Dear Plan Member

I chair Standard Life's Independent Governance Committee (IGC). As the name implies, we are an independent body responsible for overseeing the governance of Standard Life's workplace personal pension plans. These amount to 1.3 million individual member contracts across 30,593 schemes, with total assets of £24 billion.[1]

We have just produced our first annual report. As the full report runs to over 40 pages, there is an executive summary. The report explains the work we have completed in our first year.

We have also reviewed both the older and newer-style pension products provided by Standard Life, to see whether they offer value for money at the range of prices paid by members.

The report gives more details, including the way that we defined 'value for money' and how we assessed whether Standard Life's pension schemes provided it. In summary, we conclude that Standard Life does provide value for money. Irrespective of our conclusions on value for money, members should note that adequate contributions are needed throughout the lifetime of pension saving to achieve a suitable level of income in retirement.

All of the major UK workplace personal pensions providers have Independent Governance Committees, known as IGCs. This follows the Office of Fair Trading's report on the industry in 2013. Like any IGC, our duty is to act solely in the interests of members, and to independently review and challenge the provider, in our case Standard Life. Our most important duty is to review Standard Life's products to see whether members are receiving value for money.

We have also had another important task. In 2014, a committee known as the Independent Project Board examined the charges of UK workplace pensions schemes. It published the results of this examination, known as the 'legacy audit', in December 2014. In June 2015, Standard Life responded by proposing changes to its older-style pension plans. The IGC reviewed these proposals, discussed them with Standard Life and challenged them where necessary.

We have now agreed a revised set of proposals, and are currently working together on an implementation plan which the IGC will monitor. When the proposals are implemented in November 2016, 145,593 current members and 69,659 former members[2] will see the costs of their pension plans go down. No member will be charged more than 1.00% a year unless they choose to pay for ongoing financial advice or to invest in more expensive options.

If you are unsure of which type of pension plan you have with Standard Life (and therefore how you are affected by this review) please refer to your plan documentation, or phone Standard Life on **0345 60 60 075**.

Thank you for reading this report. You can also find it online at **www.standardlife.co.uk/igc**
If you would like to contact the IGC you can email us from the IGC home page **www.standardlife.co.uk/igc**
We would also welcome your specific feedback on the report via our short online questionnaire.

Rene Poisson
IGC Chair

1,2. Information correct as at 31 December 2015 (source: Standard Life)

Summary Report

1. How we operate

The IGC's work is governed by a Terms of Reference document **www.standardlife.co.uk/igc** This was written jointly by the IGC and Standard Life, and is based on requirements set by Standard Life's regulator – the Financial Conduct Authority (FCA). If the IGC is not satisfied with Standard Life's products or proposals, we will challenge them. We may also discuss our concerns with the FCA, and write to members.

The IGC is made up of five people. Four of them are independent of Standard Life, and were appointed from the open market using a recruitment agency. The fifth is employed by Standard Life, but is contractually required to ignore Standard Life's interests when acting as a member of the IGC (**see Appendix 1**).

The IGC intends to meet at least four times a year, and more if necessary to fulfil its duties. In the year to 29 March 2016, the IGC met on 18 separate occasions.

2. Our core focus in 2015

2.1 THE LEGACY AUDIT

In 2013, the Office of Fair Trading studied the pensions market. One result was that in 2014, a committee known as the Independent Project Board, or IPB, examined the charges of some UK workplace pension schemes using as its benchmark a 1.00% total charges test. This examination is known as the"legacy audit". The IPB's full report can be found at **https://www.fca.org.uk/static/documents/defined-contribution-workplace-pensions-ipb.pdf**
In 2001, Standard Life had carried out a review of pension charges, as a result, over 80% of members already experienced a single annual management charge of less than 1.00%.

IGCs were created in April 2015. The Standard Life IGC reviewed the IPB report, and then asked the company to do an updated and more complete analysis of how many members were paying ongoing annual charges of more than 1.00% of their savings.

Standard Life reported that, at 31 December 2015, some 176,881 current members of workplace personal pension schemes (and an additional 89,803 former members) were paying over 1.00%. It identified four separate reasons for this, one or more of which might apply to any member: investment in a Standard Life specified default fund carrying a charge above 1.00% (typically 1.02%); exit charges; charges to recoup upfront or ongoing commission paid to their adviser; and/or, a specific investment decision by the individual member to use a fund with a higher charge (**Appendix 4 of the main report**).

The IGC discussed these findings with Standard Life, and the company agreed to make changes to the charges for Standard Life specified default funds. Once these have been made, no current or former member will effectively pay more than 1.00% a year for a Standard Life default fund which formerly had a charge of up to 1.02% and the average charge across relevant workplace schemes is expected to be 0.70%.

Where current charges are over 1.00% and one reason is that Standard Life is recouping commission previously paid to an adviser, Standard Life will cap the total cost at 1.00%.

These measures taken togetherwill benefit 145,593 current members of schemes, and 69,659 former members.

For those members who previously chose a more expensive investment option and/or pay for ongoing financial advice, we have agreed two further actions:

- Standard Life will write to one or more of: (i) the adviser; (ii) the employer's governance committee; and/or (iii) the individual member. It will tell them that they are in a higher charge fund, and remind them that they should consider whether that is still appropriate for them.

- Where members are paying charges above 1.00% because they receive advice, and Standard Life collects and passes those additional fees to the adviser, each member's agreement will be refreshed so that members only pay charges above 1.00% if they wish to receive ongoing advice.

Standard Life will need to make some significant systems changes before it can complete these actions. The IGC has agreed an implementation plan with Standard Life, to be completed by 1 November 2016.

As a result of all these changes, from 1 November 2016, none of the 176,881 current (or 89,803 former) members paying more than 1.00% as at 31 December 2015 will continue to do so, unless they have elected to remain in a more expensive investment option or to continue paying for ongoing financial advice. The same applies to all members who joined any of the affected plans after 31 December 2015.

2.2 EXIT CHARGES

With some older-style products, when a member wants to access their funds before the end date stated in their policy contract, they may have to pay exit charges. As the provider's initial costs are spread over the full life of the policy, an early exit means that some costs would otherwise not be recovered. Exit charges are intended to recover those costs. We have discussed the justification and level of exit charges with Standard Life.

We were also aware of various consultations taking place on the proper treatment of exit charges. As those consultations had not finished by 31 December 2015, the IGC reached an interim agreement with Standard Life that no member aged 55 or over who wishes to exit a policy will pay a charge of more than 5.00% of their plan value.

Standard Life has 2.6m pension policies, including workplace personal pensions, trust based schemes and individual pension plans. Of those, as at 31 December 2015, some 17,000 members overall, of whom 6,597 members were 55 or above, would have experienced a charge of greater than 5.00% if they had exited at that date. Of those 17,000, 1,201 individuals were members of workplace schemes within the scope of the IGC, of whom 170 were aged 55 or over and eligible to access their pensions.

I am pleased to tell you that Standard Life implemented the cap on exit charges from 13 January 2016. This applies to any of the 17,000 policyholders reaching the age of 55, and taking benefits before their selected pension age.

The IGC notes that on 19 January 2016, The Chancellor made a statement on future legislative action to be taken by the FCA. Our agreement with Standard Life provides that should any future regulatory or legislative actions result in a different level of cap, the 5.00% applicable to Standard Life plans will only be reduced.

2.3 DEFAULT INVESTMENTS

If a member does not actively decide to invest in any particular fund, their contributions are put into funds known as "default investments". Standard Life's newer-style products offer four alternative families of default investments. Three of these are risk-managed funds: MyFolio Managed, Active Plus and Passive Plus. Each of these can offer differing risk levels and has a modern lifestyle profile suited for the new pension freedoms. The fourth option is the more traditional Managed Fund, which offers a lifestyle profile targeted at buying an annuity (a guaranteed lifetime income).

Standard Life's older-style products provide a smaller set of default strategies; two variants of the With Profits Fund and the Managed Fund or a blend of the With Profits and Managed Funds. Only the Managed Fund has a lifestyle profile.

We have considered whether these strategies are still relevant and appropriate for members. The IGC believes that, subject to the matters raised below, the current default strategies are designed and executed in the interests of the relevant members, and that their aims and objectives are clearly stated.

2.3.1 CONCERN RAISED WITH STANDARD LIFE

The IGC is concerned that the older style default strategies either do not have a lifestyle design, or that their design remains targeted at annuity purchase despite the introduction of the pension freedoms. We have asked Standard Life to amend the default strategies to match the profiles incorporated in its current pension products.

2.3.1a STANDARD LIFE'S RESPONSE

"Standard Life is aware of and acknowledges the issues in relation to people still invested in lifestyle strategies targeted towards annuity purchase. The contracts we have in place do not allow Standard Life to take investment decisions (either redirecting future contributions or switching existing funds) on members' behalf. However, we are in agreement that this action will be in the best interests of the majority of members so we are actively engaging with both the FCA and DWP to find a solution to this problem that will allow providers to move members into more appropriate solutions and hope to be able to agree a way forward soon.

In the meantime, we have started a programme of communications with relevant members to ensure they are aware of their options to initiate their own investment switches, should they wish to do so."

2.3.2 FURTHER CONCERNS RAISED WITH STANDARD LIFE

The IGC acknowledges the primary role of the With Profits Committee in relation to the governance of the With Profits products, but has raised two concerns with Standard Life in relation to the With Profits Fund.

1. While we acknowledge that the With Profits offerings are complex, and that the "simplified" member document complies with regulatory guidance, we believe further work can, and should, be undertaken to improve this document.
2. Our second concern is connected to the guarantees that apply when a member wants to access a With Profits investment before the contractual maturity date. We believe that communications on this subject should be changed to reflect the current practices adopted since the introduction of the new pension freedoms.

2.3.2a STANDARD LIFE'S RESPONSE

"Our aim is to make all communications for members as clear and helpful as possible. A number of changes have already been made to try and improve the information we provide on With Profits. However, we will review the various communications that are issued for members when investing, during service and when they come to take benefits in light of the IGC's concerns and taking account of pension freedoms and any changes to regulations."

2.3.3 IGC'S RESPONSE

We recognise that, given the nature of the contract Standard Life has with each individual plan member, Standard Life has no legal right to unilaterally change these historic products; indeed, doing so might not be in members' best interests particularly in the case of With Profits policies. The IGC notes the actions Standard Life intends to take to address this issue and to review the member communications for the With Profits fund and will follow progress closely in 2016/17.

2.4 REVIEW OF INVESTMENT STRATEGIES

The IGC has reviewed Standard Life's governance and reporting processes. We wanted to be sure that the default strategy and other investment strategies are managed in members' interests and regularly reviewed to ensure that continues to be the case.

Standard Life offers around 300 non-default investment options and different lifestyle profiles. We decided to review the default strategies first, and will carry out a more detailed review of the wider range in 2016/17.

The IGC is satisfied that Standard Life regularly reviews all of its investment strategies (both default and non-default), to ensure that the characteristics and net performance are aligned with members' interests. We are also satisfied that action is taken if governance or performance concerns arise.

2.5 CORE TRANSACTION PROCESSING

Standard Life has a large and experienced pension team, based in Edinburgh. It is responsible for the administration of all workplace schemes and plans.

The IGC has reviewed the way that Standard Life processes the core transactions (such as investment of contributions) which arise during pension administration. We are satisfied that on balance this is done promptly and accurately. We believe this is because automation and straight through processing are used extensively, and the people in the administration teams have many years of experience.

2.6 CHARGES BORNE BY MEMBERS

All auto enrolment pension schemes have to meet a set of standards, including a 0.75% charge cap on default funds. They are known as Qualifying Workplace Pension Schemes, or QWPS.

The IGC has reviewed the application of the charge cap, and the adequacy of the control process that Standard Life uses to ensure compliance. The controls have operated since April 2015 and appear effective, and we will review the process in more detail during 2016/17.

For non-QWPS schemes, from 1 November 2016, charges for default funds will not exceed 1.00% (other than in respect of any costs for With Profit guarantees).

The IGC is satisfied that the range and distribution of charges and discounts is reasonable across different products and sizes of scheme.

2.7 DIRECT AND INDIRECT COSTS

In addition to the direct charges discussed above, funds to which members' contributions are paid also incur indirect "transaction costs". These are costs which fund managers pay for research on different investment opportunities, and when buying or selling the assets that make up the fund. These costs are not currently disclosed, but are reflected in the net investment returns of the funds.

IGCs have been tasked with monitoring the level of transaction costs for different funds as part of their assessment of the Value for Money (VfM) that scheme members receive. At the moment, it is very difficult to judge these indirect costs, not least because there is no standard approach to calculating or benchmarking them. We have discussed this with Standard Life (who support benchmarking), with other IGC chairs, and with potential providers of benchmarking services. However, the information we need to make meaningful comparisons is not currently available.

In the absence of this information, the IGC has reviewed Standard Life's processes for managing such costs and compared this with some limited external data. On this basis, we were satisfied that Standard Life takes steps to control the costs which affect members' returns and that the indirect costs experienced by members do not appear to be excessive. Due to the limited data available, when considering VfM we focused on net investment returns relative to charges.

The IGC considered the investment returns, after charges, of the main funds used in investment default strategies, and concluded that no VfM issues arise.

The IGC intends to review this more fully in future, as more industry-wide data becomes available.

2.8 OTHER SERVICES AND COMMUNICATIONS

An important element of Standard Life's pension offering is its support services and communication materials. These are designed to tell members about their pension plan, and the steps they should take to achieve their retirement goals.

The IGC has reviewed these materials, listened to calls from members and their advisers to the Customer Operations team and looked at how they affect members' experiences, both online and offline. Although there is currently little hard evidence that they improve engagement among members, we are persuaded that it is good to inform and educate members throughout their pension savings journey. This is particularly important as members approach their retirement and wish to take advantage of the new pension freedoms.

Based on the IGC's broader industry knowledge, Standard Life appears to do more than most providers in this important area.

In 2016 we will look further at the engagement support that Standard Life offers. We will consider the VfM of that support, the impact on members' behaviour, and the extent to which members take up the support services on offer.

3. Value for Money

3.1 HOW WE HAVE ASSESSED VALUE FOR MONEY

The FCA requires us to assess Standard Life's current and historic workplace pension products to see whether they provide VfM. It has given some limited guidance on what IGCs should include in their assessments, but has left it up to each one to decide how to go about the task.

We tested each product using a framework developed by a group of IGC chairs, (see Appendix 6 of the main report) and our own 'Value for Money matrix' (see Appendix 7 of the main report). We focused on four core elements: quality (service and investment); risk (investment and governance); relevance (including member feedback, where this was available); and cost.

In future, we hope to benchmark these elements against other providers' offerings. To do that, however, we need benchmarking reports that cover the whole industry and use consistent measures; so that we can compare them with each other. At the moment, these do not exist. So for this report we have made our judgements based on limited third party analysis and personal experience.

3.2 WHAT CONCLUSIONS HAVE WE REACHED ON STANDARD LIFE'S VALUE FOR MONEY?

We believe that Standard Life's various workplace personal pension products are of good quality. They have well-designed investment solutions; good administration and governance; and comprehensive member support and communications materials.

We have reviewed the charges that members pay for both historic and more modern QWPS products. All are offered at a range of charges, depending on the size of the workplace scheme and, in some cases, the value of the member's investments. The range reflects economies of scale which make it more efficient to administer larger schemes and which Standard Life passes on as a discount to those larger schemes.

In considering whether the older style schemes offer their members VfM, we assumed that the management actions agreed will be implemented. We also reviewed the range of charges for modern QWPS and the legacy products, and considered whether legacy products were more profitable for Standard Life.

As we explained above, from November 2016, no member invested in a workplace personal pension scheme's default strategy will pay more than 1.00% a year. Many, 85%, will pay less as a result of scale discounts.

Member charges for a default fund in a QWPS are capped at 0.75%. Some employers want to offer a Standard Life QWPS, but run schemes that are not sufficiently large for Standard Life to be willing to operate a plan within the charge cap. In such cases, Standard Life will provide a QWPS scheme if the employer pays a fee of £100 per month. We understand that a number of other providers have a similar approach.

Our conclusion is that if you compare smaller schemes of both types without scale discounts, the legacy products are less profitable for Standard Life than a modern QWPS scheme after taking into account the employer charge.

The IGC has concluded that at the revised price points, both the modern QWPS products and the legacy schemes provide members with VfM.

IGC
March 2016