



**ptl**

## **Chair's Annual Report**

The PTL Governance  
Advisory Arrangement ('GAA')

**March 2018**

**Wesleyan Staff Group Personal Pension Scheme**



# Contents

1. Introduction and Executive Summary	3
2. Value for money assessment	5
3. GAA activity and regulatory matters	7
4. Next steps	9

## Appendix

1. Summary of Staff Scheme data at July 2017	10
2. Value for money assessment	11
3. Background and credentials of the PTL Governance Advisory Arrangement	16

Glossary	18
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# Introduction and Executive Summary



This report on the workplace personal pension plans provided by Wesleyan has been prepared by the Chair of the PTL Governance Advisory Arrangement ('the GAA'). It is our third annual report.

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This report sets out our assessment of the value for money delivered to policyholders (see [Section 2](#)). It also explains the background and credentials of the GAA (see Appendix 3). The GAA works under Terms of Reference, agreed with Wesleyan, effective from 6 April 2015. These are publicly available (see [Appendix 3](#)).

This report focuses on the Wesleyan Staff Group Personal Pension Scheme ('the Staff Scheme'), details about the numbers of policyholders and their funds are shown in [Appendix 1](#).

The GAA believes that deciding what represents 'value for money' is subjective and that value for money will mean different things to different people. We think value for money can be judged by looking at the balance of all the costs paid by policyholders against the benefits and services provided from their policy.

**The GAA's opinion on the value for money delivered is that the Staff Scheme offers good value for money.**

See [Section 2](#) and [Appendix 2](#) for more details of the value for money assessment.

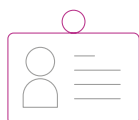
A colour-coded summary of our value for money assessment is shown below:

**Good** ← ● — ● — ● — ● — ● → **Poor**

	<b>Staff Scheme</b>
Investment	●
Communications and support	●
Risk management: operational and financial	●
Other factors: administration, options at retirement, etc.	●
Overall benefit	●
Level of charges	●
Overall value for money assessment	●

The GAA has not raised any formal concerns with Wesleyan during the year (see [Section 3.3](#)).

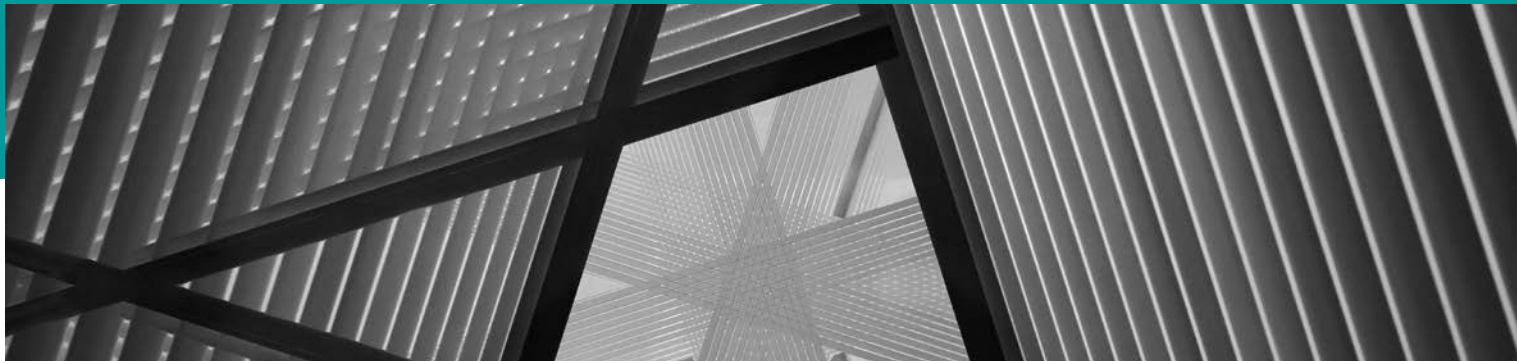
Arrangements have been put in place to ensure that the views of the policyholders can be directly represented to the GAA (see [Section 3.4](#)).



If you are a policyholder and have any questions, require any further information or wish to make any representation to the GAA you should contact:

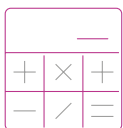
**David Nottingham**  
**Wesleyan Assurance Society**

Colmore Circus  
 Birmingham, B4 6AR



## 2

## Value for money assessment



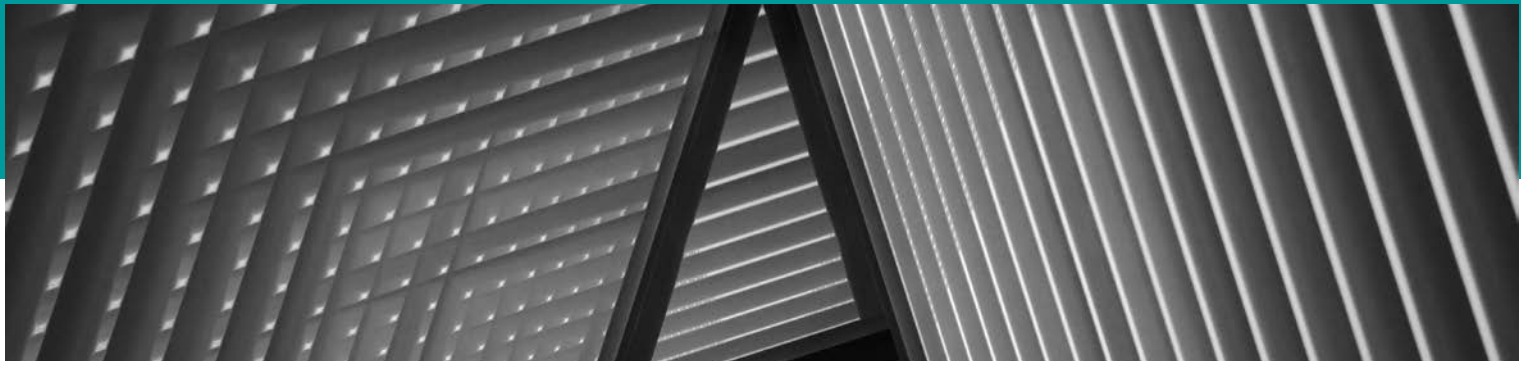
The GAA has assessed the value for money delivered by Wesleyan to its Staff Scheme policyholders by looking at cost versus benefits. More detail about how we have done this is set out in **Appendix 2**.

### Key highlights of our assessment for the Staff Scheme

- Wesleyan are planning to review a number of areas relating to the Staff Scheme to ensure that they remain 'fit for purpose'.
- The investment options available provide a reasonable range of funds. Wesleyan are reviewing the appropriateness of the range.
- The objectives of each investment fund are clearly stated and published in factsheets.
- Investment performance is reviewed monthly. However, evidence of any subsequent action taken is limited.
- Wesleyan believes that their long-term investment approach leads to relatively low portfolio turnover and relatively low transaction costs. Limited transaction cost data has been made available to the GAA which would seem to support this opinion. Further analysis and data will be sought before any meaningful conclusions are reached.
- Policyholder support in terms of administration and communication is generally of a high-level. Wesleyan plan to review the communication strategy, particularly in terms of how investment choices are communicated and online access for policyholders.

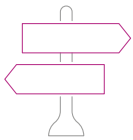
- At retirement, policyholders are able to access their pension flexibly, although they may be required to transfer into a different policy. No penalty applies to this transfer.
- An internal DC Governance Committee exists with the objective of promoting the highest levels of governance for the Staff Scheme.
- Wesleyan has invested additional resource into managing operational and financial risks.

The GAA's opinion on the value for money delivered is that the Staff Scheme, with a default fund option available with no annual management charge for policyholders, represents good value for money.



# 3

## GAA activity and regulatory matters



This section describes the work that the GAA has done over the year and also covers the other matters which we are required to include in our annual report.

### 3.1 GAA engagement and actions this year

We prepared and issued a request for data on all the relevant workplace pension policies on 15 May 2017.

On 31 October 2017, members of the GAA visited Wesleyan to meet our main contacts and representatives from the investment and administration teams. We discussed how the investment funds are managed and governed.

We visited the administration teams to see in detail how some of their work is carried out and how they deal with policyholders, as well as meeting managers to discuss service standards and how these are monitored and managed.

We also met with specialists in cyber security to understand more about Wesleyan's practices in this area and further improvements being made. This highlighted a significant project plan to assess all reasonable steps that Wesleyan could be taking.

We discussed the latest stages in product review including reviews of communications and member interactions, and considerations towards further IT interface facilities for Policyholders. Whilst these remain under review at present the emphasis given to these areas is strong.

The GAA held 5 meetings during the year to review and discuss the information we had received and to develop and improve the way that we assess value for money and report on this.

### **3.2 Independent Project Board (IPB)**

The IPB issued a report into workplace pensions in December 2014 following a previous report from the Office of Fair Trading in 2013. The FCA required all pension Providers who were subject to the IPB report to make proposals to governance committees (in this case the GAA) by 30 June 2015, and for the Provider to agree a plan to address the risk of high charges of workplace pension savers in group pension arrangements. Wesleyan provided their proposals to the GAA in line with this timescale and proposals were agreed with the GAA for this purpose.

### **3.3 Concerns and challenges raised with the Provider by the GAA and their response**

**The GAA has raised a number of challenges with Wesleyan for their consideration, these are:**

- Wesleyan, like all Firms, should continually examine the scope for further reductions in charges where these may be feasible.
- To date Wesleyan have not been able to provide definitive data on transaction costs. The GAA has re-affirmed its request for this information and will continue to push for information on transaction costs.

### **3.4 The arrangements put in place for policyholders' representation**

**The following arrangements have been put in place to ensure that the views of policyholders can be directly represented to the GAA:**

The role of the GAA and the opportunity for policyholders to make representations direct to the GAA has been communicated via the Wesleyan website and has been highlighted on annual benefit statements since April 2017. A paragraph has been added to the Key Features Document for any new policyholders. Wesleyan have been pro-active in making policyholders aware of the GAA and its role.

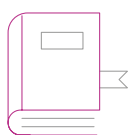
Wesleyan will receive and filter all policyholder communications, to ensure that this channel is not being used for individual complaints and queries rather than more general representations which may be applicable to more than one policyholder or group of policyholders. Where Wesleyan determines that a communication from a policyholder is a representation to the GAA, it will be passed on in full and without editing or comment for the GAA to consider.





## 4

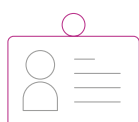
## Next Steps



This GAA report is for the year to 5 April 2018. The process of annual reports under the FCA requirements is ongoing and further annual reports will be required.

In the next year the GAA will look in further detail at the:

- Outcome of the reviews being undertaken into communications and the investment range
- Any potential considerations for further charge reductions
- Level of transaction costs for the individual funds.



If you are a policyholder this report is for your information only and you do not have to take any action. If you do have any questions, require any further information or wish to make any representation to the GAA you should contact Wesleyan at the address shown on page 4.

**Colin Richardson**

**Chair: PTL Governance Advisory Arrangement**

# Appendix



## Summary of Staff Scheme data at July 2017

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	Staff Scheme
<b>Charges</b>	AMC of 1.0% on High Risk/Reward. No AMCs on other investment options
<b>Number of Policyholders</b>	2,163
<b>Assets under management</b>	<b>£59.7m</b>

Wesleyan has confirmed that all policyholders within the Staff Scheme can be identified from Wesleyan's data.

## Appendix

## 2

### Value for money assessment

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The GAA believes that value for money is necessarily highly subjective and will mean different things to different people over time, depending on what they consider important at that time. What is clear is that it is always a balance of cost versus benefits. There is not enough publicly available data to perfectly assess value for money in an absolute or relative way. We have, however, been able to carry out limited relative comparison of the costs and benefits of these workplace personal pension plans with similar products from similar providers.

The GAA has assessed the value for money delivered by Wesleyan to its Staff Scheme policyholders by looking at costs compared against our evaluation of the quality of the benefits.

We have looked at the benefits offered to policyholders in three main areas – investment, communications and administration – together with other features such as the range of options available at retirement. In making our overall assessment of the quality of the benefits and standards achieved, where possible we have taken into account the likely needs and expectations of this group of policyholders, based on the information available to us.

We have looked at the total ongoing cost of the policy by analysing all the charges, which may be applied in a number of different ways.

Finally, we have considered the quality of benefits offered versus the charges deducted, to reach an overall opinion on value for money. Where possible, we have formed our opinion taking into account the benefits and charges of other similar providers.

In each area of benefits, in the tables on the next few pages we have described the features in the left hand column, based on the information given to us. Our opinion on quality is given alongside in the right hand column.

Where we have used technical pensions terms or jargon, these are explained in the glossary at the back of this report.

### Investment – Design and performance of investment strategies

The Staff Scheme has a default investment strategy with lifestyling. Lifestyling occurs in the 10 years before retirement, starting in the Pensions Managed Fund; 5.5 years before retirement the monies are held in the Pension Low Risk / Reward Fund and then by the Selected Retirement Date split 50% Low Risk / Reward and 50% Deposit.

Wesleyan is currently reviewing the ongoing appropriateness of the lifestyling strategy.

Policyholders are contacted specifically about lifestyling and asked if they wish to opt out. Those who opt out are contacted subsequently to check they are still happy with their decision.

Top-up contributions during the lifestyling period are automatically invested in the Deposit Fund unless otherwise directed.

Wesleyan have considered the Staff Scheme membership in determining the default strategy and stated their rationale. The choice of default was also consulted upon externally with Aon Hewitt.

The default lifestyling results in a relatively cautious investment strategy at retirement age. This may be suitable for many but not all policyholders.

### Investment – Fund range available

For the Staff Scheme there are 5 separate funds available, Pension Deposit, Low Risk / Reward, With Profits, Managed and Higher Risk / Reward.

All funds are managed by Wesleyan.

A recent internal review of the investment options available in the Staff Scheme has concluded that there is a limited fund range available. This will be considered further as part of Wesleyan's future fund strategy project.

In our opinion, the fund range for the Staff Scheme is likely to be appropriate for most policyholders. However, the review of options available is a positive step.

### Investment – How investment performance of the fund range is reviewed and any changes made

All funds have a statement of objectives which are published in factsheets. Performance is reviewed monthly by the Investment Committee. The With Profits Committee also reviews management of the With Profits Fund.

The DC Governance Committee also reviews investment performance. This Committee enables policyholder engagement and reviews investments to aim to continue to ensure the funds meet the needs of policyholders.

The investment philosophy is a 'buy and hold' strategy with low turnover.

Information on investment performance has been provided but, for the purposes of this report, the GAA has not reviewed in detail the investment performance of each available fund by reference to consistency with its objectives and the expected degree of volatility.

Investment performance is reviewed on a monthly basis, although evidence of any subsequent actions taken is limited.

The investment management is fairly cautious. Aggressive funds are not available although most policyholders may not be expecting such funds from Wesleyan. The philosophy is clear and the investment team is stable.

The volatility within the main funds is very consistent over time showing stable management.

### Communications and Support – Statement of aims and objectives of investment strategies

Factsheets are available setting out the stated aims and objectives of the investment strategies.

In our opinion, communication of the stated aims and objectives of the investment strategies is satisfactory.

### Communications and Support – Overall quality of written communications, including education on pension saving

Sample policyholder communications have been provided including an annual benefit statement, pre-retirement wake up letter or pack, and retirement option packs.

An internal review of communication for the Staff Scheme has concluded that this could be improved further, particularly around education on investment choices. Wesleyan is developing a strategic communication plan on member engagement, which will include a focus on education of investment choices.

In our opinion, policyholder communications are of a good standard overall and policyholders have access to very good telephone support. Although further development in this area is welcomed to enable the Staff Scheme to keep pace with market developments.

### Communications and Support – Other support, including telephone and online

Staff Scheme policyholders have access to a dedicated page on the intranet. There is a Handbook with detailed information on the Scheme and its benefits.

Online capability for Staff Scheme policyholders is to be reviewed as part of Wesleyan's digital strategy.

In our opinion, policyholders have access to good telephone support.

### Communications and Support – When choosing retirement options

Policyholders can contact Wesleyan Head Office to speak to a dedicated pensions team for general information. There is also the option to seek further specialist advice from their Wesleyan Financial Consultant.

Policy information and requests for changes are available online if a policyholder registers for the My Wesleyan facility. There is also a secure online web chat facility.

Wesleyan issue a series of 'wake-up' communications to policyholders before the expected retirement date. These commence within 5 or 10 years from retirement according to policy type.

Communications are generally of a high quality. Workplace pension policyholders can contact their Wesleyan Financial Consultant.

**Risk Management – Security of IT and data protection**

Wesleyan has agreed a new Group Security strategy which is currently being implemented. This includes proactive management of cyber risks and a business continuity management system for managing business interruption events.

We believe that IT and security plans for GDPR compliance are good/adequate based on the description of the frameworks given to us.

Note we have not taken any independent advice from cyber security or data protection experts to support this opinion.

**Risk Management – financial strength and security**

Wesleyan is required to hold capital to protect against the impact of downside events. At the end of 2016 Wesleyan's capital coverage was 349%. Regular stress and scenario testing is undertaken to check the impact on financial strength.

We are satisfied that financial strength of the organisation should not be a concern to policyholders.

**Risk Management – independent assurance of Firm controls**

An extensive program of internal controls is undertaken. The Product Risk and Governance Committee consider conduct risk including internal controls.

Whilst there is no external audit process, the internal controls seem appropriate.

**Risk Management – Product development process to assist policyholder outcomes**

There is a regular process of internal product review to ensure that products remain fit for purpose and suitable for policyholders. The Product Risk and Governance Committee meet monthly and consider the current and historic product range including these policies.

Product development is considered regularly and there is a process in place to look at potential changes.

**Risk Management – Processes for protecting policyholders against fraud and scams**

Wesleyan have outlined their process for transfer and open market option payments and provided a copy of the checklists in use for these processes. The checklists are detailed, well thought out and designed to identify any potential fraudulent activity.

Wesleyan are taking all reasonable steps to protect policyholders against fraud and scams.

**Administration service and core financial transactions**

Administration is carried out in house by a team based in Birmingham and evidence has been provided of performance against service standards. We met members of the administration team on 31 October 2017. Information on how service standards are being achieved has been supplied. Service levels are monitored daily.

The DC Governance Committee acts as a forum for feedback on service in relation to the Staff Scheme.

The GAA's meeting with the administration team showed a well resourced team committed to good service for the benefit of policyholders.

We believe that the administration service provided to policyholders is of a good standard and that core financial transactions are processed promptly and accurately. Service levels achieved are high and are monitored closely.

### Other governance or support arrangements

Additional governance structures for the benefit of policyholders include the with-profits committee for relevant policyholders. There is a governance committee for the Staff Scheme which includes policyholders and acts as a forum for Staff to give their views on the Staff Scheme.

There are additional benefits to policyholders by virtue of their membership of the Wesleyan, as follows:

- Policyholders are entitled to participate in the Annual General Meeting, which gives them a say in the administration of Wesleyan
- Policyholders receive a discount on general insurance policies taken out with Wesleyan.

There is relatively strong governance in place.

There are additional financial benefits to policyholders by virtue of their membership of these workplace pension schemes.

### Retirement options

At retirement, Policyholders have access to the full range of flexibilities, except that they must make an internal transfer into the latest personal pension policy if they wish to draw benefits through Flexi-Access Drawdown (FAD). No penalty applies to this transfer.

The range of flexibilities at retirement is good.

### Charges and direct and indirect costs borne by policyholders

Policyholders of the Staff Scheme pay no charges for the default fund (the Managed Fund) but do pay a 1% Annual Management Charge (AMC) if they select the Higher Risk/Reward Fund.

#### Transaction costs

Transaction costs will also be borne by policyholders, based on their underlying investments. Limited information regarding transaction costs has been made available to the GAA. This shows indicative transaction costs for the With Profit Fund of 0.08%.

Wesleyan state that commission paid to brokers is compared against the quality of service received.

Wesleyan intend to be able to provide 2018 transaction cost information on the FCA defined method in time for analysis for the GAA report next year.

An AMC of 1.0% represents a level of charge slightly above average, particularly when other indirect costs are taken into account. However, as there are no AMC's for the other investment options, overall investment charges are very low.

The investment philosophy of Wesleyan leads to an expectation that transaction costs are maintained at a reasonable level. The limited transaction cost data provided to date would seem to support this opinion. However, further analysis and data will be required before any meaningful conclusion can be reached.

The GAA will continue to request information on such costs.

### Overall assessment of value for money

The GAA's opinion on the value for money delivered is that the Staff Scheme, with a default fund option available at no charge to policyholders, represents good value for money.

## Appendix

### 3

## Background and credentials of the PTL Governance Advisory Arrangement

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In February 2015 the Financial Conduct Authority (FCA) set out new rules for Providers operating workplace personal pension plans (called relevant schemes) to take effect from 6 April 2015. From that date, Providers had to have set up an Independent Governance Committee or appointed a Governance Advisory Arrangement whose principal functions would be to:

- Act solely in the interests of the relevant policyholders of those pension plans and to
- Assess the 'value for money' delivered by the pension plans to those relevant policyholders.

The FCA rules also require that the Chair of each Independent Governance Committee and Governance Advisory Arrangement produce an annual report setting out a number of prescribed matters.

The PTL Governance Advisory Arrangement was established on 6 April 2015 and has been appointed by a number of workplace personal pension Providers. PTL is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments we act as an independent trustee on several hundred trust based pension schemes and we sit on a number of IGCs. We have oversight or responsibility for in excess of £120bn of pension assets. More information on PTL can be found at [ptluk.com](http://ptluk.com).

All of PTL's Client Directors have been appointed to the GAA. More information on each of them, their experience and qualifications can be found at [ptluk.com/team](http://ptluk.com/team).



Dean Wetton is also a member of the GAA. Dean is independent of PTL. Information on his experience and qualifications can be found at [www.deanwettonadvisory.com](http://www.deanwettonadvisory.com).

PTL, its Client Directors and Dean Wetton are independent of all of the Providers participating in the GAA in so far as:

- They are not directors, managers, partners or employees of any of the Providers, or any company within their groups, or paid by them for any role other than as members of the GAA, nor are they members of the share option or performance related pay schemes of any of the Providers nor have they been within the last five years.
- They do not have a material business relationship of any description with any of the Providers, or any company within their groups, and have not done so within the last three years.

Any potential conflicts of interest are recorded in a log and considered by the GAA in accordance with its conflict of interest policy.

The members of the GAA are appointed by the board of PTL. The board is satisfied that individually and collectively the members of the GAA have sufficient expertise, experience and independence to act in the interests of the members of the Providers' pension plans.

### **Terms of reference**

The terms of reference agreed with Wesleyan can be found at:

[www.wesleyan.co.uk/pdf/62860/gaa terms of reference](http://www.wesleyan.co.uk/pdf/62860/gaa%20terms%20of%20reference)



# Glossary

## **Active management**

The investment of funds where the skill of the fund manager is used to select particular assets at particular times, with the aim of achieving higher than average growth for the assets in question.

## **Annual Management Charge or AMC**

A deduction made by the pension provider or investment manager from invested assets, normally as a percentage of the assets. The AMC is generally how the pension provider or investment manager is paid for their services.

## **Annuity**

A series of payments, which may be subject to increases, made at stated intervals, usually for life. If the annuity is 'joint life', it will continue to a spouse (usually at a lower rate) after the death of the original person receiving the payments ('the annuitant').

## **Core financial transactions**

The essential processes of putting money into a pension policy or taking it out, namely

- Investment of contributions
- Implementation of re-direction of future contributions to a different fund
- Investment switches for existing funds, including lifestyling processes
- Settlement of benefits – whether arising from transfer out, death or retirement.

## **Default investment strategy**

The investment funds into which contributions are invested for policyholders who do not select other specific investment funds from the full range of funds available.

### **Lifestyling**

An automated process of switching investment strategy as a policyholder approaches retirement, in a way that is designed to reduce the risk of a policyholder's retirement income falling.

### **Transaction costs**

A combination of explicit and implicit costs included within the price at which a transaction (i.e. buying or selling an asset) takes place.

### **With Profits**

An insurance contract that participates in the profits of an insurance company. The insurance company aims to distribute part of its profits to with-profits policy holders in the form of bonuses.

# ptl



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