requirement set out in legislation. If they have not been met, please state why and the steps being taken to meet the requirement.

If a non-affiliated trustee was appointed during the year, you should describe the recruitment process used. If you have not followed one of the example processes set out in legislation, we would expect you to demonstrate how your process met the requirements for openness and transparency. If it did not meet the requirements, we would expect you to explain why.

If you did not appoint a non-affiliated trustee during the scheme year, it would be helpful to make this clear in the statement.

When providing details of the arrangements to encourage members to share their views we would expect to see evidence that the trustees have considered the size, nature and demographic of their scheme membership when deciding what channels to put in place for this purpose. We would expect the statement to set out how the trustees communicate this to the membership as well as the way in which members are expected to respond.

For example, there may be a statement on the scheme website which provides a dedicated email address for members to make their views known. If no arrangements are in place we would expect an explanation.

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Free online learning for trustees

www.pensionseducationportal.com

Free online learning for those running public service schemes

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