

FOR THE YEAR TO 5 APRIL 2019

INDEPENDENT GOVERNANCE COMMITTEE

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

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



AbbeyLife



PHOENIX LIFE



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INTRODUCTION FROM THE CHAIR

2018 was a year of continued progress on your behalf, with further reductions in charges and other improvements that will be of benefit to many of you.



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

Welcome to this, our fourth 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](#) and [Phoenix Life Assurance Limited](#) (including those that used to be run by [Abbey Life Assurance Company Limited](#)).

The IGC acts only in your interest, and assesses the value for money that you are receiving from your workplace pension. We are here solely for you, as I hope this report demonstrates.

2018 was a year of continued progress on your behalf, with further reductions in charges and improvements in customer experience, which will be of benefit to many of you.

Further reductions in charges

In last year's [report](#) we referred to the decision that Phoenix had made to reduce ongoing charges, such that most policies would not pay more than 1% per year. That represented a significant reduction for some policies compared to the situation before the IGC was formed. We have monitored the position carefully, and are pleased to confirm that Phoenix has done what they said, and that all the promised charge reductions have been implemented.

A helpful consequence of how the reductions were implemented is that some ex-Abbey policies, with additional charges if the pension pot is taken before certain pre-defined dates, have also seen reductions in these 'exit charges' that could apply before age 55. Even though exit charges affect only a small proportion of in-scope policies, they remain a concern for us.

We are very pleased, therefore, to announce that, following a request from us, Phoenix has agreed to remove all remaining exit charges on pots up to £5,000 at the time of exit. This could benefit up to 4,500 of you, and we

welcome this further example of Phoenix addressing our concerns and improving customer outcomes.

Improvements in customer experience

Another area where we have welcomed Phoenix changes this year is in the way online information and servicing options have been extended in order to make it easier for you to review your pension pot and, in certain circumstances, access your money.

While being able to phone Phoenix and speak to their expert staff may well remain the preferred option for many people, your IGC strongly supports Phoenix's view that extending what customers can do online is vital to ensure the overall customer experience remains appropriate and in line with what many people now expect.

The section on '[Accessing your pension pot](#)' later in this report gives a good example of this – the online journey that has been developed by Phoenix to enable even more customers over age 55 to cash-in small pension pots at a time and pace of their choice.

Seeing other costs

During 2018, Phoenix worked hard to make sure the external investment managers, chosen by Phoenix to invest your pension pot, supplied the more complete information about investment transaction costs that, as an IGC, we are now entitled to receive. You can see what we received, and what we think of it, in the [Charges and Costs](#) section of this report.

Other changes

We have been assured by Phoenix that none of the workplace pension schemes within the IGC's scope were sold outside of the UK. Thus, whatever the outcome, Brexit should not affect Phoenix's ability to run your pension.

INTRODUCTION FROM THE CHAIR

At the end of 2018, all the Abbey Life pension schemes within our scope were transferred to Phoenix Life Limited. Your IGC reviewed the proposed arrangements before they happened, to ensure that those of you affected were not disadvantaged as a result. References in this report to 'Phoenix' generally apply to all members, including those who were previously part of Abbey Life, but we occasionally refer to 'ex-Abbey' when we want to refer to these members specifically.

Looking ahead, there are important changes coming to the information you will be entitled to receive in the years running up to when you take your pension benefits. We will carefully monitor how Phoenix communicates this information to you, so that you receive it in the clearest and most helpful way, supporting the decisions you need to make about your pension pot. The Financial Conduct Authority (FCA – the Regulator which required the introduction of IGCs and monitors our activity on your behalf) is also considering extending the remit of IGCs in a number of areas. As their proposals become clearer, we will add appropriate explanations to our [IGC website page](#) to explain how we will engage in the process. We have been following these developments closely for some time, and have already started to anticipate some of the expected new requirements in our work on your behalf.

There is one other change worth highlighting here. Following Phoenix's acquisition of Standard Life Assurance Limited (SLAL) in 2018, the SLAL and Phoenix IGCs are to be aligned into a single Committee in Q2 2019. In anticipation of this, Phoenix has carried out a rigorous selection process, involving an external consultancy, in order to decide which of the two IGC chairs should chair the new committee. I was delighted to be asked to take on this role.

At the time of writing, we are going through an appropriate selection process to ensure that the membership of

the new committee, drawn from the membership of the existing committees, is sufficiently knowledgeable, rigorous, diverse and independent. Details of the new IGC, once finalised, will be available on the [IGC website page](#).

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. This year we have refined our value for money assessment framework to make it clearer what we are looking for and why – see page 9 for more details.

Our assessments are evidence-based, and we don't just take Phoenix's word for things. Rather, we dig deep into issues, interrogating the information we are given, and requesting more detail where we still have questions. Much of the information we look at is confidential to Phoenix, and so we cannot share it all with you. However, we hope what we have included in this report is of interest, and gives you confidence that we are working hard for you.

Do please let us know what you think – of any aspect of your pension with Phoenix, of our report, or of the priorities we have set ourselves in our work for you.

'There are important changes coming to the information you will be entitled to receive in the years running up to when you take your pension benefits.'

You can 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.



Dr. David Hare
(Independent Chair)



Sheila Gunn
(Independent Member)



Mike Christophers
(Independent Member)

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. 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 Phoenix.



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



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

You can read more about our backgrounds and view our terms of reference on the [Phoenix Life IGC website](#).

Independence from Phoenix

The three 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.

At the start of every meeting, we confirm that there have been no developments that could impact our independence.

Until July 2018, David Hare and Mike Christophers also acted as trustees for two pension schemes operated by

Abbey Life, but these duties did not detract from, or conflict with, their work on the IGC.

The independent members continue to meet the independence criteria set out by the FCA.

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.

During 2018, Craig was promoted to an Executive Management position reporting to the Phoenix Life CEO, with responsibilities for oversight of the investment performance delivered

by the investment managers that Phoenix uses. The IGC recognised that this could raise questions over Craig's continuing membership of the committee. We discussed the issue thoroughly with Phoenix and received assurances from both the provider and Craig that, should any potential conflict of interest arise, it would be recognised and not hinder the work of the IGC.

The independent members of the IGC are happy to confirm that, when taking part in IGC discussions, Craig and Mike act as though they too were independent of Phoenix and that, in particular, Craig's promotion has not detracted from the committee's work on your behalf.

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 and Phoenix Life Assurance Limited (including those that were previously run by 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, including an overall value for money score which supports our colour-coded assessment of Phoenix's performance. 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 92% 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 better results of many of the funds in which pension pots are invested,
- The significant developments in customer communications which are underway, and
- The further reductions in some 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 on [page 8](#) shows.

This report describes in detail what we have done on your behalf in each of the performance areas and why we have rated Phoenix in the way that we have.

.....
We feel that the overall value for money position this year is an improvement on what we saw last year.

Investment performance

- We monitor the results achieved by the investment managers who have been chosen by Phoenix to invest your pension pot. We rate the performance higher this year than last, thanks to an overall improved position, when measured over one and three years, relative to the performance of other similar funds from other pension providers. (Overall investment returns were negative in 2018. Phoenix cannot avoid market falls, but it can seek to perform better than its peers – and this is what we have seen more of this year than last)
- There is still room for improvement. Relative performance over five years deteriorated slightly and there are still a number of funds where the performance remains unsatisfactory, both in comparison with other similar funds and compared with the objectives of the funds (i.e. what the funds are trying to achieve in terms of spread of investments and level of risk being run)
- We are satisfied that Phoenix is providing you with enough fund choices of where to invest your pension pot and, in particular, managed funds that target an appropriate spread of investments and level of risk to your money – however, it's your responsibility to ensure you are in the right fund for your needs
- We are pleased that the main managed funds in which most of you have invested your pension pots have, overall, improved performance – see the table on [page 13](#) which has only one poorly performing fund
- Information about the objectives and performance of the funds in which your pension pot is invested can be found online on the [Phoenix Life website](#)
- We consider that Phoenix's approach to Environmental, Social and Governance matters continues to be of a high standard and are pleased that the investment managers used by Phoenix are required to follow this.

Charges and costs

- We continue to believe that, generally, an ongoing charge of no more than 1% per year represents reasonable value for money
- Based on what we have seen, we do not have particular concerns over those pension pots where charges are more than 1% per year, because of additional benefits selected or fund choices made
- We are pleased that Phoenix has agreed to remove all exit charges on pension pots smaller than £5,000. This gives some of you better value if you decide it is appropriate to move your pension pot to another provider
- Progress has been made by Phoenix in getting us more in-depth information on transaction costs. What we have been given has raised some areas of concern but we're following them up.

Customer service

- Phoenix has met or exceeded its key performance targets on customer service and we have been impressed by the customer focus of the Phoenix operations staff we have seen at work
- Complaint handling has significantly improved, with IGC feedback taken on board and more customer complaints being resolved within a few days than ever before, thanks at least in part to more use of digital communication channels to speed up resolution of issues
- We have continued to see a real focus in Phoenix on how it treats customers who may be in vulnerable circumstances.

Customer communications

- The Customer Panel has been increased in size and remains an important source of feedback
- Phoenix has made good progress on its significant review of the content of the written communications that are sent to you, but this will take some time to implement fully
- Phoenix continues to improve its

online servicing and communication but has more to do in order that all members can have access to the full range of facilities.

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](#))
- Phoenix has been trialling various ways of increasing value for customers who have 'with-profits' policies with guarantees, and who want to make use of Pensions Freedoms by accessing their pension pot earlier than originally planned
- Phoenix has removed a potential barrier to taking pension benefits from small pension pots with its removal of all exit charges on pension pots under £5,000
- Phoenix has updated the [website](#) with more detail on investment options, following the removal of automatic lifestyling (i.e. automatically changing the investment mix of your pension pot as you near retirement) for all pension customers except those in stakeholder schemes or those nearing retirement whose pension pots were already following a lifestyling strategy.

Overall management attitude

- The complete removal of exit charges for pension pots under £5,000 is a tangible demonstration of Phoenix doing 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 understood management's reasons for delay and changing timetables
- We remain impressed with the internal culture of seeking to improve customer outcomes and the attention that Phoenix pays to important Environmental, Social and Governance matters.

Assessing performance

Performance area

2019 Performance rating

2018 Performance rating

Investment performance

4 Some improvements seen

3 Some concerns found

Charges and costs

5 No material concerns, but points are being followed up

5 No material concerns

Customer service

5 No material concerns

5 No material concerns

Customer communications

4 Some remaining 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

SECTION III

Assessing value for money

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, we have followed the approach we introduced last year, of giving a score (out of 5) to each of the different areas of value for money and also giving some areas more weight than others based on 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 approach used last year. We assess performance across the following six areas:

- 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 senior managers from both Phoenix and their Outsource Service Providers who support the delivery of customer services. We value these opportunities to 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. Some aspects are more difficult to measure than others and individual customers value things differently. Nevertheless, we try to be as objective and fact-based as possible. In order to make it easier for you to understand what we consider is reasonable value for money, we have set out in [Appendix I](#) a brief description of what we are looking for in each of the areas listed above.

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 who we represent.

Performance area	2019 Performance rating	Weighting	Overall value for money score
Investment performance	4 	5	20
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 2019			101/110 (i.e. 92%)

How we score Phoenix performance

The first step is to express each of the performance ratings in a numerical score out of 5 as:

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 in which your pot is invested 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 in the past. 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 covers the performance of the customer operation centres and also what you are able to do online and is allocated a weighting of 4

- Customer communications are an important factor in determining value for money, as you need to receive information that is clear for you to understand and which will enable you to make decisions to improve your pension. We give it a weighting of 4

- Accessing your pension pot is the ultimate aim of having your workplace

pension – we allocate a weighting of 3 to our assessment of how well Phoenix treats you at this important time

- Overall management attitude is allocated a weighting of 2, as it captures our assessment of the customer's place in Phoenix's culture, over and above the tangible results which are given more weight in our assessment of the other performance areas.

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 101 out of 110 (i.e. 92%) to Phoenix, for the value for money its workplace pension contracts in 2018.

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 year, 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 investment managers to invest your pension pot. For the workplace pension pots that we monitor, the main ones are:

- Aberdeen Standard Investments (ASI) which manages £668 million of workplace pension unit linked funds; and
- Janus Henderson (JH) which manages £329 million of workplace pension funds

Other Investment Managers have less than £9 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 by Phoenix where performance isn't good enough.

ASI was formed during 2017 by the

merger of two key Phoenix Investment 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 remain satisfied that Phoenix is keeping sufficiently close to the ongoing performance of ASI. We believe it is important that we continue this close monitoring, during 2018, ASI became a substantial shareholder in Phoenix Group. We look forward to continuing to receive regular reports from Phoenix during 2019.

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 Cash or 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, or in some cases no return. You need to consider whether your current choice remains the most appropriate for you – you will find the 'Risk Classification' in the website referenced below.

Unit Linked Funds

As a Phoenix member, you can get information on your fund(s) from the Phoenix website. This will also show you how well your fund(s) performed compared with other similar funds. Go to the [Phoenix Life website](#), enter the 'Customer Centre' choose your 'Previous Policy Provider' and select your fund under the 'Unit-linked Fund Prices'. 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 on [page 13](#), is regularly reviewed by us and key information is discussed below. Where performance is not at an acceptable level, we ask Phoenix what action is being taken. We are satisfied that, where necessary, changes are being put in place to improve performance. 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 2.7% and 8.1% a year over the 5 years 2014 to 2018 inclusive, compared with 5% and 13.9% a year over 2013 to 2017. This fall in long-term returns is as a result of poor market returns in 2018, whereas the year falling out of the numbers, 2013, produced very positive returns. This shows the importance of looking at returns over a longer period. Your pension pot is likely to grow over a much longer period than 5 years – in some cases as long as 50 years! – so we plan to look at returns for you over longer periods in the course of our work for 2019. It should be noted, however, that even the lowest returning of these managed funds is ahead of inflation over the period, thus producing a positive real return on your pension pot.

We are in active discussions with Phoenix about funds where the performance is in quartile 4 (i.e. in the bottom 25% of similar funds) – not just in respect of the fund shown in the table on [page 13](#), but also any other funds rated in quartile 4, in which you may be invested. We are also carefully monitoring performance on those funds still rated 3 where Phoenix is seeking to improve the outcome. Whilst we do not expect all funds to be in quartiles 1

or 2 the whole time, we are concerned to ensure that funds do not remain consistently in quartiles 3 or 4. In both these circumstances, Phoenix makes sure the investment manager takes action to improve performance; if this does not improve, in the end Phoenix will change the investment manager. During 2018, Phoenix set in process the change of the investment manager of some of the poorer performing funds among those managed by ASI and JH, for example in European and Emerging Market equity sectors. We will monitor the progress of these initiatives.

We also monitor the investment strategies that Phoenix select to be followed, and how these match up with the funds' objectives and the risk profiles for each of these funds. During the course of 2017 Phoenix considered in particular how to improve the performance 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 itself started to manage the mix of assets in the various managed pension funds - the Strategic Asset Allocation (SAA) - to try to improve overall performance. An example is the Scottish Mutual Growth Pension Fund in the table overleaf. This fund had more of the money invested in UK equities than many of the other Pension Providers similar funds with which its performance is compared. The poorer performance of UK equities than, for example, US equities was the main reason why the fund was in the 4th quartile. As Phoenix introduced its SAA process during 2018, it changed this mix and reduced the holdings of UK equities and increased holdings of Global equities. We will be monitoring carefully the performance of this fund during 2019 to see whether these changes have improved performance as required.

We have reviewed and support this

SAA change, and will be monitoring the results as the years progress to ensure appropriate action is taken if results are not acceptable. Successful strategies and management of the mix of investments in the funds can help the growth of your pension pot.

We monitor all the main 62 unit-linked funds in which some of you are invested (the most popular such funds are shown in the table over the page and there is a fuller listing in [Appendix III](#)):

- Over 1 year 63%, compared with 46% last year, performed satisfactorily (ranked 1 or 2)
- Over 3 years 60%, compared with 41% last year, performed satisfactorily,
- Over 5 years only 44%, compared with 49% last year, performed satisfactorily. We expect this relative position to improve during 2019 as a result of the better performance over the last 3 years.

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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	Amount of workplace pensions (£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	152.3	1	2	2	5.3	4.6
NPI Pensions Managed	91.5	2	2	2	4.9	4.6
Scottish Mutual Growth Pension	75.7	4	4	4	3.9	4.8
NPI Pensions Equity Tracker	43.5	2	2	3	2.7	2.8
Pearl Pensions UK Equity	26.1	2	2	2	3.6	2.8
Phoenix Pension Growth Stakeholder	25.4	2	2	3	2.8	4.8
NPI Pensions overseas Equity	24.1	2	2	2	7.9	7.7
Abbey Life pensions Managed	84.0	2	2	2	5.1	6.3
Abbey Life International	103.4	2	2	2	8.1	9.3

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 ranked 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 investment managers to achieve. These benchmarks are as described in the 'fund information' section on the website referred to on the [page 11](#).

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 and climate change issues 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.

There is an increasing emphasis being put on the ESG policies followed when investing pension pots. Your IGC welcomes this and continues to encourage Phoenix to be more vocal about the good things it is doing in this area.

With Profits Funds

Some of you are invested in 'with profits' funds instead of the unit-linked funds discussed above. We also track the performance of these funds and ensure that Phoenix applies similar rigorous processes to the management and running 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 slightly better than for unit-linked managed funds, ranging from 2.9% a year to just over 6.8% a year. This is as a result of these funds being less exposed to the market falls of equities during 2018.

We noted the underlying performance of the main Phoenix with profits funds over the past 5 years

• National Provident Life With Profits Fund Series 1		3.9%
• SAL With Profits Fund	Unitised With Profits	5.6%
	Traditional With Profits	2.9%
• Scottish Mutual With Profits Fund Series 3 and 7		6.3%
• SPI With Profits Fund	Series 1	4.9%
	Series 2	6.2%

These funds include well over 90% of workplace members pots that are invested in with profits funds.

These returns compare with the 'benchmark' returns used for the main unit linked managed funds in the table above of 4.6% to 4.8%.

Those with profits series with returns below these rates have lower proportions of the underlying investments in equity rather than fixed interest investments, due to these funds providing a higher proportion of the returns on a guaranteed basis.

We regard these as reasonably acceptable results. Again, the external investment managers are carefully monitored by Phoenix and we review the results. There is a fuller table of the with profits funds in [Appendix IV](#).

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 again reviewed the Environmental, Social and Governance policies of Phoenix and its main investment managers. We have asked Phoenix to prepare its own clear statements of ESG policies, in addition to the existing practice of monitoring the investment managers' policies. They have assured us that these statements are in the course of preparation and we will review them during 2019.

We are satisfied that Phoenix has in place a strong corporate social responsibility framework and robust policies on diversity. We are also satisfied that Phoenix has high internal standards and only selects investment managers who operate in accordance with these high standards. Policies are in place within investment managers to ensure that the companies in which your pension pots are invested themselves recognise that they need to operate in a responsible ESG manner. As an example of one of Phoenix's manager's actions in this area, ASI has been voting in company meetings (where some of your pots are invested) against what ASI considered were proposals for too high a level for remuneration and rewards for executives in those companies. We will continue to monitor this position.

4

We rate this aspect as amber/green. (4 out of 5)

Overall Rating

During 2018 there have again been significant changes that have been implemented and others underway that are expected to positively impact the investment returns from your pension pot.

The performance of the funds covered in the table on [page 13](#), showing improvement in performance over the last three years, leads us to give a value for money rating for investment performance of Amber/green, or 4 out of 5. We will continue to actively monitor performance on your behalf.

SECTION V

Customer service

The quality of service you receive as a customer of Phoenix, and how Phoenix helps you understand and manage your pension pot for the future, is an important part of value for money. Last year, your feedback on customer service showed that there was no improvement in how easy you find it to get hold of information about your pension when you need it. In the 'Customer Communications' section below, we explain the changes which Phoenix has brought in over the last year and highlight the improvements in this area.

We have listened

In order to gain a greater insight into Phoenix's customer service, over the last year the IGC have listened to the recordings of selected customer calls, and heard about the lessons learned and changes implemented by Phoenix customer service teams from reviewing these recordings. What we found was a commitment among Phoenix colleagues

dealing with customers to reflect on the customer's experience and learn how to deal with customers better.

We have visited customer service teams

Members of the IGC visited a Phoenix operational delivery centre. We were pleased to see that the customer service teams are making every effort to ensure that your experience when you contact Phoenix is as good as it can be. For example, we saw that customer service performance is monitored on a daily basis, by looking at how well the team has done against its performance targets and by focussing on the outcome of each transaction for you as the customer.

The customer journey

But it's not only transactions that are scrutinised – it's your whole customer journey that's important.

We are pleased to see that Phoenix looks not only at how individual transactions are handled; Phoenix have a keen focus on your whole experience as a customer at whatever point you deal with Phoenix, whether it is when you transfer your pension pot, retire, or log a complaint. We have seen evidence of Phoenix's internal monitoring of the effectiveness of their service delivery to you; despite some challenges, we see evidence of regular scrutiny of performance and drive towards improvement of your experience as a customer.

We are satisfied that Phoenix sets itself performance targets that are challenging and focussed on your experience of how you are treated as customers. Last year we highlighted three particular targets – the speed at which you receive payouts of retirement claims, customer satisfaction and complaints about the service you receive.

This is what we found for 2018, against previous years' results:

Measure	Target 2018	Performance 2018	Performance 2017	Performance 2016	Performance 2015
Speed of retirement claim payouts	< 12 days	10.73 days	11.03 days	11 days	11 days
Customer Satisfaction	90% rating satisfactory or above	93%	92.4%	91%	91%
Servicing complaints as a % of customer transactions	<0.6%	0.59%	0.46%	0.3%	0.3%

Customer satisfaction

We are pleased to see this evidence of improvement in both overall customer satisfaction and the speed of retirement payouts. Customer satisfaction performance is collected by an independent body. The customer is asked how satisfied they are with Phoenix on a scale of 1 to 5, with the result being the percentage who give a score of 4 or 5 ('satisfied' or 'very satisfied').

Complaints

However, the above results show an increase in the number of complaints about service. Last year, we identified from your feedback what was important to you, giving Phoenix priorities of:

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

Through our visit to the customer service teams, we saw that the complaint handling teams are focussed on ensuring that complaints, where possible, are dealt with within 0-3 days, giving you a speedier service and an

improved customer journey, with more complaints being resolved within 3 days in 2018 than ever before.

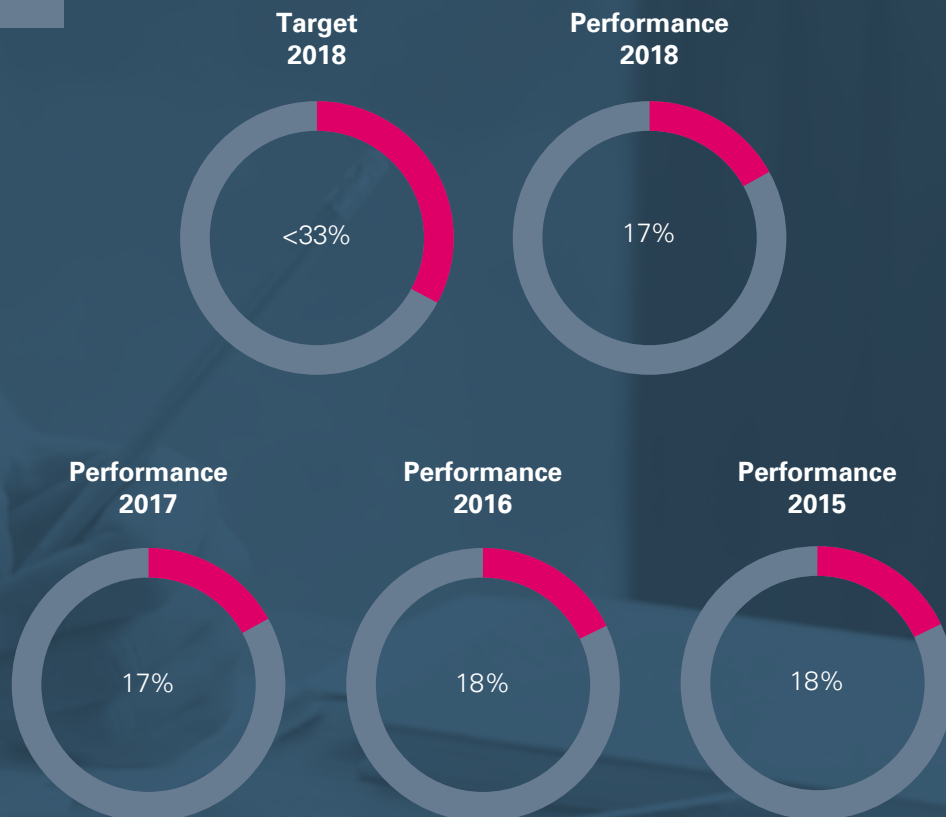
In addition, the customer service teams are introducing innovative ways of handling your complaints, specifically to reflect your feedback last year. For example:

- 'Triage' – the teams are being trained in how to more readily understand what your complaint is, and to identify with you the issues to be resolved and the likely timescales for this happening
- 'Texting' – the teams are introducing the use of texting as a means of communicating with you as the customer, to keep in touch with you throughout the process and keep you updated on the progress of your complaint.

We will seek your feedback during 2019 on whether the changes the customer service teams are making to the handling of your complaints is improving your experience.

To see how Phoenix compares with other companies in handling complaints, we have looked at data published by the Financial Ombudsman Service (FOS). Phoenix's overturn rate, which tells us how often FOS disagrees with a decision made by Phoenix on a customer complaint, remained consistent with previous years. The Phoenix figure for the first half of 2018 is 17%, which compares well to the most recently available industry figure of 30%. This shows a consistency in the quality of service in handling of complaints, and no rise in the number of times FOS disagrees with Phoenix, despite there being a higher overall number of complaints.

FOS overturn rate



Vulnerable customers

In our review of Customer Service, we have seen that Phoenix are making customer vulnerability a priority. At the heart of their approach is a belief that:

Improving customer experience for potentially vulnerable customers means that outcomes will be improved **for all customers**.

How are Phoenix making this a priority?

- What we have seen is that Phoenix's strategy in respect of vulnerable customers has been made an integral part of their plans to achieve one of their key objectives, 'Good customer outcomes and positive customer journey'
- Throughout 2018, Phoenix undertook discussions and worked with Money Advice Trust, Royal National Institute for the Blind, Age UK and the Alzheimer's Society. We have seen evidence that Phoenix incorporated into their approach to vulnerable customers valuable lessons learned from these organisations
- Everyone at Phoenix, in particular all staff who deal directly with you, have undergone training on how to recognise customer vulnerability and how to deal with it
- From our visit to the operational delivery centre, we saw informative displays for staff of material on customer vulnerability, demonstrating that Phoenix keeps customer vulnerability at the fore in the day-to-day working of frontline staff

- In addition, we have learned that at Phoenix operational delivery centres, customer service teams have access to members of staff who have particular experience in dealing with customer vulnerability and Phoenix have established systems for customer service staff to gain swift access to additional support in their handling of potentially vulnerable customers, should that be needed
- Throughout the last year, Phoenix has updated its Vulnerable Customer Strategy and continued to provide staff with easy to understand guidance on how to deal with vulnerable customers
- In its review of customer calls (looked at in more detail in the section on [Communications](#)), Phoenix has paid particular attention to any issues arising with customers in potentially vulnerable circumstances. The handling of these cases has been examined carefully; they are used as illustrations of good practice where they are handled well; where the recordings have highlighted any concerns, Phoenix ensures that the learning is communicated to the Phoenix member of staff and any remedial action required is taken.

Looking forward, we will be watching for evidence that Phoenix has developed a suitable method for recording when a customer discloses that they are living in potentially vulnerable circumstances; and we will be looking for clear management information to be made available to us to show Phoenix's performance in respect of vulnerable customers, as part of the customer journey.

What is a vulnerable customer?

A customer is vulnerable if, due to their circumstances, they may be more at 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 Phoenix customer service teams are able to recognise where customers need more help and support and deal with them in an appropriate way.

5

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

Conclusion

Last year we rated Customer Service as GREEN. In the light of all the evidence we have seen over 2018, we are satisfied that Phoenix makes customer service a core part of their service offering. In particular the focus and culture amongst customer service teams, of continuous improvement of the customer experience for everyone, mean that we again rate Customer Service as GREEN or 5 out of 5.

SECTION VI

Customer communications

One of the ways Phoenix listens to you is through the Customer Panel.

The information gathered from you through the Customer Panel in 2018 tells us that, for over 80% of you, what is important to you is the ease and accessibility of information about your pension pot and the quality of communications you receive from Phoenix.

Communication between you and Phoenix can be by a number of methods – written communication, verbal communication or digital through the [website](#).

Customer panel

Phoenix has a Customer Panel made up of customers, including some customers of workplace pensions, willing to take part in surveys or respond to questions from time to time about aspects of being a Phoenix customer. In October 2018, the membership of this panel was topped up with 500 new recruits.

What have we done?

Over the last year, we have looked into each of these methods of communication. We are pleased to report that, in each area, we have seen that Phoenix is working hard to improve communications with you, so that these are useful to you and that clear information is available to you when you need it. This is what we have found:

Written communications

At times Phoenix needs to communicate with you by post.

Each year Phoenix sends you your annual statement, updating you on how your pension pot has performed. Phoenix continues to work on the content of your annual statement, so that it is as clear as possible for you to read and understand. Over the past year, we have seen some important improvements in the design of your annual statement, such as clearer explanation of:

- The benefits and options of your pension plan
- How the fund or funds in which your pension pot is invested is performing
- The retirement options available to you from age 55, with signposts to Pension Wise (the free and impartial government guidance website about your pension options) and the value of seeking independent financial advice.

In particular, in future your annual statement will help you to:

- Compare the projected pension shown in the statement to the income you think you will need when you retire
- Review the current cover and benefits to see if they still meet your needs

- Think about any changes there may have been in your life or new responsibilities that might affect your pension needs
- Look at the fund where your pension pot is invested and consider if this meets your retirement needs or whether you need to change where your pot is invested.

Phoenix is continuing to improve the layout of your annual statement, to make it easier for you to use. Perhaps most importantly, Phoenix is aiming to identify in your statement the annual charges on your pension pot as a monetary value. Work on this is continuing and we will monitor progress on the annual statement during 2019. We will also seek feedback from you through the Customer Panel, to hear your views on whether improvements to the annual statement are making things clearer for you.

An important customer outcome for Phoenix is to ensure that you receive clear and timely communications about features of your pension policy at regular intervals and at key points in the lifecycle of the policy to enable you to make informed decisions.

We have looked at when Phoenix sends written communications to you about decisions you should be making about your pension pot or things you need to be aware of when you make decisions about your pension pot.

Lifestyling letters

For example, some of you needed to consider whether 'lifestyle switching' in your pension plan was still appropriate for you (see more detail on this in the '[Accessing your pension pot](#)' section).

Recent changes to pension rules mean that many of you are now accessing pension savings earlier or later than the chosen retirement date, and lifestyle switching may no longer be suitable for everyone.

We provided Phoenix input on the content of their letter to you and were satisfied that the letter sent to you was clear in its layout, straightforward in the use of language, and good in its signposting of what you had to do, who you could contact for advice and how to contact Phoenix – either by phone or through the relevant page on the website.

The result of this mailing was that, by the end of 2018, Phoenix had gathered your responses and taken action.

Lifestyle switching

Lifestyle switching is where your pension savings are automatically moved out of higher risk funds into lower risk funds over a period of time, as you approach your chosen retirement date. The aim of this is to reduce the risk to your pension savings as you approach retirement, by helping to guard against unexpected falls in value, which would reduce your pension savings.

Transfer Packs

Sometimes customers wish to transfer their pension pot to another pension provider and are issued with 'Transfer Packs'. Over the last year, some of you were asked for your feedback on the quality of these packs and we have looked carefully at the results of this feedback. We were pleased to see some positive feedback. You said:

- The packs made clear the importance of taking advice before transferring your pot, and the need to [be aware of pension scams](#)
- The terminology is clear and uses less jargon than previous packs
- You have found the checklist of what you need to do helpful.

And we have noted some negative feedback about the length of the transfer packs, and the need for clearer information on whether there are any charges.

We will continue to seek your feedback through the Customer Panel as to how clear and timely letters and packs such as these are, and whether they enable you to make better decisions about your pension.

Customer tracing

Obstacles to sending key letters and statements to you still remain. There are some customers who have lost track of their pension over the years and for whom Phoenix has no up to date contact details, as it is likely that they have moved and not notified Phoenix of their new address. There are also customers who do not respond to letters from Phoenix. These customers are known as 'goneaways'. We are pleased to see evidence of significant effort by Phoenix during 2018 to reconnect with these customers, communicate with them and reunite them (or their beneficiaries) with their pension pot.

Keeping your personal information up to date with Phoenix will ensure that you don't miss out on important communications and will make it easier when you choose to claim your pension pot.

During 2018, Phoenix introduced a new system to seek to trace customers. As soon as Phoenix becomes aware that a customer has become a 'goneaway', Phoenix immediately looks to trace the customer, and repeats this tracing at 18 months and every 3 years thereafter. In addition, Phoenix seeks to trace any 'goneaways' 3 years' prior to the customer's retirement date, and again 18 months and then 6 months before retirement. After retirement, if the customer is still a 'goneaway', Phoenix will seek to trace the customer at 6 months and then at 18 months after the retirement date, and every 3 years thereafter until the money in the pension pot has been successfully claimed.

It is too early to tell if this new approach to 'goneaways' has had an impact, but we will be monitoring the success of this over 2019.

Verbal communications

Feedback from the Customer Panel told us that many of you communicate with Phoenix by phone, whether it is for a retirement encashment claim, an application to transfer out of your workplace pension or to purchase an annuity. Indeed, the [Phoenix website](#) encourages you to call the customer service teams for support and information.

Phoenix regularly monitors calls between you and their customer services teams. We wanted to look at some of the information coming out of this monitoring, and looked in some detail at information gathered from a sample of calls over a number of months in 2018. Some of the positive information we found was this:

- The purpose of this monitoring was to make sure that you are receiving the best service possible in the calls
- Particular attention was paid to the service to potentially vulnerable customers (see '[Customer service](#)' section)
- Many examples of good practice by the call handlers were found, including high standards of listening and communicating with you and a good level of understanding about the pension products you were calling about and the requests you were making.

The information we examined showed that the majority of calls were well-handled, although the information also highlighted a few instances of concern, for example:

- The customer was looking to encash their pension, but there was a delay of seven weeks in notifying the customer that the claim form was incomplete, resulting in a delay in the customer receiving their money
- The call handler missed an opportunity to advise the customer that their application could be done online through the website, saving the customer's time
- In response to a call from a customer that they wished to take their money out of their pension pot, the call

handler failed to advise the customer to fill in a risk assessment questionnaire, which resulted in a delay.

On each occasion where issues of quality of call handling or service were identified, we were pleased to see that Phoenix ensured that the necessary learning was shared with the relevant individual or teams and training put in place.

Over the next year, we will continue to watch the monitoring of calls to ensure that the standards of verbal communications continually improve and result in good customer service.

Digital

Your feedback through the Customer Panel has told us that you want to be able to do more online. We are pleased to see evidence of this over the last year.

Previously you were able to use the Phoenix online tools to help you work out:

- How much you might need in retirement, based on your lifestyle
- How much pension you might receive based on your current pot size, monthly contributions and likely retirement age, and what could happen if you changed the level of your monthly contribution
- How tax might affect your pension.

We are pleased to see that Phoenix has continued to develop the online tools. Without you having to key in your own data, most of you are able to log into your Phoenix account (called 'MyPhoenix') and see the live value of your pension, and at the same time be given an option to take your money out of your pension. For most of you who have a pension pot of £30k or less, there is now a facility online to allow you to take out the money out of your pension pot. We welcome the development of the MyPhoenix login website where those of you who are able to access it can check and amend your personal details, check your policy information, securely email Phoenix

and consider retirement options. Over the next year, we will monitor the progress being made to give all of you access to this.

We're satisfied that the [Phoenix website](#), which you can access at any time convenient to you, provides a lot of helpful information. For example the [Retirement Centre](#) has been developed to give you useful information about pension scams. It also has an area dedicated to pension holders like you, helping you consider your options at retirement, through the use of [short videos and links](#) to clearly explained options.

What more is Phoenix doing?

Phoenix is seeking to promote the benefit of the online support and services at every opportunity. They are doing this by:

- Including signposting to the phoenixlife.co.uk website in all annual statements sent to you
- Whenever possible, telling customers when they call Phoenix about the website and how to access MyPhoenix.

Over the next year, we will monitor the progress being made so that all of you can access your account online and more easily review your pension pot and options, at a time that is best for you.

4

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

What have we concluded?

We have seen evidence that in all areas of communication, written, verbal and digital, there is clear evidence of sustained effort to improve these for you. In all areas, there are challenges; we are pleased to see that Phoenix recognises these challenges and is working to deliver improvement.

SECTION VII

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 a good one. We get regular information to see what members are doing with their pots at retirement e.g. the number of you taking your pots as cash or as a guaranteed income for life (sometimes called an 'annuity'), transferring your pot to another provider or one of the other options available. Nothing in the information we see gives us concern. This is based on our knowledge of the industry and the typical size and features of your pension pots.

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 could get a better deal elsewhere. This has now become a requirement for all annuity providers. Where members do end up taking a guaranteed income for life with Phoenix, we also see information that shows how competitive its rates are.

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 select an appropriate one.

What choices do you 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
- A combination of these options.

Phoenix has partnered with Hub Financial Solutions to make all of these options available to you, as well as to offer an advice service (for an additional fee). For those members who wish to take at least some of their pension pot as a guaranteed income for life, Hub FS can also be used to check if any medical condition enables them to get a higher guaranteed income for life from other providers who offer what is known as an 'enhanced' annuity.

Guaranteed income for life – value for money

Your IGC is only required to focus on the value for money you receive up until you take your pension pot. However, we think it's important to understand what controls are in place around making sure you get value from what you do with your pot. This includes the numbers of members taking a guaranteed income for life and the level of income they get from it in doing so.

As we mention above, regulations now require all insurers to show how the guaranteed income for life they offer compares to those available in the market. Phoenix uses Hub FS to do this. During 2018 Phoenix introduced the same processes for its ex-Abbey customers. We welcome this development and think it improves the outcome for many customers. We have seen that the proportion of ex-Abbey members taking a guaranteed annuity for life is now similar to that of the rest of Phoenix. Ex-Abbey customers also now have access to the process that could give them a higher income if they are in poorer health.

What you can do online with Phoenix

In 2017 Phoenix introduced the facility for customers to be able to take pots of up to £10k in cash at retirement online. This was a good first step in giving you

more flexibility to access your pension. In 2018 Phoenix updated its online tools so that many (but not yet all) of you can:

- Log in securely to the Phoenix website to see up-to-date information on your pension pot
- Start the process to cash in your pot, save it and come back to it, which we thought was important to give you the opportunity to take your time and make the right decision. Much of the information is also now pre-populated for you.

Phoenix has plans to make this available to more of you over time, and to extend the range of things you can do online. We are keen to see this happens. Phoenix has also increased the £10k pot limit to £30k, meaning that more of you can access your pot quickly and easily, should you wish to take that online option.

We think this gives you a more practical way to take your cash, in your own time, and give you confidence that you are making the right decision.

The online functionality has also been improved to give you tools so you can get an idea of how a guaranteed income for life might change, depending on whether:

- It will be paid just to you
- It will continue to be paid to your spouse or partner if they outlive you
- It will be paid as a fixed amount each year
- It will increase over time.

Speed of transfer payments

Speed of transferring payments is also important in accessing your pension if you want to transfer your pot to another provider. Phoenix continues to operate within its target of 12 days, meaning that, on average, it takes less than 12 days to move your pension to another provider.

Exit Charges

Exit charges also affect the value you get, particularly if you take your pension pot earlier than originally planned. We talk about these under '[Charges and costs](#)'.

With-Profits Policies

A number of members invest in with-profits funds. These generally allow you to invest in a range of types of investment and could provide you with certain guarantees. However, you often only get the value of the guarantees at the retirement age you originally selected, and might get a lower value if you take your pension pot earlier. The difference between the higher and lower value is often called a market value reduction and, for some of you, can be relatively large. It can be a problem following Pension Freedoms because the rules mean that you can take benefits earlier – and you may wish to do so – but a market value reduction may be applied if you do.

During 2018 Phoenix offered some of its with-profits customers aged between 55 and 64 the option to swap their with-profits investment for a unit linked investment without a market value reduction being applied. This meant that those customers who took up the option gave up their guarantees, but it enabled them to take their pension pot earlier without a market value reduction.

We believe this was a positive step by Phoenix in finding more ways to allow customers to use the Pension Freedoms.

Lifestyling

Lifestyling can work differently depending on the type of plan you have. Confusingly, it can often be given different names too. But it 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 into gilts and bonds. Lifestyling was often appropriate when pots could be taken partly in cash but mostly had to be taken as a guaranteed income for life. Today's rules mean that you can take your pension pot in different ways and are more likely to take your benefits earlier (or later) than you originally thought.

In response to the FCA review of the continued use of lifestyling in the pensions industry, Phoenix decided to 'switch off' automatic lifestyling for all customers other than:

- Stakeholder pension schemes (where the rules don't allow it to be switched off), and
- Plans where the lifestyling has already started.

We reviewed the communications that Phoenix proposed to send to customers

to tell them that lifestyling was being switched off. Phoenix also updated the website to give more detail and lifestyle switching and investment options.

We supported the communications and website changes but challenged the use of jargon. Phoenix has committed to minimise the use of jargon in their communications but recognise it also needs to meet the minimum requirements set by the FCA to give you enough information to understand the risks.

5

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

What have we concluded?

Phoenix continues to make all retirement options available to you whether directly or via its partner, Hub FS. We have reviewed the options and the controls around them and continue to be satisfied. We welcome the additional tools and options for members to deal with things online, including accessing cash at retirement and increasing the limit for this to £30,000. We look forward to seeing more options being introduced over the next year or two.

SECTION VIII

Charges and costs

.....
The vast majority of you are paying no more than 1% per year and some of you pay less. We continue to think that this is reasonable value for money.

Ongoing product charges

To get value for money, it is very important that what you pay in costs and charges is reasonable. It is also very important that you can easily see what the charges you pay actually are. Phoenix is improving its annual statements so that in future you will be able to see the amount of ongoing charges each year in £s and pence amounts.

Last year we told you that Phoenix had made changes so that since the start of 2018 the vast majority of you are paying no more than 1% per year and some of you pay less. We continue to think that this is reasonable value for money.

We also noted that there are reasons why some of you may be paying more than 1% per year and we have been thinking about whether that is reasonable – [Appendix II](#) includes a summary of the number of members paying more. We've been assessing whether there are circumstances in which 1% could still be too high for some of you.

Exit charges

Over the last year Phoenix has reduced the charges it makes on many of its other pension policies. As part of this it decided to remove exit charges for pots smaller than £5,000. The majority of you don't have exit charges anyway but we are very pleased that Phoenix, following a request from the IGC, has also agreed to remove all exit charges from its workplace pensions for pots of £5,000 or below.

This means that if you have a smaller pot there is no exit charge, at whatever age you wish to access your pension pot. If you are, or when you become, age 55 or over (and have a pot of over £5,000) the exit charge is no higher than 1% and in many cases is zero.

In other words, if you have a smaller pot, then moving it to another provider would now cost you less and in many cases will not cost you anything. However, you should think carefully and seek guidance or advice before doing so.

There are still around 2,000 ex-Abbey members with pots larger than £5,000 and currently below age 55 who would pay an exit charge of more than 1% if they were to move their pot to another provider – some significantly more. The level of charge reduces over time and, as described above, is capped at 1% once they reach age 55. This is an area we will continue to discuss with Phoenix in 2019.

If you invest in certain specialist funds

Phoenix makes available certain specialist funds that charge more than 1% per year, such as property funds, and you may have chosen to invest in these.

Around 800 members (none of whom are ex-Abbey members) have some of their investment in these funds. Even though this represents less than 1% of all members and less than 1% of total funds, we still look at it.

In general we think this is reasonable, provided you know that:

- You are invested in these funds
- The charges are higher, and
- Lower charging funds are available to you if they suit your needs.

It is important that you regularly review whether the funds you are invested remain appropriate for you. Phoenix provides information about the funds you invest in on your annual statement, and has more detail about those funds on its [website](#).

Of course paying extra also means that you should expect the investment performance you experience to be better than if you invested in cheaper funds. There is a separate section about '[Investment performance](#)' in this report. We know that Phoenix has processes in place to monitor performance and take action either with the fund manager to improve things or by contacting you about it where performance is poor.

.....
We are very pleased that Phoenix has also agreed to remove all exit charges from its workplace pensions for pots smaller than £5,000.

What are 'other benefits'?

Some members have other protection benefits such as:

- Waiver of contribution – ensures that contributions you are making to your policy continue if you are unable to work through long-term illness or disability.
- Life insurance cover – pays out an extra lump sum if you die before you take your pension benefits.
- Critical illness cover – pays out if you survive one of a range of serious illnesses.

If your policy provides you with other benefits

You may pay extra because your policy also includes protection benefits. The types of benefit are described in the box above.

Around 500 members (that's around 0.5% of you) pay for protection benefits and in almost all cases this is for waiver of contribution.

We think it is reasonable that you pay extra charges if you receive extra benefits. However, the size of those extra charges needs to offer value for money compared to the cost of providing those extra benefits – otherwise too much of your fund or contributions are being used to provide the extra benefits rather than helping to grow your pension pot. We have seen that Phoenix has processes in place for keeping those charges under review and has reduced or plans to reduce some charges on some of its policies as a result.

Finally you will, of course, only get value from any protection benefits in your policy if you make a claim when you are entitled to do so. We have also seen that Phoenix operates processes to remind customers of their benefits which should help ensure that you are clear about any extra benefits you have.

Members invested in the NPL With-Profits Fund – charges for guarantees

Some of you invest in with-profits funds which means that some of your pension may have guarantees e.g. guaranteed bonuses or terms for converting your pot into a guaranteed income for life (sometimes known as an annuity). The fund may make certain charges to pay for those guarantees.

In practice this only applies for those of you invested in the NPL With-Profits Fund, where a guarantee charge of 2.0% per year applied from 2007 but was reduced to 0.5% per year from 2016.

This charge is deducted from the underlying value of your pot. However many of the pension policies in this fund have guaranteed bonus rates of up to 4% per year. This is valuable to many members if they take their benefits when they originally intended, as in most cases this means that the member receives a higher guaranteed value rather than the underlying value

Phoenix also has a With-Profits Committee that considers the ongoing fairness of guarantee charges. Whilst it considers all customers in the fund and we consider value for money only for workplace members we are comfortable that a charge of 0.5% per year represents value for money.

It does mean, though, that members who want to take their benefits earlier to take advantage of Pension Freedoms

may not get the full value of those guarantees. As we talk about in ['Accessing your pension pot'](#) Phoenix has been trialling ways of improving value for those members and will continue to do so in 2019. We support this and will monitor progress in 2019.

Larger Pots

During our first three years our focus was on pushing for change where it was clear that a number of you were not getting value for money. This led to Phoenix capping ongoing charges at 1% for almost all of you which for the average pot of around £10,000 means a charge of around £100 per year.

We have been giving further thought to what this means for the small number of members with larger pension pots. For example 48 members have pots exceeding £250,000 so could be charged over £2,500 per year. Most modern pensions have only a percentage charge so it is not unusual for larger pots to have larger charges. But some schemes offer a lower percentage charge for larger pots.

In the main and from what we have seen we do not have major concerns in this area for a number of reasons:

- Over half of these larger policies have charges below 1% per year (some as low as 0.5% per year)
- Some receive a bonus at retirement if contributions continue to that point
- Some are invested in with-profits funds which have certain other guarantees.

Whilst only 8% members in general are contributing to their pots, a bigger proportion of members who hold these larger pots are still paying contributions. This is likely to mean that those members are more actively engaged with their policies and therefore potentially more aware of the charges, but we will continue to keep this under review.

As we noted above, Phoenix is developing its annual statements so that all members will be able to see the amount of charges being deducted from their pot. This will improve the information that members get to consider if their policy remains suitable for them. We believe this will be an important step forward.

Transaction costs

What are transaction costs?

The costs that are paid when individual investments within your pot are bought and sold. They are on top of other 'product' charges deducted from your pension pot. There are two types of transaction costs: explicit and implicit.

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.

New rules mean we now have more information

Last year we told you that one of the industry regulators – the Financial Conduct Authority or FCA - had introduced new rules in January 2018 designed to ensure that we and other IGCs could get more information on transaction costs. This was a useful step forward because IGCs are required to look at these costs when considering if you are getting value for money or not.

We asked to have the new information as soon as possible and have had regular updates from Phoenix through the year. We are pleased that we now have the new information for almost all

funds and we talk about what it tells us below. However:

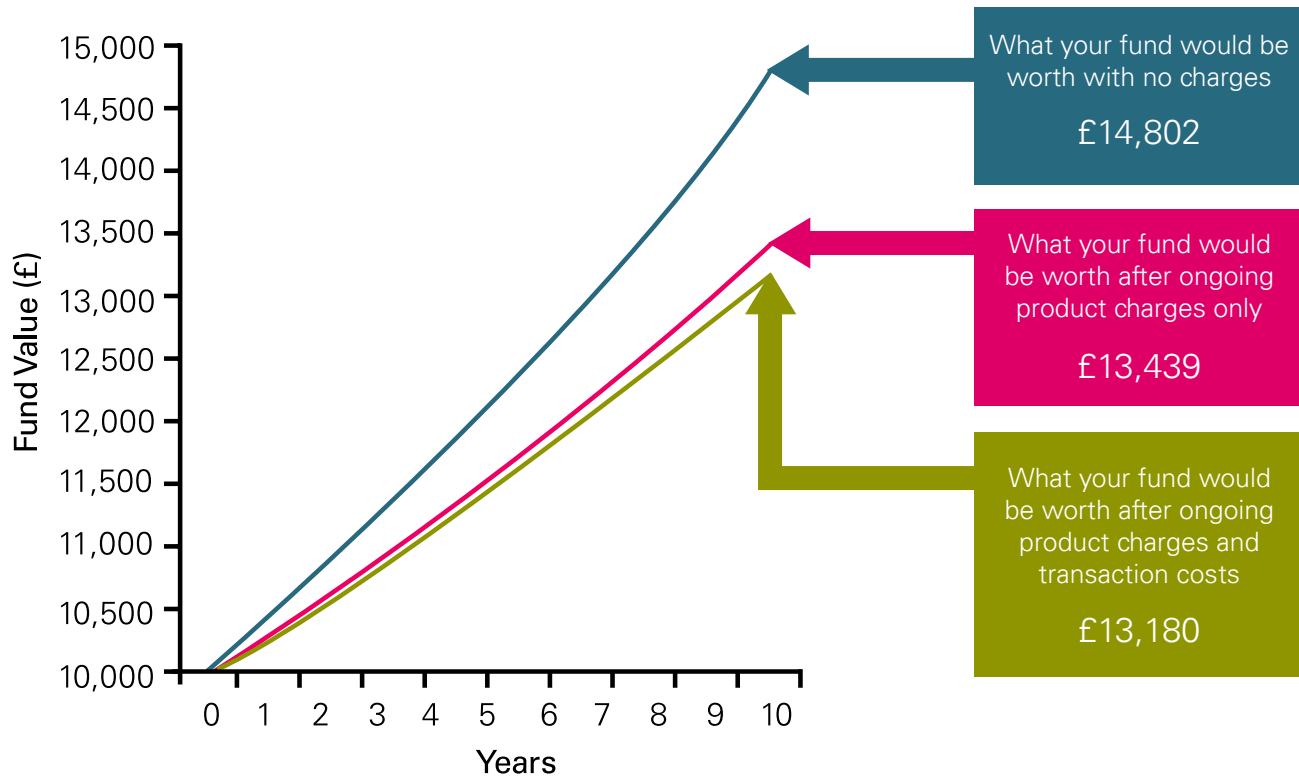
- For the ex-Abbey funds and some of the other Phoenix funds we know the total transaction costs, but have no breakdown between implicit and explicit costs which makes it more difficult to assess. This includes most of the larger funds that we highlight in this section.
- As Phoenix's fund managers build new processes, not all transaction costs are worked out in the same way – in particular some have used different methods to work out implicit costs.
- The information needs to get to us much more quickly. For this report we only have information up to the end of

September 2018 rather than for the full year which means the information is six months old as we publish our report.

We knew that Phoenix needed to get the information from its investment managers and that it has been pressing to receive it. We also expected it to take some time to get all of the information because Phoenix and its fund managers had to put in new processes to collect and report it to us. Finally we know that a number of other companies reliant on receiving information from investment managers are in a similar position to Phoenix, but we will be looking for significant improvements during 2019.

The effect of transaction costs

The diagram gives an example of what transaction costs might do if you have a pension pot that's currently worth £10,000, and intend to retire and take your benefits in 10 years' time (without paying in any more contributions). If your pension pot of £10,000 were to grow at 4% each year and there were no charges at all then in 10 years' time it would be worth £14,802.



Most of you now pay no more than 1% per year in ongoing charges – and that's fixed. The effect of this would be that your pot would only be worth £13,439 after 10 years (a reduction of £1,363). Transaction costs for a typical fund might be around 0.2% per year. This is less than the ongoing charges deducted annually from your pension pot, but means that after 10 years your pot would be worth £13,180, a further reduction of £259.

This is only an example but shows that transaction costs affect what you will get from your pot. Transaction costs are not fixed and may vary from year to year, depending on which funds your pension pot is invested in and how those funds are managed. Higher transaction costs are not necessarily 'bad' if they lead to better investment

performance, so that your pot ends up being bigger over all, and lower transaction costs are not necessarily 'good' if performance is poor as a result. This highlights that transaction costs and investment performance are both important for the value for money you get. Higher transaction costs and poor investment performance won't give you value for money, that is why we assess both topics.

What does the new information tell us?

We asked Phoenix to provide the same information about explicit costs that we included in our previous reports because it is useful to see if and how things change from year to year. The table below shows explicit transaction costs for the last three years for the

c95% investments that Phoenix (excluding ex-Abbey) holds in 'unit trusts', with an estimate for the other 5% property investment. For 2018 we have also now included implicit costs and a total (implicit plus explicit costs). This is a useful view because it shows transaction costs for different types of investment.

The bottom of the table shows the cost for a 'typical fund', by which we mean one of the managed funds that many of you are invested in which includes a range of the types of investment. We show this as a range because, for example, some managed funds include more UK equities whilst others include more of the other types of investment.

Type of transaction cost	Total (%)	Implicit (%)	Explicit (%)	Explicit (%)	Explicit (%)
Year	2018	2018	2018	2017	2016
Type of investment					
UK Gilts	0.06	0.05	0.01	<0.01	<0.01
UK Corporate Bonds	0.07	0.07	<0.01	<0.01	<0.01
Overseas Bonds	0.09	0.08	0.01	<0.01	<0.01
Supranationals	0.06	0.06	<0.01	N/A	N/A
UK Equity	0.26	0.04	0.22	0.08	0.09
N America Equity	<0.01	<0.01	<0.01	0.03	0.03
Japanese Equity	0.59	0.58	<0.01	0.04	<0.1
Asia Pacific Equities	0.17	0.04	0.13	0.13	0.31
European Equity	0.10	0.02	0.09	0.07	0.12
Emerging Markets	0.19	0.08	0.12	0.31	0.48
Global Equity	N/A	N/A	N/A	0.06	0.14
Property (estimated)	1.50	N/A	1.50	1.50	1.50
Global Credit	0.28	0.28	<0.01	N/A	N/A
Tactical Asset Allocation	0.13	0.11	0.02	<0.01	<0.01
Emerging Market debt	0.37	0.37	<0.01	N/A	N/A
Cash	0.02	0.02	<0.01	<0.01	<0.01
Typical ('managed') Fund	0.17 to 0.23	0.07 to 0.09	0.10 to 0.14	0.10 to 0.14	0.10 to 0.15

Explicit costs

- The biggest change is for UK equity, where costs increased considerably. This is largely because Phoenix changed its approach to investing in this type of investment during 2018, with the aim of benefitting customers in the longer term. This meant that there was more buying and selling during the year than might ordinarily be the case, and therefore more explicit transaction costs.
- You can see that explicit costs for other types of investment during 2018 are similar to those seen in previous years, with some slightly higher and some lower.
- For a typical (managed) fund, the explicit costs for 2018 are broadly in line with what we have seen in previous years. As we explain under the section on 'Investment Performance' above, Phoenix reviews the types of investment within the managed funds from time to time so the amount invested in each type can change. During 2018 the proportion invested in UK equities was generally

reduced and the proportion in other types of investment increased. This partly offsets the impact of the 'one-off' costs for those investing in those funds. This also explains why there are some new types of investment included in the table for 2018, as Phoenix has introduced those as part of its review.

- The table is based on transaction costs for those individual types of investment. It doesn't include any additional costs for 'rebalancing' (selling some types of investment and buying others so the typical funds keep the right mix). Those additional costs are reflected in the value of the (managed) typical funds and generally incurred quarterly.

Implicit costs

- This is the first time we have seen what implicit costs look like and as we have noted before we believe they will be best looked at over a number of years. It will also be easier – and more meaningful – to draw conclusions when we can see what implicit costs

look like across the industry so we can compare them to what we see in Phoenix.

- However, we can see that for a typical fund, implicit costs are similar to (in fact a little lower than) explicit costs, but this varies by type of investment.
- Most types of investment show implicit costs in the range 0.01 – 0.10 but are considerably higher for Japanese Equity and Emerging Market Debt in particular. These are more 'volatile' investments (which means the price moves around more and they are also affected by currency movements) and therefore are likely to have larger transaction costs (positive or negative) because the price paid or received is more likely to be different to the price available when the investment manager decided to buy or sell. The typical funds only invest a small proportion in these types of investment.
- Finally, although it is possible (as we explain in the box) for implicit costs to give a benefit, there are no examples of that in the information we have in the table.

What else have we looked at?

The table below gives a summary of transaction costs for the 9 largest unit linked funds. These are the same funds that we have shown in the section about 'Investment Performance'. In Appendix 5 we have included information for all 62 funds. The names in the table indicate where the unit linked fund holds one type of investment (for example 'Pearl Pension UK Equity') or a mix of types of investment (for example 'RSA Pensions Managed').

Although there is no split available for a number of the funds, the total transaction costs do not look unreasonable and in some cases lower than might be expected based on the information in the previous table.

Name of Unit Linked Fund	Total transaction costs %	Implicit transaction costs %	Explicit transaction costs %
RSA Pensions Managed	0.26		No split available
NPI Pensions Managed	0.04		No split available
Scottish Mutual Growth Pension	0.11	0.03	0.08
NPI Pensions Equity Tracker	0.05		No split available
Pearl Pensions UK equity	0.07		No split available
Phoenix Pension Growth Stakeholder	0.08	0.01	0.07
NPI Pensions overseas Equity	0.04		No split available
Abbey Life pensions Managed	0.15		No split available
Abbey Life International	0.09		No split available

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

Like last year we have rated this as GREEN or 5 out of 5 because:

- We continue to believe that an ongoing charge of no more than 1% per year that most of you pay represents reasonable value for money
- We are pleased that Phoenix has agreed to remove exit charges on pots smaller than £5,000. This gives some of you better value, if you decide it is appropriate to move your pot to another provider
- Based on what we have looked at, we do not have particular concerns

over policies where charges are more than 1% per year – and recognise that some of you pay charges of less than 1% per year

- The additional information we have seen on transaction costs is a good step forward, and has highlighted some areas of concern we're following up. However, we have noted areas where the information is less detailed than we would like and takes too long to reach us. We expect the information to be further improved over 2019 and hope to draw more conclusions when we can see how these costs compare to those in other companies.

SECTION IX

Overall management attitude

The Phoenix Group's mission is to 'improve outcomes for customers, whilst delivering value for shareholders.' Your IGC recognises that Phoenix wants to be a profitable company. However, acting solely in your interests, our role as the IGC is to monitor closely what Phoenix does, so that we can be comfortable that shareholder profits do not come at the expense of the value for money to which you are entitled, and the improvements that we believe it is reasonable to expect. We look for evidence that Phoenix really has their customers at the heart of what they do. To that end, we monitor:

- What Phoenix does to improve customer outcomes
- What Phoenix does in response to its obligations as a major financial services provider to maintain high standards of behaviour and ensure its customers' money is invested responsibly
- How responsive Phoenix is to requests and challenge from the IGC.

Improving customer outcomes

Earlier in this report, we have described some of the initiatives that Phoenix has taken in 2018 to improve customer outcomes, including:

- The complete removal of exit charges for pension pots of £5,000 or less
- The increased use of digital/online options to improve the information available to you and what actions you can take in response
- Improvements in how the information in your annual statement is presented, to make it easier to see the key points
- Improvements in the complaints-handling processes to speed up the resolving of complaints
- Increased focus on ensuring vulnerable customers are identified and given the help they need.

Your IGC sees these developments as tangible evidence that Phoenix does 'put its money where its mouth is' and invests shareholder money back into the business, for your benefit. One of the areas that we see as particularly significant in terms of what it says about Phoenix, is the increased transparency being introduced around the charges and

other costs taken from your pension pot each year.

Another indication of customer focus is the amount of effort that Phoenix puts in to help protect you from pension scams. Pension fraud is a growing threat to consumers. The scammers are more sophisticated than ever at convincing customers to move their funds to schemes that carry excessive charges or are invested in high risk investments managed by the scammer's associates. Phoenix undertakes due diligence on each and every transfer to identify high risk schemes and engages with consumers where appropriate. Phoenix is not alone in this and the industry is starting to align through groups like the Pension Scams Industry Group (PSIG), the same voluntary group that produces the Code of Good Practice on Combatting Pension Scams.

Since 2013, Phoenix has prevented over £30 million of potentially fraudulent pension transfers. When deciding what you are going to do with your pension savings, please be alert to pension scams and refer to the [Phoenix Life website](#).

.....
'Our assessment of overall management attitude reflects the extent to which we see evidence that Phoenix really has their customers at the centre of their culture and business decision-making.'

Acting responsibly

In the [Investment section](#) of this report, we have described the approach that Phoenix takes to ensure that customer money is invested with appropriate regard to Environmental, Social and Governance (ESG) considerations. While we are happy that Phoenix sets appropriate standards for its investment managers, and can see evidence that it makes a difference in practice, we do think that Phoenix could do more to describe the approach they follow, so that you can see for yourself the difference it is making to your pension pot. We will be looking for concrete progress towards this in 2019.

Responsible behaviour is not just a matter of how pension funds are invested. How a provider runs its operations and considers its impact on society, its supply chain and the environment is important too – and can show a lot about the integrity of the organisation. Your IGC has been pleased to see the steps that Phoenix is taking to meet its aim of minimising its impact on the environment – including the ultimate removal of all single-use plastic from Phoenix buildings. We have also been pleased to see what Phoenix is doing to contribute to the communities

it operates within (through encouraging staff volunteering, for example) and also helping improve standards across the financial services marketplace as a whole (through, for example, holding leadership roles in key industry bodies). While such activity does not directly impact the value for money you receive, your IGC sees it as a valuable indicator of the culture within Phoenix and the way it takes all its responsibilities seriously.

Responsiveness to the IGC

During 2018, your IGC has made a large number of requests and challenges to Phoenix. For example, in addition to all the usual facts and figures we receive as 'business as usual', we have asked for extra information on:

- The transaction costs incurred in the investment of your money
- A detailed analysis of the largest pension pots within our scope and the value for money they are receiving
- A detailed analysis of the end-to-end customer experience of a sample of 70 individual cases and any improvements in customer servicing that these prompted
- Details of the roll-out of staff training on how to deal with vulnerable customers.

Examples of areas where we have challenged Phoenix includes:

- Challenging the continued application of exit charges, particularly on small pension pots
- Challenging the poor investment performance of some pension funds and what Phoenix is doing to address it
- Challenging the speed of progress in getting the new transaction cost information that we need
- Challenging the speed of progress on some of the new customer servicing digital developments that have been under discussion for a while
- Challenging the clarity of how some of the information that is available to you is presented.

In all our dealings with Phoenix on your behalf, we can confirm that we have found them responsive and constructive. While some requests and challenges have taken longer to resolve than others, we have accepted Phoenix's explanations where any delays have been experienced. There have been no situations where the ultimate response has been unsatisfactory, making us feel the need to escalate things to the FCA (as an IGC would be required to do if it was not satisfied with how the provider was responding to them).

5

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

Overall Rating

While there are still a number of improvements to customer services being developed, and more to be expected as technology and market standards develop, your IGC is confident that there is sufficient evidence of Phoenix's commitment to its customers to rate this area of value for money GREEN (5/5).

Value for money descriptors

Investment performance

Our assessment of value for money focuses on fund performance relative to peers and we look for performance predominantly in the top or second quartile with a focus on performance over the medium to long term. Our members do not have default investment strategies as such, but we carefully consider the make-up of the managed funds because we presume that many members selected those funds to gain a balanced investment mix. We accept that not all funds will always be in those quartiles, but we are concerned where performance is persistently in quartile 3 and more concerned if in quartile 4. So, we also focus on the processes Phoenix follows to oversee performance and how responsive it is in terms of taking appropriate action when performance is poor. We consider how seriously Phoenix takes environmental, social and governance matters when setting investment strategy and selecting investment managers.

Charges and costs

In the current environment we assess ongoing product charges of 1% per annum as offering reasonable value for money. We acknowledge and accept that there are reasons why members may pay more than this e.g. for guarantees, because they have selected certain specialist funds or pay additional charges for protection benefits. However, we review how reasonable those charges are against the additional benefits received and the processes Phoenix has to monitor ongoing appropriateness. We review what explicit transaction cost information is available and assess this against costs in previous years and, or by, expert judgement.

Customer service

Our assessment of customer service centres around what service levels Phoenix has as targets, its performance against those targets and what steps it takes if performance falls below those

levels. We know that meeting of targets does not necessarily result in good customer service and so we also look at the overall experience a customer has when interacting with Phoenix. This includes how it approaches vulnerable customers and deals with complaints. We look for signs of innovation and improvement over time and evidence that these are driven in a customer-centric way – for example, expanding the range of actions customers can do on-line. Finally, we recognise that value for money associated with customer service goes hand in hand with customer communication (which we consider as a separate area of our value for money assessment).

Communications

We recognise that keeping in touch with members is fundamental, so we look at 'gone-away' rates as a measure of how well Phoenix does in this regard. Beyond this and as a minimum we expect customer communications to be compliant with regulations, but also look for communications to be timely, clear, sufficient and jargon-free. We look for Phoenix to show continuous improvement over time and increasingly enable members to be able to find information and guidance tools online. Communication is two-way, and so we also look at how Phoenix gets feedback from members and, together with any of our own research findings, how Phoenix responds.

Accessing your pension pot

We expect Phoenix to make the full range of options possible under pensions freedoms available, easy to access, with information available to help and guide members through those choices. The IGC is primarily responsible for assessing value for money of the pension pot before benefits are taken but we also consider controls Phoenix has to ensure customers receive good value from 'post-retirement' product(s) as this affects the ultimate outcome. We also know that, particularly

as member's circumstances have almost certainly changed since they took out their pension and their Phoenix pension pot may not be central to their retirement planning, it is important their investment choice remains appropriate. So we look at what steps Phoenix takes to contact and engage members around whether lifestyle options remain appropriate, when funds underperform, and more generally around ongoing suitability of investment options.

Overall management attitude

Our assessment of overall management attitude reflects the extent to which we see evidence that Phoenix really has their customers at the centre of their culture and business decision-making. How responsive management are to points raised by the IGC is an important indicator of this, but so also is the extent to which management take the initiative to improve customer outcomes. We therefore monitor what new developments are planned, particularly in improving customer communications and extending online facilities, and how quickly and effectively the improvements are implemented.

APPENDIX II

Phoenix Workplace Schemes Membership Data

Table 1 – membership profile

	Members still making contributions	Members no longer making contributions	Total members
As at 31 December 2017			
Phoenix	8,458	86,582	95,310
Ex-Abbey	439	8,954	9,393
Total	8,897	95,806	104,703
As at 31 December 2018			
Phoenix	7,771	83,226	90,997
Ex-Abbey	393	8,602	8,995
Total	8,164	91,828	99,992
Reduction over 2018	8%	4%	4%

On 31 December 2018 there were just under 100,000 members in Phoenix workplace pension schemes within the scope of the IGC. This includes around 9,000 ex-Abbey members. The total number of members has fallen by around 4% during 2018 as members take benefits from their pension pots

– a similar reduction to what we have seen in previous years. Only a small proportion of members (just over 8,000) are still paying into their pension pot with Phoenix and the number has reduced by 8% over the year which is also similar to what we have seen in previous years.

Table 2 – ongoing product charges

	Total members	Percentage of total
Total number of members	99,992	
Members paying extra for protection benefits	500	0.5%
Members paying extra for specialist funds	810	0.8%
Members paying no more than 1% per year	98,682	98.7%
Total	99,992	100.0%

The table shows that the vast majority of members are now paying no more than 1% per annum in ongoing charges (some are paying less). A small number are paying more either because they

have extra protection benefits on their policies or have chosen particular specialist investment funds. We talk about these in the [‘Charges and costs’](#) section of our report.

APPENDIX III

Investment performance (unit linked funds)

Investment performance – Phoenix Unit Linked pension funds

The funds shaded in the table are the larger funds that we highlight in the main report. Performance versus peer group is shown net of the customer fees and fund performance percentage is shown net of the investment management fees Phoenix pays. Where the performance is below expectations, in depth analysis of the fund and the investment manager is undertaken and if under performance persists, appropriate action is taken.

Name of Fund	Quartile over 1 year	Quartile over 3 years	Quartile over 5 years	Performance over 5 years % per year	Benchmark Performance over 5 years % per year
ABI Sector - Asia Pacific ex Japan Equities					
Phoenix SM Far Eastern Pen	2	2	2	8.6	8.6
ABI Sector - Europe ex UK Equities					
Phoenix SM European Pension	3	3	3	4.5	5.6
Sector - Global Equities					
Phoenix SM International Pension	4	4	3	6.5	8.4
Phoenix SM Opportunity Pension	4	4	4	4.9	5.0
Phoenix SM Stakeholder Internation-Pen	4	4	3	7.0	8.4
Phoenix SCP (K) Adventurous managed Pen	4	4	4	4.9	5.0
PHX P International Phoenix Series 8 Units	4	4	3	6.3	10.6
Phoenix NPI Pens Overseas Equity Series 1 & 2 Acc	2	2	2	7.9	7.7
Phoenix NPI Pens Global Care Series 1 & 2 Acc	2	2	2	9.4	7.7
Phoenix Pearl Pens Overseas Equity SHP	2	2	2	8.4	7.7
Sector - Mixed Investments - 0% - 35% Shares					
Phoenix SM Safety Pension	3	2	2	3.8	3.2
Sector - Mixed Investments - 20% - 60% Shares					
PHX F Living Pens Bal Growth - Phoenix Units	1	2	1	4.4	4.6
Sector - Mixed Investments - 40% - 85% Shares					
Phoenix Alba LAISA Managed Pension	2	3	3	4.4	4.6
Phoenix LL Pens Mixed	2	2	2	5.1	4.6
Phoenix NPI Pens Managed	2	2	2	4.9	4.6
Ex-RSALI Pensions Managed Growth	1	2	2	5.3	4.6
Phoenix SM Growth Pension	4	4	4	3.9	4.8
Phoenix SCP (K) Managed Pen (40-85% Shares)	4	4	3	4.1	6.3
Phoenix SCP (E) Managed Pen	4	4	3	4.1	6.3
Phoenix SM Stakeholder Growth - Pen	4	4	3	4.0	4.8
Phoenix Invesco Perpetual Managed Fund	4	4	3	4.3	4.6
Phoenix Newton Managed Pension Fund	1	3	3	4.1	4.6
Phoenix NPI Pens Global Care Mgd Series 1 & 2 Acc	2	3	1	5.9	4.6
Sector - Money Market					
Phoenix SM Cash Pension	3	2	3	0.0	0.4
Phoenix Alba LASIA Money Market Pension	3	2	3	0.0	0.4
Sector - Sterling Fixed Interest					
Phoenix SM UK Gilt & Fixed Interest-Pen	1	3	3	3.9	5.2
Phoenix NPI Pens Fixed Interest Series 1 & 2 Acc	2	4	3	4.1	4.3
Sector - Sterling Long Bond					
PHX F Living Pens Pension Protector-Phoenix Units	1	2	2	8.2	9.2
Sector - UK All Companies					
Phoenix Pension Growth (Stakeholder)	2	2	3	2.8	4.8
Phoenix SM Stakeholder UK Equity-Pen	3	3	2	3.0	4.1
Phoenix SM UK Equity Pension	3	3	3	2.3	4.1
Phoenix SM Equity Tracker-Pen	2	2	2	3.1	4.1
PHX P Equity Phoenix Series 8 Units	2	2	2	3.1	3.9
Phoenix LL Pens UK Equity Series P	2	2	2	3.7	2.8
Phoenix NPI Pens UK Equity Series 1 & 2 Acc	1	1	2	3.2	2.8
Phoenix NPI Pens UK Equity Tracker Series 1 & 2 Acc	2	2	3	2.7	2.8
Phoenix Pearl Pens UK Equity SHP	2	2	2	3.6	2.8
Sector - UK Equity Income					
Phoenix SCP (K) High Income Pen	4	4	4	2.6	3.9

Investment performance – Ex-Abbey Unit Linked pension funds

The funds shaded in the table are the larger funds that we highlight in the main report.

Name of Fund	Quartile over 1 year	Quartile over 3 years	Quartile over 5 years	Performance over 5 years % per year	Benchmark Performance over 5 years % per year
Sector - Europe ex UK Equities					
Phoenix AL Pensions European Accumulator	2	2	3	5	6.0
Phoenix HS Pension European Series AB AC ACC	3	3	4	3.0	6.0
Sector - Flexible Investment					
Phoenix TL Pension Managed Growth Accumulator	3	3	3	5.3	6.3
Sector - Global Equities					
Phoenix AL Pensions International Accumulator	2	2	2	8.1	9.3
Phoenix HS Pension International Series AB AC ACC	2	2	4	4.9	6.0
Phoenix TL Pension TSB International Accumulator	2	2	2	7.8	6.0
Sector - Japan Equities					
Phoenix AL Pensions Japan Accumulator	1	1	3	8.2	6.0
Sector - Mixed Investments 40% - 85% Shares					
Phoenix AL Pensions Managed Accumulator	2	2	2	5.1	6.3
Phoenix HS Pensions Managed Accumulator	2	2	2	4.8	6.3
Phoenix TL Pensions Managed Accumulator	2	2	3	4.6	6.3
Sector - Money Market					
Phoenix AL Pensions Security Accumulator	4	4	2	0.1	0.3
Phoenix HS Pension Guaranteed Accumulator	2	2	2	0.1	0.3
Phoenix TL Pension Guaranteed Accumulator	1	1	2	0.2	0.3
Sector - North America Equities					
Phoenix AL Pensions American Accumulator	3	3	2	12.7	14.3
Sector - UK All Companies					
Phoenix AL Pensions Equity Accumulator	1	1	3	2.9	4.1
Phoenix AL Pensions Ethical Accumulator	1	1	2	3.4	4.1
Sector - UK Direct Property					
Phoenix AL Pensions Property Accumulator	2	2	3	5.6	6.9
Phoenix HS Pension Property Ser AB and AC ACC	2	2	3	5.2	6.9
Sector - UK Equity Income					
Phoenix AL Pensions High Income Accumulator	2	2	3	3.2	4.1
Sector - UK Gilt					
Phoenix AL Pensions Fixed Interest Accumulator	1	1	3	4.2	5.2
Phoenix HS Pension Fixed Interest Accumulator	1	1	3	4.1	5.2
Phoenix TL Pension Gilt Edged Accumulator	1	1	4	3.7	5.2
Sector - UK Index Linked Gilts					
Phoenix AL Pensions Indexed Investment ACC	3	3	4	7.7	8.4
Sector - Unclassified					
Phoenix HS Pension Equity Accumulator	3	3	2	5.6	7.2

APPENDIX IV

Investment performance (with profits funds)

If your pension pot invests either wholly or partly in Phoenix with profit funds as described in your annual statement then you can find a lot of further information on the [Phoenix Life website](#). Under 'Customer Centre' go to 'With Profits' and then select the name of the original Company that issued your policy and then select either 'Unitised With Profits' or 'Traditional With Profits' as appropriate (your annual statement will give you the appropriate specific name of the fund in which your pot is held).

Information Leaflets are available which provide you with information on the latest investment returns in your chosen with profits fund.

As described in the Information Leaflets, the actual return on your pot depends both on the 'Bonuses' added to your policy and in some cases there are guarantees that benefit the final outcome of your pot. The investment strategy of these funds varies according to the nature of these bonuses and

guarantees. However the main driver for most of you will be these underlying returns. It is for that reason that we concentrate on understanding how Phoenix and its investment managers are performing on your funds.

The table below shows the investment returns, and the amounts in these funds, to the end of 2018 for the main with profit funds over the past 5 years:

With Profits Fund	Amount of workplace pots in these funds (£m)	5 year annualised performance % per year
Phoenix Life Assurance Limited National Provident Life With-Profits Fund (Series 1)	47.6	3.9%
Phoenix Life Limited NPI With-Profits Fund	2.7	6.8%
Phoenix Life Limited SAL With Profits Fund – unitised with profits	27.3	5.6%
Phoenix Life Limited SAL With Profits Fund – traditional with profits	21.3	2.9%
Phoenix Life Limited Scottish Mutual With-Profits Fund – Series 3 & 7	23.2	6.3%
Phoenix Life Limited Scottish Mutual With-Profits Fund – Series 1 & 2	4.4	5.3%
Phoenix Life Limited SPI With-Profits Fund Series 1	6.7	4.9%
Phoenix Life Limited SPI With-Profits Fund Series 2	4.6	6.2%
Phoenix Life Assurance Limited Pearl With-Profits Fund – unitised with profits	2.1	6.8%
Phoenix Life Assurance Limited London Life With-Profits Fund	2.1	3.8%
Phoenix Life Limited Alba With-Profits Fund	1.5	5.1%

Transaction costs

1. The tables in this Appendix show transaction cost information for the largest 62 unit linked funds in which Phoenix workplace pension customers invest their pots. You can see that, whilst we have been provided with information for almost all of those funds, for a number of the funds (including all of the ex-Abbey funds) we have not been provided with a split of information between implicit and explicit costs. We expect to have the information split in this way in future.

2. In the report we explain that, under new rules, implicit costs provided to us should be calculated as the difference between the price that the investment managers used by Phoenix expected to receive or pay when they decided to sell or buy an investment, and the price they actually got. This is called the 'slippage cost' and can be negative or positive depending on whether the price they actually got was higher or lower than they expected.

For this report, each of the investment managers used by Phoenix has instead calculated implicit costs using a 'market spread'. At any particular time, the price for buying an investment is higher than the price for selling it. The difference is called the 'market spread'. It is this difference that the investment managers have used to calculate implicit costs for this report. The market spread cannot be negative so explains why all of the implicit costs shown in this report are positive.

We have been told that the information we get for December 2018 and beyond will be based on the 'slippage cost'.

3. Some of the investment managers used by Phoenix have provided transaction cost information that is reduced for 'anti-dilution levies'. If more money leaves a fund than goes into a fund at a particular time, some of the investments in the fund need to be sold. The extra costs of selling the investments may be charged to those customers taking money out rather than affecting the value for those remaining in the fund. This is called an 'anti-dilution levy'. A similar process may happen when more money enters the fund than leaves it, with extra costs of buying more investments being charged to customers entering the fund, rather than those who are already there. This can explain why transaction costs for some funds look lower than others.

4. Transaction costs for a small number of funds appear high compared with others. We are continuing to work with Phoenix to understand why.

5. The funds shaded in the tables are the larger funds that we highlight in the main report.

6. The transaction costs shown over the page relate to 12 months to the end of September 2018.

Transaction costs – Phoenix Unit Linked pension funds

Name of Fund	Total (%)	Implicit (%)	Explicit (%)
Phoenix Alba LAISA Managed Pension	0.32	No split available	
Phoenix LL Pens Mixed	0.04		
Phoenix NPI Pens Managed	0.04		
Ex-RSALI Pensions Managed Growth	0.26		
Phoenix SM Growth Pension	0.11	0.03	0.08
Phoenix SCP (K) Managed Pen (40-85% Shares)	0.11	0.03	0.08
Phoenix SCP (E) Managed Pen	0.11	0.03	0.08
Phoenix SM Stakeholder Growth - Pen	0.11	0.03	0.08
Phoenix Pension Growth (Stakeholder)	0.08	0.01	0.07
Phoenix SM Cash Pension	0.00	0.00	0.00
Phoenix SM European Pension	0.08	0.01	0.06
Phoenix SM Far Eastern-Pen	0.15	0.04	0.11
Phoenix SM UK Gilt & Fixed Interest-Pen	0.07	0.07	0.00
Phoenix SM International Pension	0.13	0.03	0.10
Phoenix SM Opportunity Pension	0.13	0.03	0.10
Phoenix SM Safety Pension	0.07	0.05	0.02
Phoenix SM Stakeholder Internation-Pen	0.13	0.03	0.10
Phoenix SM Stakeholder UK Equity-Pen	0.11	0.02	0.10
Phoenix SM UK Equity Pension	0.11	0.02	0.10
Phoenix SM Equity Tracker-Pen		Not yet available	
Phoenix SCP (K) High Income Pen	0.15	0.02	0.13
Phoenix SCP (K) Adventurous Managed Pen	0.13	0.03	0.10
PHX P Equity Phoenix Series 8 Units	0.08	0.01	0.07
PHX P International Phoenix Series 8 Units	0.21	No split available	
PHX F Living Pens Pen Protector Phoenix Units	0.05	0.04	0.01
PHX F Living Pens Bal Growth Phoenix Units	0.26	No split available	
Phoenix Alba LASIA Money Market Pension	0.00	0.0	0.00
Phoenix Invesco Perpetual Managed Fund	0.13	0.00	0.13
Phoenix Newton Managed Pension Fund	0.12	0.04	0.08
Phoenix LL Pens UK Equity Series P	0.06	No split available	
Phoenix NPI Pens Overseas Equity Series 1 & 2 Acc	0.04		
Phoenix NPI Pens Fixed Interest Series 1 & 2 Acc	0.02		
Phoenix NPI Pens UK Equity Series 1 & 2 Acc	0.08		
Phoenix NPI Pens UK Equity Tracker Series 1 & 2 Acc	0.05		
Phoenix NPI Pens Global Care Series 1 & 2 Acc	0.03		
Phoenix NPI Pens Global Care Mgd Series 1 & 2 Acc	0.04		
Phoenix Perl Pens Equity SHP	0.07		
Phoenix Pearl Pens Overseas Equity SHP	0.08		

Transaction costs – Ex-Abbey Unit Linked pension funds

Name of Fund	Total (%)
Phoenix AL Pensions Managed Accumulator	0.15
Phoenix HS Pension Managed Accumulator	0.15
Phoenix TL Pension Managed Accumulator	0.15
Phoenix AL Pensions International Accumulator	0.09
Phoenix HS Pension International Series AB AC ACC	0.02
Phoenix TL Pension TSB International Accumulator	0.02
Phoenix AL Pensions Equity Accumulator	0.21
Phoenix AL Pensions Ethical Accumulator	0.19
Phoenix AL Pensions American Accumulator	0.03
Phoenix AL Pensions European Accumulator	0.06
Phoenix HS Pension European Series AB AC ACC	0.08
Phoenix AL Pensions Security Accumulator	0.03
Phoenix HS Pension Guaranteed Accumulator	0.01
Phoenix TL Pension Guaranteed Accumulator	0.00
Phoenix AL Pensions Japan Accumulator	0.03
Phoenix AL Pensions Property Accumulator	0.02
Phoenix HS Pension Property SER AB and AC ACC	0.05
Phoenix AL Pensions Fixed Interest Accumulator	0.07
Phoenix HS Pension Fixed Interest Accumulator	0.19
Phoenix TL Pension Gilt Edged Accumulator	0.10
Phoenix TL Pension Managed Growth Accumulator	0.10
Phoenix AL Pensions High Income Accumulator	0.22
Phoenix AL Pensions Indexed Investment Acc	0.14
Phoenix HS Pension Equity Accumulator	0.10



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