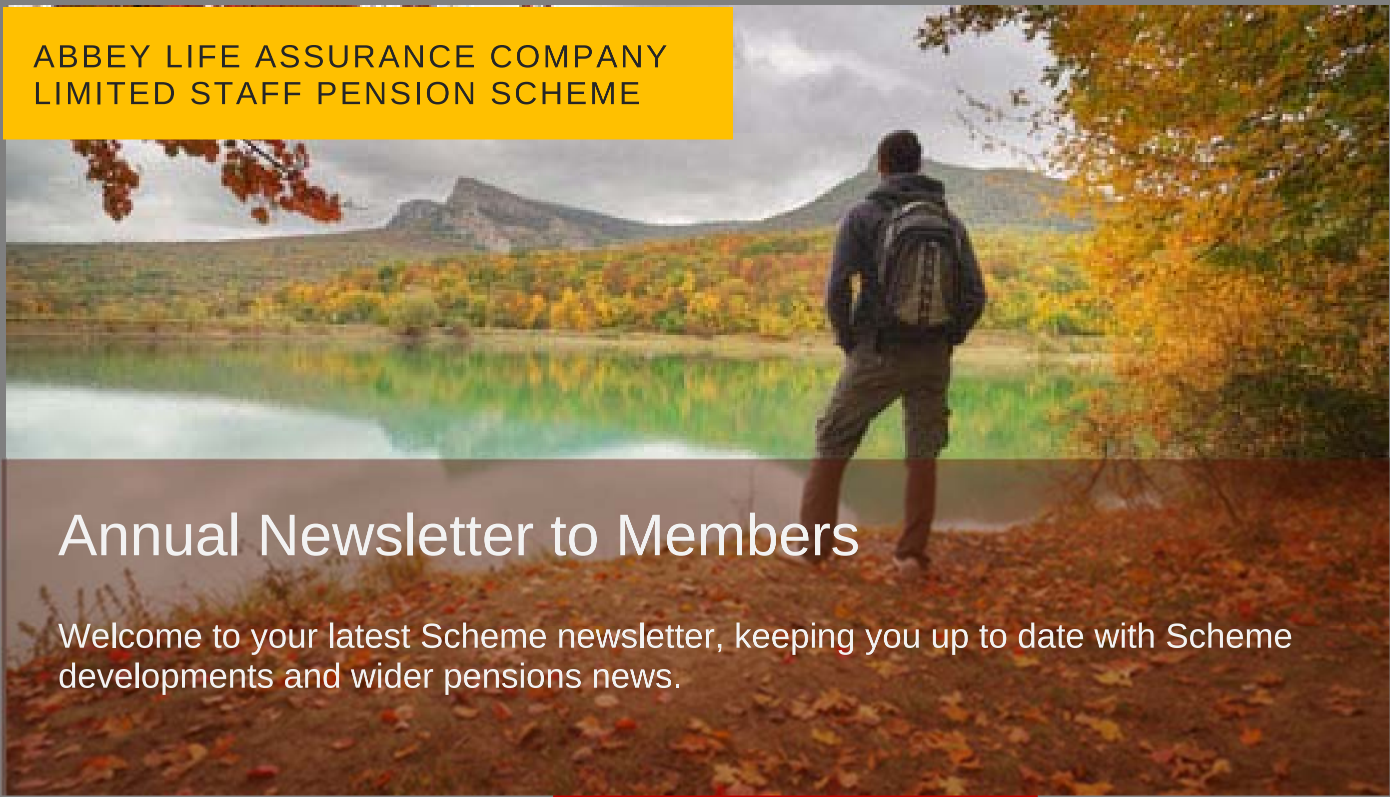
ABBEY LIFE ASSURANCE COMPANY LIMITED STAFF PENSION SCHEME



Annual Newsletter to Members

Welcome to your latest Scheme newsletter, keeping you up to date with Scheme developments and wider pensions news.

January 2021

For much of 2020, the coronavirus pandemic has dominated our lives and there remain challenging times ahead. I hope that you and your family are staying safe and well during these fast-changing times.

As far as running the Scheme is concerned during the 'new normal', we continue to work 'virtually', while the governance arrangements we have in place mean that the Scheme continues to operate efficiently.

I am pleased to report that the effects of the pandemic have had little impact on the Scheme's finances to date. You can read more in our Summary Funding Statement on page 6.

You will recall from last year's newsletter that the five-year terms of office for both of the Member Nominated Trustee Directors (MNTDs) came to an end on 31 May 2020. You may also remember that, back in the spring of 2020, we invited members to apply to join the Trustee Board and work with us and our specialist advisers to contribute toward the smooth and efficient running of the Scheme. Following that nomination and selection process, I am very pleased to confirm that the existing MNTDs, Valerie Jones and myself, were re-elected for a further five-year term. I would like to take this opportunity to say a very grateful thank you to everyone that expressed an interest.

I hope this newsletter edition assures you that our Scheme, with the support of the Phoenix Group, is well placed during these troubling times.

Please do get in contact if you have a query about the Scheme or your benefits. Contact details are on page 8.

Neil C H Tointon
Chair of the Trustees

In this issue

In numbers

The membership

At 31 March 2020 there were 2,712 members in the Scheme, compared with 2,797 members at the same date last year. This does not include members who are paid by an annuity.

1,580	**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.
1,132	**Pensioner members** - receiving benefits from the Scheme (and including the dependants 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 8.

The value of the assets supporting the Scheme at 31 March 2020	£248.2 million
The decrease in the value of the assets over the reporting year	£0.1 million
The total value of Company contributions paid in to the Scheme during the year	£6.0 million
The total value of benefits paid to members during the year	£13.9 million

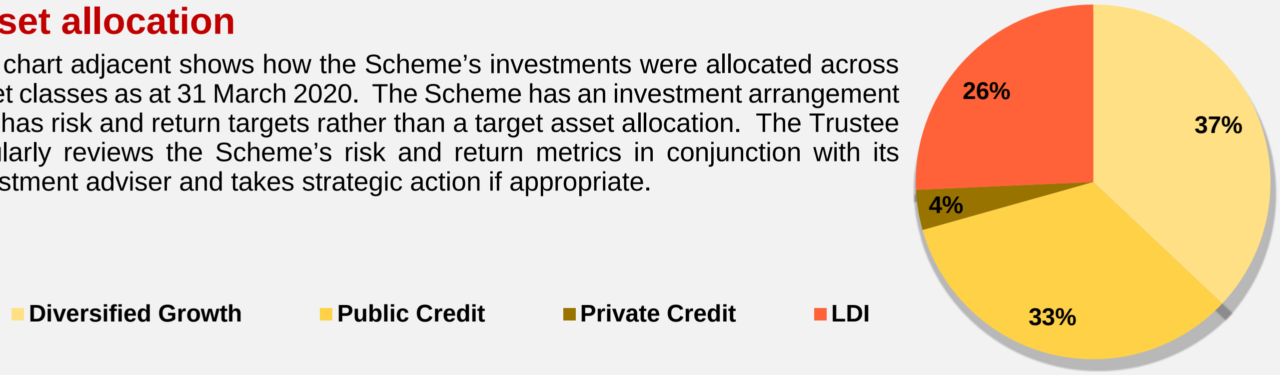
Investment update

As Trustees, it is our responsibility to decide on the Scheme's 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 funds are performing against our expectations.

As at 31 March 2020, the Scheme's assets were invested in various asset classes – Public Credit, Private Credit, Diversified Growth, and Liability Driven Investments (LDI). In the financial year, the explicit allocation to UK Equity was removed and the allocation to Diversified Growth – a pooled investment vehicle with exposure to a diverse set of asset classes – was increased. An allocation to privately sourced credit is being introduced in favour of Public Credit, with the first Private Credit investment made in March 2020.

Asset allocation

The chart adjacent shows how the Scheme's investments were allocated across asset classes as at 31 March 2020. The Scheme has an investment arrangement that has risk and return targets rather than a target asset allocation. The Trustee regularly reviews the Scheme's risk and return metrics in conjunction with its investment adviser and takes strategic action if appropriate.



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 figures have only been shown for mandates that have been invested in for the entire period.

	Performance over the twelve-month period to 31 March 2020		Performance over the three-year period to 31 March 2020 (% per year)	
Portfolio	**Fund**	**Benchmark**	**Fund**	**Benchmark**
Diversified Growth	-8.5%	5.7%	N/a	N/a
Public Credit	2.2%	1.5%	2.5%	2.1%
Liability Driven Investments (LDI)	24.3%	N/a	13.8%	N/a

Over the financial year, the Scheme's asset value remained broadly flat (moving from £248.3m as at 31 March 2019, to £248.2m as at 31 March 2020). Over the same period, the Scheme's liabilities, calculated on a technical provisions basis, decreased from £342.3m to £336.5m. As a result, the funding level improved slightly from 72% to 73%.

The total Scheme assets delivered an investment return of 3.2% over the 12-month period to 31 March 2020. Over three years, the Scheme's assets returned 4.1% per annum.

The DGF underperformed its target of cash + 5% per annum over the year, due to the sell-off of risky assets following concerns of the impact of the pandemic on the global economy. Since the financial year end, the DGF has seen strong positive performance as risky assets have rebounded from their lows following unprecedented support from central banks and governments and positive vaccine news. The Public Credit mandate returned 2.2% over the year and outperformed its benchmark.

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 given market movements, the LDI portfolio delivered a positive return following interest rates falling to all-time lows.

In the news

Protect yourself from cybercrime

Hackers want access to your finances – bank accounts, retirement accounts, loans etc. Bank accounts are the top target, but retirement accounts are becoming increasingly attractive to fraudsters. This is probably because they are not checked as often as every day financial accounts, and because they can hold a lifetime of savings. Financial advisers recommend that you check your retirement accounts regularly and report any unfamiliar transactions.

Individually, we all have a responsibility to protect our own data to reduce the risk of cybercrime. Here are some top tips to help you keep your online data secure:

Use strong passwords. Make them complex, change them regularly, and don't use the same one on multiple sites. In 2019, the UK's National Cyber Security Centre found that '123456' was the most widely used password on breached accounts, followed by '123456789', 'qwerty', 'password', and '1111111'.

Install security software. There are lots of options when it comes to protecting your devices and software from viruses and other malware. This kind of software is often available at no cost.

Keep your devices and software up to date. Regular updates can be frustrating, but they are vital to patch any potential flaws that cybercriminals look for.

Back up your most important data. Save your most important online data to an external hard drive or cloud-based storage system.

Lock your devices. Use the screen lock function on your smartphone and tablet.

Manage your social media settings. The more you share online, the greater the risk, so keep your personal and private information secure on social media.

Strengthen your security on Wi-Fi. Use a strong password when using public Wi-Fi. It's also a good idea to use a virtual private network (VPN), which will encrypt everything that leaves your device until it gets to its destination.

To find out more about the threat of cybercrime, and how you can stay safe, go to: www.getsafeonline.org and [www.ncsc.gov.uk.](www.ncsc.gov.uk)

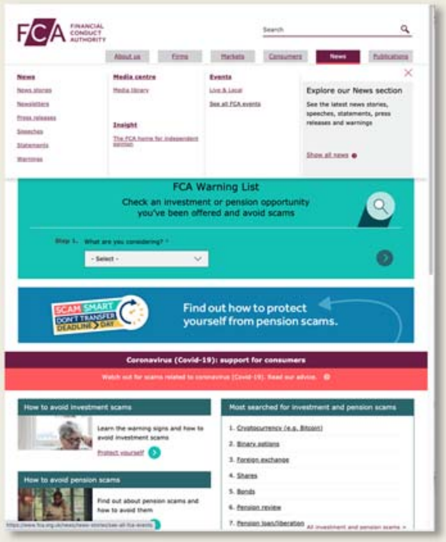
If you are a victim of cybercrime, report it to Action Fraud, the UK's fraud and cybercrime reporting centre: [www.actionfraud.police.uk.](www.actionfraud.police.uk)

Beware of pension scams

Scammers want to persuade you to transfer or release your savings. There are fears that the coronavirus pandemic could make the situation worse. In the uncertain economic climate, people might be more worried about their personal finances and more susceptible to a con. Scammers are always looking for new ways to tempt people into parting with their savings.

Do you know the warning signs of a pension scam?

Go to www.fca.org.uk/scamsmart for tips and online resources to help you protect yourself.



Go to www.thepensionsregulator.gov.uk/en/pension-scams and download the pension scams booklet.

In the news

Coronavirus and Brexit update

The coronavirus pandemic has dominated the news and affected the financial landscape for most of the year. After an initial downturn, which coincided with the UK's first lockdown, many of the world's investment markets rallied. However, uncertainty looks set to continue for the next few months at least, with lockdowns reimposed across the UK.

On 24 December 2020, a Trade and Cooperation Agreement was agreed as part of the UK leaving the EU. The agreement provisionally applies from 1 January 2021, pending ratification.

The coronavirus pandemic, and the terms of Brexit, are certain to have a short-term impact on the economy. Time will tell as to what the full impact will be, and how long it lasts.

As the Trustee of the Scheme, we continue to monitor both issues as they develop. We also have robust strategies in place to ensure the efficient day-to-day running of the Scheme and ensure that members are able to access the services they need.

Minimum retirement age to increase

The Government has confirmed that the minimum retirement age will rise from 55 to 57 in 2028, to coincide with the rise in the State Pension Age to 67.

Pension savers considering taking early retirement in 2028 or later will need to take this into account – in particular, those that will turn 55 just after the change takes effect. The Government is expected to legislate for the increase in minimum retirement age in due course. We will keep you updated.

Pension tax allowances

Please remember that it is your responsibility to understand and monitor your position against the pension tax allowances.

The Lifetime Allowance is £1,073,100 for the 2020/21 tax year, and rises each April in line with inflation, as measured by the Consumer Prices Index. The standard Annual Allowance is £40,000 for the 2020/21 tax year.

The tapered Annual Allowance applies for high earners. If your income for the year is more than £200,000, the Annual Allowance may be reduced to between £39,999 and £4,000 (dependent upon your total income and pension savings).

The Money Purchase Annual Allowance is £4,000 for the 2020/21 tax year. This allowance comes into effect if you have accessed money purchase pension savings and continue to build up money purchase savings.

You can find information about the allowances online at www.gov.uk/tax-on-your-private-pension.

GMP equalisation

We have previously reported on the High Court ruling about Guaranteed Minimum Pensions (GMPs). The ruling confirmed that pension schemes need to equalise the GMP payments they make to men and women.

This affects all members and dependants with a Scheme pension built up between 17 May 1990 and 6 April 1997. If you built up a GMP during this period, you may be due a small increase to your benefits.

However, the ruling is complex, with parts of the judgement still outstanding. We are continuing to work through the details with our advisers as and when official guidance is confirmed. If you are affected, we will write to you separately in due course.

Note that no benefits will be reduced as a result of GMP equalisation.

Summary Funding Statement

This section summarises the results of the funding update as at 31 March 2020. It also looks at the recent results. These financial health checks are vital for monitoring the Scheme's progress. We hope that the information helps you to understand how the Scheme is developing.

The latest position

The table below shows how the funding position has changed since the valuation as at 31 March 2018 and the last funding update as at 31 March 2019.

	Valuation	Update	Update
Date	31 March 2018	31 March 2019	31 March 2020
The funding level	71%	72%	73%
The funding target	£338.3 million	£342.4 million	£336.5 million
The value of the Scheme's assets	£240.2 million	£246.5 million	£246.5 million
The overall position	Shortfall of £98.1 million	Shortfall of £95.9 million	Shortfall of £90.0 million

Reasons for the change

The latest update shows that the funding level has improved slightly since the update as at 31 March 2019. The liabilities have decreased. A number of factors have impacted this change:

- RPI inflation has decreased significantly, reducing the liabilities, although the impact of this has been offset slightly by the reduction in the best estimate of the difference between RPI and CPI inflation.
- Fixed interest gilt yields have also decreased significantly, which, in isolation, has increased the liabilities, although the discount rate also contains a partial link to corporate bond spreads, which have increased significantly, offsetting some of the impact of changes in gilt yields.

The value of the assets is broadly unchanged from the level as at 31 March 2019. Employer contributions and investment returns over the year have been offset by benefit payments throughout the year.

Similar reasons explain the changes in the value of liabilities over the whole period since the valuation as at 31 March 2018. The assets increased over the whole period as a result of positive investment performance and employer contributions.

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 £38.2 million and £15.8 million respectively as at 31 March 2020.

The Scheme will receive monies from the New 2013 Charged Account and the New 2016 Charged Account 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 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 will 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 formal actuarial valuation will look at the Scheme's position as at 31 March 2021. 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 £400,000 per month until 31 July 2025 to satisfy the recovery plan.

These monthly contributions, together with anticipated investment growth and contributions 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 contributions of £400,000 per month from 1 August 2025 to 30 June 2026.

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

In respect of the expenses of administering the Scheme, the Company currently pays £103,490 per month. This amount will increase annually each 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.

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.

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.**

More information

There are many useful websites that can help you understand your options and support you with your retirement planning.

Get to know your pension at:
www.yourpension.gov.uk The site has a tool that can quickly generate you a retirement checklist to help you assess where you are with your planning. It also has useful links to a pension calculator, a State Pension calculator, and more.

Picture your future at:
www.retirementlivingstandards.org.uk The retirement living standards show you what life in retirement looks like at three different levels, and what a range of common goods and services would cost for each level.

The Money and Pensions Service brings together three financial guidance organisations, the Money Advice Service, the Pensions Advisory Service, and Pension Wise. Go to www.maps.org.uk

Contact point:

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

Email: abbeylifepension@equiniti.com

Phone: 0345 712 5921
(lines are open Monday to Friday, 9am to 5pm)

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

Reminder to keep us up to date

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

Please also update your Beneficiary Nomination 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 Trustee, we have the final say over who receives the benefits. We will consider your Beneficiary Nomination 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 the left to request a blank form.

Taking advice

If you would like advice about your retirement plans, we recommend that you speak with an independent financial adviser (IFA). You can find an adviser in your area by searching the Money Advice Service directory at www.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 www.register.fca.org.uk or by telephoning the Financial Conduct Authority helpline, **0800 111 6768**.

Scheme Web Page

There remains a Scheme section within Phoenix Group's website to hold key Scheme documents. These documents include:

- Previous editions of the annual member newsletter;
- The Scheme's Statement of Investment Principles;
- The Scheme's DC Chairman's Statement.

This web page can be accessed via the link below:
www.thephoenixgroup.com/site-Services/abbeylifestaffpensionscheme

Behind the scenes

As Trustee Directors, 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 review and discuss how the Scheme is progressing.

The Board is made up of Company-appointed Trustee Directors and member-nominated Trustee Directors:

Company-appointed	Member-nominated
Richard Zugic	**Neil C H Tointon**
Justin Grainger	**Val Jones**
Ellie Siva	

We also appoint professionals to support us on areas of particular expertise:

Administrator	EQ Limited (Formerly Equiniti Limited)
Actuary	Jonathan Gainsford, Aon Solutions (UK) Limited
Auditor	PricewaterhouseCoopers LLP
Covenant Advice	Mercer Ltd
Investment Adviser	Aon Solutions (UK) Limited
Investment Manager	Aberdeen Standard Investments (ASI)
Legal Adviser	Linklaters LLP