



Legal & General
Independent Governance Committee
Value for Money:
A Framework for Assessment

March 2021

Introduction

The Independent Governance Committee (IGC) was established on 6 April 2015.

The IGC strive to ensure that Legal & General's workplace arrangements, such as group personal pension plans and stakeholder pension arrangements offer value for money for you, our members.

This framework sets out our approach to ensuring you receive value for money and the processes we undertake to ensure this.

We assess value for money every year and publish our evaluation in our Annual Report which is published around the end of July each year. The latest report can be found on our website at: <https://www.legalandgeneral.com/workplace/igc/documents-reports/>

We recognise that defining value isn't as simple as just looking at the costs and charges that you pay in your pension arrangement. It also needs to consider the investment options, investment returns and services that you experience or are made available to you while you have money invested in your Legal & General pension plan. Therefore, our definition of 'value' looks at how we assess the worth of services offered by your pension scheme in terms of the following:

- Costs and charges;
- Default investment strategies and investment choice
- Investment returns (which are influenced by the investment strategy);
- Accessing your pension;
- Customer service and administration;
- Member engagement; and
- Environmental, Social and Governance matters.

In assessing Legal & General's performance against this framework, we receive regular reports from the business covering investment performance, administration service standards, developments in investment strategy, including default arrangements, and in member engagement. We also work with other IGCs in benchmarking exercises which allow us to compare Legal & General to other providers in a number of areas.

We are always happy to receive feedback from members telling us what is important to them in their interactions with Legal & General. If you would like to share your thoughts, please contact us directly at: IGC@lgim.com

As legislation changes, it is possible that the remit of IGCs will be extended beyond oversight and the assessment of value for money of workplace pension arrangements such as group personal pensions and stakeholder pension arrangements. The IGC's remit also extends to some parts of individual pension policies. This framework for assessment will, therefore, be kept under review and updated accordingly.

Costs and Charges

In any workplace pension arrangement such as a group personal pension or stakeholder plan, there will be costs and charges. These include the costs of administering the plan as well as the costs of managing the funds in which your savings are invested. It is the IGC's role to ensure that, firstly, costs and charges are compliant with legislative requirements, and secondly, they're reasonable and represent value for the services you receive as a result.

Within Legal & General's workplace pension arrangements, the main costs and charges you will see are the Annual Management Charge (AMC) and the Fund Management Charge (FMC). These charges added together represent the headline cost of your pension plan given the funds you have chosen to invest in.

Automatic Enrolment refers to the requirement for employers to enrol their employees into a pension plan when they meet certain criteria. If you choose not to make your own investment decisions, your retirement savings are invested in a default fund. Default funds of pension schemes that are suitable for Automatic Enrolment must not by law have a total charge of more than 0.75% per annum – which is £7.50 per £1,000 invested.

Other non-qualifying default funds that have total charges above 1.0% for members not selecting their own investments should be reviewed and potentially re-priced in line with the approach being taken on the OFT audit into legacy workplace pensions.

The IGC expects Legal & General to make sure that the default pricing structure is clear and understandable to members and where possible they describe to members what these costs mean in pounds and pence. The IGC also monitors the levels of these charges against legal requirements and against what they consider to be reasonable given the nature of the investments of the default fund.

The IGC also monitors the headline pricing of non-default investment options that are made available to members to self-select, applying the same test of reasonableness given the nature of the funds available.

In addition to these headline charges, fund managers incur additional "transaction" costs in the day to day management of their funds, which are incurred when they buy and sell holdings within the funds. The IGC monitors these costs which they expect to be at an appropriate level commensurate with the objectives of the fund in question, its performance, market conditions and trading activity. The IGC's objective is to ensure such costs are minimised and we will make a determination and request an explanation from LGIM, or the fund manager, if we feel the level of transaction costs is unjustified.

The IGC discloses information on costs and charges in its [Annual Report](#).

Members may also incur costs when they access their pension savings. The IGC expects that these costs, if any, are not unreasonable given the service provided and are comparable to costs charged by other providers in the market for similar services. Where charges are considered to be out of line, the IGC will seek to understand the justification for such charges, or will recommend that they are reviewed.

Default strategies and investment choice

Automatic Enrolment qualifying schemes must always provide a default investment strategy (the fund your savings will be invested in if you decide not to choose your own investments).

Legal & General offers a number of ready-designed default funds that employers can select when setting up their arrangements.

The IGC monitors closely the appropriateness of these default funds that are made available by Legal & General. The IGC will consider whether the default strategies are designed and executed in members' interests and have clear aims and objectives.

The IGC expects that such defaults will be thoroughly reviewed periodically by Legal & General, and in any event, no less frequently than every three years. We expect Legal & General to evolve the default options that are available to reflect customer demand or observed customer behaviour.

Some employers choose to design their own default funds by taking advice from an investment adviser appointed by them. The IGC seeks assurance from Legal & General that they are working with these employers to ensure that such defaults are reviewed at least every three years by the employer and their advisers and that they remain appropriate to the membership.

Where employers cease to take independent advice on their default strategy, the IGC expects Legal & General to transition that employer's funds into a Legal & General designed default which will be subject to the regular monitoring and review described above.

The IGC monitors the progress of legacy default transitions where employers no longer take advice on their own default arrangement in a timely manner.

The IGC checks that Legal & General monitors the performance of all Legal & General designed default strategies on a quarterly basis to ensure their risk and return profile remain compatible with their stated objectives. This monitoring should include short and long-term performance in terms of both returns and risk; whilst the focus will be on long-term performance, the monitoring of short-term performance is necessary to detect early signs of potential issues. As default strategies are generally multi-assets and are constructed as a fund of funds, the IGC expects the monitoring to include the underlying funds of the default fund as well.

The IGC requires Legal & General to monitor costs and charges, including transaction costs, of all default funds regularly to ensure they remain appropriate; we expect Legal & General to publish the results of their analysis annually.

The IGC expects employers to provide appropriate investment (fund) choices for members who wish to customise their pension savings rather than opting for the default strategy set by their employer. The range should also include any specific investment type, such as ethical funds, demanded by members. The IGC expects the fund range to be sufficiently diverse to cover major asset classes but not too diverse to cause confusion and make decision making difficult for members. All funds are expected to have clearly stated objectives and appropriate benchmark against which their performance can be compared. Factsheets for all funds are expected to be simple to understand and remain up-to-date at all times.

The IGC requires Legal & General to review the appropriateness of standard investment choices at least triennially. Legal & General is to ensure that employers, who have a customised fund range, also review the appropriateness of the range at the same time as the triennial review of their default strategies by their investment adviser.

Investment returns

The IGC expects Legal & General to monitor the performance of all funds on the platform on a quarterly basis to ensure their risk and return profile remain compatible with their stated objectives. The monitoring should include short and long-term performance in terms of both investment return and risk; whilst the focus will naturally be on long-term performance, the monitoring of short-term performance is necessary to detect early signs of potential issues. In addition, the IGC expects Legal & General to regularly review and satisfy itself of the investment management capability and governance strength of the fund management organisations selected to manage the scheme assets.

The IGC requires Legal & General to monitor costs and charges, including transaction costs, of all funds regularly to ensure they remain appropriate; we expect Legal & General to publish the results of their analysis annually.

Since April 2020, the IGC must now consider and report on the adequacy of Legal & General's policies on other financial considerations in relation to investments and whether and how those considerations are taken into account in Legal & General's investment strategy or investment decision making. The FCA expects IGCs to determine what they consider to be a financially material consideration and whether it should be taken into account and the IGC carried this out through their work in 2020.

When the IGC considered the adequacy of Legal & General's policies regarding all of the above aspects, the IGC formed a view as to whether:

- A policy sufficiently characterises the relevant risks or opportunities;
- It considers that a policy seeks to appropriately mitigate those risks and take advantage of those opportunities;
- Legal & General's processes have been designed to properly take into account those risks or opportunities;
- A policy is appropriate in the context of the expected duration of the investment; and
- A policy is appropriate in the context of the main characteristics of the actual or expected relevant policyholders or pathway investors.

Accessing your pension

The IGC expects that members should be able to access their pension savings in whichever way is permitted by legislation and to be able to do this without having to transfer to other products (incurring transaction costs) if they do not wish to do so.

Members may take advantage of all the retirement flexibilities available such as:

- purchasing an annuity which is a regular retirement income for life;
- taking retirement savings entirely as cash either in one go or as a number of lump sums with the rest remaining invested; or
- taking a regular income and leaving the remaining funds invested – known as flexi-access drawdown.

Legal & General will provide guidance to you when you're deciding how to access your benefits through communications which aim to be clear, helpful and straightforward to access.

Although Legal & General isn't allowed to offer financial advice directly to members, the IGC have worked with the company to provide access to sources of financial advice at reasonable cost so that members are supported in making informed decisions. Legal & General will allow you to take advantage of 'facilitated adviser charging', which means you can pay for financial advice on your retirement options directly from your pension pot to help you make the best decision for you according to your individual circumstances. This option is not available for Group Stakeholder members.

Investment Pathways were introduced by the Financial Conduct Authority (FCA) from 1 February 2021. They are designed to help support members make investment decisions when they are in flexi-access drawdown. Members are asked to choose from four customer objectives, and behind each one sits an investment solution. The IGC's remit has been extended to include Investment Pathways for both workplace and individual pensions, and the IGC are now required to assess the value for money offered by them. This involves assessing whether the Investment Pathway investment solutions are designed and managed in the interests of members, the aims and objectives are clear, the performance is regularly reviewed, core financial transactions are processed promptly and accurately, assessing the level of charges and ensuring the communications to members are fit for purpose and take into account members' characteristics, needs and objectives.

Member service and administration

Legal & General sets service standards for all major service elements. The IGC considers whether these standards are appropriate given the tasks and monitors Legal & General's performance against them.

The IGC expects service standards to be met in at least 95% of cases. Where this expectation is not met, the IGC will seek to understand any underlying issues and expects the business to have in place a recovery plan. The IGC will monitor the impact of the recovery plan and any unresolved matters will be escalated within the business.

Performance of the member helpline is also monitored against expected service standards.

The IGC will take into account customer satisfaction scores and complaints when reviewing administration performance.

Legal & General are developing and promoting technological solutions to enhance customer service. This includes providing the means for members to self-serve if they wish. These solutions include Manage Your Account, an online portal where members can access their own information, including fund value, and make certain changes.

The IGC periodically review such tools and expect them to be clear, easy to use and reliable. They also expect high quality provision to be maintained for those members that don't want to self-serve.

Member engagement

Members must be supported in managing their pension savings in an engaging way using a variety of media.

The IGC expects Legal & General to continually evolve its member engagement proposition (digitally and otherwise) to encourage more members to actively take an interest in their pension savings and to help them to make good decisions for themselves at different life stages.

We expect to see

- a variety of media used, acknowledging different generational preferences,
- simple language,
- clear calls to action at different life stages,
- a variety of campaign materials for use by employers.

As a result, we would expect to see an increase in the proportion of members taking an active interest in their pension savings, as measured, in part, by the number of members registered with Manage Your Account and those using it actively.

A member forum will be held each year, hosted by the IGC, to allow members to find out more about how their pension arrangements are managed and to ask questions of the IGC. The IGC will work with Legal & General to ensure that the member forum is accessible to as many members as possible. The member forum is now held virtually to reach more of our members.

Periodically, the IGC will commission member surveys or research which will help them in the value for money assessment. The surveys and research are likely to focus on different issues each time, but the focus will reflect the work of the IGC at that time.

The IGC also monitors member complaints to understand if there are any inherent underlying issues of service, performance or communication that need to be addressed.

Members can leave feedback by contacting us via our website:

<https://www.legalandgeneral.com/workplace/igc/>, or by emailing: IGC@lgim.com

The IGC will also seek feedback from employers who use Legal & General for their workplace pension arrangements in their assessment of overall value for money.

From April 2020, the IGC have new responsibilities with regards to communications. We must now assess communications to ensure they are fit for purpose and properly take into account members' characteristics, needs and objectives. We do this through looking at member data to understand member characteristics as well as hearing directly from members.

Environmental, Social and Governance (ESG)

The IGC expects Legal & General to identify and, where possible, to quantify ESG in all investments they make on behalf of members and to take appropriate steps to protect value, either through stewardship and engagement or through divestment if necessary.

We expect Legal & General to conduct this work with the very long-term view in mind. We ask Legal & General to consider ESG in managing risks and ensuring an investment's long-term sustainability.

We ask Legal & General to explain their policies and their approach on ESG issues - this includes:

“E”

- Climate change and its impact on the value of companies we own
- The risks to the climate caused by companies we own
- Pollution of land, sea and air that may damage food supplies, the ecosystem and human health

“S” - The attitude, policies and practices of companies we own:

- Living wages
- Human capital development
- Tax policies
- Their role in the communities in which they operate
- Corporate Social Responsibility
- Modern slavery and human rights

“G”

- Board composition
- Executive remuneration
- Diversity
- Risk Management
- Auditor appointment and risk controls

We also ask for evidence that they have implemented their policies through engagement and voting.

Finally, we seek member views on ESG issues from time to time. This helps to inform our views and our challenge to Legal & General, but we do not feel obliged to set policy to follow the views of what may be a very passionate and vocal segment of the membership. If members particularly want to exclude certain activities from their portfolios, they can express these views through making their own bespoke fund decisions.

We support Legal & General's policy of stewardship where they engage with companies with the objective of using their influence and, if necessary, their votes, to drive positive change that results in less harm being done. Only where it is clear that engagement will not work, do we support divestment and Legal & General is in agreement with us on this.

The objective is to secure the sustainable wealth creation that will help members to achieve their financial objectives in a world that's worth living in.

From April 2020, the IGC have new responsibilities to consider ESG matters. We must consider and report on the adequacy and quality of Legal & General's ESG policies, covering ESG financial considerations, non-financial matters, Legal & General's investment strategy, stewardship and how they have implemented these policies. We worked on this during 2020 through setting up a working group and reviewing Legal & General's policies and found these to be adequate.