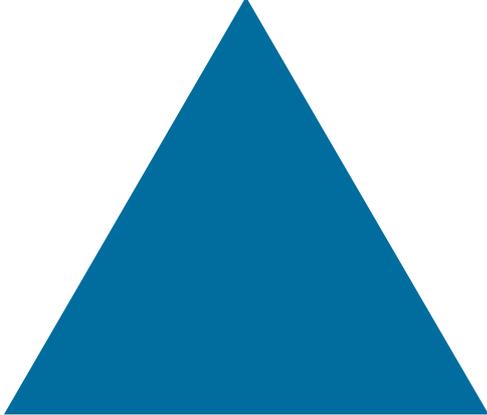
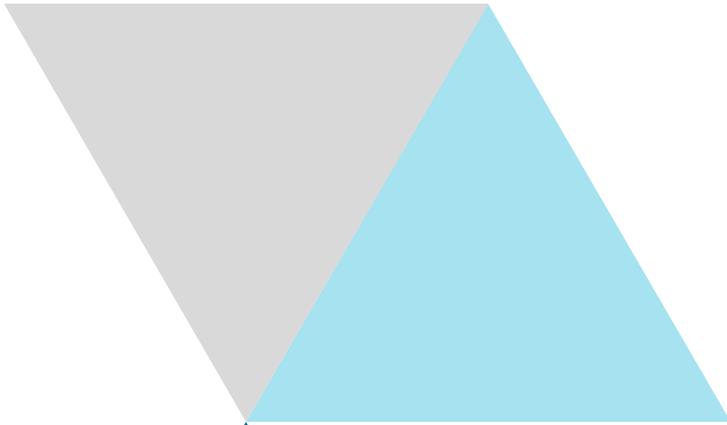


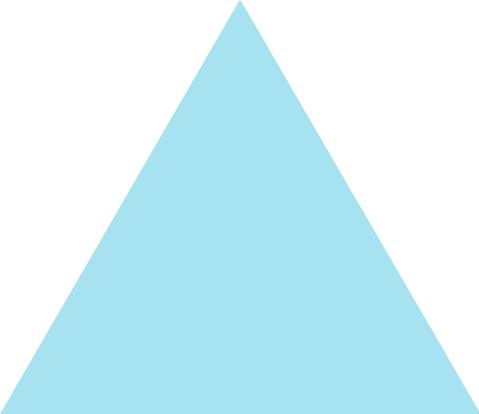
HEALTH WEALTH CAREER

# CLERICAL MEDICAL GROUP PENSION CONTRACT

31 MARCH 2020



Information Classification: Public



# INTRODUCTION

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The purpose of this document is to provide the trustees with additional information regarding the Clerical Medical Group Pension Contract (the contract). This document is based on our understanding of the contract and does not override or amend the contract you have with Clerical Medical.

# CONTRACT OPERATION

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The scheme assets are invested in a Clerical Medical Group Pension Contract and the assets not yet used to purchase annuities are held in Clerical Medical's with-profits fund. The annuities purchased from Clerical Medical when members retire are also part of the contract and are held in the name of the trustees.

The contract is an insured arrangement where the investment and administration are operated as one service. It has investment and annuity rate guarantees.

The contract is operated by Clerical Medical under a deposit administration approach, where contributions are pooled in the with-profits fund, investment returns are added and annuities are purchased at retirement. The policy terms refer to contributions paid into the contract being used to purchase deferred annuities. Depending on what deferred annuities are provided, different asset values could result from the contract.

We understand that the deferred annuities described by the contract are consistent with the deposit administration approach and that the benefits provided to trustees are in line with the contract terms. Our advice on the value of the scheme assets will continue to be based on Clerical Medical records developed under this approach unless you instruct us otherwise. If you would like advice about this you should consider taking legal advice and independent actuarial advice.

Under the terms of the contract you are not able to hold investments outside of the contract. When a member retires in future you will be required by the terms of the contract to purchase annuities that provide the benefits. You can purchase the annuity either with Clerical Medical or on the open market.

# INVESTMENTS HELD

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The with-profits fund is made up mainly of assets that directly support policyholders' benefits, referred to as the asset shares, with the remainder being held in an unallocated estate. The estate is held separately and is used by Clerical Medical to meet guarantees and as a reserve to provide a cushion against the effects of poor investment conditions.

## Asset shares

Most of the asset shares are invested directly but currently around 14% is invested in absolute return funds and 3% is invested in loans secured against commercial property. Clerical Medical states that the aim of the absolute return funds held is to make positive returns regardless of market conditions. We understand that the property loans may be a type of fixed interest asset similar in nature to corporate bonds.

Using information from Clerical Medical on the assets held in the absolute return funds and assuming commercial property loans can be treated as corporate bonds, the asset mix of the part of the with-profits fund that directly supports the contract at 31 March 2020 and the comparable mix at 31 March 2017 was:

	31 March 2020	31 March 2017
UK Equities	19%	20%
Overseas Equities	25%	28%
Property	15%	12%
Fixed Interest : UK Government	7%	8%
Fixed Interest: Other	27%	15%
Cash	7%	17%

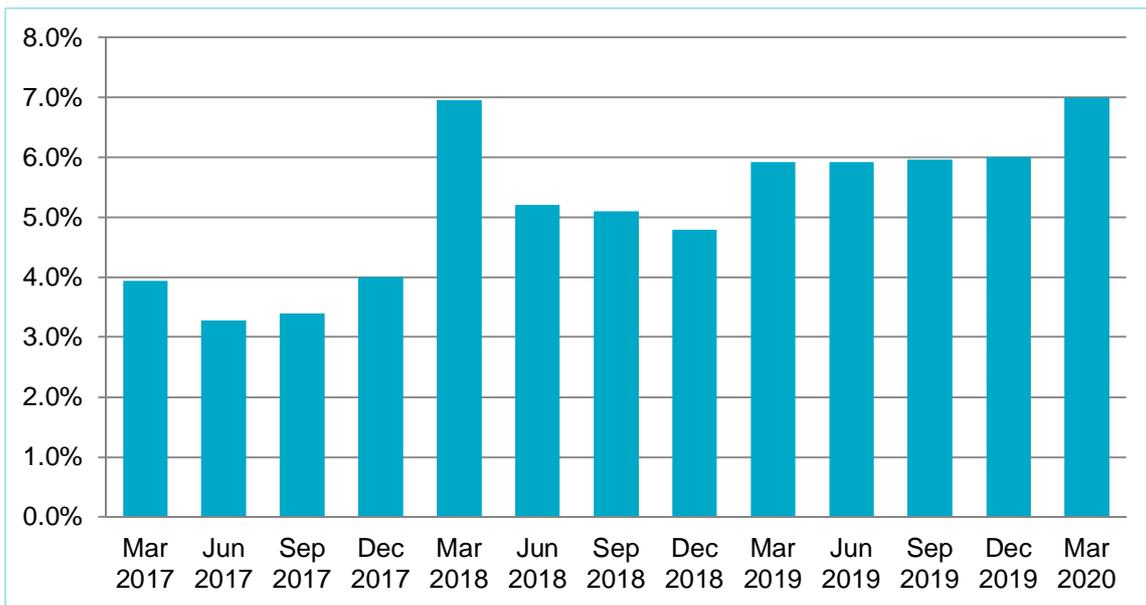
## Estate

The estate is invested more cautiously. Clerical Medical have confirmed that it invests the estate in assets such as cash deposits and UK government bonds, although the exact allocation is not available.

Clerical Medical review the level of the estate at least once a year. You may receive additional payments from the excess estate from time to time. In particular, there may be an element included in the Claim Addition you receive when you use funds from the contract to provide member benefits, for example when members retire (see below).

The surrender value will include the proportion of the estate currently attributable to the scheme. However, it is important to note that the value of the estate attributable to the scheme is not guaranteed.

The level of the estate applying in recent years is shown below:



# CONTRACT VALUES

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There are different values of the scheme assets that can apply in different situations. These are detailed below:

## Face value

The face value of the scheme assets is the value of the assets that is shown in your report and accounts, also referred to as the Cash Value of Unattached Annuities. This value is the sum of all contributions to the contract, the interest added and payments made from the fund.

The face value will not necessarily reflect the value of the assets underlying the contract as the interest rates declared each year are smoothed by Clerical Medical.

The face value applies when you use funds invested in the contract to provide benefits to members at retirement or purchase immediate annuities with Clerical Medical. The face value also currently applies when you purchase immediate annuities with other insurers, although the contract only provides for you to receive 95% of the face value used in these circumstances. You also receive at least 95% of any face value used to provide transfer values to individual members: this minimum has applied since 1 April 2020.

The face value also applies as a minimum when deferred annuities are purchased with Clerical Medical on scheme wind-up.

## Surrender value

The surrender value of the contract (excluding insured pensions) is the value available to the trustees on immediate surrender. Clerical Medical states that the amount provided to the trustees when the contract is surrendered will broadly reflect the value of the underlying assets and the amount added from the estate (if any) at the date of surrender, subject to a minimum of 90% of the face value.

Clerical Medical has the right to require twelve months written notice before the surrender value is paid. The surrender value on immediate surrender without notice will not have a minimum of 90% of the face value.

# INTEREST RATES

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Clerical Medical states it aims to return over the longer term the smoothed investment performance of the underlying assets, after taking into account expenses and guarantee charges. They say they do this mainly through the Basic Yield, which applies to the face value of the contract in force during the scheme year.

In accordance with the contract, the rate of interest for a calendar year is subject to a minimum rate of interest, which is linked to the yield on the fund in the previous calendar year (subject to an upper limit of 5%).

However, Clerical Medical may provide additional interest when you take money from the fund in the form of Claim Addition. Clerical Medical states that this broadly corresponds to the difference between face value and the value of the underlying assets held and takes into account the distribution from the excess estate.

# GUARANTEED ANNUITY RATES

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Benefits of certain members can be purchased at retirement on guaranteed annuity rates. The guaranteed annuity rates are expressed in the contract as an amount of non-increasing single life pension per £100 purchase money depending on the age and sex of the member. Sample rates at age 65 are £9.0 per annum for males and £7.9 per annum for females. There are no guaranteed annuity rates for pensions that increase each year or for reversionary annuities for securing spouses' pensions.

Clerical Medical's current practice (since November 2017) for setting escalating annuity and/or reversionary spouse's annuity rates for a member to whom a guaranteed annuity rate applies, is to apply concessionary annuity rates that give "similar economic value to that implicit in the GARs [guaranteed annuity rates] in the GPC [Group Pension Contract]" (for further details please refer to Clerical Medical's letter of 3 November 2017). Clerical Medical have stated that this practice is likely to continue over the remaining lifetime of the contract. The current practice for pensions that increase in payment or have a spouse's pension generally leads to higher annuity costs than those based on the practice that was in place previously.

Based on market conditions at 31 March 2020 the guaranteed and concessionary annuity rates are expected to be lower than the cost of securing benefits via a market annuity with Clerical Medical or on the open market. If this continues, and you continue with the Group Pension Contract, you will be able to secure the benefits for eligible members on better terms than market rates.

The Clerical Medical deferred annuity rates applying on scheme wind-up are also reduced as a result of the guaranteed annuity rates for those members where they apply.

# FUND DEDUCTIONS

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## Guarantees

The cost of providing the investment and annuity rate guarantees under the contract are met by the estate of Clerical Medical's with-profits fund. The cost varies with investment market conditions. In some years there may be no cost, and in other years the cost will be significant. However, I understand that Clerical Medical makes a relatively stable charge to policyholders for the potential costs in advance, which is paid to the estate. This charge is allowed for in the interest rate declared each year under the contract.

The deduction for guarantees made over each of the last three years was 0.875% of the face value of the contract. At 31 March 2020 this equated to around 0.9% p.a. of the surrender value.

## Expenses

Under the contract the trustees receive investment and specified administration services from Clerical Medical. Rather than charging directly for these, Clerical Medical declares a rate of interest to be added to the contract each year that is net of deductions for these services.

Clerical Medical have advised that the rate of deduction for expenses being made by them in 2019 across all Group Pension Contracts is around 0.6% of the underlying assets, made up of 0.55% for administration expenses and 0.07% for investment expenses. The rate of deduction made in 2017 and 2018 was similar.

Clerical Medical have in some years in the past declared lower rates of interest for smaller schemes than for larger schemes; in those years the rate of deduction for expenses varied by scheme size. However, Clerical Medical have confirmed that their current practice is to declare the same rate of interest for all schemes and so the same rate of deduction for expenses will apply for all schemes.

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