

Abbey Life Independent Governance Committee

Annual Report

This is the first annual report of the Abbey Life Assurance Company (Abbey Life) Independent Governance Committee (IGC). We have been appointed to act in the interests of members of certain *workplace pension schemes*¹ provided by Abbey Life. This report is relevant to you if you hold one of the following pension products through a *workplace pension scheme*:

- Abbey Life – Personal Pension Plan
- Hill Samuel Life – Private Income Bond
- Hill Samuel Life – Private Income Plan
- Target Life – Personal Pension Plan.

In this report, we describe what we have done and the improvements we have secured for you since we were formed in April 2015.

Our remit is to review the ongoing value for money (VfM) that you are receiving from your *workplace pension* with Abbey Life and raise any concerns we might have with Abbey Life on your behalf. In assessing VfM, we have reviewed the quality of what Abbey Life provides (in areas such as customer service and investment performance – see sections 5, 6 and 7 below) and assessed how the charges your pension incurs compare with what other providers would charge for a similar service.

As we explain later, we have concluded that most of you are currently receiving reasonable value for money, when measured on the basis we set out below (see section 3). However, a number of you are not – in particular, those of you with smaller pots, mainly because you stopped paying contributions soon after joining your scheme. Abbey Life produced proposals to improve VfM at an early stage, but these did not resolve our concerns. We therefore responded to Abbey Life and, as a result of our discussions, a package of measures, including reductions in certain charges, is now being implemented (see section 4). Although these measures address our immediate concerns, we are continuing to work constructively with Abbey Life to achieve further improvements in VfM.

We recommend that you review your arrangements with Abbey Life on a regular basis to ensure that your *workplace pension* and the funds, in which you have chosen to invest, remain suitable for your needs. We understand that Abbey Life does not provide financial advice and recommends that you contact your financial adviser if you require assistance with your review.

If you (or your sponsoring employer) wish to know more about what we are doing or wish to raise any value for money issues with us, we would be delighted to hear from you. There is a link on the IGC's web page [Link](#) that can be used to contact us. We would also be grateful if you could complete the IGC questionnaire included with your next annual statement. We are here for you and are keen to hear your thoughts. The feedback will help us focus on further improvements for *workplace pension scheme* members.

¹ By “workplace pension scheme” we mean a pension savings arrangement entered into by your employer with an insurance company on your behalf.

The remainder of this report sets out more detail on what we have done, and continue to do, on your behalf. It also gives some useful background information on who we are and what can be expected of us. We hope you find it helpful.

1. What is the Abbey Life IGC?

From 6th April 2015, the Financial Conduct Authority (FCA) required all insurance companies providing *workplace pension schemes* to have an independent review of the ongoing value for money (VfM) that members of the *schemes* are receiving. We have been appointed by Abbey Life to undertake that review in relation to the Abbey Life *workplace pension scheme* products, which are listed above. The FCA has made rules which set out the scope of the review and the required expertise and independence of those appointed to perform it.

2. What does the Abbey Life IGC do and who are its members?

The FCA rules require that every IGC has to act solely in the interests of the members of relevant schemes and assess the ongoing VfM of those schemes for the members. We have a Terms of Reference (ToR) which reflect these obligations and which are available on the Abbey Life website [Link](#).

The Abbey Life IGC has five members: John Burgum, Mike Christophers, David Hare (Chair), Andrew Peck and Andy Thorn. As you can see from our biographies on our webpage [Link](#), together we have significant experience in financial services, collectively in excess of 150 years.

Mike Christophers, David Hare and Andrew Peck are totally independent of Abbey Life, although remunerated by Abbey Life for IGC work. John Burgum and Andy Thorn are employed by Abbey Life, but have been asked to be members of the Abbey Life IGC with the clear acknowledgement by Abbey Life that, as members, they will act solely in the interests of the relevant members as required by the ToR and the FCA rules.

With the exception of John Burgum (who became a member on 6th July 2015 in place of another Abbey Life employee who resigned from the company), we have been in place since the IGC was formed in April 2015.

3. How have we assessed value for money?

There is no single definition of value for money (VfM) for *workplace pension schemes*. One of our first tasks, therefore, was to develop a framework to use in our work.

Your *workplace pension scheme* is a savings plan (sometimes called a *policy*), designed to enable you to build up a sum of money (often called a *pension pot*) which, until recently, in most cases had to be used to provide a retirement income. In the case of the Abbey Life schemes, you choose what your *pension pot* is invested in from a range of investment funds that Abbey Life offers. Contributions that you (and/or your employer) make to your pension *policy* are used to purchase *units* in whatever funds you choose. The price of *units* can go up or down depending on investment performance. The total value of your *pension pot* will also be affected by certain costs and charges (some of which are taken from contributions before *units* are purchased, while others are taken from the *pension pot* on an ongoing basis), impacting the return you receive on it.

The costs and charges which are deducted from your *pension pot* are a very important part of any assessment of ongoing VfM but it is important to recognise that VfM is not just about costs and charges. It also covers other features of a *workplace pension scheme* such as the investment return on your *pension pot* and the timeliness and quality of Abbey Life's communication with you.

We have therefore assessed VfM by looking at the following:

- Policy costs and charges
- Investments
- Customer service
- Customer engagement.

We have tried to assess how the features of your *policy* and the service Abbey Life provides to you compare with what is available for equivalent *schemes* at similar cost from other insurance companies. Where the features of a *workplace pension scheme* are much better than comparable schemes offered by other insurance companies, then having a higher charge for that *pension scheme* could still mean that it gives good VfM. On the other hand, a *workplace pension scheme* with a very low charge may not represent good VfM if the other features it provides are of poor quality.

In the sections that follow, we describe how we have studied the features of the Abbey Life *workplace pension schemes* and what we thought of them. In brief, we have found nothing in what Abbey Life is providing to you to be so much better than what might be regarded as “the norm” as to justify an overall price that is more than what others are charging for equivalent *schemes*. As a consequence, we have raised concerns with Abbey Life about the charges some of you are paying from your *pension pot*, as the next section explains.

4. What has the IGC done and concluded about Costs and Charges?

Your annual statement shows the value of the units in your *pension policy* (often referred to as the *nominal unit value*). It also shows the amount you would be paid were you to stop your *pension policy* with Abbey Life and take your *pension pot* (or transfer it to another *pension scheme*) at the date of the statement (your *transfer value*). For many of you, your *transfer value* is lower than the *nominal unit value* shown on your statement. Where this is the case, it is because the *transfer value* includes a reduction reflecting charges attributable to your *policy*. Such reductions are typically referred to as *exit charges*.

The costs and charges (and bonuses, where your *pension policy* has this feature) can be applied as (i) a percentage of your *pension pot* or, (ii) a percentage of any contributions paid, or (iii) as a cash amount and may also be applied regularly or at a single point in time. The impact on your return from your *pension policy* between now and your retirement date can therefore be difficult to compare with the alternatives available from other providers. To help with such a comparison, we have used an approach that converts them all into an equivalent annual *ongoing charge rate* (OCR).

Such a measure provides a useful comparison with other benchmarks, such as the 0.75% price cap used by the Department of Work and Pension (DWP) for certain other *workplace pension schemes* (known as “Auto-Enrolment pension schemes”). The OCR was also the measure used by the Independent Project Board (IPB)² for its investigation of charges across all *workplace pension schemes* like yours. The IPB made a number of recommendations to IGCs concerning how they should approach their work. We have chosen to follow these recommendations and to use the IPB’s approach to the assessment of costs and charges in doing so.

For their analysis, the IPB asked pension providers to supply OCR figures on the basis of investment in whatever default fund choices applied to the pension *schemes* they offered. The Abbey Life *workplace pension schemes* we are looking at do not currently feature a default fund choice – rather, members like you need to choose investment funds from a range of funds which have different costs and expenses (see section 5 below). The majority of *pension pots* and the greater part of members’ funds are currently invested in the Abbey Life Managed Pension Funds or the International Equity Pensions Funds (which have a similar level of charges to the Managed Pension Funds). Thus, in order to undertake our analysis of OCR, we looked at OCR on the assumption that your *pension pot* is wholly invested in the relevant Managed Pension Fund.

An important feature of the IPB approach is that the assessment of costs and charges looks at the impact on the return on your *transfer value*. We recognise that the FCA has raised a number of concerns about certain elements of historic product designs including *exit charges*. In addition, HM Government has recently proposed legislation to permit the FCA to impose limits on the size of *exit charges* that can be applied. Given these developments, we felt it was best, in the first phase of our work, to focus our assessment on the OCR using the IPB methodology. (Nevertheless, we have told Abbey Life that we will want to re-visit the matter of *exit charges*, once there is greater clarity over the actions that the FCA may decide to take.)

What we found was:

- For most of you, the OCR was below the 1% pa VfM threshold chosen for the IPB’s scope. Indeed, for about a third of you, the OCR is below the 0.75% Auto-Enrolment (AE) price cap (where for example you have an addition of “bonus units” to your *pension pot* at your planned retirement date which offsets the impact of the charges and other costs that are being deducted).
- However, there are also a number of you (more than 1 in 10) whose *pension pots* are incurring OCRs significantly greater than these levels. This is particularly the case where the charges include a cash charge (often referred to as a *policy fee* or *policy charge*) that is deducted from *pension pots*. Such charges were a common feature of *workplace pension scheme* designs in the past and, for some Abbey Life *policies*, are currently as high as nearly £65 a year, which can represent a significant percentage of a small *pension pot*. We concluded that VfM is not being delivered for at least some of you in this situation.

² The Independent Project Board was a body appointed to oversee a study sponsored by the Association of British Insurers into the level of charges that apply (or, in some cases, could apply) to workplace pension savings schemes. The result of the study was published in 2014. The Abbey Life IGC chair was a member.

We engaged with Abbey Life on this issue and reached agreement on proposals to limit the impact of *policy* costs and charges. The result of our extensive and constructive discussions was that *policy* costs and charges would be limited by measuring them against both the amount (in money terms) of the charge and the percentage impact on your *pension pot*.

On the basis of the analysis described above (and on the basis of investment in the relevant Managed Fund), this test results in a maximum OCR per annum of:

- 3% for *policies* with a *transfer value* of £1,000 or less,
- 1.5% for those with a *transfer value* between £1,000 and £5,000,
- 1.25% for those with a *transfer value* between £5,000 and £10,000 and
- 1% for those with a *transfer value* in excess of £10,000.

(Therefore, having an OCR of, for example, 3% per annum means that the ongoing charges that apply under the *policy* between now and the retirement date selected are equivalent to having 3p for every £1 of *pension pot* deducted each year from the *pension pot*.)

The overall effect of these reductions in charges is that;

- There will be an average OCR on the pension *policies* held by all members of the Abbey Life *workplace pension schemes* taken together of 1% or less.
- Provided that investment returns are in excess of 3% per annum, no pension *policy* will incur an OCR that would result in a decrease in *transfer value* in the period during which these reductions apply.

This proposal will be effective for a period of one year from implementation and will be subject to review before the end of that period. The temporary nature of the proposals is a consequence of the unknown outcome of the FCA review of *exit charges* referred to above, which might have an impact on the appropriate OCRs applicable to Abbey Life *policies*. We do not expect the outcome of this future review to reduce the value to members of the overall package.

Abbey Life has also proposed and we agreed to two further measures that will have a financial benefit for a number of you. These changes concern you if you (and/or your employer) are still contributing to your Abbey Life pension *policy*. First, if, in the future, you choose to stop all contributions, then most of you will no longer pay increased *policy charges* which might otherwise have applied under the terms of some of the Abbey Life *workplace pension schemes*. Secondly, if you (and/or your employer) continue to pay contributions after the retirement date you have currently chosen for your pension *policy*, Abbey Life will increase the *allocation rate*³ to 105%. This has the effect of offsetting the c.5% charge that is built into the purchase price for *units*.

³ The allocation rate is the percentage of your *contribution* applied to purchase *units* under your *workplace pension scheme*. It can be less than 100% (in which case, not all your contributions are used to purchase *units*) or more than 100% (in which case the impact of any charge built into the purchase price for *units* is reduced).

All these proposals are now being implemented and, if not implemented at the date of this Report, they will be effective in the near future.

Your IGC is particularly pleased at the outcome on charges that we have secured for members. We believe that Abbey Life has made important concessions in the interests of improving the VfM that they are providing.

5. What has the IGC done in relation to Investments?

As noted above, the performance of the assets in which your *pension pot* is invested is an important part of the VfM that you receive. The range of investment options available to you to choose from, and how clearly they are explained, are also important considerations.

Another important aspect, which is currently the subject of much discussion in the pension industry, is the extent of dealing and other costs which are paid for from the assets of an investment fund. Some of these costs are published and allowed for in the projected fund values that are shown in your pension plan annual statement. Other deductions, known as *transaction costs*, are not so public. In the main, these are the dealing costs of buying and selling assets. While their impact is included in the investment fund performance statistics that are published, their precise size, and how they compare to the costs incurred by other fund managers, is not straightforward to obtain. In reviewing this aspect of VfM, we have researched what *transaction costs* information is available. We have also assessed how the overall investment performance delivered by the Abbey Life funds (after *transaction costs* and all other charges) compares with equivalent funds offered by other fund managers.

We have considered:

- The range of investment choices available under the different Abbey Life *workplace pension schemes* listed at the start of our report.
- Abbey Life's processes for monitoring the performance of these investment funds (all of which are managed externally by a third party).
- Considered the costs and expenses charged to each of the investment funds.

We have concluded that:

- The range of investment choices available to you is reasonable for the purposes of a pension plan, although more limited than the range offered by some other insurance companies.
- We are satisfied that Abbey Life is monitoring the performance of these funds appropriately and challenging the fund managers to improve results when necessary. In terms of actual performance achieved, and how this compares with other similar funds, we found a rather mixed position. Abbey Life has reasonable aims for how the performance of its funds should compare with others in the market. However, these performance aims are not always achieved – hence our review of the performance-monitoring process that Abbey Life operates, and how effective it is at achieving improvements.

- Although the costs are reasonable for by far the greater part of the funds under management, the costs for certain funds are higher than we would consider reasonable Vfm. These funds are smaller funds (in particular, certain smaller Target Life and Hill Samuel funds, and the Abbey Life Ethical fund) and the Property fund where the *transaction costs* in the period were more than we would have expected. Abbey Life has already instigated a review of the smaller funds which has resulted in a number of these funds closing or merging, with members affected being given the option to undertake a free switch into other fund(s) of their choice. The merged funds tend to have lower charges and, due to their increased size, should have more flexibility to allow them the opportunity to maximise returns.

6. What has the IGC done in relation to Customer Service?

In looking at customer service, we have taken a broad view, in order to include not just how well Abbey Life responds to particular questions you might ask, but how good it wants to be in its whole approach to customers, and how flexible.

We have considered:

- Service and responses provided to you if you contact Abbey Life and how Abbey Life engages with you.
- The targets that Abbey Life has set for certain service standards (e.g. the time it expects to take to respond to an enquiry or set up payment of benefits to you) and whether, when these are met, they ensure an acceptable level of service for you.
- Abbey Life's processes for dealing with complaints and administration problems and the way that Abbey Life seeks to analyse the causes, to be able to improve its procedures.
- Whether the retirement options being offered are sufficient. From 6th April 2015, a number of new options became available as a result of changes to the regulations governing pensions. Having reviewed these options, Abbey Life adopted those it believed would meet the needs of the majority of its pension customers. In respect of options that Abbey Life did not adopt, customers are encouraged to transfer to a pension provider which does offer the options not adopted by Abbey Life.

We have concluded that:

- Appropriate, service standards are in place and, when met, should ensure that an acceptable standard of service is provided to policyholders.
- The retirement options offered to members appear, in general, to be aligned to their requirements and this is supported by feedback from members since the new options were introduced in April 2015.
- The scale of change and the time available for implementation of the new pension regulations caused operational difficulties within Abbey Life, with a significant deterioration in the time taken to respond satisfactorily to customer queries. This has resulted in some customer dissatisfaction. Abbey Life's senior management has monitored the situation and taken steps to address these issues. These steps have resulted in service levels improving. However, Abbey Life acknowledges that further improvements are required, particularly in its Contact Centre, to ensure it is running as efficiently as it was prior to the changes to the

pension regulations, and is implementing a plan of action to achieve this. We have expressed concern that the implementation of the remedial measures appears to be proceeding slowly – a concern that is shared by Abbey Life.

7. What has the IGC done in relation to Customer Engagement?

As with customer service, your IGC has looked at a broad range of ways in which Abbey Life communicates with you and seeks to engage with you and your needs.

We have considered:

- The quality of Abbey Life staff response on the customer calls we have listened to.
- The content of the annual statements sent to you each year, as well as the retirement communications packs sent out to those members approaching that stage. We have also considered the content of the Abbey Life website.
- The processes Abbey Life has to obtain customer feedback and to take actions to address areas for improvement. These processes include:
 - An Annual Customer Survey for which a number of customers are contacted by an independent organisation and asked questions in respect of their policies and the service they received from Abbey Life. Abbey Life's 2015 survey, conducted during the first quarter of 2015, provided positive results overall.
 - A Quarterly Retirement Survey sent to retired *scheme* members focusing on communications they have received leading up to retirement. The results throughout 2015 have generally been positive, but were affected by the service challenges following the changes to pension regulations.

We have concluded that:

- Client engagement in certain instances needs to be brought up to date, both as regards to content and, we believe, the means of communication. We note that, based on customer feedback, the means of communication used appears to be generally satisfactory to address the needs of the majority of Abbey Life's customers. However, we believe that some of the written communications that we have looked at could be more clear and more customer-friendly and we have asked that Abbey Life should take account of our views in the communications review that they already have underway.
- The customer feedback obtained by Abbey Life to date was not specifically tailored to *workplace pension scheme* members. We have therefore arranged for:
 - A specific IGC survey to be added to *workplace pension scheme* members' annual statements.
 - A specific IGC page to be added to the Abbey Life website [Link](#). This page includes a link enabling *workplace pension scheme* members to provide direct feedback to the Abbey Life IGC.
- A significant number of customers may have moved on, or for other reasons are not responding to Abbey Life communications, after contributions to their plan have ceased and Abbey Life has lost contact with them. We have expressed our concern at the number of

such members and were pleased to note that Abbey Life has actions planned to trace these customers.

8. What has the Abbey Life IGC concluded about Value for Money?

In light of what we have reported above, we have concluded that, when the various actions to be undertaken by Abbey Life (and, in particular, the changes to policy charges described in section 4 above) have been implemented, the Abbey Life workplace pension schemes would represent reasonable VfM in the current environment and would not appear to be out of line with similar schemes from other pension providers.

9. What are the Abbey Life IGC's plans for 2016

While we feel we have made good progress on a number of important matters since we were set up in April 2015, our work is not finished. We have an extensive programme of activity planned for 2016, including the following.

- We will continue to monitor the progress being made by Abbey Life in:
 - Implementing the actions agreed in respect of charges as referred to in section 4 above
 - Addressing the operational challenges in its Contact Centre
 - Enhancing its client communications and its website.
- We will continue our discussions with Abbey Life regarding the costs and charges incurred by smaller *pension pots* and will continue to review Abbey Life's monitoring of the performance of its investment funds.
- We will monitor the progress of the FCA's continuing review of *exit charges* and, as the situation develops, consider the implications for you and the assessment we have so far made of VfM.
- We will continue to monitor the feedback that we and/or Abbey Life receives from you and instigate further action where there is a need to do so.

31st March 2016