

HARGREAVES
LANSDOWN

INDEPENDENT GOVERNANCE COMMITTEE REPORT: 2019

1. INTRODUCTION

Welcome to the Independent Governance Committee's fourth annual report, which has been prepared for members of Workplace Pension Schemes managed by Hargreaves Lansdown ('HL').

The Independent Governance Committee (IGC) is tasked with representing the interests of scheme members in assessing the value for money of Defined Contribution (DC) pension schemes, acting independently of the scheme provider.

Each member of the IGC has many years' experience of working with and for members, acting in their best interests and championing good outcomes for them. We are committed to assessing value for money in a consumer-focused way and with an emphasis on ensuring members have the best possible chance of achieving good outcomes at retirement.

The IGC was established on 1st April 2015. It has a duty to protect the interests of members of the HL Workplace Pension. As a minimum, the IGC has a duty to:

- act solely in the interests of workplace pension scheme members;
- operate independently from HL, in accordance with its Terms of Reference;
- satisfy itself that core financial transactions are processed promptly and accurately; and
- assess and, where necessary, challenge HL on whether these workplace pension schemes provide value for money for members.

HL operates the UK's largest direct-to-investor investment service administering £85.9 billion of investments for over 1.1 million clients. HL provides a workplace pension scheme which is a Self-Invested Personal Pension (SIPP), known as the HL Workplace Pension. As at 31 December 2018, there were 439 employers using the HL Workplace Pension, encompassing some 106,000 members and £3.1 billion assets under administration (as at 31st December 2018).

The HL Workplace Pension is a qualifying workplace pension scheme for automatic enrolment. There are no 'legacy' charging arrangements - such as policy fees, initial unit charges, or higher charges for members who no longer contribute. All clients have the same product and the same access to the full range of HL services, which alongside the Workplace Pension includes Individual Savings Accounts (ISAs), a Fund and Share Account, flexible drawdown, annuity broking, individual SIPPs, stockbroking services, a range of multi-manager and equity funds, a Portfolio Management Service, and a currency service.

The IGC makes an annual report available to members about how the HL Workplace Pension has performed against key criteria and its objective of providing value for money to members. This is our fourth such report and covers the period 1st April 2018 to 31st March 2019.

You can find a copy of the IGC Terms of Reference and further information on members of the IGC online at:

www.hl.co.uk/workplace/independent-governance-committee



2. OUR PRIORITIES OVER THE PAST YEAR

In our previous report, in addition to our continuing assessment of whether the HL Workplace Pension provides value for money for members, we set a number of key priorities for consideration and review during the 2018/19 year.

These are listed below, together with a reference to where you can find a summary of our findings within this report:

KEY PRIORITY	REFERENCE
Monitor progress of the development of the de-risking arrangements (formerly referred to as 'lifestyling') available to members with the expectation of an updated range of solutions being available by 2019	3.1.5
Monitor progress of HL's research into the level of members' understanding of fee arrangements and how they are best displayed/reported	3.2
Ensure that the controls in respect of monitoring exit charges to be within the scope of HL's 2018/19 internal audit programme	3.2.3
Monitor progress of formal service level agreements for the processing of member contributions and all member-related administration	3.3.2
Continue to seek members' views on their Workplace Pension, specifically in relation to value for money, via the IGC member survey	3.7.1
Engage directly with employers to seek feedback in respect of their experiences of HL	3.7.2
Continue to explore the hypothesis that greater member engagement can lead to better member outcomes. We will monitor HL's progress in this area with the ambition to achieve a range of metrics to evidence positive	3.7.4

3. VALUE FOR MONEY

The IGC has created a framework to analyse the value for money that members receive.

The framework contains certain principles that reflect what we believe constitute value for money and deliver good member outcomes at retirement. The framework has recently been reviewed and updated. New aspects of the framework are shown in italics.

One other addition to this year's framework is the inclusion of a rating system to see, at a glance, how the IGC feels HL is performing in each area.

ASSESSING VALUE FOR MONEY OF THE HL WORKPLACE PENSION, IN THE DELIVERY OF GOOD MEMBER OUTCOMES AT RETIREMENTREFERENCE						
3.1	3.2	3.3	3.4	3.5	3.6	3.7
Investments	Charges	Administration	Member Support	Security/ Strength of Provider	Retirement Flexibilities	Feedback
Default funds	Platform fee	Timely manner of allocating contributions	Member helpdesk	Financial strength	Pension freedoms access	IGC member survey
ABC funds	Fund fees	Management Information	Onsite support: Face-to-face meetings & financial education	Internal audit reports	Drawdown provider	IGC engagement with employers
Other Investments & fund research	Transaction costs	GDPR	Communications & Website	Cyber security	Annuity broking	Complaints
Fund performance	Total fees	Auto enrolment & Re-enrolment support		Pension scams support		Evidence of Engagement
Fund de-risking*	Exit charges					
Environmental, social and corporate governance (ESG)						

KEY:

	Meets or exceeds the IGC's expectations
	The IGC has identified areas for development or improvement which are in the process of being addressed / are in relation to emerging risks or regulation
	The IGC has identified areas for development or improvement which have not yet been addressed/significant progress has not yet been made

*Formerly referred to as 'Lifestyling'.

The IGC remains very mindful of the Pensions Policy Institute's (PPI) work in identifying the outcomes that are likely to be seen as positive for members when determining value for money. These outcomes are:

- the value of the pension pot;
- the security of the pension pot; and
- trust in the pension scheme.

The factors detailed in the framework set out above each contribute to the outcomes identified by the PPI. The IGC considers it important to focus on all determinants of value for money in making an overall assessment. So whereas charges and investments will have a significant impact on the value of the pension pot, additional contributions from the member are likely to have a greater influence. In this respect, it's likely that key drivers of higher employee contributions are effective communications and good member support. The IGC is keen to establish evidence of member engagement and the link to better member outcomes with a view to greater emphasis being placed on the key triggers. This will be a continuing focus of the IGC's activity and is explored in more detail in section 3.7.4.

3.1 INVESTMENTS

The HL platform has an extensive investment choice. The challenge for the HL is to filter this investment universe down into clear choices for members.

3.1.1 DEFAULT FUNDS

The IGC continues to review the default funds available to members, which were offered following the introduction of automatic enrolment. Default funds are the funds that an employer has chosen for scheme members ahead of them making an active fund choice. Any members who don't subsequently choose a fund will remain in the default fund. The default funds are chosen for each scheme by the employer from the following options:

- An actively-managed fund – currently **Schroder Managed Balanced**
- A passively-managed fund – currently **BlackRock Consensus 85**

The Schroder Managed Balanced fund is a fund of funds investing predominantly in shares, bonds and cash. The Multi-Asset team decides on the weightings to each of these assets and gains exposure through individual Schroder funds. The fund draws on a well-resourced team of over 100 investment professionals. HL has negotiated a discount on the fund to bring it within the 0.75% charge cap.

The BlackRock Consensus 85 fund aims to follow the asset allocation of the average manager in the AI Mixed Investment 40-85% shares sector. This data is collected primarily by Lipper on a monthly basis and the fund is rebalanced within 2 weeks of the end of the month to be aligned with the benchmark. The fund invests in BlackRock's in-house range of passive funds, including the iShares ETF range.

Cash (through treasury services provided by HL Asset Management Ltd) is also used, primarily within the de-risking process for members approaching their selected retirement age. Over a five year period, members' assets are disinvested from the default or other self-selected fund(s) and placed in cash. Encompassing its workplace proposition, HL holds over £4 billion of SIPP assets in cash on behalf of its clients. HL manages its clients' money by distributing these cash balances across a panel of carefully-selected financial institutions. This ensures that cash is available on demand to support client trading activities and maximises protection from the Financial Services Compensation Scheme (FSCS). HL has appointed a Non-Executive Director to act as a client champion. This role combines overseeing trustee activities with ensuring that clients receive a fair and competitive rate of interest.

Increasingly, employers are selecting the passive option as the default fund. 65% of schemes have now adopted this option. However, there remains a demand for the actively-managed option and the HL investment team keeps the suitability of both the default funds under regular review. The IGC meets regularly with the investment team and is content with the default fund review process. And that the current two funds remain suitable as a default solution.

The IGC also continues to review the default fund factsheets and we are pleased that HL's approach remains to ensure members have access to all the relevant fund information in an accessible and easy-to-understand format.

Action for 2019/20: The IGC will revisit each of the default option fund managers to see first-hand their approach to these funds.

3.1.2 ABC FUNDS

In addition to the default fund options, the HL Workplace Pension offers access to the full range of investments available on the HL platform. Members have the option to choose their own funds and, in this regard, attention is drawn to the ABC funds – one Adventurous, one Balanced and one Conservative (this labelling being in relation broadly to the level of investment risk borne by the funds) – which have been selected by HL's research team. The IGC spent time reviewing these funds and the research team selection process in 2017. Full details can be found in the IGC's 2017/18 Report.

The ABC funds, and their objectives, are currently as follows:

- **Adventurous – Lindsell Train Global Equity Fund**
To increase the value of shareholders' capital over the longer term from a focused portfolio of global equities, primarily those listed or traded on recognised exchanges in developed countries worldwide. The fund's investment performance is compared with the MSCI World Index (Developed Markets) and is reported in Sterling.
- **Balanced – Baillie Gifford Managed Fund**
To produce capital growth over the long term. The fund will invest primarily in a combination of equities, fixed interest securities, collective investment schemes, cash, near cash and deposits. The fund may invest in derivatives and currency forwards for investment purposes as well as for efficient portfolio management.
- **Conservative – Newton Real Return Fund**
The fund is managed to seek a minimum return of cash 1 Month GBP LIBOR +4% per annum over 5 years before fees. It aims to achieve a positive return on a rolling 3 year basis. However, a positive return is not guaranteed and a capital loss may occur.

The IGC notes that the Lindsell Train Global Equity Fund has increased its shareholding in HL plc. It is inevitable that fund managers will invest in HL due to its position within the FTSE 100, so the concern of the IGC is not that this position exists, but how this potential conflict of interest is identified, managed and declared to members by HL. The IGC has discussed this with HL and we are comfortable with their processes for managing conflicts of interests.

3.1.3 OTHER INVESTMENTS AND FUND RESEARCH

HL conducts detailed investment research on hundreds of investment funds and, using this research, filters down to a list of preferred funds. Key criteria are performance potential and competitive management charges. This list of preferred funds is packaged as HL's Wealth 50 and is designed for people who would like to choose their own funds from a more succinct number of choices.

The Wealth 50 has recently replaced the Wealth 150. HL's main aim with this change was to make the list easier for members to understand and select from. One other significant benefit of the funds featuring on the Wealth 50 is that HL has negotiated over 30% off the average annual ongoing fund charge. The IGC sees this as a very positive development for those members who wish to consider options outside of the default fund.

The IGC spent time this year meeting with HL's research team to discuss the selection and de-selection processes, governance and due diligence frameworks for this range of funds. The IGC is satisfied that the same rigorous and robust processes and frameworks are in place for the Wealth 50 funds as for the default funds and ABC funds.

Members also have access to a further broader range of funds and investments via the member websites.

Evidence of the utilisation of non-default funds can be seen in the number of members making alternative investment choices. 28% of members and 54% of HL's Workplace Pension scheme assets are outside of the default funds. This reflects a relatively high level of member engagement but the IGC is maintaining the pressure for continued emphasis on communication and new initiatives.



3.1.4 FUND PERFORMANCE

The IGC regularly reviews the performance of the default funds and the ABC funds. Below is a table of the past 1, 3 and 5 year performance for these funds, as measured against each of their respective benchmarks.

The IGC is confident in the HL research team's policies and procedures and in the research process for these funds. Taking into account these factors and the performance of these funds net of all charges, we are confident that members are receiving value for money from these investments.

Further details on all applicable charges can be found in section 3.2.

3.1.5 DE-RISKING

A de-risking process is added to both default funds (Schroder Managed Balanced and BlackRock Consensus 85) in the years close to a member's retirement date. De-risking typically involves automatically switching investments away from riskier assets to less risky assets (traditionally cash and gilts) as a member approaches the point at which they intend to draw retirement benefits. This reduces exposure to investment markets which can fall sharply. This helps protect members' pension investments in the period leading up to retirement. HL's current approach switches from the default fund and any self-selected funds to cash, within 5 years of a member's selected retirement age (although the member has flexibility to change this timescale).

In 2017/18 the IGC encouraged HL to consider an alternative approach to their de-risking arrangement in the belief that alternative arrangements should be in place. Broadly speaking, the IGC believes that instead of solely targeting cash at retirement age other default approaches should also be available, targeting either flexible access or a secure income. The evident popularity of flexible drawdown clearly favours an option for funds to remain invested into retirement.

At present the membership demographic is such that the majority of members are in the early to mid-stages of their pension savings journey, and therefore only a small proportion of members overall are currently affected by any de-risking choice. However, the IGC strongly believes this is an issue which must be addressed as a priority to ensure that members are more suitably catered for at retirement. The FCA is also pursuing this point through their Retirement Outcomes Review. They are seeking feedback on proposals including:

- A requirement for providers to offer non-advised consumers a range of investment solutions known as 'investment pathways'.
- A requirement for providers to ensure that consumers invest in cash only if they make an active decision to do so.

HL recognises the concerns of the IGC and in the 2018/19 period HL committed to securing an external hire to address this issue. Having given careful consideration to the expertise required in this area, HL is expecting the newly created role to be filled in April 2019. HL is also awaiting the FCA's final decisions to their open consultation, expected in July 2019, as this is an important factor to the developments HL will work towards in this area.

Since 2016, at the IGC's request, a communication has been sent to members over their nominated retirement date who were 100% invested in cash to highlight this fact and explain their options. This exercise was repeated in 2018 and the IGC is pleased to note that the number of members in this position dropped from 39 to 20.

Action for 2019/20: The IGC will continue to monitor progress of the development of the de-risking arrangements available to members with the expectation of an updated range of solutions being available in 2019/20.

PERFORMANCE TABLE:	1 YEAR	3 YEARS	5 YEARS
DEFAULT FUNDS & BENCHMARK			
BlackRock Consensus 85	-5.17%	24.86%	34.94%
Schroder Managed Balanced	-7.14%	20.07%	25.06%
IA Mixed Investment 40-85% Shares TR	-6.09%	17.25%	26.26%
ABC FUNDS & BENCHMARKS			
Lindsell Train Global Equity	10.52%	70.79%	123.22%
IA Global TR	-5.59%	33.71%	49.63%
Baillie Gifford Managed	-2.61%	31.74%	45.94%
IA Mixed Investment 40-85% Shares TR	-6.09%	17.25%	26.26%
Newton Real Return	-0.85%	4.18%	7.52%
IA Targeted Absolute Return TR	-2.69%	2.44%	7.95%

Source: Lipper, performance periods 1 year (1/1/18-31/12/18), 3 years (1/1/16-31/12/18), 5 years (1/1/14-31/12/18).
Calculated as total return after charges.

3.1.6 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG)

Environmental, social and corporate governance (ESG) criteria refer to three main factors investors consider with regard to a firm's ethical impact and sustainable practices. With regard to ESG investing, examples of ESG criteria include a company's impact on climate change or carbon emissions, water use or conservation efforts, anti-corruption policies, board member diversity, human rights efforts and community development.

Increasing focus is being placed on ESG considerations, in particular within pension scheme investments. In June 2017, the Law Commission made recommendations to Government and to the Financial Conduct Authority (FCA) on Pension Funds and Social Investment. In June 2018, a joint response was published which stated "responsible investing can improve long-term returns for savers. Companies which have a strategy for dealing with climate change, uphold fair employment standards, and have strong and transparent governance structures should have a greater chance of succeeding and producing better investment returns in the long-term."¹

The FCA intends to consult on rule changes in the first quarter of 2019 which is expected to include a requirement for IGCs to report on their firm's policies for evaluating ESG considerations.

The IGC has asked HL how ESG considerations are factored into their investment research, specifically in relation to the HL Workplace Pension. HL has told us they are aware of the increasing focus in this area and has stated:

"We conduct in-depth interviews with fund managers where we discuss all aspects of their career to date, investment process and incentivisation. We want to know what they do, how they do it, and why they do it. We also want to know they're incentivised in a way that best aligns their interests with the interests of their investors. We delve into their investments philosophy, their research process, and how they construct their portfolios. We go over this in multiple meetings, it's never just one meeting and done. We learn about what they think makes a good company and how they go about analysing them to sort good from bad. Over time we'll also talk to them about the investment decisions that have gone right and wrong. This helps us see if they're putting what they say into practice. It's through this process that we'll see if they're backing poor management teams, companies that don't perform well operationally, or are otherwise weak. Ultimately, if a fund manager doesn't convince us they've got a robust process, or doesn't seem to be following their process it'll be a red flag."

HL does not currently place any specific emphasis on ESG within its workplace pension investment research. However, when considering the two default funds available, the IGC is aware of both BlackRock's and Schroders' commitment to ESG considerations, evidenced with the following statements on their respective websites:

*"BlackRock has undertaken a multi-year effort to integrate environmental, social and governance considerations into our investment process... This process provides portfolio managers with information and analytics on key environmental, social and governance issues impacting the companies in their investment universe."*²

*"We [Schroders] are rated A+ for our approach by the United Nations Principles for Responsible Investing organisation and the No.1 asset manager by ShareAction. We don't tick boxes, but add value through real insight and actively engaging to improve companies' behaviours and governance."*³

HL has also provided the IGC with information on their approach to corporate governance:

"As a business our approach to ESG is evolving, and we are committed to exploring this further over the coming year. Key activities include the development of a climate change policy, investigation in to signing up to the United Nations Principles for Responsible investing (which include the creation of a Responsible Investment policy) and undertaking the preparatory analysis for signing up to Living Wage accreditations. Additionally, we are seeking to align our work to the United Nations Sustainable Development goals, and we are a part of the Bristol Sustainable Development Goals Alliance. Our carbon emissions reporting is also reported in our Annual report."

We conduct questionnaires and surveys on the request of shareholders, such as the Dow Jones Sustainability Indices, and the Carbon Disclosure Project. We are included in the FTSE4Good index which demonstrates our commitment to responsible investing."

We pay all our taxes in full, in the UK. We are committed to adhering to the principles of the 2016 UK Corporate Governance Code. The Board is responsible to shareholders for strategic direction, oversight of management, and control of the Group's activities."

Action for 2019/20: The IGC will continue discussions with HL in respect of their ESG policies, bearing due regard to the FCA's 2019 consultation and subsequent response.

3.2 CHARGES

Fund charges are a key determinant in the assessment of value for money. The introduction of the MiFID II regulations (Markets in Financial Instruments Directive) in 2018 saw a step change in the clarity of reporting of charges. Each scheme member now receives a quarterly investment report which explains the charges they have incurred over the previous quarter.

¹ The Government's final response to the Law Commission's report: Pension Funds and Social Investment (Law Comm No. 374)

² <https://www.blackrock.com/corporate/responsibility/environmental-sustainability>

³ <https://www.schroders.com/en/strategic-capabilities/sustainability/>

3.2.1 DEFAULT AND ABC FUNDS CHARGES TABLE

	Platform fee	Fund charge before discount	HL discount	Fund charge after discount	Total fee	Transaction charge	Interest paid
DEFAULT FUNDS:							
BlackRock Consensus 85	0.45%	0.22%	0.13%	0.09%	0.54%	0.03%	n/a
Schroder Managed Balanced	0.42%*	0.60%	0.27%	0.33%	0.75%	0.09%	n/a
ABC FUNDS:							
Lindsell Train Global Equity	0.45%	0.72%	0.20%	0.52%	0.97%**	0.07%	n/a
Baillie Gifford Managed	0.45%	0.43%	0.15%	0.28%	0.73%	0.12%	n/a
Newton Real Return	0.45%	0.80%	0.20%	0.60%	1.05%	0.15%	n/a
DE-RISKING ARRANGEMENTS:							
Cash	0%	n/a	n/a	none	0%	none	0.03%-0.10%

*Platform fee reduced to ensure the overall charge (excluding transaction costs) is within the 0.75% default fund charge cap.

**In our 2017/18 report we incorrectly shown this as 0.90% when it should have been 1.00%. All three ABC funds have actually reduced in price since the introduction of the Wealth 50, following HL's renegotiations with these fund managers.

HL's platform fee is applied to each HL account separately and is tiered within bands, starting at 0.45% for values up to £250,000. Values between £250,000 and £1m are charged at 0.25%; values between £1m and £2m at 0.1%; and over £2m there is no charge.

There is no platform fee charged on money held as cash. The IGC notes that HL has a process in place to ensure that the difference between earnings and the distribution on cash is below the Government charge cap. A fair and competitive rate of interest is distributed and overseen by a Non-Executive Director.

The charges for the default funds are within the Government's charge cap of 0.75%. This means 100% of members have access to a scheme that meets the charge cap requirements. Some members take advantage of this while others have elected to invest in assets that may have higher charges. All charges are clearly disclosed within the fund literature.

The IGC notes the platform charge is higher than many other workplace pension providers. However, members also benefit from HL's considerable buying power, which enables the default and ABC funds to be offered at significant discounts to members. The result is the overall charges (platform fee and fund charges together) are not out of line with the market and the IGC is content that both the default funds and the ABC funds offer good value for money.

The real issue is whether the entire proposition represents value for money and the IGC continues to keep all dimensions of the offering under close review. At present the IGC is happy to confirm the services provided within the platform fee do represent good value for members.

3.2.2 TRANSACTION COSTS

The Financial Conduct Authority (FCA) issued Policy Statement PS17/20 in September 2017, which set out final rules and guidance to improve the disclosure of transaction costs in workplace pensions. These new disclosure rules took effect from 3rd January 2018. The rules place a duty on asset managers to provide full disclosure of transaction costs in a standardised form to any IGC, where members in the scheme can invest in their funds.

Although the transaction cost disclosure rules were restricted to funds held by workplace pensions (and also to Packaged Retail Insurance and Investment Products), in practice virtually all UK funds have made such disclosures since the beginning of 2018. These are widely available, including through the HL website, and allow for meaningful comparisons to be made between HL's fund choices and industry averages.

In accordance with the new rules, the IGC has the authority to request more in-depth information on these costs at its discretion. However, we are satisfied the disclosed numbers demonstrate that the default funds and the ABC funds are managing transaction costs well.

3.2.3 EXIT CHARGES

We are pleased to note the HL Workplace Pension terms and conditions have been updated to provide greater clarity on when exit charges apply to members.

At the IGC's request, reviewing the controls for monitoring exit charges is in scope of HL's current follow-up to the Workplace Pensions audit and we await the results in 2019.

3.3 ADMINISTRATION

Effective administration is at the heart of a well-run pension scheme. The IGC requests periodic updates from HL concerning scheme administration and on the whole we are satisfied by the standards which are in evidence. However, this could be improved by the establishment of service level agreements setting out delivery standards for all member-related administration – please see the following sub-sections for further comment.

3.3.1 TIMELY MANNER OF ALLOCATING CONTRIBUTIONS

The IGC is required to consider whether member contributions are processed promptly and accurately. HL has confirmed that during the period covered by this report 100% of member contributions have been collected and invested in a timely manner (all contributions were invested on the following day after being received). The IGC is satisfied that scheme transactions are processed promptly and accurately.

3.3.2 MANAGEMENT INFORMATION (MI)

The IGC has sought the development of formal service level agreements and correlating management information (MI) to codify the commitment regarding the processing of member contributions. It was the expectation of the IGC that HL would have a solution in place by the end of 2018; however this is not the case.

HL has provided assurances that it takes the processing of member contributions very seriously, as it does all of the administration processes it performs. HL acknowledges that formal service level agreements and correlating MI would enhance the monitoring and management of these processes. Enhancements being considered include, but are not restricted to, workplace pensions. Due to the substantive technology introduction and development costs HL is phasing investment and as such its introduction is not expected to be visible to the IGC imminently.

Action for 2019/20: The IGC will continue to press HL to develop and implement formal service level agreements and correlating MI for the processing of member contributions and all member-related administration.

3.3.3 GENERAL DATA PROTECTION REGULATIONS (GDPR)

Security of member data is a fundamental responsibility for any pension provider. The IGC is assured that HL is fully compliant with current data protection regulations, including the GDPR.

3.3.4 AUTO ENROLMENT AND RE-ENROLMENT SUPPORT

Auto enrolment is not a one-off event for employers or their staff. Every three years employers must re-enrol all eligible staff into their Workplace pension scheme.

HL provides continuing support to all employers to ensure they continue to comply with automatic enrolment legislation. HL employs a team of relationship managers, which the IGC has witnessed to be relevantly qualified and extremely knowledgeable, to provide employer support at initial set up and on an ongoing basis.

The IGC believes this additional service is a contributing factor to providing value for money for members.

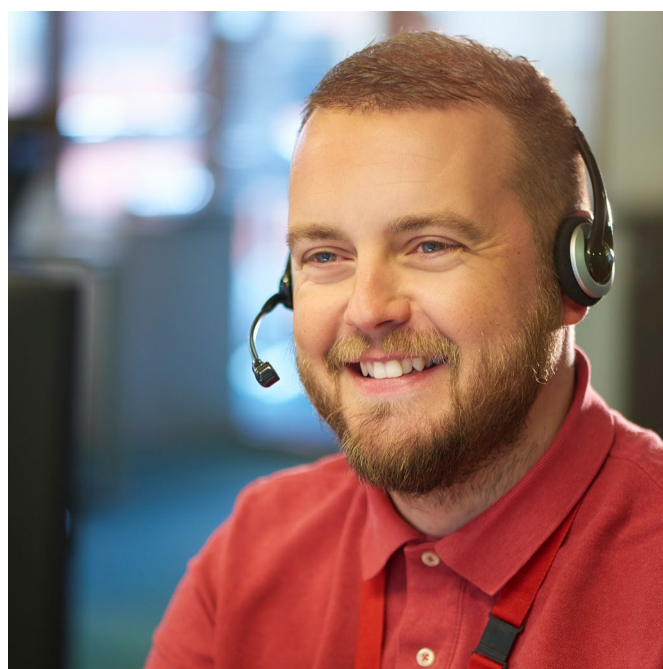
3.4 MEMBER SUPPORT

During the year, the IGC has observed the delivery of member support, which is part of the overall value for money proposition. There are three main areas of support provided to members:

- member helpdesk;
- onsite presentations and one-to-one meetings;
- communications – including the member websites.

3.4.1 MEMBER HELPDESK

The helpdesk receives enquiries from members which range from basic administration queries to complex issues relating to the tapered annual allowance or sophisticated investment products. While the helpdesk does not provide advice the IGC has observed a high level of competency and support with regard to complex queries. In addition, both calls and email queries are dealt with in an efficient manner. The IGC believes the member helpdesk is a key contributor to the provision of value for money services to members.



Year	Calls taken	Calls Missed	Missed %	% immediate answer (<5 secs)	Average Abandoned (sec)	Average Pick up time (sec)	Max Delay
2018	26478	746	2.8%	70.0%	27	14	07:27
2017	23511	880	3.7%	45.4%	27	19	07:51
2016	20291	843	4.0%	40.9%	25	20	04:09

Enquiry completed within	OVERALL			PERCENTAGE			CUMULATIVE %		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Same day	5472	4742	6368	78%	60%	58%	78%	60%	58%
1 day	1291	2100	3366	19%	26%	31%	97%	86%	88%
2 days	159	536	606	3%	7%	6%	99%	93%	94%
3 days +	86	565	676	1%	7%	6%	100%	100%	100%
Total	7008	7943	11016						

There has been a significant increase in calls and enquiries to the helpdesk in 2018 versus the previous two years, but these continue to be handled swiftly. In fact, more calls were answered in less than 5 seconds and more queries completed within the same day than in the previous two years. The IGC continues to be impressed by the level and quality of service provided to members via the helpdesk.

3.4.2 ONSITE SUPPORT

From 1st January to 31st December 2018 the team conducted 1,078 (1,150 in 2017) days at employer sites. This included 9,374 (9,384 in 2017) individual meetings and 689 (726 in 2017) financial education presentations. This is part of the core service which the IGC considers to provide added value to members. The IGC has observed presentations and it is noted that the HL team has also presented during unsociable hours to suit the membership's needs.

3.4.3 COMMUNICATIONS AND WEBSITE

The majority of schemes are provided with an employer-branded website. Members can review and change their investments online, plus there is a wide range of pension guides and interactive calculators to assist them with their pension planning.

Members can also access their accounts via the individual HL site or via an iPad app, iPhone app and Android app. Currently 61% (59% in 2017) of members are registered online.

Periodically, communications are sent to members to highlight the importance of specific aspects of their pension. In 2018 one of these campaigns centred on raising awareness of the importance of completing death benefit nominations, to ensure that in the event of a member's death their pension fund is paid to the person or persons they nominated. This campaign resulted in an increase in completed nominations, which the IGC believes to be a very positive outcome.

Varied, multi-channelled, and accessible communications are part of the core service which the IGC believes provides added value to members. The IGC's own survey of the membership has shown this is significantly valued by members.

3.5 SECURITY/PROVIDER STRENGTH

As previously noted, one of the PPI's stated outcomes that is deemed likely to be seen as positive for members when determining value for money, is the security of the member's pension pot. The IGC has engaged with HL at Board level to confirm the firm's commitment both to the workplace pensions market and to investing in the systems and talent necessary to ensure the highest levels of security of member funds and, more generally, to provide the infrastructure to achieve positive member outcomes. The financial strength of HL itself is fundamental to being able to do this.

3.5.1 FINANCIAL STRENGTH

HL maintains adequate financial resources at all times. The Financial Conduct Authority (FCA) regulates the investment services provided by HL and the European Directive CRD IV is directly binding on firms in the UK. As a result of this, the Group is required to carry out, at least annually, a comprehensive assessment of its risks and the amount of capital it must hold. The HL Board must demonstrate to the FCA that it understands its risks, knows how they could manifest, and the impact they could have on the Group.

HL has a strong balance sheet with large cash balances and no external debt. It has not previously issued debt, has never undertaken any external borrowing, and is not seeking to raise additional capital.

Additionally the Workplace Solutions business within HL has introduced in 2018 its own Risk Management Forum, chaired by the Head of the department. This forum manages the risks and controls relevant to HL Workplace pension schemes.

3.5.2 INTERNAL AUDIT REPORTS

The IGC has full visibility of internal audit reports relating to the HL Workplace business. The audits completed during this reporting period have been completed and actioned to the satisfaction of HL auditors and the IGC. At the IGC's request, reviewing the controls for monitoring exit charges is in scope of HL's current follow-up to the Workplace audit and we await the results in 2019.

3.5.3 CYBER SECURITY

This is a key risk to consider. The IGC has met the cyber security team during the reporting period and has been reassured that all possible measures have been put in place to prevent hostile cyber-attacks and to ensure the security of member data and the funds they hold.

The following update has been provided by the HL cyber security team:

"Protecting our clients' money and information is extremely important to us. 'Safe and Secure' is a core part of our corporate strategy. This is underpinned by a Cyber Security strategy that evolves to address the ever changing cyber threat, and which is managed by our Chief Information Security Officer and his teams. We continue to meet the requirements of standards and regulation such as PCI-DSS, PSD2 and GDPR. Aligning with best practice standards such as the SANS CIS, GCHQ's ten steps, ISO27002:2013, and COBIT 5 remains an essential part of our approach to security risk and control management. In addition we believe in ceaselessly testing our systems and processes. For example we manage a rolling programme of penetration tests and red team exercises, with accredited leading cyber security firms. We use the results from these exercises to improve our ability to detect and respond to security threats. Over 2018 we completed a major programme of work, to enhance the security of our client facing portal so it remains in pace with the changing nature of cyber-attacks. Our approach is one of 'defence in depth' and during 2018 we also invested further in our internal security teams and systems. This improvement is as ever, complemented by an ongoing programme of training and awareness and a network of companywide security champions."

HL has informed the IGC that there will be a focus on cyber security in their internal audit plan in the next 6 to 9 months.

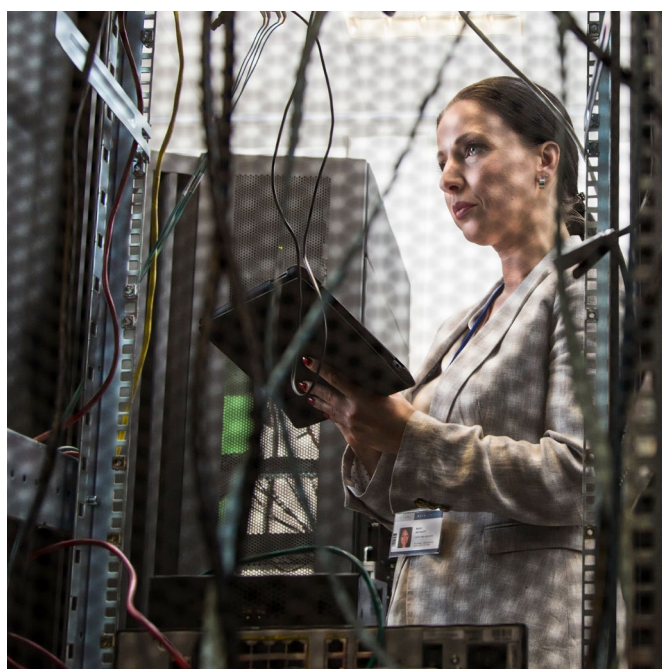
3.5.4 PENSION SCAMS SUPPORT

It's a sad fact that pension scams are on the increase in the UK, with fraudsters finding increasingly sophisticated ways to part savers from their money. The internet and advances in digital communications mean these kinds of scams are becoming more common and harder to identify.

The IGC has considered HL's approach to protecting members from pension scams. HL has a robust and proportionate process in place to mitigate the risk of transferring to a pension scheme which is potentially being used for a scam, while minimising any unnecessary delays. This process starts with each transfer pack issued to a member containing information about the risk of pension scams and could end with a decision being made by a senior member of HL on whether the transfer should proceed.

Any request which is a potential cause for concern is referred to the relevant internal Technical Team. This could be because the transfer is to a Small Self-Administered Scheme or SSAS (a legitimate type of pension scheme in its own right but one which is often used by scammers), there are concerns about the stated employer, an unregulated introducer is involved, or for a number of other reasons. The request then goes through one or more stages of increasingly detailed checks, which could include the reason for the request, the receiving scheme, the sponsoring employer, any adviser, proposed investments and whether HMRC can confirm they have no concerns with the scheme. Every stage ends with a decision to refer to the next stage; and then to either agree or refuse the transfer.

The IGC is very satisfied with HL's approach to protecting members from pension scams and we feel this is an important safeguard for members' retirement savings.



3.6 RETIREMENT FLEXIBILITIES

Members of the HL Workplace Pension have full access to HL's retirement services. As previously stated, the demographic of scheme membership is, in general, well below retirement age, however, the service offered at retirement is vitally important.

With the increase in options now available to retirees, the quality of communication with members at and around retirement is paramount. The whole package of communications sent to members approaching retirement has been kept under review by the IGC and we believe it to be of a high standard.

3.6.1 PENSION FREEDOMS ACCESS

Members have access to the complete range of pension freedoms and flexibility. This is unusual in a workplace pension scheme, as many of the more traditional schemes in the market would require a member to transfer to a separate arrangement to access the full range of freedoms and flexibilities. The IGC believes the accessibility and options provided by HL to members make a significant contribution to value for money for members.

In addition, members can access financial advice from HL's in-house advice team. This is at a separate, explicit cost, specifically for the advice provided.

3.6.2 DRAWDOWN PROVISION

HL has been offering drawdown since 2006. They have been voted Best SIPP Provider by readers of 'What Investment' for the last nine years running, together with the Gold Standard Awards for Retirement in 2014-2018. The IGC believes members have access to a high-quality drawdown service, as these awards demonstrate.

3.6.3 ANNUITY BROKING

The open market annuity broking service, which includes access to enhanced annuities, is available to all members, at no cost to the member. Online tools are also comprehensive and highly functional. The IGC believes this service provided by HL to members is a contributor to value for money for members approaching retirement.

Action for 2019/20: The IGC will explore in more detail the support available to members approaching retirement.

3.7 FEEDBACK

The IGC believes it's crucial that members' own views are sought on what constitutes value for money, as for the most part the IGC assessment will be driven by what matters to members. Since 2016, the IGC has sent a survey each year to the members of the HL Workplace Pension. The aim is to develop a better understanding of members' overall views on value for money but also to note any shifts in attitudes or perceptions over the preceding 12 months. The IGC's research builds on in-house research carried out by HL which has been useful for the IGC's initial deliberations.

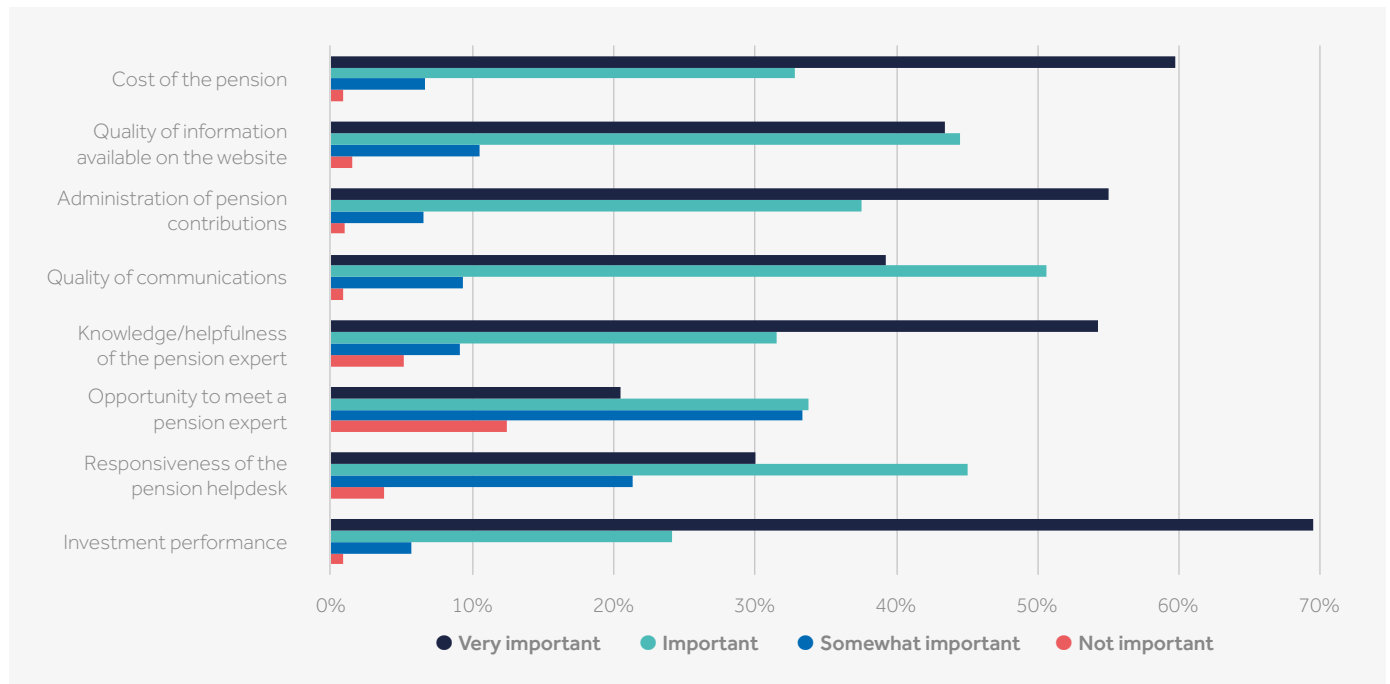
The IGC is pleased to note that once again the survey responses have broadly been very positive.



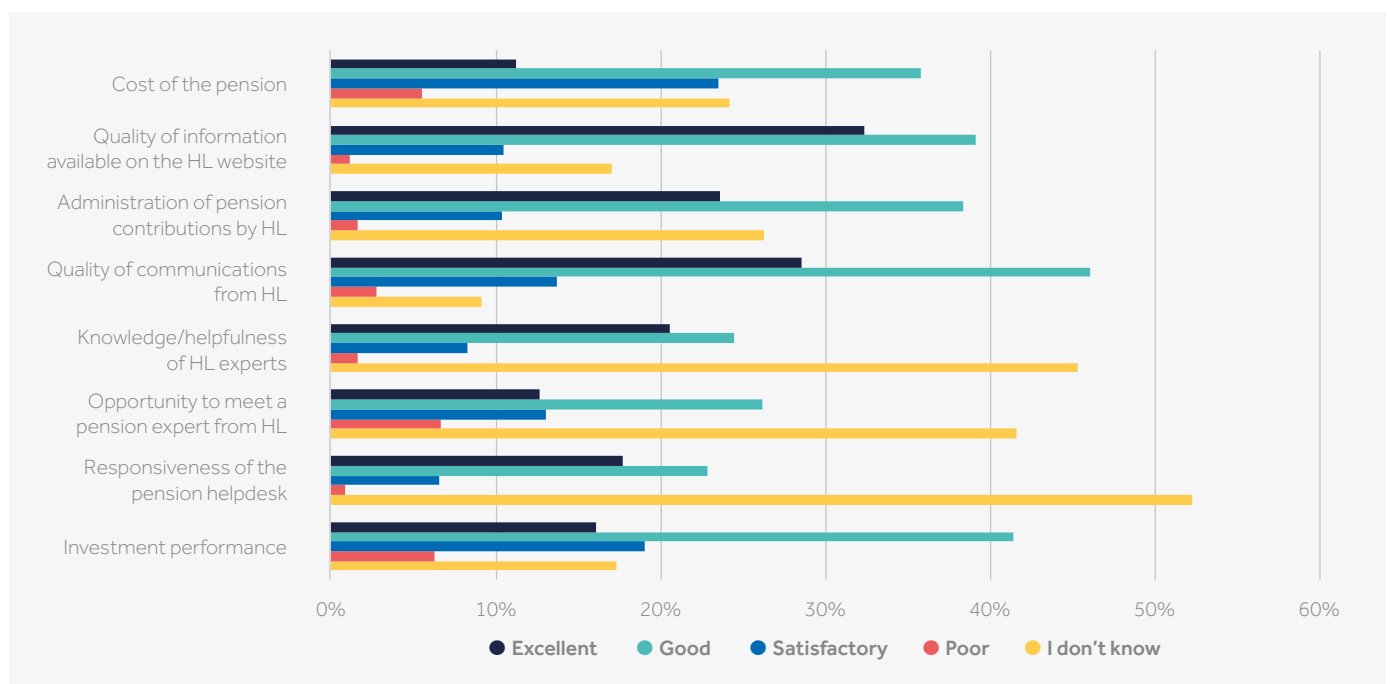
3.7.1 IGC MEMBER SURVEY 2018

Responses from the 2018 and 2017 surveys have been considered in tandem by the IGC, with a summary of the key outputs shown below. The survey was sent to over 50,000 members and was completed by 2,513 respondents, compared with 2,255 in 2017 and 1,573 in 2016. 14% of the 2018 respondents also completed the survey in 2017, so this is largely a new cohort of members.

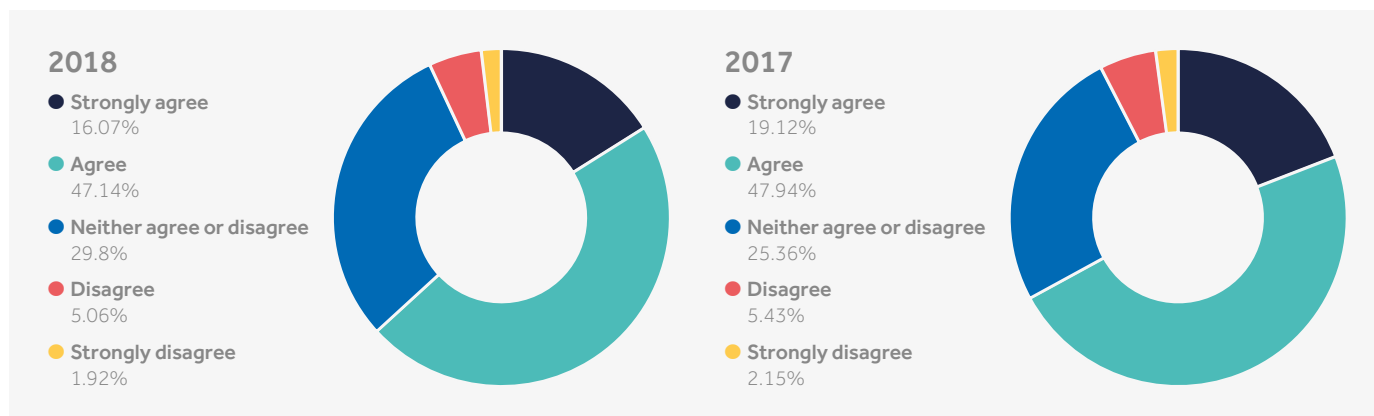
1. When thinking about a company pension, how important are the following features to you?



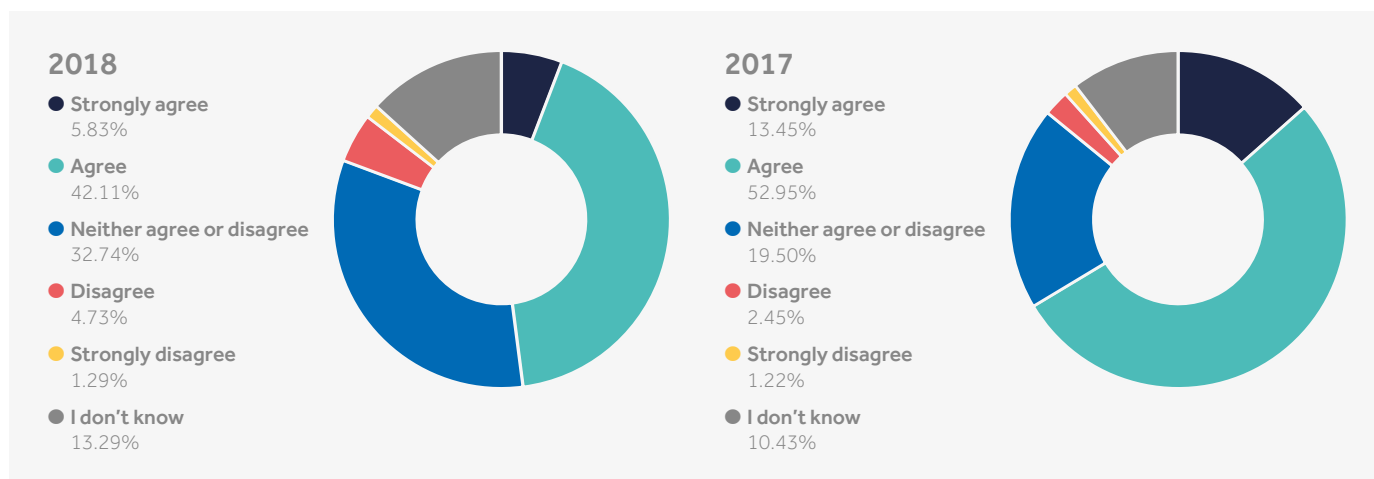
2. Please rate the following features of your HL Workplace Pension:



3. To what extent do you agree with the statement 'I feel my employer provides a good pension plan'?



4. To what extent do you believe your HL Workplace Pension represents value for money?



Strongly agree	<ul style="list-style-type: none"> - Excellent contribution rates from employer - Excellent level of service from HL - Flexibility and choice around pension plan - Good investment performance
Agree	<ul style="list-style-type: none"> - Good contribution rates from employer - Occasional onsite visits from HL - Investment performance is acceptable - HL pension is easy to view - I trust my employer
Neither agree or disagree	<ul style="list-style-type: none"> - No comparison to other pension companies - Good service from HL, but high fees - It seems comparable to friends/competitors' pension schemes
Disagree	<ul style="list-style-type: none"> - Company only contributes the minimum - Poor investment performance - Other employers offer more generous pension schemes - Old pension scheme performed better
Strongly disagree	<ul style="list-style-type: none"> - Poor investment performance - Contributions that are too low

It is noted that the responses to this question have shifted significantly this year to 'neither agree or disagree', largely from 'strongly agree' and 'agree'. It's not clear at this time why this might be the case but, as the majority of the 2018 respondents were new to this survey, it does show the variance in responses that could be achieved from different groups of members. While nearly half of all respondents did 'strongly agree' or 'agree' that the HL Workplace Pension represents value for money, it does raise the question why so many members are unsure, albeit the verbatim responses to question 5 provides some indications.

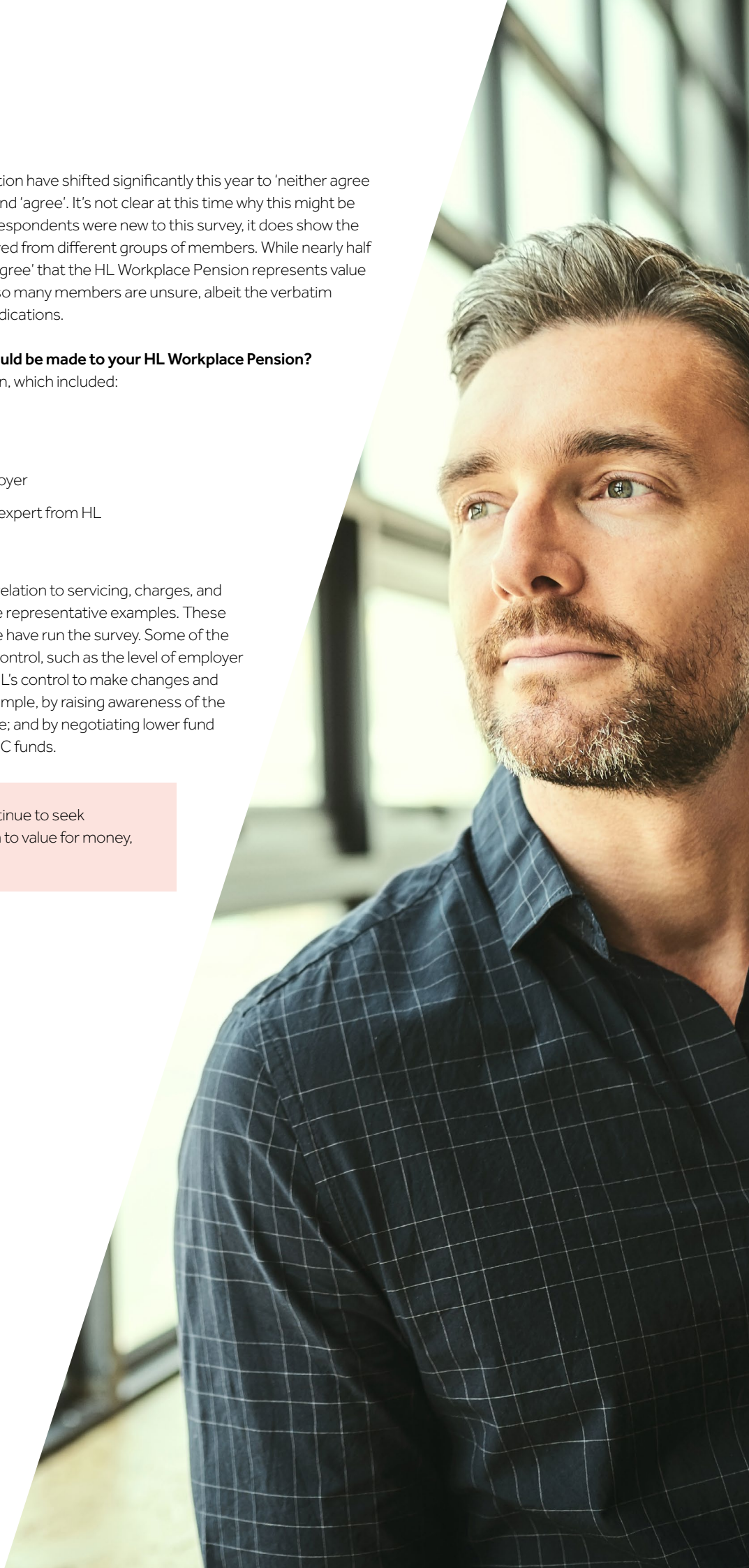
5. Are there any improvements that could be made to your HL Workplace Pension?

There were 884 responses to this question, which included:

- Lower fees
- I don't know what to improve
- Better contribution rates from my employer
- Increased opportunity to speak with an expert from HL
- Improved investment performance

The comments received were typically in relation to servicing, charges, and fund performance – those listed above are representative examples. These comments have been similar each year we have run the survey. Some of the feedback concerns matters beyond HL's control, such as the level of employer contributions. However, where it's within HL's control to make changes and improvements, they have done so. For example, by raising awareness of the range of member support options available; and by negotiating lower fund charges with the fund managers of the ABC funds.

Action for 2019/20: The IGC will continue to seek members' views, specifically in relation to value for money, via the IGC member survey.



3.7.2 IGC ENGAGEMENT WITH EMPLOYERS

Members of the IGC attended a number of employer governance committee meetings during 2018 to witness the quality of presentation and information provided by HL's relationship managers and also to learn more about employer priorities. It's clear the effort put into governance meetings by the HL relationship management team is much appreciated by employers. The agenda papers are comprehensive and very well presented, the management information provided is appropriate and, on the evidence of those meetings attended, the level of discussion about pension matters and current issues attracts a high level of employer engagement. Specific comments about the service provided by HL are acted upon promptly and it is evident, as a consequence, that the meetings are highly valued by employers and make a major contribution to improved member communications.

It is the IGC's intention to seek feedback from a wider group of employers in 2019 and as such will aim to create a survey for this purpose, to be issued directly from the IGC.

Action for 2019/20: The IGC will seek employers' views, specifically in relation to value for money, via a new IGC employer survey.

3.7.3 COMPLAINTS

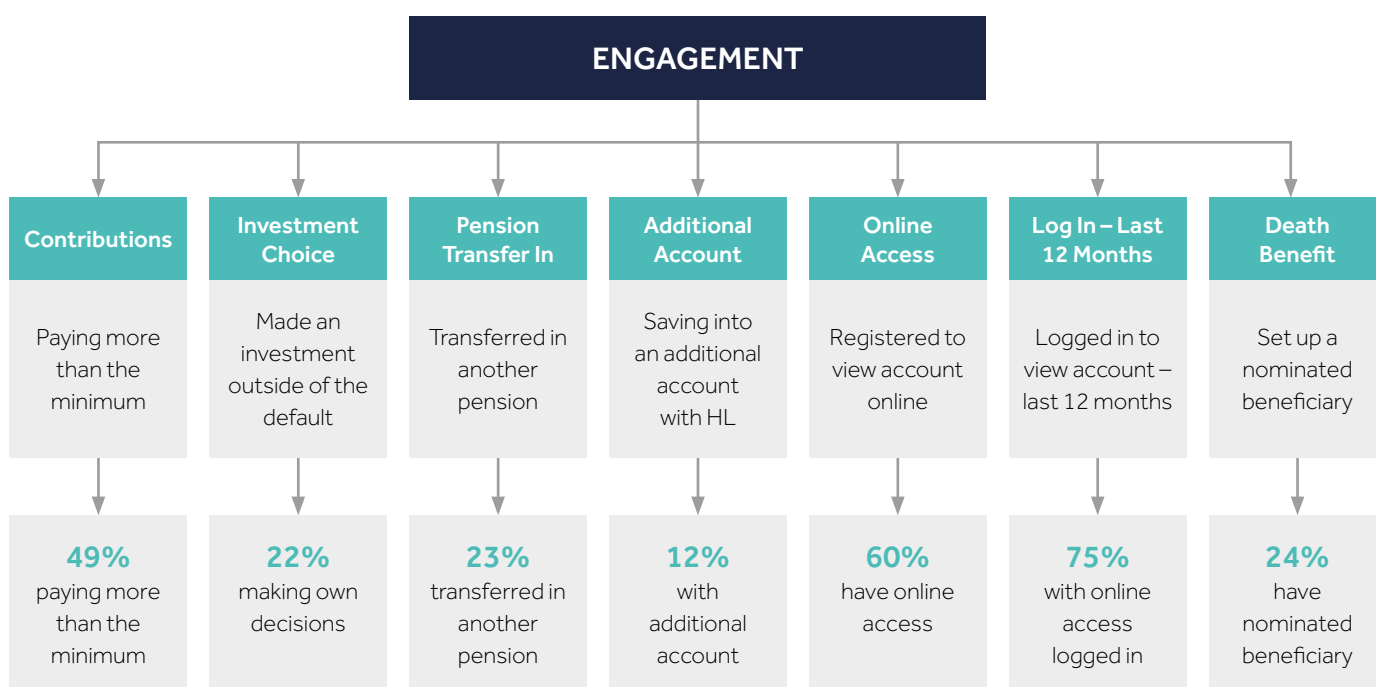
During the period of this report, 12 complaints, most of which related to administrative tasks, were received by HL regarding the workplace pension. 5 of these complaints were upheld.

The IGC has no concerns in respect of these complaints given the extremely low volume and that none were considered to be of a serious or systemic nature. This represents less than 0.1% of the membership.

3.7.4 EVIDENCE OF ENGAGEMENT

The IGC is particularly keen to explore the hypothesis that greater member engagement can lead to better member outcomes. In particular, the IGC believes that additional member contributions (above the minimums offered by their employer) and active fund choices, are indicators of increased engagement.

HL has developed a framework, which includes a range of indicators, to quantify levels of member engagement. An extract can be found below:



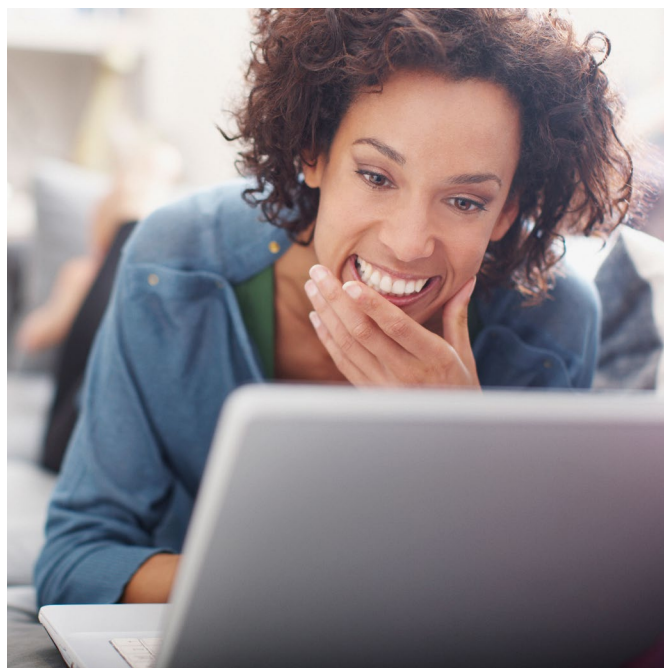
Source: HL Internal, September 2018

With regard to the above actions, HL has noted that 76% of members have engaged in at least one of these activities.

The IGC is particularly pleased with this development from HL and following a request from the IGC, this information is now produced for employer governance meetings to support conversations the HL relationship managers have with their employers regarding activities or initiatives which could be undertaken to increase member engagement.

4. SUMMARY OF IGC ACTIONS FOR 2019/20

- Revisit each of the default option fund managers to see first-hand their approach to these funds.
- Continue to monitor progress of the development of the de-risking arrangements available to members with the expectation of an updated range of solutions being available by the end of 2019/20.
- Continue discussions with HL in respect of their ESG policies, bearing due regard to the FCA's 2019 consultation and subsequent response.
- Continue to press HL to develop and implement formal service level agreements and correlating MI for the processing of member contributions and all member-related administration.
- Explore in more detail the support available to members approaching retirement.
- Seek members' views, specifically in relation to value for money, via the IGC member survey.
- Seek employers' views, specifically in relation to value for money, via a new IGC employer survey.



5. MEMBER REPRESENTATION

HL has put in place the following arrangements to be used by members who would like to make representation to the IGC:

Email: IGC@hl.co.uk

Or by writing to;

FAO: IGC

Freepost HARGREAVES LANSDOWN

6. CONCLUSION

HL continues to make improvements to its workplace pension proposition but there are two red flags in our report.

Firstly - The default strategy puts member funds all into cash at retirement.

A relatively high proportion of members are not in the default strategy at retirement. The data across the portfolio indicates the majority of members who are in the default strategy retiring in the next five years have relatively modest fund sizes. This makes cash a not unreasonable target when considering the HL pension in isolation (this may not be valid where members have other pensions with other providers). This will not be the case in years to come, so it's essential that the default strategy of members having the whole of their fund in cash at retirement needs to be reviewed. The review will need to take into account the strategy, systems, communications, legal and transition considerations.

Secondly - HL delivers excellent service but needs to develop formal Service Level Agreements and correlating Management Information, with supporting systems to demonstrate this to members and scheme sponsors.

While we have escalated our observations and requirements to senior management at HL there has been no need to escalate anything to the Financial Conduct Authority (FCA).

All the other points considered in the report are positive. The IGC is particularly impressed with the communications work which is evolving to demonstrate effectiveness and measure engagement with members. Considerable resource is also invested in security for the protection of clients' assets, including cyber security.

The IGC is content that overall, the HL Workplace Pension continues to offer good value to members.



