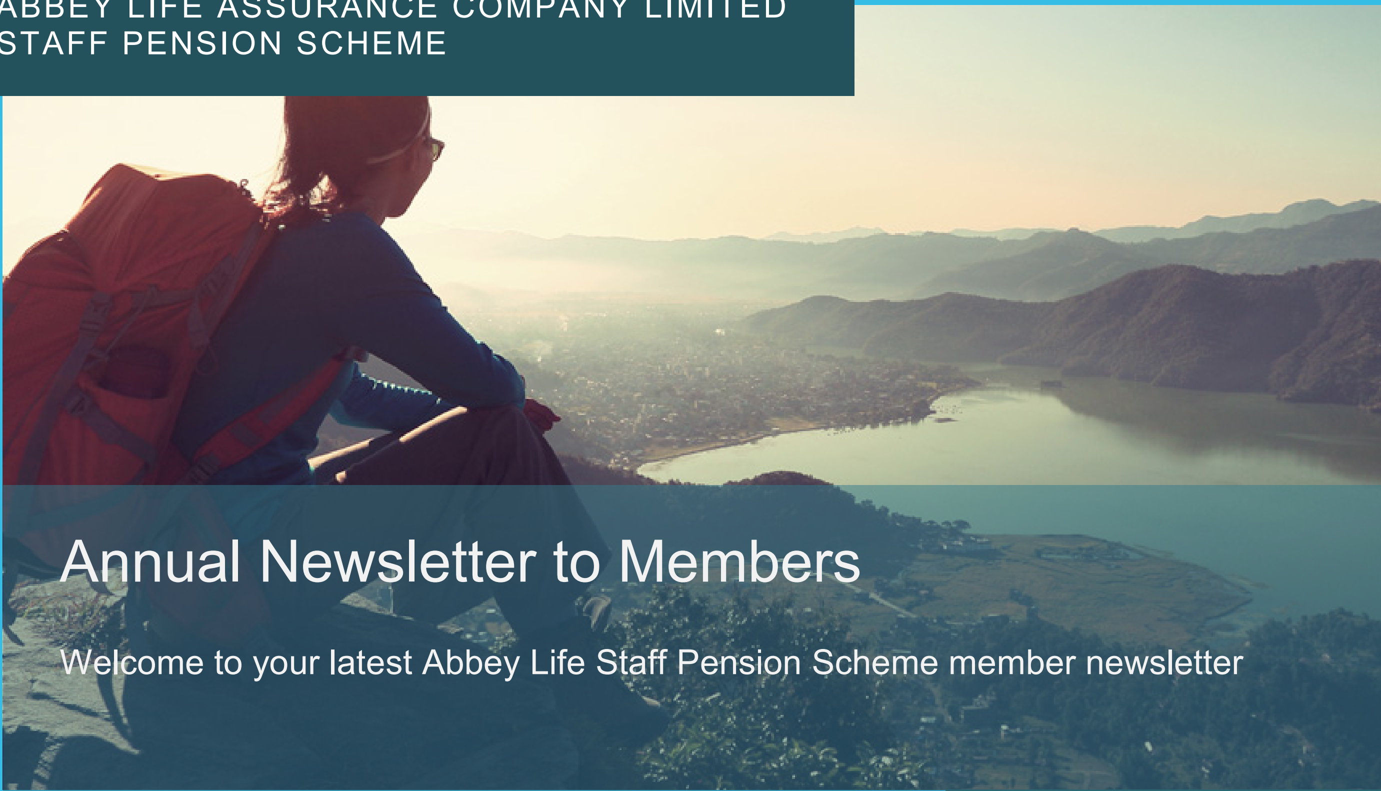
ABBEY LIFE ASSURANCE COMPANY LIMITED
STAFF PENSION SCHEME



Annual Newsletter to Members

Welcome to your latest Abbey Life Staff Pension Scheme member newsletter

Winter 2018/19

In this issue

Welcome to our latest edition of the Abbey Life Staff Pension Scheme (the "Scheme") member newsletter. We write to you each year to keep you up-to-date with developments within the Scheme and in the wider pensions industry.

On pages 7 and 8, we report on the Scheme's funding position following the Scheme's latest triennial valuation, which we signed off in November 2018. The headline figures from the audited accounts for the year to 31 March 2018 can be found on page 2.

Behind the scenes, there have been some recent changes to the Trustee Board, and so we have included a note of these on page 4, alongside a list of the current Trustee Board and our professional advisors.

We also cover a selection of topical pension news items that you may find relevant and, on page 6, we include a useful article on financial advice, with tips on how to find an adviser and what questions to ask.

As spring approaches, the date that the UK will leave the EU gets ever nearer. However, the detail and shape of Brexit remain unclear. The Government is negotiating with the EU on the type of break the UK can achieve and uncertainty remains. As Trustee, we will continue to manage the Scheme to the highest of standards and continue to monitor our investment strategy with the support of our advisors.

I hope that you find this latest issue to be both interesting and informative. If you have any queries, or there are topics you would like us to cover in future, please get in touch using the contact details on page 10.

Neil C H Tointon
Chairman of the Trustee

In numbers

The membership

As at 31 March 2018, there were 2,857 members in the Scheme, compared with 2,967 members as at the same date last year.

7	**Active members**- worked for Pearl Life Holdings Limited (who are responsible for paying any regular contributions), although they are no longer active as at the date of this newsletter.
1,848	**Deferred members**- no longer work for Pearl Life Holdings Limited (nor Abbey Life - the previous employer), nor have contributions paid, but they do have benefits retained in the Scheme for when they retire.
1,002	**Pensioner members**- are receiving benefits from the Scheme (this figure includes the dependents of members who have died).

The accounts

Here we show headline figures from the Scheme's Annual Report and Accounts. If you would like more detail, please request a copy of the full report using the contact details on page 10.

The value of the assets supporting the Scheme as at 31 March 2018	£242.5million
The change in the value of the assets over the reporting year	-£0.3million
The total value of Company contributions paid in to the Scheme during the year	£30.6million
The total value of benefits paid to members during the year	£25.5million

Investment update

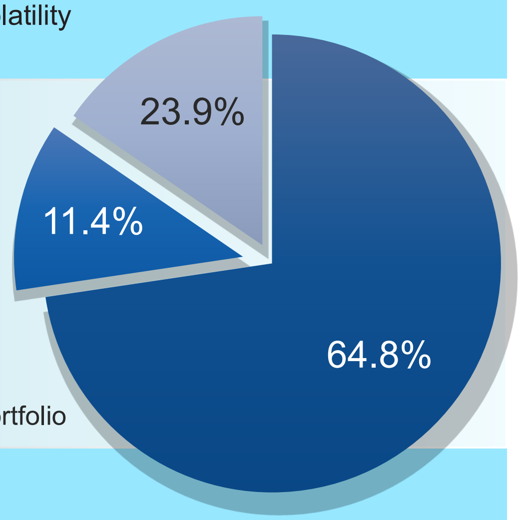
As Trustee, it is our responsibility to decide on the overall investment strategy and to make changes as and when appropriate. We work closely with our investment advisers and we keep a close eye on how the Scheme's selected investment funds are performing against our expectations. The strategy is undergoing a regular review.

The Scheme's assets are currently invested in a combination of asset classes - UK Equity, UK Investment Grade Corporate Bonds and Liability Driven Investment (LDI).

The investment strategy is low-risk and is expected to provide a higher return than the Scheme's liabilities over the long-term. The low-risk nature of the strategy is expected to reduce the volatility of the funding level over time.

Asset allocation

The chart adjacent shows how the Scheme's investments were allocated across asset types as at 31 March 2018. This remained broadly in line with the Scheme's strategic target allocation. The actual allocation of the Scheme's assets may deviate from the strategic target, for example due to relative market movements. The Trustee regularly reviews the Scheme's asset allocation in conjunction with its investment adviser, and takes rebalancing action if appropriate.



■ Bond Portfolio ■ UK Equities Portfolio ■ Liability Driven Investment (LDI) Portfolio

Performance

The table below shows how the Scheme's investments have performed compared with their agreed benchmarks. Each benchmark is an agreed indicator of how the fund is expected to perform, bearing in mind economic and market expectations.

	Performance over the twelve-month period to 31 March 2018	
Portfolio	**Fund**	**Benchmark**
Bonds	1.8%	1.3%
UK Equity	0.7%	1.3%
Liability Driven Investments (LDI)	-3.2%	N/A

Over the financial year, the Scheme's assets remained broadly unchanged, slightly decreasing from £242.8m as at 31 March 2017, to £242.5m as at 31 March 2018. Over the same period, the Scheme's liabilities decreased by a greater degree, decreasing from £361.5m to £338.3m. As a result, the funding level increased from 66% as at 31 March 2017, to 71% as at 31 March 2018.

The total Scheme assets delivered an investment return of 0.7% over the 12-month period to 31 March 2018. Over three years, the Scheme's assets returned 8.6% per annum and, since inception, the return was 6.9% per annum.

Both the Bond portfolio and UK Equity portfolio are invested in "active" mandates, whereby the Investment Manager aims to outperform their appropriate market index. Over the year, the Bond portfolio outperformed its benchmark, whilst the UK equity portfolio underperformed.

The LDI portfolio is a "passive" mandate with the objective of reducing investment risks related to the liabilities of the Scheme, rather than aiming to outperform a market index. Over the year, and as expected, the LDI portfolio delivered a negative return, given that the mandate is designed to move in line with the liabilities (which fell in value).

Scheme News

Your Trustee Board

As the Trustee, we are required to maintain up-to-date knowledge of pensions, investments and finance. We also attend training courses as and when necessary, for example, when pensions legislation changes. We meet regularly throughout the year to discuss how the Scheme is progressing.

There have been further changes to the Trustee Board in the period since the previous newsletter. Last year we advised you of the imminent appointment of Richard Zugic and, with effect from 1 February 2018, we welcomed Richard and also Justin Grainger, who were both formally appointed to the Board as Company-appointed Trustee Directors.

During 2018, we also lost the services of Andrew Reid, who stood down on 19 November 2018, and we take this opportunity to thank Andrew for his years of dedicated and valuable service to the Scheme. Andrew brought with him a wealth of expertise and we wish him the very best for the future. With Andrew's departure, the Company has appointed Ellie Siva to take on the vacancy and we warmly welcome Ellie to the Board as we move into 2019. In view of the changes to the Trustee Board over the last two years, and to reflect the mix of backgrounds of the Board members, the Board decided to appoint Neil Tointon to fill the existing Member-nominated Trustee Director vacancy, for the remainder of the current term of office, on 19 November 2018. Neil moved from being a Company-appointed Trustee Director, and he has remained as Chairman.

The Board is now made up of Company-appointed and Member-nominated Trustee Directors as follows:

Company-appointed	**Member-nominated**
R Zugic (Appointed 1 February 2018)	N C H Tointon (Chairman)
J Grainger (Appointed 1 February 2018)	V J Jones
E Siva (Appointed 19 November 2018)	

We also appoint professionals to support us on areas of particular expertise. We have summarised these providers in the table below.

Administrator	Equiniti Limited
Actuary	Jonathan Gainsford, Aon
Auditor	PricewaterhouseCoopers LLP
Covenant Advice	Mercer Limited
Investment Adviser	Aon
Legal Adviser	Linklaters LLP

Partial Transfer Values

The Trustee has recently agreed a new option for certain deferred members to transfer part of your Scheme pension to another provider, whilst retaining a reduced pension in the Scheme. This operates alongside the existing option to transfer out all of your Scheme pension.

Not all deferred members will qualify for the new option. For example, one of the conditions is that the cash equivalent transfer value of your benefits must be at least £400k. Importantly, based on current pension legislation, you <u>must</u> also obtain independent financial advice from an appropriately qualified and FCA-approved adviser.

Further information can be requested from Equiniti. Their contact details can be found on page 10.

Review of Calculations

Certain Scheme calculations involve the valuation of pension benefits in order to pay under different terms (i.e. for transfer values, commutation of pension, and the adjustments applied if members retire before or after normal retirement). The Trustee has reviewed these calculations following the Scheme's valuation as at 31 March 2018 to ensure that they continue to meet all appropriate requirements. Any changes to be applied to the current factors will take effect from 1 February 2019.

Actuarial Valuation

More details on the Scheme's funding position including the latest triennial valuation results can be found within the Summary Funding Statement starting on page 7.

News bites

GMP equalisation in the High Court

You may have seen in the news that there has been a High Court ruling regarding the equalisation of Guaranteed Minimum Pensions ("GMPs"). Set out below is a brief summary of how this complex issue may affect you.

Does this ruling affect me?

The judgment only applies to benefits built up between 17 May 1990 and 6 April 1997. Only members, or their dependents, with pensions built up over this period will be affected. The ruling affects men and women, and both pensioners and members who have yet to draw their pension.

The Trustee and the Company are working with their advisers to understand how this ruling affects the Scheme. This judgment is complex, dealing with almost 30 years of uncertainty and we want to get this right. There is also the possibility of an appeal, and the Government has said it intends to publish further guidance. The process will take time.

Once we know more, we will contact all affected members with details. In the meantime, we are conscious that there has been lots of coverage in the national press, and not all of it accurate.

How much money am I going to get?

Contrary to much of the press coverage, we expect many individuals to see little or no increase in the value of benefits. There are a few reasons for this:

GMP often only makes up a small part of an individual's pension and so the amounts involved in addressing any inequality are likely to be small.

Many members will receive no increase as they have not been disadvantaged by the way their benefits have been treated.

Many members won't have benefits built up within the Scheme between 17 May 1990 and 6 April 1997.

Will I need to pay any of my pension back?

No. You will not have to pay back any pension that you have already received following this ruling. Equalisation requires an improvement to the benefits of members who have been disadvantaged – not the other way around.

Why hasn't this already been dealt with?

The way that GMP works is set out in legislation and is very complicated. Over a number of years, the Government has made suggestions as to how the differences between males and females could be addressed, but it wasn't clear whether any action was required or whether the possible solutions would work from either a practical or legal perspective. This court case confirms that action is required and gives clarity on what schemes can do to put things right going forwards.

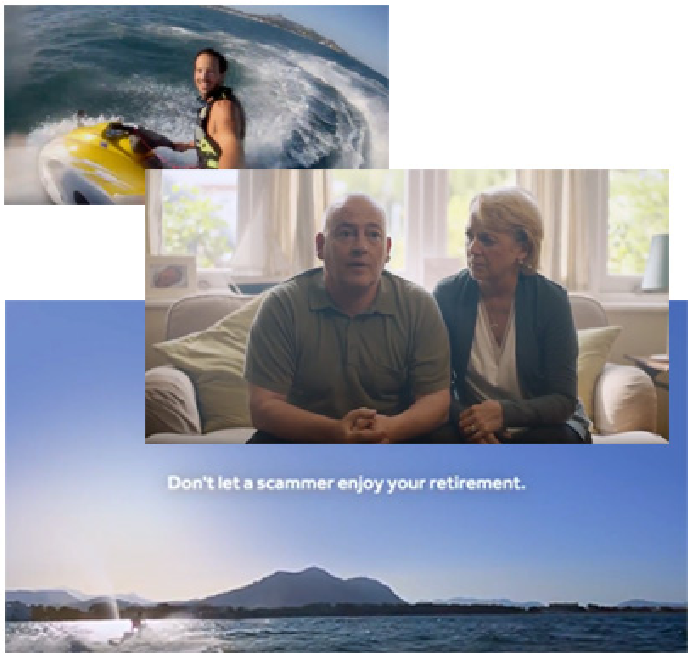
Do I need to do anything to claim my benefits?

Not now. We are working with our advisers to identify if and how you are affected. Once we know more, we will get back to you and other members of the Scheme with more information. It is the Trustee's job to make sure that you get the benefits you are entitled to and we are working to make sure that this happens.

Protect yourself from pension fraud

The Pensions Regulator has recently joined forces with the Financial Conduct Authority in producing a TV advert to renew the awareness campaign. If you haven't yet seen it, you can watch it online at:

www.youtube.com/watch?v=NeFvYtCaykI.



The Government is also trying to help tackle the problem by banning cold calling in relation to pensions. It intends regulations to be laid to come into effect as soon as possible.

Remember: only in cases of serious ill-health (or if you have a protected pension age) are you able to access your savings before age 55.

If someone approaches you with an offer that sounds too good to be true, know what to look for and what your next steps should be.

If you have any doubts about the legitimacy of any offer you receive, speak to an expert before you sign up for anything.

For more information about pension scams, and updated guidance on how you can keep your pension safe, visit the Pensions Regulator's website.

Go to: www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams

The FCA also provide helpful resources on their website at: https://www.fca.org.uk/scamsmart/

For free impartial guidance, telephone the Pensions Advisory Service on **0800 011 3797**, or visit their website at: www.pensionsadvisoryservice.org.uk.

If you think you may be a victim of a pension scam, contact Action Fraud immediately. Telephone **0300 123 2040**, or go to their website and fill in an online fraud report:

www.actionfraud.police.uk/report_fraud

Please make use of these resources to help you keep your pension safe.

Financial advice

Before taking a transfer value, you may wish to seek advice from an Independent Financial Adviser (IFA), who can help you to understand your options and any tax or future pension contribution implications. They will require some personal details surrounding your finances and health in order to provide you with the right advice. Indeed, if the transfer value of your DB benefits is more than £30,000, you must take IFA advice from an appropriately qualified and FCA-approved adviser before your transfer value can be paid.

To help you choose a suitable IFA, we have set out some things to think about:

1) You should always be sure that they are appropriately qualified to provide pensions transfer advice. Only individuals qualified as a Pension Transfer Specialist can give advice on pension transfers. You should check that the adviser has this qualification.

2) Consider the level and experience the adviser has. Look at the service they offer and think about how they will interact with you. Ask them how many transfers from 'defined benefit' pension schemes they have advised on.

3) Are you clear on how the IFA will charge for their advice? It is important to make sure that the fees you pay are reasonable. Remember though, that, for many people, their pension pot is the most valuable asset they have (even more than their home), so getting professional advice is important. You may want to ask the following questions before you take advice:

    - *"Can you confirm in £/pound terms, the fee you receive if I don't go ahead with the transfer, and the fee you receive if I do go ahead with the transfer?"*
    - *"Can you confirm if you will receive or request any ongoing supplementary fees after my transfer is made and, if so, what these are likely to be in £/pound terms?"*

4) Before proceeding with a transfer, it is important that you understand all of your options and any tax or future pension contribution implications. There are likely to be a variety of options available to you if you transfer. For example, you could buy an annuity, take all your pension savings as a one-off cash sum, or choose to take income over a period of time. Your adviser should provide you with a written recommendation as to whether you should transfer and, if they think that you should do so, which option they recommend for you (along with details as to how they have reached their recommendation).

21st century Trustees

The Pensions Regulator is carrying out a campaign to make clear what their expectations are on those responsible for managing a pension scheme effectively. It is designed to drive up governance standards by being clearer and more directive about the standards it expects of trustees and the action it will take if they do not meet these standards.

The Trustee takes the governance of the Scheme very seriously and are reviewing our governance processes to ensure that they remain fit for the 21st century.

The Pensions Ombudsman

Until recently, the first port of call for free and impartial guidance, including resolving complaints, was the Pensions Advisory Service (TPAS) before Pensions Ombudsman involvement.

Earlier in the year, TPAS transferred its role in the process to the Pensions Ombudsman. This means that all formal disputes that we are not able to deal with within a pension scheme are now dealt with in one place, making the process more efficient for everyone concerned.

To find out more about the Pensions Ombudsman, go to:

www.pensions-ombudsman.org.uk.

Summary Funding Statement

This section summarises the results of the Scheme valuation as at 31 March 2018. It also looks at the most recent previous results as at 31 March 2017. These financial health checks are vital for monitoring the Scheme's progress. We hope the information helps you to understand how the Scheme is developing.

The latest position

	Update	Valuation
Date	31/3/2017	31/3/2018
The funding level	66%	71%
The funding target	£361.5 million	£338.3 million
The value of the Scheme's assets	£240.2 million	£240.2 million
The overall position	Shortfall of: £121.3 million	Shortfall of: £98.1 million

Note: the value of the Scheme's assets in the table above is slightly different to the value of assets shown in the accounts and investment updates on pages 2 and 3. This is because the values include adjustments in respect of money purchase benefits.

Reasons for the change

The latest valuation shows that the funding level has improved since the update as at 31 March 2017.

This is largely as a result of Company contributions, and investment growth. This was partly offset by:

- changes in market conditions, which have increased the value of the liabilities – the amount the Scheme needs to hold to pay members' benefits. Decreases in yields available on Government and corporate bonds increases the amount of money that needs to be put aside now to pay benefits at a later date; and
- changes to assumptions agreed as part of the 2018 valuation, which increased the value of the liabilities.

In addition to the assets held in the Scheme, additional assets are held in separate accounts, called the New 2013 Charged Account and the New 2016 Charged Account, which amounted to £37.1 million and £7.1 million respectively, as at 31 March 2018.

The Scheme will receive monies from the New 2013 and New 2016 Charged Accounts should certain events occur, or if there is a shortfall in the Scheme as at 31 March 2021 for the New 2013 Charged Account, or as at 31 March 2027 for the New 2016 Charged Account (assessed in a specified manner).

Any payment to the Scheme from the New 2013 Charged Account would be made no later than 30 June 2022, and any payment to the Scheme from the New 2016 Charged Account would be made no later than 30 June 2028.

It is important to remember that it is normal for pension scheme funding levels to fluctuate over time. Even when funding is temporarily below target, the Scheme will continue to pay benefits in full as long as it continues.

The next financial check will be based on the Scheme's position at 31 March 2019. We will report on the results once they are complete.

Summary Funding Statement

Removing the shortfall

As part of the valuation as at 31 March 2018, we agreed with the Company to bring the Scheme to a fully funded position. This is known as a 'recovery plan'. The Company agreed to pay £400k per month into the Scheme until 31 July 2025 to satisfy the recovery plan.

These monthly contributions, together with anticipated investment growth and the contribution from the New 2013 Charged Account to the Scheme, are expected to remove the shortfall by 31 July 2025.

The Company has also agreed to pay additional monthly contributions of £400k per month from 1 August 2025 to 30 June 2026.

The Company will also make additional contributions of £4.0m each year until 31 July 2025 inclusive into the New 2016 Charged Account.

In respect of the expenses of administering the Scheme, the Company will pay £85,640 per month until 31 March 2019, increasing to £100,000 per month from 1 April 2019. This amount will increase annually each subsequent 1 April in line with inflation.

The next formal valuation will look at the Scheme's position as at 31 March 2021. This will include working out if the recovery plan is 'on track' or if changes need to be agreed.

Employer Covenant

Until the Scheme is fully funded, it is reliant on the continuing support of Pearl Life Holdings Limited, its principal and sole employer. This support is known as the "employer covenant" and is important in how the Trustee sets the Scheme's valuation assumptions and investment strategy, and also in negotiating a deficit funding package (under a recovery plan).

The Trustee reviews the employer covenant at each valuation, to ensure that the strength of covenant is reflected appropriately. The recent covenant review for the 2018 valuation concluded that the covenant is positive, providing good support for the Scheme and for its valuation and investment strategies, and that the Phoenix Group is performing well and provides favourable ownership.

Between valuations, the Trustee monitors the covenant in case there are any significant changes that might cause them to seek additional funding or security from the employer. For example, the Phoenix Group's purchase of Standard Life Assurance was considered, and whether it could have implications for the Scheme, concluding that it did not have any negative impact.

If the Scheme came to an end

The Scheme's funding level is worked out in two ways:

- The 'ongoing' basis (shown on the previous page), which assumes that the Scheme will continue into the future.
- The 'full solvency' basis, which shows the funding position if the Scheme started to 'wind up' at the date of the valuation. If this happened, all members' benefits would have to be secured without delay by buying insurance policies. This would be more expensive than paying benefits gradually over time, so the full solvency position is generally lower than the ongoing position, even for fully funded pension schemes.

As at 31 March 2018, the Scheme's full solvency funding level was 56%, with a shortfall of £192.2 million.

Please note that we are legally required to report the full solvency position as part of this funding statement. The Company has no current plans to end the Scheme.

We must also tell you if there have been any payments to the Company out of Scheme funds in the last 12 months. There have not been any such payments.

The Pensions Regulator

The Pensions Regulator is the UK watchdog of workplace pension schemes. It has the authority to change the way occupational pension schemes are run, although it has not needed to use its powers in this way for our Scheme. You can find out more about the Regulator online at:

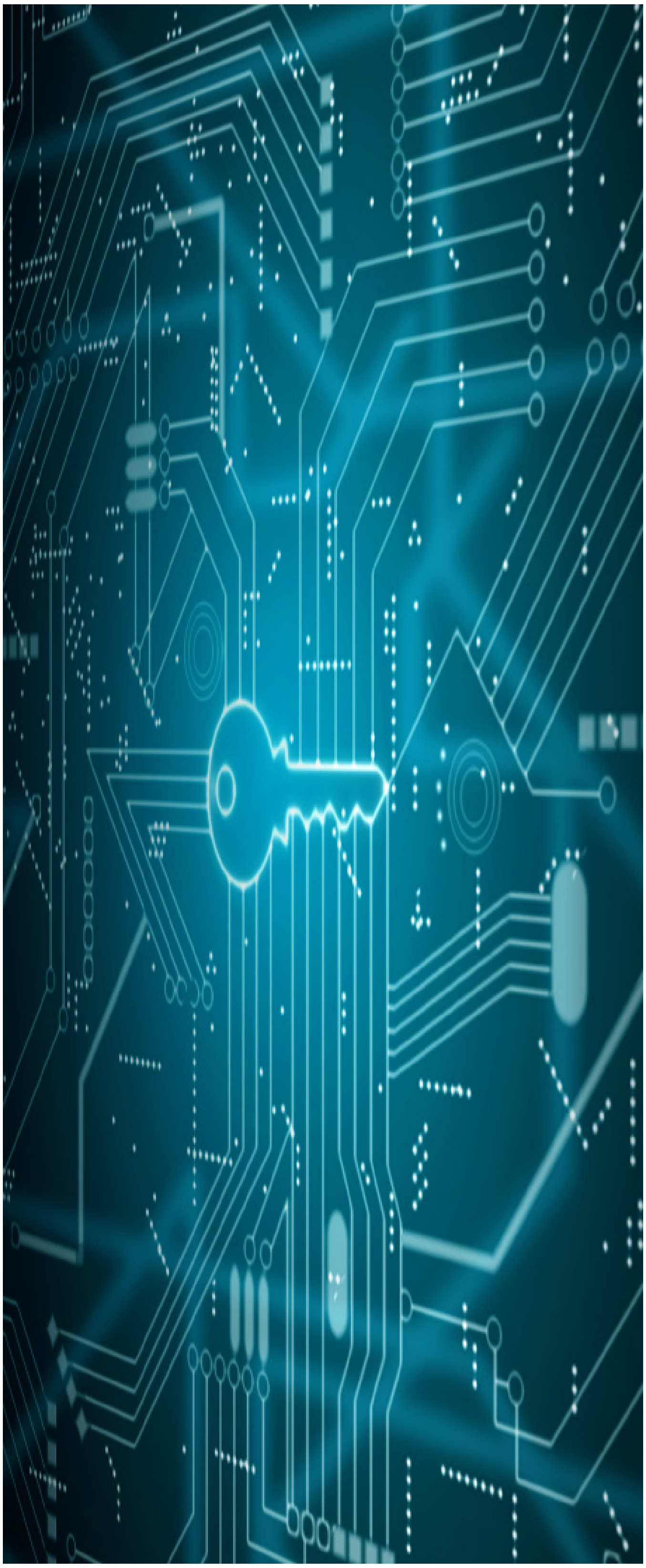
www.thepensionsregulator.gov.uk.

Privacy notice

The Trustee holds some member personal information, which we need in order to administer the Scheme. Without your personal information, we cannot provide you and your dependants with the correct benefits at the right time. This will include personal information about you, such as your name and contact details, information about your pension contributions, age of retirement and, in some limited circumstances, information about your health (where this impacts your retirement age). The purposes for which your personal information will be used include management of the pension scheme and your membership within it, to calculate and pay benefits, funding the pension scheme (i.e. helping to ensure that the funds within the pension scheme are sufficient to cover the members who are party to it), liability management (that is to say, providing advice on the different ways benefits could be determined, and drawn, from the pension scheme), scheme actuary duties (which include assessing individuals who are members of the pension scheme and assessing how the make-up of the membership may affect the amounts payable and when they become payable, so as to manage the pension scheme appropriately), regulatory compliance, process and service improvement and benchmarking.

We may pass your personal information to third parties, such as advisors and benefits providers, insurers and to certain regulatory bodies where legally required to do so. Depending upon the circumstances, this may involve a transfer of data outside the UK and the European Economic Area to countries that have less robust data protection laws. Any such transfer will be made with appropriate safeguards in place.

More detail about our use of your personal information is set out in our full Privacy Notice, which has previously been sent to you. If you need a further copy, please contact us using the contact details on page 10.



More information

To find out more about the Scheme, please use the contact details below.

For more general information on pensions and saving for retirement, the following websites are useful resources:

www.moneyadviceservice.org.uk

The Money Advice Service provides general advice on all money matters including pensions and finding an independent financial adviser.

www.gov.uk

The Government's website features a section 'Working, jobs and pensions', which includes a State Pension Age calculator:

www.pensionwise.gov.uk

The Government's guidance website explains the flexible DC retirement options.

If you have a concern about your benefits, contact the Early Resolution Team. Go to:

www.pensions-ombudsman.org.uk/our-service/make-a-complaint

Telephone: **0800 917 4487** and select the option to discuss a potential complaint.

Email: **helpline@pensions-ombudsman.org.uk**

Contact point

Please use any of the methods below to get in touch with the Administration team:

Email: abbeylifepensions@equiniti.com

Helpline: 0345 712 5921

Write to: Equiniti Limited
PO Box 4991
Lancing
BN99 8WQ

Reminder to keep us up to date

Please let us know if you change your name or address so that we can continue to contact you about the Scheme and your benefits.

Please also update your Expression of Wishes form if you need to do so. This tells us who you would like to receive any benefits that become payable in the event of your death. As the Trustee, we have the final say over who receives the benefits, but we will consider your Expression of Wishes form. So, if you have never filled one in, or you have not done so recently (particularly if your circumstances have changed), please complete a form and send it to us.

Please use the contact details adjacent to request a blank form.

Taking advice

If you would like advice about your retirement plans, we recommend you speak with an independent financial adviser (IFA). You can find an adviser in your area by searching the Money Advice Service directory at:

https://directory.moneyadviceservice.org.uk/en.

Before you appoint anyone, you should check that the adviser is suitably qualified and authorised. You can do this online at: **https://register.fca.org.uk**, or by telephoning the Financial Conduct Authority helpline, on **0800 111 6768**.