Annual Newsletter to Members

Welcome to the Abbey Life Staff Pension Scheme newsletter, keeping you up to date with your pension benefits and wider pensions news.

Winter 2017

In this issue

Welcome to our Winter 2017 newsletter – designed to let you know what is happening in the Abbey Life Staff Pension Scheme and key related issues.

In this edition of our newsletter, we include summary figures from the latest audited accounts, look at how the investments have performed, and update you on our ongoing project looking at historical rule changes. We also include a note about the sale of Abbey Life Assurance Company Limited, from Deutsche Bank to the Phoenix Group, and what this means for the Scheme, and information about some of the wider topical pensions issues that may affect you.

I hope this newsletter helps you with your retirement planning. Please get in touch if you have a query about the Abbey Life Staff Pension Scheme or your benefits using the contact details below.

Neil C H Tointon

Chairman of the Trustee

Contact point

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

Email: abbeylifepensions@equiniti.com

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

In numbers

The membership

At 31 March 2017, there were 2,967 members in the Scheme, compared with 3,030 members as at 31 March 2016.

	At 31 March 2017	At 31 March 2016
Active members	15	18
Deferred members	1,987	2,065
Pensioner members	965	947

- Active members now work for Pearl Life Holdings Limited, who now pay the regular contributions.
- Deferred members no longer work for Pearl Life Holdings Limited nor have contributions paid, but they do have benefits retained in the Scheme for when they retire.
- Pensioner members are receiving benefits from the Scheme.

The accounts

The table below gives a summary of the Scheme's accounts for the year ended 31 March 2017, compared with the figures for the year ended 31 March 2016. Our appointed auditors have verified that the figures are accurate. Please get in touch if you would like more detail on the accounts.

	31 March 2017 (£'000)	31 March 2016 (£'000)
Value of money in the Scheme at the start of the year	**196,931**	**224,159**
Contributions and Benefits		
Contributions and other income	18,564	1,410
Benefits paid or payable	(7,688)	(7,935)
Transfers to other plans	(9,341)	(4,430)
Administrative expenses	(2,602)	261
Total	**(1,067)**	**(10,694)**
Returns on Investments		
Investment income	8,760	7,892
Change in market value of investments	38,674	(24,090)
Investment management expenses	(505)	(336)
Total	**46,929**	**(16,534)**
Increase/(decrease) over the year	**45,862**	**(27,228)**
Value of money in the Scheme at the end of the year	**242,793**	**196,931**

Investment update

As Trustees, 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 carefully monitor how the funds are performing.

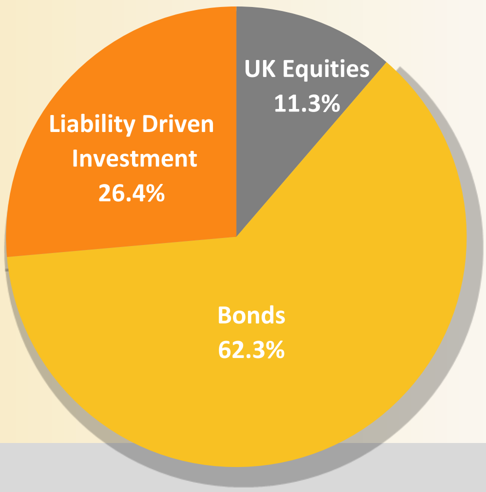
During the 12 months to 30 September 2017, we reviewed our investments and made the decision to move more of the assets into the Liability Driven Investment ('LDI') portfolio in order to manage risk by reducing the effect of changes to long-term interest rates and inflation on the Scheme's funding level.

We will continue to monitor performance and make any changes we feel are necessary.

Asset allocation

As at 30 September 2017, the Scheme held assets of £247.4m, compared with £221.6m as at 30 September 2016.

The chart adjacent shows how the Scheme’s investments were allocated as at 30 September 2017, across asset types.



Performance

Over the 12 months to 30 September 2017, the Scheme's investments returned 15.4% in total. Over three years, the return was 8.2% per annum and, since inception, the return was 7.2% per annum.

The Bonds and UK Equities are invested with 'active' investment managers who aim to outperform their appropriate market benchmark. Over the past year, Bonds outperformed their respective benchmark (by 1.1%) whilst UK Equities marginally underperformed (by 0.4%).

The Liability Driven Investment ("LDI") portfolio is designed to move in the same way as the Scheme's liabilities given changes in long-term interest rates and/or inflation expectations. This helps to reduce the effect of such changes on the Scheme's funding level. As such, we don't measure LDI performance against a market benchmark in the same way as UK Equities and Bonds. However, our LDI portfolio delivered a large positive return over the year, matching an increase in the value of the Scheme's liabilities, as planned.

Scheme news

Sale of Abbey Life

Around this time last year, Deutsche Bank sold Abbey Life Assurance Company Limited ("ALAC") to the Phoenix Group.

When we were made aware of the proposed sale, we immediately talked to our advisers and sought external independent advice about how this may affect the business' ability to continue to support the Pension Scheme. We also liaised with the Pensions Regulator.

We are happy to report that we had constructive discussions with the Phoenix Group, during which they confirmed their wish to ensure that the Scheme is well funded and that identifiable risks are managed for the future.

The change of ownership of ALAC has meant some changes to the Scheme – the key ones are as follows:

- Pearl Life Holdings Limited ("Pearl") has become the principal and sole employer in relation to the Scheme with effect from 1 July 2017. All active members of the Scheme previously employed by ALAC have transferred their employment to Pearl.
- All of the liabilities of ALAC in relation to the Scheme have also transferred to Pearl, who have assumed responsibility for these liabilities.
- Pearl agreed to make additional payments to the Scheme, including:
    - A one-off contribution of £25 million to the Scheme during July 2017
    - An extra £154k per month towards clearing the funding shortfall
    - An extra £1.08 million a year to the 2016 Charged Account
- The Trustee and Pearl have agreed enhanced information sharing arrangements.
- The Trustee has become a subsidiary of Pearl, having previously been a subsidiary of ALAC.

Overall, the Trustee considers the change to have been a positive one for the Scheme and we continue to work with Pearl to ensure the long-term security of the Scheme.

Historical Rule changes

In October 2017, we wrote to all members to tell you about the work we had been undertaking to identify and amend some pensions under the Scheme. Whilst members' pensions have always been calculated in line with the amount the Company said it would pay, some time ago it was found that a legal change to the Scheme's Rules might not have been documented properly. This means that we may need to make a small adjustment to some members' pensions.

We will be writing to any affected pensioner members in the New Year to advise them specifically of the change to their pension.

If we identify that your pension requires adjusting, we will let you know how much your pension will change by, whether you are owed any arrears, and when any payments will be made. For tax reasons, you may not wish to accept the adjustment and, if this is the case, you will be given the opportunity to let us know.

We would just like to confirm that this issue goes back over several years, predating the acquisition by the Phoenix Group and is not connected to it in any way.

Our advisors

We appoint professionals to support us on areas of particular expertise.

Administrator	Equiniti Limited
Actuary	Jonathan Gainsford, Aon Hewitt Limited
Auditor	PricewaterhouseCoopers LLP
Investment Adviser	Aon Hewitt Limited
Legal Adviser	Linklaters LLP

In the news

Flexible retirement options

In 2015, the Government introduced some flexible retirement options for pension scheme members. Most of these flexibilities are not available from the Abbey Life Staff Pension Scheme, which is a defined benefit (DB) scheme. If you wanted to take advantage of the options, you would first need to transfer your pension to a defined contribution (DC) arrangement (see below).

The following is a list of flexible retirement options that were introduced in 2015 for members of DC arrangements.

Buy a pension

You can buy a pension, known as an 'annuity' to provide you with a guaranteed income for life. There are many different types of annuity so you can choose the type that best suits your preferences and circumstances. Typically, you can take up to 25% of your savings as a tax-free cash sum, and you can then buy an annuity with the remainder.

One-off cash sum

The first 25% would be tax-free. The remainder would be taxed at your marginal rate for the year.

A series of cash sums

The first 25% of each would be tax-free. The rest would be taxed at your marginal rate for the year.

Income drawdown

You take an income of your choice as and when you want to and continue to invest the rest. Typically, you can take up to 25% of your funds as a tax-free cash sum when the remaining 75% is designated for future drawdown.

Transferring out

If you want to access the flexible retirement options for your main DB benefits, you will need to transfer out of the Abbey Life Scheme and into a suitable DC arrangement. If the value of your Abbey Life Scheme benefits is £30,000 or more, you **must** take independent financial advice before any such transfer out can go ahead. As Trustees, we would strongly recommend you take impartial advice regardless of the value of your benefits if you are considering transferring out. (See 'Taking advice' on page 6.)

Protect yourself from pension fraud

Pension scams continue to pose a threat to unwary pension savers. A common approach now is to offer a 'free review' of your pension and claim to be backed by the Government.

The Pensions Regulator, www.thepensionsregulator.gov.uk, has updated its guidance on pension scams with a series of warning signs.

If you receive an uninvited telephone call, email or text offering help with your pension or a free 'pension review', the advice is to hang up or delete the message. It is highly likely to be a scam.

Scammers may pose as financial advisers and even present a professional-looking website. Legitimate UK financial advisers should be registered with the Financial Conduct Authority and be authorised to give advice on pensions – see 'Taking advice' on page 6.

Offers involving 'guaranteed' investment returns are highly likely to be scams.

Be wary if you are pressured into making a quick decision, in particular if you receive documents via a courier for you to sign.

Anyone claiming that you can take your pension before age 55 is likely to be a scammer. Currently, you can only access pension benefits before age 55 if you suffer serious ill-health.

If you are tempted by any offer about your pension, please look into it thoroughly, and take independent financial advice from an FCA-registered adviser, before you sign anything.

If you think you may have signed up to a scam, report it to Action Fraud on

0300 123 2040.

In the news

State Pension news

The single State Pension was introduced on 6 April 2016. It replaced the previous two-tier arrangement. If you were already receiving your State Pension at this date there is no change to this.

If you are not yet receiving your State Pension, did you know that you will need to claim it when you become eligible? You will not receive it automatically. You will receive a letter at four months before you reach your State Pension Age (SPA) explaining how to claim it. If you are within four months of your SPA, you can claim it online at www.gov.uk/claim-state-pension-online.

State Pension Age

State Pension Age is currently 65 for men and will be 65 for women by November 2018. It increases to age 66 for everyone by 2020, and to age 67 between 2026 and 2028. A rise to age 68 has been recommended between 2037 and 2039.

If you are not sure of your SPA, you can check online at www.gov.uk/state-pension-age.

State Pension forecast

You can get an estimate of your future State Pension online at www.gov.uk/check-state-pension.

Tax and your pension

The Annual Allowance

The Annual Allowance is the total value of tax-efficient pension savings you can make in a year. For most people, the Annual Allowance is currently £40,000 a year.

If you are a high earner, you may have a lower 'tapered' Annual Allowance. Broadly, this applies if:

- your income (not including pension contributions) is £110,000 or more; and
- your income with pension contributions, including any your employer makes towards your pension savings, is £150,000 or more.

Whatever your earnings level, you can carry over any annual allowance you have not used up in the previous three tax years.

You can check online whether you have gone over the Annual Allowance, or whether you have any unused Annual Allowance you can carry over. Go to www.tax.service.gov.uk/paac

If you are a high earner, you can check online whether the tapered Annual Allowance affects you. Go to www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance

Money Purchase Annual Allowance

This applies to DC savings only, including AVCs. It is currently £10,000 a year, but the Government intends to reduce it to £4,000 a year, back-dated to April 2017. It applies if you have DC savings elsewhere and access them on or after you reach age 55.

It is your responsibility to monitor your position against the pension tax allowances.

New rules on protecting personal data

As your Trustees, we hold personal details about you that are essential for running the Abbey Life Scheme.

From 25 May 2018, a new EU regulation, the General Data Protection Regulation ('GDPR'), replaces the Data Protection Act. The aims of this new regulation are:

- to give people more say in how their personal information is used; and
- to improve security by standardising the way that organisations throughout the EU store and use personal information.

While the UK is currently negotiating to leave the EU, it will still be a member when the GDPR comes into effect, so UK organisations will have to comply.

We are currently looking at our processes for handling personal information to make sure that they will comply. If we need to make any changes – for example, the way we ask you for permission to use your personal details – we will let you know. Otherwise, this change will remain behind the scenes as far as you and your Abbey Life Scheme benefits are concerned.

More information

To find out more about the Abbey Life Scheme, please use the contact on page 1

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 Abbey Life Scheme and your benefits.

Please also update your Expression of Wishes form if you need to. This tells us who you would like to receive any benefits that become payable in the event of your death. As the Trustees, we have the final say over who receives the benefits. 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 on page 1 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 h**ttps://register.fca.org.uk** or by telephoning the Financial Conduct Authority helpline, **0800 111 6768**.

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

www.pensionsadvisoryservice.org.uk
The Pensions Advisory Service provides independent guidance on all types of pensions.

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.

Behind the scenes

As Trustees, we 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 Abbey Life Scheme is progressing.

We received some sad news about one of our Trustees, David Andrews, who was also a Pensioner Member of the Scheme. Following a short illness, David passed away in August 2016. David was originally a Member Nominated Trustee and latterly became a Company Appointment. He served on the Board for many years and will be well known to many of our members. He bought a sound head and good understanding, with an ability to make sense of the complicated, and a balanced approach to the issues the Trustees faced and the decisions needed to be made. We extended our condolences to David's family both personally and on behalf of the Scheme.

We lost the services of two Trustees during 2017. Pretty Sagoo stood down, following the sale of Abbey Life by Deutsche Bank, and Helena Stone retired as a Trustee in November. We thank both Pretty and Helena for their valuable and committed service to the Scheme and wish them both well for the future.

During November 2017, the Company appointed Richard Zugic as a replacement for Pretty. We warmly welcome Richard to the Board.

The Board is made up of Company-appointed Trustees and Member-nominated Trustees as follows:

Company appointed
N C H Tointon (Chairman)
A Reid
R Zugic (Appointment imminent)
Member-nominated
V J Jones
H M Stone (Retired 9 November 2017)

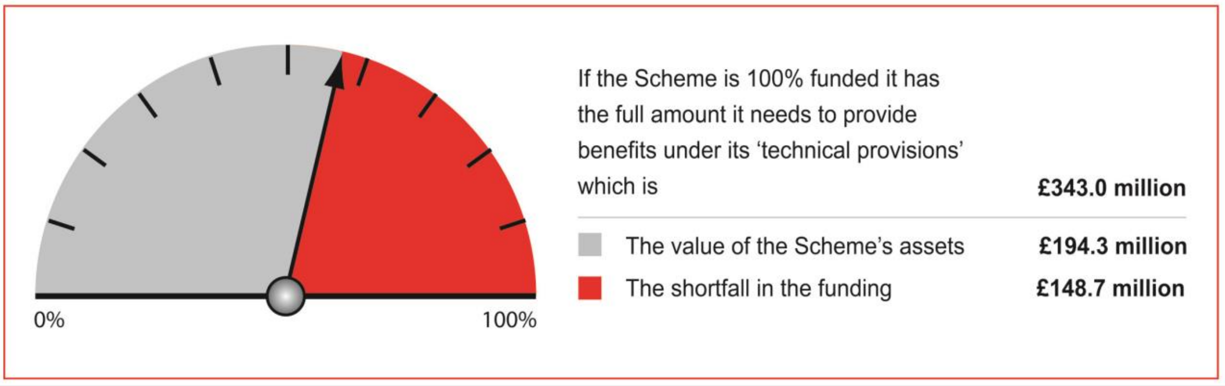
Summary Funding Statement

This section summarises the results of the funding update as at 31 March 2017.

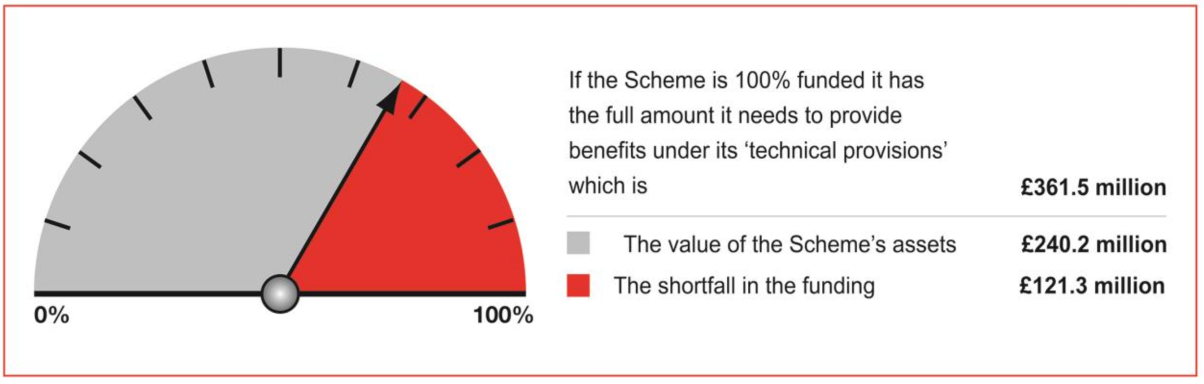
We send you regular updates on the funding of the Abbey Life Assurance Company Limited Staff Pension Scheme ("the Scheme"). The latest update that we sent you explained the finances of the Scheme as at both 31 March 2015 and 31 March 2016. We are now pleased to provide you with more details of the Scheme finances as at 31 March 2017.

This statement explains the funding that supports benefits in the Scheme. It tells you about the longer term outlook for the Scheme and the substantial financial support the Company (ie the employer) – Pearl Life Holdings Limited (which assumed responsibility from Abbey Life Assurance Company Limited with effect from 1 July 2017) - provides. It reflects the results of the actuarial valuation as at 31 March 2015. The actuarial valuation takes into account our assessment of the employer covenant supporting the Scheme, which we continue to view as strong.

In our previous Summary Funding Statement, we gave you information based on the 31 March 2016 update to the actuary's formal valuation as at 31 March 2015. This showed that the Scheme had a shortfall of £148.7 million, equivalent to a funding level of 57% (see chart below).



As at the more recent date of 31 March 2017, the actuary estimated the Scheme had a funding shortfall of £121.3 million, equivalent to a funding level of 66% (see chart below).



Since 31 March 2017, the Company has paid an additional £25m to the Scheme and increased its regular contributions/payments. More details are included in this statement.

The shortfall decreased between 31 March 2016 and 31 March 2017. Both the assets and liabilities have increased since the update at 31 March 2016. The increase in the Scheme's assets is due to investment returns exceeding the increase in outgoings, and ongoing deficit repair contributions. However, changes in market conditions have increased the amount the Scheme needs to hold to pay member's benefits. Overall, this resulted in an improvement in the funding position.

Summary Funding Statement

In addition to the assets held in the Scheme (as described above), additional assets are held in two separate accounts (called the 2013 Charged Account and the 2016 Charged Account), which amounted to £35.7 million and £3.0 million respectively as at 24 March 2017. The Scheme will receive monies from the 2013 Charged Account should certain events occur or if there is a shortfall in the Scheme as at 31 March 2021 (assessed in a specified manner). Any payment to the Scheme from the 2013 Charged Account (if any) would be made no later than 30 June 2022. The Scheme will receive monies from the 2016 Charged Account should certain events occur or if there is a shortfall in the Scheme as at 31 March 2027 (assessed in a specified manner). Any payment to the Scheme from the 2016 Charged Account (if any) would be made no later than 30 June 2028.

Understanding the statement

As the Trustee board, we are responsible for ensuring that your benefits within the Scheme are secure and will be paid. To meet these aims, with the advice of the Scheme Actuary, we set the desired level of assets (the funding target) that we believe is suitable for the Scheme. The funding target is an assessment of the amount of funds needed to pay benefits in the future to:

- Members currently receiving a pension from the Scheme
- Members who are in active service and expect to receive a pension from the Scheme on retirement
- Members who have left active service and have a deferred pension in the Scheme
- Financial Dependants of Scheme Members who are entitled to benefits under the Scheme rules.

To work out the funding target, the Scheme Actuary needs to make a number of assumptions and consider how the funding target will be affected if any one of these assumptions turns out to be too pessimistic, or too optimistic. The Trustee then uses its judgement to consider how confident or cautious it wants to be and decides on a suitable safety margin to build into the funding target.

In the formal valuation, the Scheme Actuary works out the amount the Scheme needs to cover its funding target. The value of the assets (taken from the audited accounts) is then compared with the funding target. This gives the funding level. Between valuations, the Scheme Actuary produces an updated estimate of the funding level such as the estimate at 31 March 2017 provided in this statement. These are not as thorough as a formal valuation but still give useful indications of how the Scheme's funding level has changed. The next formal valuation will take place as at 31 March 2018.

How is my pension paid for?

The pensions of Members and their Dependants are paid from the Scheme's funds that have built up since the Scheme was established. These funds have arisen from contributions made by the Company together with the returns from the investments that have built up.

The money to pay pensions is held in a common fund. It is not held in separate funds for each individual.

How is the amount the Scheme needs worked out?

The Trustee obtains regular valuations of the Scheme. These compare the value of the benefits earned by Members with the value of the Scheme's assets. Using this information, the Trustee came to an agreement with the Company on future contributions.

Summary Funding Statement

Support of the Company

The funding target that the Trustee agreed for the Scheme meets the requirements of the Pensions Act 2004 and is called the ‘technical provisions’. It aims to produce a prudent reserve of money to meet the Scheme’s future needs. The Trustee has discussed its funding plan with the Company, which has agreed to make suitable contributions. The Scheme relies on the Company and its financial support to:

- pay the cost of Members building up benefits and the expenses of running the Scheme
- make extra contributions when there is a funding shortfall
- put in more money if the target set for funding the Scheme turns out to be too low.

The Company has paid, and will pay, the following contributions in respect of the cost of Members building up benefits:

- 41.5% p.a. of Gross Pensionable Earnings each year up to 30 June 2016
- 39.5% p.a. of Gross Pensionable Earnings each year from 1 July 2016

In respect of deficit contributions the Company:

- Paid a lump sum of £15m into the scheme on 25 June 2016
- Will pay monthly contributions of £246k into the Scheme between 1 July 2016 and 30 June 2026

In respect of the expenses of administering the Scheme, the Company will pay £83,552 per month with effect from 1 April 2017, increasing annually each subsequent 1 April in line with the assumption for Retail Prices Index inflation used for the 31 March 2015 valuation.

The Company will also make contributions of £2.92m each year from 31 July 2016 to 31 July 2025 inclusive into the 2016 Charged Account.

Following the acquisition of Abbey Life by the Phoenix Group on 30 December 2016, the Trustee reached an agreement with the Company to update the Company contributions as follows:

- A lump sum of £25m into the Scheme to be paid by 31 July 2017.
- Additional monthly contributions of £154k pm into the Scheme between 1 July 2017 and 30 June 2026 (ie total monthly contributions of £400k pm)
- Additional annual payments of £1.08m into the Charged Account (ie total annual payments of £4.0m pa).

The Trustee expects that the Company's contributions to the Scheme, together with the expected investment returns on the Scheme assets, and the expected payments from the 2013 and 2016 Charged Accounts, will be sufficient to remove the funding shortfall by 30 June 2028, if the assumptions are borne out in practice.

The Pensions Regulator

We must also tell you if there have been any payments to the Company out of Scheme funds since the last summary funding statement. There have not been any payments. The Pensions Regulator can change the Scheme, give directions about working out its technical provisions, or impose a schedule of contributions. We are pleased to say that it has not needed to use its powers in this way for our Scheme.

What if the Scheme started to wind up?

Even though funding may temporarily be below target, the Scheme will continue to pay benefits in full as long as it continues. As part of the valuation, the Scheme Actuary must also look at the Scheme’s solvency if it started to wind up (come to an end). This does **not** mean that the Company is thinking of ending the Scheme.

Summary Funding Statement

The Scheme Actuary determined whether the Scheme had enough money at the valuation date to buy insurance policies to provide Members' benefits. Insurance companies have to invest in 'low risk' assets, which are likely to give low returns and their policy prices will include administration charges and a profit margin. This means that, even if a scheme is fully funded on the ongoing basis, the solvency figure is likely to be less than 100%.

If the Scheme had started winding up as at 31 March 2015, the Scheme Actuary estimated that the amount that the Scheme needed to ensure benefits were paid in full (the full solvency position) was £454.1 million. On this basis, the Scheme's shortfall was £232.2 million, equivalent to a funding level of 49%.

The Pension Protection Fund

If the Scheme starts to wind up before you retire, the Company has to pay whatever the Scheme needs to buy the insurance policies for Members. If the Company becomes insolvent and the Company is unable to pay sufficient contributions into the Scheme, the Pension Protection Fund (the PPF) may step in and pay some compensation to Members. In broad terms, the PPF aims to provide:

- if you are a pensioner aged over Scheme Pension Age, a pensioner who retired due to ill-health, or receiving a widow or widowers' pension: 100% of your current pension
- if you are an active Member, a deferred Member, or a pensioner Member who has not yet reached Scheme Pension Age: 90% of your current pension (there is a maximum limit on the pension the PPF will pay if you fall into this category - for 2017/18 the maximum is set at £31,386 per year if you are due to retire at 62)
- Dependants' pensions of 50% of the Member's pension are also provided.

The increases the PPF provides on pensions in payment in the future are lower than those provided by the Scheme. There are more details on the PPF website at www.pensionprotectionfund.org.uk .

Any questions?

If you have any questions about the Scheme or your benefits, please contact us. You can also ask to see the Scheme's formal documents, including our Statements of Funding and Investment Principles, the Scheme Actuary's valuation report, the Recovery Plan, and the Schedule of Contributions. We may make a charge to cover the cost of photocopying, postage and packaging if we need to send you copies. Please contact Abbey Life, PO Box 4991, Lancing, BN99 8WQ for more information, or alternatively call 0345 712 5921 or email AbbeyLifePensions@equiniti.com.

By law, we cannot give you advice about your pension arrangements. If you are thinking about any changes, you may want to obtain independent financial advice.

Do please remember to tell us if your own address changes.