
INDEPENDENT GOVERNANCE COMMITTEE

FOR THE YEAR TO
5 APRIL 2018

Annual report to the
members of Phoenix &
Abbey Life Workplace
Pension Schemes

**"We're here solely
for you"**



Abbey Life



PHOENIX LIFE



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INTRODUCTION FROM THE CHAIR

2017 was a year of considerable change, but also of real progress on your behalf.



Dr. David Hare
Chair of the Independent
Governance Committee (IGC)

Welcome to this, our 3rd annual report. This report is relevant to you if you hold a pension policy through any of the workplace pension schemes that are run by [Phoenix Life Limited](#), [Phoenix Life Assurance Limited](#) and [Abbey Life Assurance Company Limited](#).

We act solely in your interest and assess the value for money that you are receiving from your workplace pension with one of these providers. We are here solely for you, as I hope this report demonstrates.

2017 was a year of considerable change, but also of real progress on your behalf.

IGC changes

The membership and scope of your IGC changed, following the acquisition of Abbey Life by Phoenix at the start of 2017. Given the similarity of issues and the common management of the various operational areas, it made sense to combine the Abbey Life IGC with the Phoenix IGC and have a single committee overseeing the value for money being delivered for workplace pensions under these different brands.

The membership of the committee is drawn from those who served on the previous, separate, committees. As you will see from the details given on page 4 and on the website, between us, we have many years of experience of pensions and investment. We also all share a passion for good customer outcomes and are committed to providing strong oversight of the value for money that is being provided to you by these Phoenix companies.

When the IGCs were set up, the members were appointed, following an external search process, for a three year term, starting in April 2015. Following a review of our continuing independence and relevant experience, Phoenix has recently re-appointed us for a further period. All five of us are pleased to have the opportunity to continue to serve you.

Charge reductions

The change in 2017 that we are most excited about took place in December, when Phoenix reduced the charges that apply to many of your policies. This change means that no customer within the IGC scope will pay more than 1% of their pension pot in charges each year (unless they have additional protection cover or have chosen one of the more expensive, specialist, investment options for their pension pot).

You may remember from previous IGC reports that both the Phoenix and Abbey Life IGCs had agreed with the relevant provider short-term reductions in some charges that could be implemented quickly, following concerns over value for money that we had raised. These short-term concessions remained in place until the permanent changes were implemented in December.

These December changes go much further than the previous reductions, both in the number of customers who benefit and in the extent of the benefit. We are very pleased with the customer focus that Phoenix has shown in being willing to reduce charges to such an extent.

Seeing other costs

As well as the charges that Phoenix takes from your pension pot, your IGC also monitors – to the extent that we can – the costs that are taken from your pot by the investment managers who invest your money. Until now, not all of that information has been available. You can see what transaction cost information we have and what we think of it in the [Charges and Costs](#) section of this report.

Thanks to new regulations announced by the Financial Conduct Authority in September 2017, from the start of 2018, ALL investment transaction costs have to be supplied to us and Phoenix on request. The first batch of this new information on costs has been requested by Phoenix from the investment managers who invest your money, and we are expecting delivery of it very soon.

Working for you

Our approach to assessing the value for money you receive continues to be a broad one, including looking at the levels of service and investment performance you receive, as well as the charges and costs that come out of your pension pot.

We hope you find this report of interest and helpful in understanding the efforts we make on your behalf.

We are always pleased to hear what you think. If you have any comments on this report and how we followed up our priorities for 2017, or on the priorities we have set ourselves for next year and how these fit with your experience of Phoenix (and, in the past, Abbey Life), do please get in touch with us at igc@thephoenixgroup.com or write to us at The Independent Governance Committee, The Phoenix Group, 1 Wythall Green Way, Wythall, Birmingham, B47 6WG. We look forward to hearing from you.

SECTION I

Who we are and why we're here

The IGC exists solely for you, the customer, to act in your interests. We act independently of both Phoenix and Abbey Life. Our role is to review the value for money that you are receiving from your Phoenix and Abbey Life workplace pension (your "pension pot") and raise with Phoenix any concerns we might have on any aspect of what they are delivering to you.

The IGC has five members, drawn from a range of relevant professional backgrounds. Between us, we have over 100 years of experience of pensions, investments and customer service and so are well-equipped to act independently in your interests. You can read more about our backgrounds and view our terms of reference on the [Phoenix Life IGC website](#) and the [Abbey Life IGC website](#).



Dr. David Hare
(Independent Chair)



Sheila Gunn
(Independent Member)



Mike Christophers
(Independent Member)



Mike Pennell,
Business
Development and
Strategy Manager
(Phoenix Employee
Member)



Craig Baker, Head
of Investment office
(Phoenix Employee
Member)

Changes to IGC membership

The alignment of the IGCs resulted in changes to membership.

Phoenix IGC

From 06 April 2017 to 30 November 2017 Margaret Snowdon served as an Independent Member of the Phoenix Life IGC.

Abbey Life IGC

Andrew Peck served as an Independent Member from 06 April 2017 to 13 October 2017. His vacant post was taken by Sheila Gunn.

Andy Thorn served as an employee member from 06 April 2017 to 31 May 2017. His vacant post was taken by Mike Pennell. John Burgum also served on the IGC as an employee member from 06 April 2017 to 20 September 2017. His vacant post was taken by Craig Baker.

Independence from Phoenix

Craig Baker and Mike Pennell are employed by Phoenix but are members of the IGC with the clear acknowledgment by Phoenix that they will act solely in the interests of the relevant pension scheme members.

Independent members are totally independent of Phoenix (including Abbey Life), although remunerated by Phoenix for their IGC work. The independent members are not, and have not been in the last five years, employed by Phoenix or a company within the Group. None of the independent members have any material relationships with Phoenix, or a company within the Group.

David Hare and Mike Christophers also act as trustees for two pension schemes operated by Abbey Life, but these duties do not detract from, or conflict with, their work on the IGC. The independent members meet the independence criteria set out by the FCA.

SECTION II

Executive summary

As noted in the Chair’s welcome, this report is relevant to you if you hold a pension policy through any of the workplace pension schemes that are run by Phoenix Life Limited, Phoenix Life Assurance Limited and Abbey Life Assurance Company Limited. The report is about the work of the Independent Governance Committee and what we have achieved for you over the last year. We act solely in your interest and assess the value for money that you are receiving from your workplace pension with one of these providers.

Assessing value for money is not just about what something costs. You also need to look at the quality of what you get and how it compares with similar alternatives. That’s why, since we started our work on your behalf in 2015, we have looked at a number of different aspects of your workplace pension experience to form a view on what seems fine and what needs to change.

This year, your IGC has continued to do this, building on what we have done previously, and adding an overall value for money score which supports our overall colour-coded assessment of Phoenix’s performance ([see the section below entitled “Assessing Value for Money” for details](#)). We recognise that assessing value for money is not an exact science, because some aspects are more difficult to measure than others and individual customers value things differently. Nevertheless, we hope that the amount of detail and transparency of our approach gives you confidence that we are being suitably thorough in our work on your behalf.

This year, we have given an overall score of 87% for the value for money of

Phoenix and Abbey workplace pension contracts, which leads to a “Green with a hint of Amber” assessment.

It is important to note that the experience of some workplace pension members would deserve an even higher score – these are typically customers whose pension pots are invested in funds that are performing particularly well and members who are able to access the best of the online resources that Phoenix provides.

However, there are other members whose experience is not so good – particularly where their pension pots are invested in funds that have performed badly compared to similar funds from other providers, or where their online resources are more limited.

Nevertheless, particularly as a result of the significant reduction in charges that Phoenix has made, we feel that the overall value for money position this year is an improvement on what we saw last year, as the table over the page shows. The comparison with last year is complicated by changes we made to the grouping of components in our assessment framework this year. We made these changes in order to give more prominence to the importance of communication (both to you and from you) and the role that we expect it will play in increasing member engagement going forward.

This report describes in detail what we have done on your behalf in each of the performance areas and why we have rated them in the way that we have. By way of summary, here are our key points:

Investment performance

- We monitor the results achieved by the investment managers - overall we only rate the performance as amber because there are still more funds than we would regard as acceptable where the performance remains unsatisfactory, both in comparison with other similar funds and compared with the objectives of the funds
- We are satisfied that Phoenix is providing you with enough fund choices – however, you need to make sure you are in the right fund for your needs
- Information about the objectives and performance of the funds your pension pot is invested in can be found online on the [Phoenix Life](#) and [Abbey Life](#) websites
- We consider that Phoenix’s Environmental, Social and Governance Policies are of a high standard and are pleased that the investment managers that Phoenix use are required to follow these.

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As a result of the significant reduction in charges that Phoenix has made, we feel that the overall value for money position this year is an improvement on what we saw last year

Performance area	2018 Performance rating	2017 Performance rating
Investment performance	3 Some concerns found	3 Some concerns found
Charges and costs	5 No material concerns	4 Some minor concerns
Customer service	5 No material concerns	4 Some minor concerns
Customer communications	4 Some minor concerns	4 Some minor concerns
Customer feedback	5 No material concerns	4 Some minor concerns
Accessing your pension pot	5 No material concerns	5 No material concerns
Overall management attitude	5 No material concerns	5 No material concerns

Charges and costs

- The vast majority of you will now pay no more than 1% per year
- Over 60,000 Phoenix and almost 8,000 Abbey members will benefit
- We don't yet have all the information on transaction costs but, from the information we can get, we have not seen anything of concern.

Customer service

- Phoenix has met or exceeded its key performance targets on customer service
- The same targets are now applied to the Abbey business
- We have seen a real focus in Phoenix on how it treats customers who may be in vulnerable circumstances.

Customer communications

- The Customer Panel has been extended to Abbey customers
- Phoenix is undertaking a significant review of its written communication but this will take some time to fully implement
- Phoenix continues to improve its online servicing and communication but has more to do to make you aware of it.

Accessing your pension pot

- Phoenix continues to make all of the options for accessing your pension pot available and has controls in place to help you make the right choice (see [Phoenix Life Retirement Centre](#))
- We are working with Phoenix to see how they can better support you as you consider if lifestyling (i.e. automatically changing the investment mix of your pension pot as you near retirement) is right for you
- Phoenix now charges a maximum of 1% if you are aged 55 or more and wish to transfer your pot to another provider.

Overall management attitude

- 1% charge cap is expensive to Phoenix to provide to customers, but is a tangible demonstration of wanting to do the right thing
- IGC challenges over last 12 months have been followed up
- While progress in some areas has been slower than we would have liked, we accepted management's reasons for delay and changing timetables
- We remain impressed with the internal culture of seeking to improve customer outcomes.

Understanding the scores

1 out of 5	Major concerns found
2 out of 5	Serious concerns
3 out of 5	Some concerns found
4 out of 5	Some minor concerns
5 out of 5	No material concerns

SECTION III

Assessing Value for Money

As noted above, assessing value for money is not just about what something costs. You also need to look at the quality of what you get and how it compares with similar alternatives. That's why, since we started our work on your behalf in 2015, we have looked at a number of different aspects of your workplace pension experience to form a view on what seems fine and what needs to change.

Before the IGCs were combined, the areas that the Abbey Life and Phoenix IGCs looked at to assess value for money were broadly the same. However, the Phoenix IGC gave coloured ratings to different areas of value for money and also gave some areas more weight than others based on its customer research when coming up with an overall value for money rating.

This year, in assessing value for money across both Phoenix and Abbey Life workplace pensions, your IGC has followed the previous Phoenix IGC approach, but with a few important changes. These include the introduction of an overall value for money score that we will be able to track going forward. We cover the same performance areas as last year but with some renaming and regrouping for additional clarity namely:

- Investment performance
- Charges and costs
- Customer service
- Customer communications
- Accessing your pension pot
- Overall management attitude







Each of these performance areas is given a performance rating, based on the following colour scale:

- Green – no material concerns
- Amber – some concerns found that affect some members
- Red – major concerns found, i.e. some concerns that affect a large number of members or more significant concerns that affect some members.

The rating is based on a combination of Phoenix and Abbey Life performance. For simplicity, in this report, where we talk about Phoenix, this generally means Abbey Life as well, although in some places we talk about Abbey Life specifically. Where your IGC felt that Phoenix performance was adequate for now, but could and should be better in future, we have given performance ratings such as "Green with a hint of Amber" and "Amber to Green", depending on how far we felt things should be improved.

In arriving at the performance ratings for each performance area, your IGC has reviewed lots of different information, including regular management information packs that are produced within Phoenix, and specially-produced information packs containing the results of detailed investigations that we request. We also get the opportunity to meet relevant Phoenix senior managers and question and challenge them on any aspects of performance that we feel it is important to raise.

We recognise that assessing value for money is not an exact science because some aspects are more difficult to measure than others and individual customers value things differently. Nevertheless, we try and be as objective and fact-based as possible. We hope that the amount of detail in our report and the transparency of our approach gives you confidence that we are being suitably thorough in our work on your behalf. If you would like to know more about any aspect of our value for money assessment, [please get in touch](#). We are always pleased to hear from the pension scheme members that we represent.

Performance area	2018 Performance rating	Weighting	Overall value for money score
Investment performance	3 	5	15
Charges and costs	5 	4	20
Customer service	5 	4	20
Customer communications	4 	4	16
Accessing your pension pot	5 	3	15
Overall management attitude	5 	2	10
Value for Money assessment – March 2018			96/110

Changes to value for money assessment

The main change to our value for money assessment this year is to express each of the performance ratings in a numerical score out of 5 as follows:

5 Green rating

3 Amber rating

1 Red rating

For simplicity, colour ratings involving both amber and green were assigned a score of 4 out of 5.

4 Amber to green rating

The scores for each performance area were then combined together to give an overall value for money score. We continue to view some of the performance areas as more important than others, in terms of their impact on what you ultimately receive from your pension pot and the value for money that this represents. As a result, our overall value for money assessment gives more weight to some of the performance areas than others. We do not just add up the individual performance area ratings to get an overall score. Rather, we multiply the ratings with an appropriate weighting, as follows:

- Investment performance (e.g. how well the funds your pot is invested in do compared with other similar funds from other providers, and what Phoenix does about it if they compare badly) is key to what your pension pot will be worth when you retire. For that reason, we give it a weighting of 5.
- Charges and costs reduce the size of your pension pot. They can be confusing to understand, and that may be why customer research feedback suggested a lower weighting should be given to charges and costs last year. This year, we have given them a weighting of 4 because we know that how much you get at retirement is very important and charges and costs can have a big impact on this.
- Customer service – weighting 4.

- Customer communications are an important factor in determining value for money, as you need the information and ability to make decisions to improve your pension – weighting 4.

- Accessing your pension pot – weighting 3.

- Overall management attitude – weighting 2.

We then add up the weighted scores in order to get an overall value for money rating.

The maximum score that Phoenix could get is 110. Based on what we have seen over the last 12 months, as can be seen from the table on the previous page, your IGC has given a value for money score of 96 out of 110 (i.e. 87%) to Phoenix workplace pension contracts.

SECTION IV

Investment performance

Investment performance (how well your fund does) can make a big difference to the amount you will get back when you choose to take your pension pot. Now that the charges made by Phoenix on your policy have been mainly limited to 1% per annum, the performance of the fund where your pension pot is invested is the most important factor to obtain a good outcome.

Research Phoenix conducted with customers showed that few of you are aware how important investment performance and fund choice are to what you get back from your pension pot, so we feel it is important that we monitor performance on your behalf.

Phoenix uses a number of fund managers to invest its funds. For the workplace pension pots that we monitor, the main ones are:

- Aberdeen Standard Investments (ASI) which manages £737 million
- Janus Henderson which manages £328 million

Other fund managers have less than £15 million of workplace pension funds.

Phoenix regularly reviews the performance of all the funds you can choose from and reports on these to us. We also get reports on actions being taken where performance isn't good enough.

ASI was formed during 2017 by the merger of two key Phoenix fund managers - Standard Life Investments and Aberdeen Asset Management. We have had regular updates from Phoenix to make sure we understand how Phoenix has been monitoring the merger and what it means for the investment performance of funds managed by ASI. We are satisfied that Phoenix is keeping close to this and we are looking for this to continue during 2018.

You should consider whether the fund(s) you are investing in are still appropriate for you and the level of risk you wish to take depending upon what you want your pension pot to provide. For example, if you have opted

for the lowest risk funds – the Fixed Interest Funds or, in particular, the Money Funds – you should be aware that, as a result of the very low interest rates paid at present, your pot may be giving a return below the rate of inflation. You need to consider whether your current choice remains the most appropriate for you – you will find the 'Risk Classification' in the websites referenced below.

Unit Linked Funds

As a Phoenix member, you can get information on your fund(s) from Phoenix websites. They will also show you how well your fund(s) performed compared with other similar funds. For Phoenix funds, go to the [Phoenix Life website](#) and select your policy under the Unit-linked Fund Prices. If your pension pot is with Abbey Life (including Hill Samuel and Target), go to the [Abbey Life website](#). You should be able to find the name of your fund(s) on your annual statement.

The performance of a wide range of funds, not only those covered by the [table over the page](#), is regularly reviewed by us and key information is discussed below. The table shows the amounts of workplace pensions members' total pots in each of the most popular funds.

The results in the table 'Performance over 5 years' show that these funds have achieved returns of between 8.5% and 13.9% a year over this period.

We are in active discussions with Phoenix where the performance is in quartile 4 – not just in respect of the funds shown in the table over the page, but also any other funds rated in quartile 4, in which you may be invested. In these circumstances, Phoenix makes sure the fund manager takes action to improve performance; if this does not improve, in the end Phoenix will change the fund manager.

We also monitor the investment strategies that Phoenix select to be followed, and how these match up with the funds' objectives. During the course of this year, Phoenix has been considering how to improve the performance in particular of the most popular 'managed' pension funds. These funds invest in a variety of different assets such as equities (company shares), bonds (issued by governments and companies) and property. During 2018, Phoenix intends to review the mix of assets in the managed pension funds to try to improve overall performance. We have reviewed and support this change, and will be monitoring the results as the year progresses. We monitor 63 of the unit-linked funds in which some of you are invested (the most popular such funds are shown in the table over the page) and of these 63:

- Over 1 year 46% performed satisfactorily (ranked 1 or 2)
- Over 3 years 41% performed satisfactorily
- Over 5 years 49% performed satisfactorily

You should consider whether the fund(s) you are investing in are still appropriate for you and the level of risk you wish to take depending upon what you want your pension pot to provide.

Name of unit linked fund	Total amount £million	Quartile over 1 year	Quartile over 3 years	Quartile over 5 years	Performance over 5 years % a year	Benchmark performance over 5 years % a year
RSA Pensions Managed	177.1	2	2	2	9.4	9.1
NPI Pensions Managed	100.5	4	2	3	8.6	9.1
Scottish Mutual Growth Pension	89.2	2	3	2	9.6	9.1
NPI Pensions Equity Tracker	49.4	3	3	4	8.5	10.0
Pearl Pensions UK Equity	30.3	3	3	2	10.8	10.0
Britannic Pensions Growth Stakeholder	28.3	3	3	3	9.2	10.0
NPI Pensions Overseas Equity	26.8	3	2	3	13.6	13.7
Abbey Life Managed Pension	90.4	3	2	3	9.0	9.1
Abbey Life International	112.0	3	2	2	13.9	13.7

The comparison with other workplace pension providers' funds shows the relative performance of the most popular Phoenix funds. The column 'Quartile over 1 year' shows the relative rank compared with similar funds over 1 year, and the following columns show comparisons over 3 and 5 years.

A fund shown rank 1 is a fund in the top 25% of all such funds, rank 2 is a fund from 26% to 50%, rank 3 is a fund from 51% to 75%, and rank 4 is a fund in the bottom 25%, between 76% and 100%. So, a fund ranked 2 has performed comparatively well, but a fund rank 3 relatively less well. The column headed: "Performance over 5 years" is the one we are most interested in, as pensions are long-term investments.

The final column shows the performance of the 'Benchmark' that Phoenix sets its fund managers to achieve. These benchmarks are as described in the 'fund information' section on the websites referred to on the previous page. The performance of the funds over the period allows for the annual management charges, whereas the benchmark has no charges.

What is an Environmental, Social and Governance Policy?

It is a set of rules and guidelines that many companies put in place to describe how they will carry out their business. It might set out how they will treat their staff, for example, in terms of equal opportunities and diversity, or how they will consider the environment when they make decisions or choose how to invest. The policy will also explain how the company is run, for example what checks and balances are in place to try to avoid poor decisions being made.

With Profit Funds

Some of you are invested in 'with profit' funds instead of the unit-linked funds discussed above. We also track the performance of these funds. Like most pension funds, these are designed to give good long-term performance, and so we track the 5 year results. Most of these funds, designed to be less 'risky', have a higher proportion of the assets invested in bonds rather than equities, and the returns over the last 5 years have generally been lower than for unit-linked funds, ranging from just over 3% a year to just over 9% a year. However we noted that, over the last 5 years, the Phoenix Scottish Mutual With Profits Fund Series 2 and 3 and the Phoenix Scottish Provident Unitised with Profits Fund series 2 both achieved a return broadly equal to the return on the 'benchmark' used for Managed Funds in the unit-linked table on the previous page, of 9.1% over the period. We regard this as a reasonably acceptable result. Again, the external managers of these funds are carefully monitored by Phoenix and we review the results.

Related to investment performance, we have also looked at 'Transaction costs'. This is covered in the section, entitled "[Charges and costs](#)".

Environmental, Social and Governance Policies

As well as looking at fund performance this year we reviewed the Environmental, Social and Governance policies of Phoenix and its main fund managers. We are satisfied that Phoenix has in place a strong corporate social responsibility framework and robust policies on diversity. The IGC was satisfied that Phoenix has high internal standards and only selects fund managers that operate in accordance with these high standards. We will continue to monitor this position.

What have we concluded?

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Overall we grade investment performance as amber (3 out of 5)

During 2017 there have been significant changes and issues covered above that could potentially impact the investment returns from your pension pot. Overall, we rate investment performance as amber, or 3 out of 5. Phoenix is introducing further changes over the next year or so designed improve the long-term performance of the funds. These will take a number of years to generate results. We support the changes and will be tracking the results on your behalf.

SECTION V

Charges and costs

CASE STUDY 1



“Jeff” has an Abbey Life group personal pension which he is no longer paying into. He is 51 years old and has a pension pot with Phoenix worth £21,700 and expects to take his benefits in 9 years’ time.

Had no changes been made then his pot might have been worth £25,300. Under the long term solution, his pot would be worth £28,200, an increase of 11.5%.

Charges are taken in different ways depending on the type of policy you have, but we ask Phoenix to convert these into a single value which we call an Annual Management Charge (or “AMC”). This makes things easier to compare. In our first year (2015), we agreed initial solutions to reduce charges for those of you who had the largest AMCs. In Phoenix, this meant that the vast majority of members aged less than 55 would pay an AMC of no more than 1.5%, benefitting around 27,000 of you. In Abbey Life, this meant that no member would pay more than 3%, with lower AMCs for larger pots and no more than 1% for pots above £10,000, benefitting a further 3,500. We agreed that these charge reductions would continue until a longer term solution was in place and we made sure that this happened.

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The vast majority of you will now pay no more than 1% per year

In our reports last March, we told you that Phoenix and Abbey Life had agreed a longer term solution. This means that the vast majority of you will now pay an AMC of no more than 1% per year. This was put in place by the end of 2017. For those of you that had pension pots subject to cash-in charges below age 55, the 1% cap that has been introduced is more generous than it could have been. Given the relatively small pot size (under £10,000), for many of you, we believe this demonstrates Phoenix commitment to ensuring all members receive value for money.

CASE STUDY 2



“Rhona” has a Phoenix Life group personal pension which she is no longer paying into. She is 30 years old and has a pension pot with Phoenix worth £7,000 and expects to take her benefits in 35 years’ time.

Had no changes been made then her pot might be worth £13,476. Under the long term solution, her pot would be worth £19,465, an increase of 44.4%.

A few of you may still pay an AMC of more than 1% but that's because:

- You decide to take benefits earlier than you originally intended or transfer your pot to another provider
- You have extra benefits on your plan (like life insurance or waiver of premium) that you also pay for
- You invest in certain specialist funds (such as the property funds). However, you do have an option to switch into other funds if that's appropriate for you.

Phoenix and Abbey Life wrote to you recently to explain these reductions and give you more information.

There are many types of policy, so we can't show you in this report what the charge reductions mean for each of you. Some of you who have paid higher charges in the past will benefit more than others. And the charges on some policies were already 1% or lower, so there will be no change for them. But some of you will benefit significantly.

We hope the examples give you an idea of what a difference the lower charges may make for some of you. The broad

rule of thumb is the longer to go until retirement, or the smaller your pot size, the bigger the benefit is to you of the changes to charges.

What we can say is that in total over 60,000 Phoenix and almost 8,000 Abbey Life members will benefit to some extent and, like other companies, Phoenix and Abbey Life will be improving the information you get on your annual statements, so you can more easily see how much has been deducted from your own pension pot each year.

Looking forward, we are not expecting Phoenix to reduce charges further, although we will be delving more into the specialist fund charges, to make sure you do receive value for money. We would also like to point out that, although the changes to charges benefit many of you, there could be options available outside of Phoenix where you can reduce your charges even further. Such options might not be open to some of you as there can be minimum pot size requirements in transferring your funds and this is why we believe that Phoenix's 1% per annum charge is value for money for many of you.

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Over 60,000 Phoenix and almost 8,000 Abbey members will benefit

CASE STUDY 3



"Ben" has a Phoenix Life group personal pension which he is no longer paying into. He is 40 years old and has a pension pot worth £10,000 with Phoenix and expects to take his benefits in 20 years' time.

Had no changes been made then his pot might be worth £15,633. Under the long term solution, his pot would be worth £17,939, an increase of 14.7%.

What are transaction costs?

They are other expenses that are paid when individual investments within your pot are bought and sold. Transaction costs are on top of other charges deducted from your pension pot. There are two types – explicit costs and implicit costs.

Explicit costs are things like stamp duty (a tax paid when investments are bought) and fees paid to brokers who do the buying and selling.

Implicit costs are the difference between the price the fund managers used by Phoenix expected to receive or pay when they decided to sell or buy an investment and the price they actually got when the sale or purchase happened. As an example, if they expected to receive £1000 when they decided to sell but actually got £995, that would count as a £5 implicit cost. However it could be they actually received, for example, £1002 if the price had gone up, in which case there would be a £2 benefit rather than a cost.

Transaction costs

When IGCs were first set up, ensuring we agreed a solution to reduce AMC's was our main concern because AMC's were much larger than transaction costs for many of you. With the longer term solution in place for AMC's, although AMC's are still likely to be the biggest charge on your pension pot, making sure the transaction costs you pay are reasonable has become a bigger focus.

At the moment, information on explicit transaction costs is published for many investments, but not all, and information on implicit costs is generally unavailable. In previous years, we have used whatever information was available to help us see if transaction costs were giving you value for money. The FCA announced new rules in September 2017 that will enable Phoenix (and other companies) to give IGC's more information on transaction costs. The rules came into force in January this year and we've asked Phoenix to get us the new information on transaction costs as soon as possible. It will be a little time before we get this information, because most fund managers only started to collect the information from January.

In the meantime we have, like last year, looked at the explicit costs that we already have available to us which cover 95% of investments in Phoenix and 40% of the investments in Abbey, because they are held in 'unit trusts' that already have to produce this information. The amount held in unit trusts is larger in Phoenix because Phoenix has bought up many companies over the last few years and decided to set up a relatively small number of unit trusts, one for each type of investment. This means that all Phoenix customers invest through one or more of those unit trusts, which helps make sure that customers who took out policies with different companies get the same return for the same type of investment. We expect Phoenix to adopt the same approach for Abbey in due course. The other investments are not held in unit trusts, but are held directly by Phoenix and Abbey Life – the 5% in Phoenix being property and the 60% in Abbey Life being a wider range of investments. For Abbey Life we have looked at what information is available on the wider range of investments where we can.

Explicit Transaction Costs (%)

Type of investment fund	2017	2016
UK Gilts	Less than 0.01	Less than 0.01
UK Corporate Bonds	Less than 0.01	Less than 0.01
Overseas Bonds	Less than 0.01	Less than 0.01
UK Equity	0.08	0.09
N America Equity	0.03	0.03
Japanese Equity	0.04	Less than 0.01
Asia Pacific Equities	0.13	0.31
European Equity	0.07	0.12
Emerging Markets	0.31	0.48
Global Equity	0.06	0.14
Property (estimated)	1.5	1.5
Tactical Asset Allocation	Less than 0.01	Less than 0.01
Cash	Less than 0.01	Less than 0.01
Typical Fund	0.10 to 0.14	0.10 to 0.15

What we have seen in Phoenix

The table of figures for Phoenix is similar to the one in last year's report and shows the explicit transaction costs for each type of investment (with an estimate for property). A lot of you invest in funds that hold a mix of types of investment, so at the bottom we have shown what you might typically be paying over all.

You can see that most of the explicit costs we can see for Phoenix have stayed the same or reduced in 2017. The reductions are mainly because there was less buying and selling in 2017, rather than the cost of a single trade being lower. The exception is Japanese equities where the investment strategy was changed to be more active and means there is more buying and selling to try to get a better return. This change was made at the start of last year and, whilst the performance since then has been disappointing, we know that it is performance over the longer term that is more important and will keep an eye on this.

What we have seen in Abbey Life

We have not included a table for Abbey Life because the information we can get from Abbey Life comes from different sources and covers different periods. For example some funds publish information that covers July 2016 to June 2017, and for others we currently only have information for the year to February 2017. However, based on the information we have, explicit transaction costs for Abbey Life generally appear to be in line with or slightly better than the previous year. This includes the funds we had concerns about when the IGC was first set up.

What else have we done?

Because we don't have all of the information available to us yet, we decided to ask Phoenix to get an independent firm of experts to look at the transaction costs in a sample of their funds and see if there was anything that we should be concerned about. The firm of experts have confirmed that there is nothing materially different in the way the explicit costs are calculated by Phoenix compared to the rest of the market. Thus, there is nothing for the IGC to be concerned about at the moment.

What next?

Phoenix has told us that, under the new rules, we will get more information about transaction costs over the next month or so. We are pressing to make sure this is the case. We will put an update on our website page to let you know what this new information has told us. This information on transaction costs

should be considered alongside how well the funds that you have invested in perform overall e.g. lower transaction costs might not be best for you if the investment performance you get is poor compared to similar funds available through other providers, and higher transaction costs may be acceptable if you get better overall investment performance. We also expect implicit costs to be considered best over the longer term rather than over a few months.

What have we concluded?

With the longer term solution to reduce charges deducted from your pension pot to a maximum of 1% per annum we have rated this GREEN or 5 out of 5 for this year across Phoenix and Abbey Life. We don't yet have complete information on transaction costs but, from the information we can get, we have not seen anything of concern. We will see what these look like when all information becomes available.

5

We rate this aspect as green (5 out of 5)







SECTION VI

Customer Service

As value for money is also about the service you get from Phoenix, we look at what happens when you make contact with them, ask for and receive information from them and are making decisions about your pension pot. Here we discuss what we think about what we found.

Phoenix Service

Throughout 2017 we got feedback from the Phoenix Customer Panel on how satisfied you are with the service you get from Phoenix. Here's what you said:

	Phoenix		Abbey Life
	End of 2017	End of 2016	End of 2017
They provide clear, simple and transparent information about your Pension or processes	83% 	79%	79%
All staff are highly trained, knowledgeable and able to deal with your requests or queries	83% 	76%	76%
All requests and queries dealt with speedily and are correct first time	82% 	78%	78%
Staff are proactive, courteous, positive and really look to understand your needs	81% 	78%	78%
Good quality support and guidance is available based on your needs and circumstances	70% 	67%	67%
You can easily access support or information relating to your pension when you need it	70% 	70%	70%

What is the Customer Panel?

To get more regular feedback from its customers, Phoenix set up a Customer Panel. The Customer Panel is a group of customers who are willing to take part in surveys or respond to questions from time to time about aspects of being a Phoenix customer. The Customer Panel has recently been expanded to cover Abbey Life customers, and includes some customers of workplace pensions so the IGC can get direct feedback from you.

The results are encouraging overall, although the feedback showed no improvement in how easy you find it to get hold of information about your pension when you need it. We hope the work referred to in the Customer Communications section below will improve this. Only one set of results are available for Abbey Life because the Customer Panel has only been set up recently so it is not possible to see if things have improved or not. In 2018 the two Customer Panels will be combined to give one complete set of information. We will continue to carefully monitor all of this information, looking for improvements in all areas – particularly in how easy you find it to get hold of your pension information.

Performance against Service Targets

Phoenix sets many customer service targets for itself – for example how quickly phone calls should be answered, complaints should be resolved, and retirement, transfer or death claims should be paid. We review these targets and consider how reasonable they are given what we know of other providers' targets – and our own experiences as

Measure	Target 2017	Performance 2017	Performance 2016	Performance 2015
Speed of retirement claim payouts	12 days	11.03 days	11 days	11 days
Customer Satisfaction	90% or above	92.4%	91%	91%
Servicing complaints as a % of customer transactions	Less than 0.5%	0.46%	0.3%	0.3%

customers ourselves. We also get regular information that shows us how Phoenix performs against these standards, raise any questions or concerns with Phoenix and consider how reasonable their responses are.

Overall we are satisfied that the targets that Phoenix sets itself are reasonable and in some cases quite challenging. Over the last 12 months, in almost all cases, Phoenix has met or exceeded its key targets as shown above. Customer satisfaction is measured by asking how satisfied customers are with Phoenix on a scale of 1 to 5, with the score being the percentage who give a score 4 or 5 ('satisfied' or 'very satisfied').

Abbey Life

Following the acquisition of Abbey Life, Phoenix decided to apply the same customer standards and principles at Abbey Life as it has for the existing Phoenix business. We felt that this approach was reasonable because it was designed to improve the experience for Abbey Life customers in the longer term. Whilst the introduction of these Phoenix customer standards and principles to Abbey Life took a number of months, we felt this change took no longer than necessary.

Vulnerable Customers

We have paid particular attention to how Phoenix is developing its treatment of and service to customers in potentially vulnerable circumstances.

We have seen that Phoenix's board and senior managers have been proactive in prioritising vulnerability, developed a Vulnerable Customer Strategy and an easy to read document for staff, providing them with guidance on how to deal with vulnerable customers.

We have also seen that:

- Members of Phoenix's Customer Team have attended Dementia Champion Training and then delivered this training to other Phoenix staff. We as your IGC have also received this training
- Phoenix has been looking at how its website works for customers with physical and mental impairments
- Phoenix has been working with Money Advice Trust, an award-winning training provider, to develop further training for all Phoenix staff on customer vulnerability.

In the coming year we will keep a focus on how Phoenix's Vulnerable Customer Strategy develops and what this means for members.

What is a vulnerable customer?

A customer is vulnerable if, due to their circumstances, they may be at more risk of making the wrong decision. These circumstances might be permanent, for example due to health or disability; or temporary, for example, due to bereavement, redundancy or eviction.

Not all customers in those circumstances will have difficulties understanding financial information or making the right choices, but some will. What's important is that firms are able to recognise where customers need more help and support and deal with them in an appropriate way.

Your Overall Experience

We also ask Phoenix to review samples of workplace pension cases for us. This looks more widely than the targets above as it considers your overall experience when, for example, you retire or try to transfer to another provider. It considers things like how many times you needed to contact Phoenix to settle a query or claim and whether that was reasonable, how you were treated when you called, and whether you were asked to send in information that wasn't really necessary.

The review looks specifically at where customers were or might potentially have been in vulnerable circumstances and whether there were any lessons to improve customers' experience in future. The results of the sample reviews were also reassuring. Generally Phoenix's processes are working well and, although some issues were highlighted, action is being taken on anything found to improve things for the future. Examples include looking to reduce the amount of paperwork you need to deal with if your pension pot is particularly small, making the forms used to deal with a death claim easier to understand, and more training for call centre staff to deal with certain situations.

Generally Phoenix's processes are working well...

Complaints

Sadly mistakes do sometimes happen and might lead customers to complain. How often this happens, how Phoenix deals with them and what lessons it learns to stop those things happening again is also an important indicator of customer service.

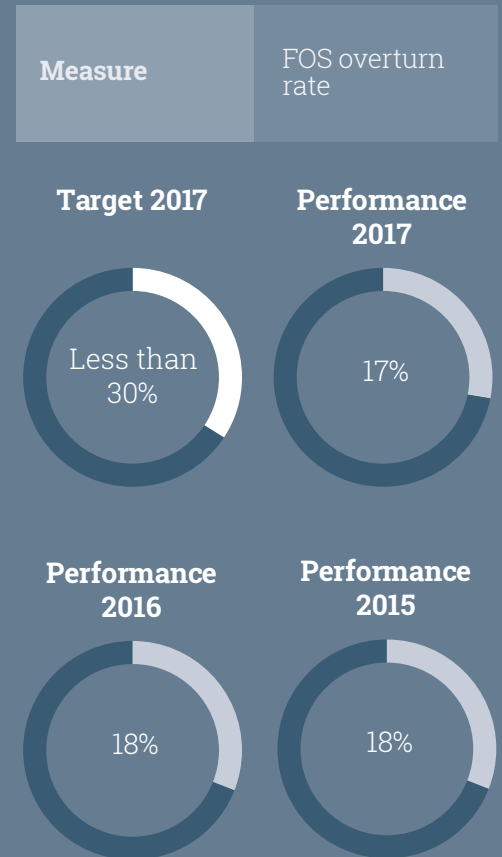
We are pleased that, throughout 2017, around 60% of servicing complaints were resolved within 3 days.

Through telephone interviews with some customers who made complaints, Phoenix has tried to get your feedback about how you felt Phoenix handled the complaints. Your feedback has had a significant impact. You said that when you make a complaint it is important that you receive some "human" input. Phoenix has taken this seriously and changed its complaints process. The following are now priorities:

- That you can speak to someone who understands your issue, empathises with you, takes the complaint seriously and clearly communicate with you
- Agreeing realistic timescales with you for the complaint to be handled and keeping in touch with you throughout the process.

We will seek your feedback during 2018 as to whether these changes are improving your experience.

To see how Phoenix compares with other companies in handling complaints we look at data published by the Financial Services Ombudsman Service (FOS). Phoenix's overturn rate, which tells us how often FOS disagrees with a decision made by Phoenix on a customer complaint, improved on previous years. This is a good outcome.



Conclusion

Last year we rated Customer Service as Green with a hint of Amber. This year we have seen evidence of diligence in all areas of customer service, and constant effort from Phoenix to improve its service, including its approach to vulnerable customers. This year we rate Customer Service as GREEN or 5 out of 5.

5

We rate this aspect as green. (5 out of 5)



SECTION VII

Customer Communications

We have been keen to work with Phoenix to make sure that the communications you receive give you enough information to enable you to understand how your pension pot is progressing, to make any changes following a change in your circumstances and to access your pension pot. We believe it's important that all communications you receive are written in a way that makes them easy to understand, whether that's in your annual statements, retirement packs or other information. We know that it's increasingly important that you can access all of your information in the way that suits you, whether that's on the websites (www.phoenixlife.co.uk and www.abbeylife.co.uk), by phone or by post.

Communication is also two-way, so we are interested in your feedback on the service Phoenix is providing. One of the ways we get this is through the Customer Panel (described in the [Customer Service](#) section). What's just as important is what Phoenix does as a result of your feedback and at the end of this section we talk about this.

Customer tracing in Abbey Life

In the Abbey Life IGC report last year we noted a concern around the high number of customers that Abbey Life had lost contact with. We noted that Abbey Life had implemented a new process to try get back in contact with those customers. This has had some success but is still not as good as we would like it to be. During 2018, Phoenix will introduce its more regular programme of tracing customers to Abbey Life which should further improve things.

Phoenix review of written communication

Phoenix is undertaking a major review of how it communicates with you. We can see that this review takes into account what you think based on feedback from the Customer Panel. The aim is to ensure that communications are clear and easy to understand, that the look, feel and layout are helpful, and that the language and tone are appropriate. We have let Phoenix know that we are keen to work with them in the review to make sure this happens.

We understand the challenges that Phoenix faces as a result of the number of types of plans it administers and that this is a significant piece of work. However, we are keeping up the pressure to have new annual statements in place as soon as possible. In the meantime, we take comfort that existing statements cover all the areas required by the regulator and will show you more clearly what charges are being taken from your pot.

.....

What's just as important is what Phoenix does as a result of your feedback

Elsewhere in this report, we have talked about lifestyling and whether this remains appropriate for you (see "[Accessing your pension pot](#)"). We will keep an eye on how Phoenix communicates to you about this – and how easy they make it for you to decide what is right for you. Similarly, if the fund you are invested in performs badly or is no longer appropriate for your needs, we want Phoenix to make this clear to you and in a way that enables you to choose something different. The test for us will be how many of you take action as a result.

It's more the quality and simplicity of presentation that we want to see improved, and whether that helps you to take appropriate action. We also know that it is increasingly important that you are able to do more online. So far we're encouraged that Phoenix wants this too.

What about online?

Phoenix asked you what you think about the online tools available on its website and those of other firms in the market. Phoenix has online tools to help you understand:

- How much you may need in retirement based on your lifestyle
- How much pension you might receive based on your current pot size, your monthly contributions and your likely retirement age. With its pension calculator you can also see what might happen if you change things like your monthly contribution, and
- How tax might affect your pension.

The [website](#) also:

- Has details of other organisations like Pension Wise and the Money Advice Service where you can get free, impartial guidance
- Includes "how to" videos - for example, how to get the most out of your statement
- Allows many of you to create an online account through a secure login on the website giving you speed of access to information on your pension, and
- Shows you how you can get telephone support.

You said that the pension calculator was good as it was quite simple and you can easily play around with the numbers. Phoenix has some plans in place to improve the online tools further. However, we found that most of you are unaware that these tools, guidance and other information are [available on the website](#), so we are working with Phoenix to try and improve this.

Based on your feedback we will focus on the following to try and improve your experience with Phoenix:

1. Phoenix's work to let you choose retirement options online as well as through written communications
2. Your ability to communicate via email with Phoenix. While telephone remains the preferred channel, some of you want to communicate and ask questions via email. Phoenix is working on making this available

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It might be on their website but there is nothing in their communications to make me go and look at their website

3. Giving all of you access to information on your pension whenever you want, by logging in to Phoenix's website, rather than you having to wait for your annual statement.

We have asked Phoenix to take steps to raise your awareness of what is available, and will look for your feedback over the next year on whether:

- You are able to find these tools and information more easily
- The tools and information have been helpful to you.

Phoenix has discussed with us their plans for further enhancing the online services, and we will continue to challenge them to deliver these over the course of 2018. We think this will give you even more flexibility and information about your pension.

We are satisfied that Phoenix is working to improve these tools even further in response to feedback from you.

.....

We are keeping up the pressure to have new annual statements in place as soon as possible

What's planned?

We are keen that Phoenix continues to deliver the improvements you want to see in their service to you:

In your feedback you said	What Phoenix is doing
You need it to be easier to understand your retirement options, as well as take those options	Phoenix has a Retirement Centre on its website with information, videos and tools to help you. From age 55 one of your options is to take your pension pot as a cash lump sum. Phoenix has made it easier for you to access this online if your pension pot is less than £10,000.
You'd like more information and at an earlier stage about: <ul style="list-style-type: none"> • What your pension pot will be worth in retirement if you increase or decrease your monthly contribution • What options you have • Where your pension pot is invested 	Phoenix has been working to make more of this available online and we talk about this in this section.

What have we concluded?

With Phoenix's intention to review communications to make them easier to understand, the expansion of the Customer Panel to include Abbey Life customers and the development of online services, we have rated customer communications as GREEN with a hint of AMBER (4 out of 5). The hint of Amber reflects the fact that, whilst customers find the online tools useful, there is more to be done to help you find these tools. In addition, we want to ensure that when Phoenix writes to you, whether that's regarding underperforming funds or changes to lifestyling, communications are as clear as they can be to enable you to take appropriate action.

4

We rate this aspect as green with a hint of amber. (4 out of 5)

Accessing your pension pot

Your Options at Retirement

Like last year, we have looked at what choices you have at retirement and how Phoenix is helping make sure you make the right one. We get regular information to see what you are doing with your pots at retirement e.g. the number of you taking your pots as cash or as a guaranteed income for life or transferring your pot to another provider or one of the other options available. Nothing in the information we see gives us a concern. This is based on our knowledge of the industry and the typical size and features of your pension pots.

What choices do I have at retirement?

From age 55 you can use your pension pot to take benefits as:

- A single lump sum (cash)
- A guaranteed income for life
- A series of lump sums leaving the rest invested
- A flexible retirement income
- Or, you can take a combination of these options.

Phoenix has partnered with Hub Financial Solutions (formerly Just Retirement) to offer an advice service (for an additional fee) and make all of these options available to you.

Of the various options you have at retirement, Phoenix offers its own in-house guaranteed income for life. However, in 2017, Phoenix started providing comparison quotes from other companies, to show if you can get a better deal elsewhere. Where members do end up taking a guaranteed income for life with Phoenix, we also see information that shows how competitive its rates are.

Phoenix is looking to introduce a number of its processes to Abbey Life.

We can see that Phoenix continues to make all of the options for accessing your pension pot available and has controls in place to help you make the right choice.

Exit Charges

As a result of new rules that came in in March 2017, Phoenix now charges a maximum of 1% if you are aged 55 or more and wish to transfer your pot to another provider. Because of the way Phoenix has implemented the longer term solution to reduce ongoing charges (which we have talked about in our "[Charges and costs](#)" section) exit charges are also reduced for members under 55. For many members there is no exit charge.

Phoenix continues to make all of the options for accessing your pension pot available and has controls in place to help you make the right choice.

Lifestyling

This year we have also considered how something called "lifestyling" works, as some of you have this as a feature of your policy. With more choice around when you can retire, and how you take your benefits, lifestyling may now be less appropriate for some of you. We encourage you to consider the communications you have received about this. As many of you have stopped paying into your pension pots with Phoenix, and your circumstances may have changed, it may be that the type of assets your pot is invested in now is less appropriate for you. We are working with Phoenix to see how they can better support you to consider if lifestyling remains right for you.

What have we concluded?

In our section on [Customer Communications](#), we talk about the communication aspects of taking your benefits at retirement and of

Phoenix now charges a maximum of 1% if you are aged 55 or more and wish to transfer your pot to another provider.

What is lifestyling?

Lifestyling can work differently depending on the type of plan you have but normally means that, as you approach the retirement age you set when you took out your plan, your pot is gradually moved into 'safer' types of investment and mainly gilts and bonds.

It was designed when pots could be taken partly in cash but mostly had to be taken as a guaranteed income for life.

We are working with Phoenix to see how they can better support you to consider if lifestyling remains right for you.

lifestyling, and the need to improve these communications. But in terms of the options made available to you and the controls that Phoenix has in place around them we continue to rate this as GREEN (5 out of 5).

5

We rate this aspect as green. (5 out of 5)

SECTION IX

Plans for 2018

With the introduction of the 1% per annum cap on charges at the end of last year, your IGC's work has not come to an end. We have an important role to play in following up the various issues that we have highlighted. We will also continue to maintain an overview of the value for money areas that Phoenix is delivering for you. To give you a flavour of the sort of things we are planning to do in 2018 on your behalf, we have included a table below that highlights the areas we intend to look at within the value for money framework.

Across all performance measures we will look at what Phoenix plans as it continues to standardise its processes with those of Abbey Life.

If there are any particular areas you want us to give priority to, please let us know at igc@thephoenixgroup.com. It's always good to hear from you.

Finally, in February 2018, Phoenix announced that it intends to buy the life insurance business of Standard Life Aberdeen plc (Standard Life Assurance). Phoenix has said that its purchase is expected to complete in the third quarter of 2018 so, whilst we do not expect this to affect anything for you in the short term, we will also keep an eye on this.

Value For Money area	Objectives for 2018
Investment performance	<ul style="list-style-type: none">Continuing to ensure that Phoenix is monitoring Aberdeen Standard Investment following its mergerSeeing how Phoenix reviews the mix of types of investment in the Managed FundsMonitoring the steps that Phoenix takes to improve performance for the funds that are performing less well (particularly those in quartile 4)Reviewing Phoenix's approach to Environmental, Social and Governance (ESG) investments.
Charges and costs	<ul style="list-style-type: none">Making sure we receive and review the new information on transaction costs and telling you what we find - including an update on our website pagesLooking to see how reasonable the charges are on the specialist funds where charges may still be more than 1%Making sure that the way charges are explained to you on annual statements is clear.
Customer service	<ul style="list-style-type: none">Continuing to monitor Phoenix's service level targets and its performance against themContinuing to watch how Phoenix continues to develop its vulnerable customer strategy and what this means for members.
Customer communication	<ul style="list-style-type: none">Monitoring how well Phoenix does to reduce the number of customers that it has lost touch with through its customer tracingEncouraging Phoenix to roll out improvements to its written communications to you as soon as possibleEncouraging Phoenix to provide more support for you online and make it easier for you to find the information.
Accessing your pension pot	<ul style="list-style-type: none">Monitoring what changes Phoenix makes for those of you who have 'lifestyling' on your policies.

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