CHAIR'S ANNUAL REPORT:

The PTL Governance Advisory Arrangement

NFU Mutual workplace personal pension plans

March 2017

1. Introduction and Executive Summary

This report on the workplace personal pension plans provided by NFU Mutual (NFUM) has been prepared by the Chair of the PTL Governance Advisory Arrangement ("the GAA"). It is our second annual report.

This report sets out our assessment of the value for money being 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 NFUM, dated 27 August 2015. These are publicly available (see Appendix 3).

The workplace personal pension plans provided by NFUM fall into two groups with different features – Group Personal Pensions (GPPs) and Group Stakeholder Pensions (GSPs). More 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 believe 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 GPPs and GSPs offer reasonable to good value for money.

See Section 2 and Appendix 2 for more details of the value for money assessment.

GPPs

Where policyholders are no longer contributing and all capital units have already been cancelled, in our opinion the GPPs represent reasonable to good value for money, taking into account the benefits offered to policyholders.

The value for money is reduced but remains reasonable to good for the small number of policyholders who still have capital units for which there is a higher effective charge on just that part of their investment fund. However, these capital units were predominantly created before April 2015. As of November 2015, no policyholders are still purchasing capital units. Therefore, such higher charges were almost entirely already within policy values prior to the establishment of the remit of the GAA.

The value for money is also reduced but remains reasonable to good for policyholders who are still paying contributions, due to the allocation rates of less than 100% (which act as a charge for contributions) alongside a low Annual Management Charge (AMC) of 0.625%. The overall impact of this charging structure varies by age but is higher for policyholders closer to expected retirement age.

GSPs

In our opinion, the AMC of no more than 0.75% for GSPs (depending on fund size) represents reasonable to good value for money.

NFUM has invested more in policyholder support than many other comparable providers of closed workplace pension portfolios.

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

	Group Personal Pensions	Group Stakeholder Pensions
Investments	3	3
Communications and support	4	4
Risk Management: Operational and Financial	4	4
Other factors: administration, options at retirement, etc.	5	5
Overall benefit:	4	4
Level of charges	4	4
Overall value for money assessment	4	4

Good	5
	4
	3
	2
Poor	1

NFUM has responded to challenges from the GAA and proactively made changes to charges and investment strategies. (see sections 3.2 and 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:

GAA Manager, Marketing Department, NFU Mutual, Tiddington Road, Stratford-upon-Avon, Warwickshire CV37 7BJ.

2. Value for money assessment

The GAA has assessed the value for money delivered by NFUM to its workplace personal pension policyholders by looking at the costs versus the benefits. More detail about how we have done this is set out in Appendix 2.

Key highlights of our assessment

- NFUM provides good quality workplace pensions products for policyholders
- The review and changes made to the managed investment fund used by most policyholders are an important positive change
- NFUM takes great effort and care in producing high quality communication materials and providing customer support teams for the benefit of policyholders
- We believe that policyholders gain some secondary benefit from having their pension with a financially strong mutual insurance company
- Options and support at retirement are comprehensive although transfer to another NFUM sponsored product may be required
- The investment philosophy is clear and coherent
- Charging is reasonably competitive and NFUM has taken proactive steps to reduce charges
- Internal governance is strong
- Administration resourcing and target turnaround times are good with positive customer feedback
- NFUM has taken further steps to better understand policyholder views on investment options

Opinion on value for money for policyholders

GPPs

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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 12 May 2016. NFUM has provided full data and information as requested by the GAA through the year.

On 28 June 2016, members of the GAA visited NFUM to meet our main contact 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.

The GAA held 7 meetings during 2016 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. NFUM joined all 5 of the meetings to which they were invited.

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. NFUM provided their proposals to the GAA in line with this timescale and proposals were agreed with the GAA for this purpose.

These proposals included reducing charges for some of the highest charging policies, stopping setting up new Group Stakeholder Policies (except in some very specific circumstances), reducing charges for Group Stakeholder Policies and stopping the creation of further capital units. Specifically:

- NFUM ceased selling Group Stakeholder Schemes from 31 December 2014.
- All Stakeholder plan charges above 1.0% per annum were reduced to 1.0% per annum from April 2015.
- GSP charges for policies qualifying for auto-enrolment were reduced to 0.75% per annum from April 2015 as required by law.
- Individual personal pensions were sampled and this confirmed that leavers of GPPs and GSPs are treated no differently to continuing policyholders.
- The purchase of future capital units ceased in November 2015.
- GPP exit charges were voluntarily reduced to 5.0% from August 2015.

Subsequently further changes have been made, specifically:

NFUM has reduced charges further for GSPs from 1.0% per annum to 0.75% per annum. This now applies for all workplace pension contracts from 1 September 2016, not only the ones which are Qualifying Policies under Auto-Enrolment. This is a welcome further measure from NFUM.

From 1 January 2017 NFUM:

- introduced a 0% cap on the exit charge for GPP policyholders aged 55 or over;
- will continue to apply a 5% cap on the exit charge for GPP policyholders under age 55;

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

In the first year of operation, the GAA received a proposal from NFUM responding to the IPB report. This included reductions in annual management charges to 1% per annum where these had been above this level, from April 2015. The GAA challenged NFUM on whether charges could be reduced any further, noting that there were already some similar contracts with lower charges. Notwithstanding this, the main area of the IPB report of policyholders at risk of higher charges above 1.0% per annum had been largely addressed at outset.

The GAA challenged NFUM on the small amount of continuing capital units and exit charges and as described in section 3.2 NFUM took action on these points.

The GAA challenged NFUM on their process of review of the design of default investment funds. NFUM has also responded to this challenge by undertaking a comprehensive review and making changes accordingly.

Having voluntarily reduced exit charges to 5% in 2015, NFUM has been reviewing these further and, as noted above, has introduced a 0% cap for GPP policyholders aged 55 or over from 1 January 2017. This has gone further than the FCA rules announced in November 2016 which is for a cap of 1% from 31 March 2017.

The GAA does not have any ongoing specific concerns with NFUM at the end of the year covered by this report but will continue to challenge for any areas of improvement to value for money which are practical and appropriate for NFUM.

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 NFUM website and has been highlighted on annual benefit statements since April 2016. A paragraph has also been added to the Key Features Document for any new policyholders.

NFUM 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 a group of policyholders. Where NFUM 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 2017. 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:

- Level of Transaction Costs
- Further consideration of the investment review process
- The implementation of the Lifestyle funds where 2 additional funds were launched on 1 January 2017.

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 NFU Mutual at the address shown below:
GAA Manager, Marketing Department, NFU Mutual, Tiddington Road, Stratford-upon-Avon, Warwickshire CV37 7BJ.

C.D. Richardson

Colin Richardson

Chair: PTL Governance Advisory Arrangement

Appendix 1

Summary of workplace personal pensions data at 31 December 2016

	Group Personal Pensions (GPPs)	Group Stakeholder Pensions (GSPs)
Number of employers: non-qualifying for auto-enrolment	275	3,161
Number of employers: qualifying for auto-enrolment	0	132
Total number of policyholders Contributing/Non-Contributing	1,001 778 / 223	7,601 6,736 / 865
Total value of assets (market value)	£41m	£199m

Appendix 2
Value for money assessment

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 the costs versus the 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 NFUM to its workplace personal pension 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.

Description of arrangements	GAA assessment and opinion
Investment - Design and performance of investment strategies	
The GPPs do not have a default investment fund or strategy, but the most popular choice is the Mixed Portfolio Max 40-85% shares fund. Some policyholders are invested in the with-profits fund. The default fund for the GSPs is the Mixed Portfolio Max 100% shares fund, and with-profits is not an option for these policies. The default fund was reviewed in May 2015 by NFUM's Fund Proposition Governance Forum, and the review concluded that the fund remained fit for purpose. A more detailed technical analysis dated May 2016 concluded that improvements should be made to the description of the aims and objectives and the risk disclosures. A further review of the fund range and lifestyling arrangements was carried out during 2016, to ensure that these fit with the new flexibilities open to policyholders over the way in which they draw their benefits at and during retirement. New lifestyling strategies for periods close to retirement age have been introduced and communicated to all customers. The new strategies are based on cash or drawdown decumulation (adding to the existing annuity lifestyling). Prior to the pre-retirement phase the funds target long-term capital growth. No changes to the investment strategy will be made without policyholder confirmation. For policyholders in deposit funds there is an annual reminder that these are not suitable for long-term pensions savings. The background documents to the review of default funds showed analysis in relation to objectives and rationale for the default investment fund design.	In our opinion, the default strategy has been designed in the interests of the GSP policyholders. A review of the fund range and lifestyling element has recently taken place and changes implemented. These changes will, in our opinion, improve the default investment strategy as well as the options for customers targeting different needs at retirement. We believe that the default strategy for GSPs is currently executed in the interests of policyholders as the approach makes active management available to policyholders who, in general, are not well-equipped to make their own investment choices and keep them under regular review. It is clear that the default design is considered in detail by focusing on the expected needs of policyholders.
Investment – Fund range available	
The fund range includes With Profits (GPPs only), Mixed Portfolio Max 40-85% shares fund, Mixed Portfolio Max 100% shares fund (GSPs only), UK Equity Fund, International Fund, Fixed Interest Fund, Index-Linked Fund, Property Fund and Deposit Fund. All funds are actively managed (rather than run on a passive or index-tracking approach).	We believe that a good range of funds is available for policyholders who wish to select funds, representing the major asset classes and including a with-profits option for GPPs. In line with NFUM's policy of being an active management house, a low cost passively managed fund choice is not available.

Description of arrangements	GAA assessment and opinion
Investment - How investment performance of the fund range is reviewed and any changes made	
The performance of the fund range is regularly reviewed by NFU Mutual's Market Risk Committee. The terms of reference includes reviewing historic performance figures, including volatility of returns relative to benchmarks. There is a quarterly presentation to the main Board. The manager responsible for the NFUM funds met with us and described the investment philosophy and process in detail to us. There is long-term focus on real assets, with low portfolio turnover and restrictions to mainstream asset classes. Fixed interest funds are restricted to investment grade bonds. The range of funds available is the responsibility of the Fund Proposition Governance Forum.	Evidence has been provided that the characteristics and net performance of the investment strategies are regularly reviewed by the Market Risk Committee to ensure that they are aligned with the interests of policyholders.
Communications and Support - Statement of aims and objectives of investment strategies	
The stated objective of the default investment strategy is to maximise long-term capital growth. In addition, as part of the lifestyling strategy, assets are switched into funds which are less volatile and lower risk as the policyholder approaches retirement. The objectives of the lifestyling strategy are set out in the Key Features Document. The changes to lifestyling strategies have been communicated in detail. As well as standard letters, a new leaflet entitled "Your lifestyle investment options" has been issued to all customers.	In our opinion, the default fund now has a more clear defined statement of its aim and objectives. This change, together with the new lifestyle options, including a very readable leaflet, is a proactive improvement from NFUM which is helpful for policyholders. A further improvement to the stated objective of the default investment strategy will be implemented in 2017.

Communications and Support – Overall quality of written communications, including education on pension saving	
Sample communications have been provided including annual benefit statements, pre-retirement wake-up letters issued as policyholders approach retirement, and brochures and letters explaining retirement options.	In our opinion, policyholder communications are of a high standard overall and are written in plain English. The annual benefit statements contain a very helpful series of questions and answers. Documents give plenty of prominence to telephone customer support numbers for policyholders who wish to discuss further or require assistance. There is a very good series of documents in the period leading up to retirement to assist with financial planning and other considerations.
Communications and Support - Other support, including telephone and online,	
Online and telephone support are available, free of charge. The Customer Contact centre is open 8:30am to 6pm on weekdays and the percentage of calls answered and holding times are monitored closely. Feedback on service levels is positive; ranging from 88% positive scores upwards and close to100% for some types of transactions. NFUM has instigated reduced target response times. This has reduced overall work levels by reducing customer chasing or complaints. PTL discussed team structures, target turnaround times, service level achievements and customer feedback in detail with NFUM administration managers.	In our opinion, policyholders have access to good telephone and online support, albeit without detailed retirement planning projection tools online which are offered by some of the largest UK providers of workplace pensions. Although policyholders cannot log into the website to see their fund value, they can obtain this information over the phone during weekday working hours. Complaints received are very low in number.

Description of arrangements	GAA assessment and opinion
Communications and Support - When choosing retirement options	
NFUM proactively telephones each policyholder one year before their selected retirement date, and again 6 to 7 months before retirement, to explain the options available at retirement. Where appropriate this is timed to suit the policyholder, including out of hours calls. NFUM makes available to its policyholders an “annuity desk” service, which assists in purchasing an annuity from a panel of insurers which is selected by NFUM, either with or without financial advice. A fee is charged for this service but policyholders can also bring across funds from other pension schemes, at no extra charge. PTL met the staff who run the annuity desk service in June 2016 to review the process and methodology. We have seen and reviewed the key materials sent to policyholders both 6 months and 2 months prior to their expected retirement date. We also have copies of key telephone scripts.	In our opinion, the proactive contact prior to retirement is helpful to policyholders. In our opinion, the annuity desk provides a valuable service to policyholders. The staff on the annuity desk were well-equipped and trained for their role. The communications 6 months and 2 months prior to expected retirement date are comprehensive and of good quality. There is a detailed guide “Countdown to Retirement” which is helpful for policyholders. The team dealing with enquiries appeared well-trained and resourced for their work.
Risk Management – operational and financial	
Security of IT systems is the responsibility of the Chief Information Security Officer. NFUM handles information from its business partners, employees, agents and their staff, service providers and its own business operations. Some of this information is business sensitive and it may include intellectual property (IP) which requires specific controls around authorised access or use. We have seen evidence of their governance structure and copies of their 21 policies, last updated in November 2016 and being rolled out in 2017 as part of a larger Cyber Programme, covering the range of information security issues that can affect a modern organisation of their size - including handling customer data. Each year all UK insurance companies must publish a set of prescribed returns. The content and rules behind these returns are controlled by the Prudential Regulation Authority (PRA). Based on these public returns, the financial strength of NFUM ranks very highly in terms of capital security relative to the majority of the insurance industry. There are a number of internal operational and financial controls that relate to NFUM’s pension business	Policyholders benefit from the financial strength and security of NFUM with capital reserving requirements. The internal risk and operational procedures of NFUM appear strong.

Description of arrangements	GAA assessment and opinion
e.g. reconciliations and authorising payments. There is a regular process of internal product review to ensure that products remain fit for purpose and suitable for policyholders. The compliance process of NFUM relating to the GAA is detailed. As part of this, NFUM attend parts of the GAA meetings relating to NFUM or generic parts not relating to other providers. The Group Compliance Department in NFUM may periodically undertake assurance activities of the GAA and its work.	
Administration service and core financial transactions	
Administration is carried out in-house and evidence has been provided of performance against service standards of 5 and 10 working days. If the agreed Service Standards are met, core financial transactions will be processed promptly and accurately. Provided contributions reconcile to schedules received contributions are treated as invested on the date that monies are received. PTL met administration personnel in Stratford-upon-Avon in June 2016. We undertook a detailed discussion with staff processing financial transactions such as receipt and investment of contributions and payments of transfers. We discussed the key customer service standards, structure, service level targets and resourcing with their administration team leaders. NFUM has significant internal procedures documents covering each stage of the policyholder pensions journey.	We believe that the administration service provided to policyholders is of a good standard and that core financial transactions are processed promptly and accurately. Training, resourcing and staffing are all well-controlled. Administration procedures are well-defined.
Other governance or support arrangements	
The with-profits fund is overseen by a with-profits committee which includes three non-executive directors as independent members. This committee has been set up by the NFU Mutual Board to look after the rights, interests and expectations of all with-profits policyholders. Support for policyholders appears to have been designed with the needs of the membership in mind, noting that a good proportion work in the farming industry.	With-profits policyholders will benefit from the additional governance provided by the with-profits committee. NFU Mutual is a mutual insurance company, which means that it is owned by all its policyholders. We note that some

Description of arrangements	GAA assessment and opinion
	policyholders may consider this an additional benefit, as profits are shared between policyholders rather than paid out as dividends to shareholders.
Retirement options	
A good range of decumulation options after retirement is available to policyholders without requiring an external transfer, including annuities and flexible drawdown.	In our opinion, the range of choice of retirement options is comprehensive for policyholders. For some options a transfer to another product or provider is required.
Charges and direct and indirect costs borne by policyholders	
GPPs The Annual Management Charge (AMC) for GPPs is 0.625% pa across all funds. There is no bid/offer spread but allocation rates vary between 95% and 98% depending on the size of the premium, for payments that started after 31 December 1997. No new policies are being sold but new policyholders can join existing schemes and existing policyholders can increase their contributions. Previously, capital units were also used as a charging method, with capital units purchased for the first 2 years of regular payments and then cancelled at 2.5% pa (with a further penalty on early exit). This applies to payments started before 1 January 1998. For single premiums, an initial charge of 5% was applied. No policyholders are still purchasing capital units. No new GPPs have been sold since 6 April 2001. Having voluntarily reduced exit charges to 5% in 2015, NFUM has been reviewing these further and, as noted above, has introduced a 0% cap for GPP policyholders aged 55 or over from 1 January 2017. This has gone further than the FCA rules announced in November 2016 which is for a cap of 1% from 31 March 2017	Whilst the headline AMC for GPPs of 0.625% appears to be relatively competitive for active management, the impact of capital units being cancelled and reduced allocation rates must also be allowed for. The impact of reduced allocation rates and initial charges on single premiums is not part of the GAA's remit, where such charges were incurred wholly prior to 6 April 2015.

GSPs The Annual Management Charge for GSPs is 0.75% pa or lower across all funds (from 1 September 2016), with lower charges for larger funds. There are no other charges. Reductions in charges are being enacted by way of rebates from a 1% per annum charge depending on size of funds. Since April 2015, new GSPs are only being sold to “micro-employers” and “director-only schemes” with up to 4 policyholders, but new policyholders can join existing schemes and existing policyholders can increase their contributions.	The AMC for GSPs of up to 0.75% represents a level of charges that is below average amongst providers who were part of the IPB review, based on the GAA’s experience.
Transaction costs NFUM provides 8 unit linked pension funds for investment for the GSPs and 7 unit linked pension funds plus a unitised with-profits fund for the GPPs. Each fund is priced in the same way, and is charged at the same gross Annual Management Charge rate (rebates apply for larger fund holdings and qualifying policies). With regard to transaction costs, all unit linked funds (i.e. excluding the unitised with-profits fund) costs are included in the Annual Management Charge except: • Custodian transaction costs • Depositary fees and fees to the custody bank • Banking fees Although NFUM is unable at this time to split out these costs amongst each pension fund, it is their overall view that they would add less than 0.1% to the total expense ratio / AMC charged to customers. NFUM intends to carry out a more detailed analysis and the GAA will examine transaction costs in more detail in future reports.	Policyholders have less unknown transaction costs than those for most other workplace pension providers because most fund costs are borne by NFUM from within the Annual Management Charge. The estimations of other costs are reasonable. When a common method across the pensions industry becomes clearer following the current Financial Conduct Authority consultation on transaction costs, we expect that NFUM can provide cost details based on the agreed approach.

Overall assessment of value for money

GPPs

Where policyholders are no longer contributing and all capital units have already been cancelled, in our opinion the GPPs represent reasonable to good value for money, taking into account the benefits offered to policyholders.

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Appendix 3
Background and credentials of the PTL Governance Advisory Arrangement

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 www.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 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 http://www.deanwettonadvisory.com/consultants/index.html.

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.

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

https://www.nfumutual.co.uk/personal/retirement/our-pensions-and-annuities/value-for-money-for-pension-scheme-members/

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Glossary

"Active management" means the investment of funds where the skill of the fund manager is used to select particular assets at particular time, with the aim of achieving higher than average growth for the assets in question.

"Allocation rate" means the proportion of the investment that is invested. Any deduction is typically to cover set up costs. Where the allocation rate is more than 100%, this is typically to reduce the effect of other charges or costs.

"Annual Management Charge" or "AMC" means 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" means 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").

"Capital units" are a way of charging for the cost of setting up a pension policy over the lifetime of the policy. Some or all of the contributions in the early years are used to buy a different type of unit in the chosen investment fund, and these units are gradually sold or cancelled each year. The money from cancelling the units is taken by the provider to meet the cost of setting up the policy.

"Core financial transactions" means 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*

"Custodian" means a financial institution independent of the investment management function to store and safeguard a scheme's assets, including the maintenance of accurate records of ownership. It may also collect income, produce tax reclaims and provide other services where required, such as stock lending.

"Decumulation" means the process of using policyholder's fund to provide retirement income. This could involve purchasing an annuity to provide an income for life or leaving the fund invested and taking it out as one or more lump sums.

"Default investment strategy" means 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.

"Exit charges" means a charge taken when you leave an investment option / provider.

"Flexible drawdown" or "Flexi-access Drawdown" means an option for an individual to receive payments from their pension fund as they choose.

"Initial charges" means charges made by an investment provider when an investment is first taken out. This is to cover the cost of setting up the investment.

“Lifestyling” means 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.

“Passively managed” means investment funds which invest to track a particular index of assets by investing as closely as possible in the same proportion or weighting as the index components.

“Transaction costs” means 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” means 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 policyholders in the form of bonuses.