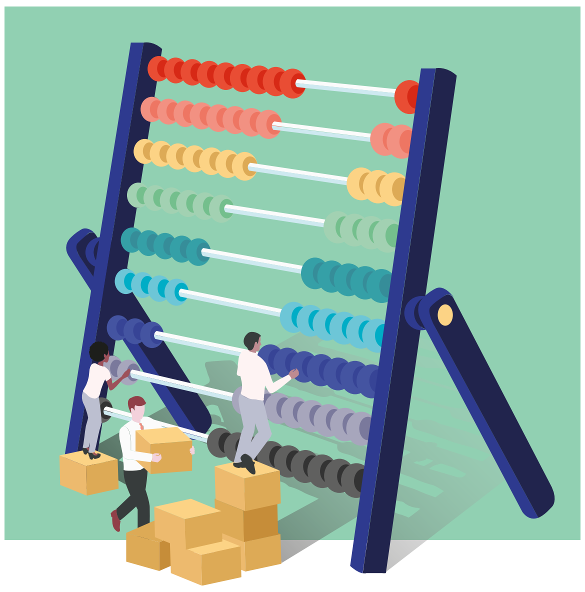
# TRUSTEE REPORT 2020

**AXA UK Group Pension Scheme newsletter**
For deferred members of the Defined Benefit (DB) section in the UK & Ireland



# Scheme shortfall continues to decrease



Every three years, AXA and AXA Pension Trustees Ltd complete a full actuarial valuation of the Scheme. The last one took place at 31 March 2018.

Last year we let you know that the Scheme had outperformed its projected funding position. This year, we are pleased to report that the shortfall has reduced yet again, falling from £472 million to £159 million as at 31 March 2020. Although the reduction in shortfall is clearly good news, it represents a snapshot of the Scheme at a time when financial markets were particularly volatile as they reacted to the COVID-19 pandemic. In particular, the expected return on certain assets was elevated at that time which contributed to the reduction in the shortfall of the Scheme. Since 31 March 2020, the shortfall has increased as these expected returns have returned to more normal levels.

Following the last full actuarial valuation of the Scheme, the Trustee and AXA agreed a recovery plan to eliminate any shortfall in the Scheme assets dating from 2015. As part of that, AXA are not due to pay additional contributions to the Scheme until 2022.

> “This year, we are pleased to report that the shortfall has reduced yet again, falling from £472 million to £159 million.”

From 2022 onwards AXA will pay an additional £81m into the Scheme each year. This figure will be adjusted up or down depending on how the funding position progresses, and we expect to see increases to the value of the fund as a result.

A recap of the results of the full actuarial valuation at 31 March 2018, and an update of the funding position as at 31 March 2020, can be found on the back page of this newsletter.

The next formal valuation of the Scheme's finances will be carried out at 31 March 2021. We are aiming to let you know the results in 2022.

# Scheme grows by £18 million since 31 March 2019

The Trustee produces a full set of financial accounts each year, which show how much money has been paid into and out of the Scheme. These accounts have been audited by KPMG LLP, who has verified that they show a true and fair view of the Scheme's financial transactions.

**We give you the headlines here, but if you would like to see a copy of the full Report & Accounts, you can request one from the AXA UK Pensions Team using the contact details on the back page.**

Early in 2020, financial markets were heavily impacted by the COVID-19 outbreak, and this has been taken into account in the assumptions the actuary has made in the 2020 funding update. Despite this, the Scheme was still able to grow by £18 million since 31 March 2019.

Visit **hartlinkonline.co.uk/axa-employeebenefits** for access to information about your pension benefits.

## Summary

Value of DB section on 1 April 2019

**£5,607 million**

| | |
|---|---|
| + Contributions | £9.6 million |
| + Net return on investments | £221 million |
| - Retirement and death benefits | £165.3 million |
| - Payment to leavers | £39.2 million |
| - Expenses | £8.2 million |

= Value of DB section on 31 March 2020

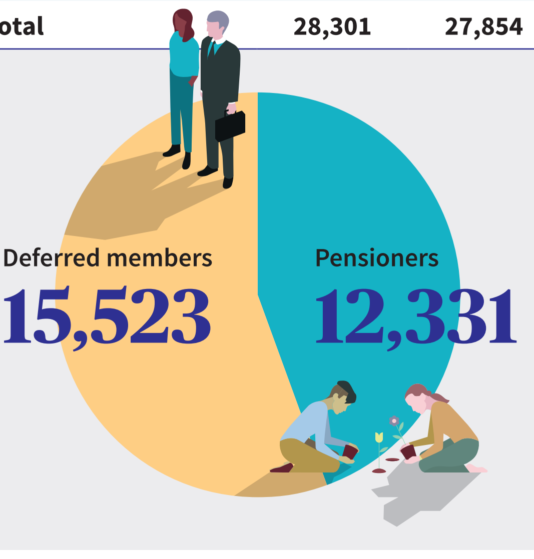
**£5,625 million**

Please note that numbers have been rounded so may not add up exactly.

## Scheme membership

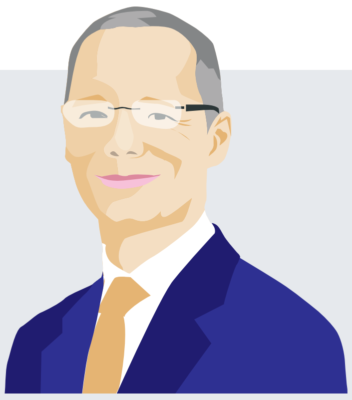
As at 31 March 2020, the membership of the DB section had decreased to 27,854 members.

| | 2019 | 2020 |
|---|---|---|
| Deferred members | 16,221 | 15,523 |
| Pensioners | 12,080 | 12,331 |
| **Total** | **28,301** | **27,854** |



# Scheme noticeboard

## A word from the Chairman



Welcome to the latest newsletter for members of the DB section from the Trustee of the AXA UK Group Pension Scheme.

As we move into 2021, we're pleased to report that, despite the severe impact of the COVID-19 pandemic on global financial markets, the Scheme has continued to perform well. Our funding update at 31 March 2020 showed a reduction in the shortfall between the amount of benefits the Scheme has to pay to members, and the amount available to pay these benefits. You can find more detailed information on the Scheme's funding position on page 4.

2020 was a challenging year for all of us in ways that no-one could have foreseen. We want to reassure you that, despite the difficulties of the year, the Scheme is in safe hands. While the situation continues to be unpredictable, we are working closely with the administrator and other third-party providers to ensure that the Scheme is as secure and protected as possible.

In other news, there have been some changes to the Trustee Board. Ed Davis has been appointed as a Member-Nominated Director from 1 January 2021 and Ken Smith has been reappointed as a Member-Nominated Director. We also said farewell to Anna Colombatti and Marcus Taylor, who both resigned from their positions on the Board last year. I'd like to wish them all well for the future.

Despite the uncertainty throughout the year, there have still been some interesting developments in the world of pensions. Highlights include the changes to the Retail Price Index (RPI) and the increasing emphasis on Environmental, Social and Governance (ESG) investment funds in the industry. And of course, there are still the potential changes to come from Brexit.

Finally, we want to let you know that we'll be moving your newsletter online in 2021. This is an exciting move for the Scheme and, as well as being better for the environment, will mean you can easily access more information on the topics we cover in each issue if you want to. We will publish these on the pensions website at **https://pensions.axa-employeebenefits.co.uk/defined-benefit-section** and also on Capita's hartlink online portal at **hartlinkonline.co.uk/axa-employeebenefits**

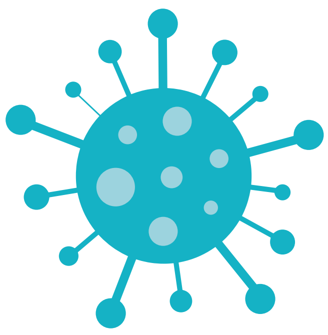
If you have any queries, please get in touch with the AXA UK Pensions Team using the contact details on the back page.

We hope you find this newsletter informative and useful. If you have any feedback or topical suggestions, please get in touch.

Wishing you a happy and healthy 2021!

**Stephen Yandle** | Chairman of the Trustee

## COVID-19 impact



COVID-19 was declared to be a global public health emergency by the World Health Organisation on 30 January 2020. Since then, it has caused disruption to businesses and economic activity, resulting in fluctuations in stock markets around the world.

The pandemic has impacted all our lives and presented a number of unexpected challenges. While we hope the development of a vaccine is bringing us closer to a return to normality, there are still many unknowns ahead. The Trustee and Capita are continuing to closely monitor the situation and take action to minimise any impact on the day-to-day operation of the AXA UK Group Pension Scheme.

Both AXA and Capita have put robust measures in place so that we are prepared to respond to the evolving situation. This includes establishing contingency plans to safeguard the staff who look after the AXA UK Group Pension Scheme and our priority remains making sure that pensions are paid on time.

We'll continue to closely monitor developments relating to COVID-19 and will coordinate our operational response in line with guidance from the UK Government and global health organisations.

## Pension scams continue to rise

We've alerted you to the risk of pension scams before, but since the COVID-19 outbreak there has been an unfortunate increase in the number of scams around.

These scams are often very convincing and attractive and, unfortunately, thousands of people in the UK have already lost their pension savings to scams, so it's vital that you are vigilant.

Known scams are documented on the ScamSmart website at **fca.org.uk/scamsmart** – and please also remember:

- Cold calls about your pension are illegal. A legitimate organisation will not contact you out of the blue.
- Your pension is only available after the age of 55 – not before.
- Be very wary of investments that guarantee high returns.

Scammers will often have professional-looking websites, so it's important to check anyone you're dealing with is on the FCA Register, which provides a list of all advisers and services authorised by the Financial Conduct Authority. Call them on **0800 111 6768** or go to **fca.org.uk/firms/financial-services-register** to check the details of anyone you're considering investing with.

Capita, the Scheme's administrator, can assist if you've signed something you're unsure about. Get in touch with them immediately using the contact details on the back page.

For independent, regulated financial advice on your pension, visit **moneyadviceservice.org.uk** and search for "financial adviser" to get a list of approved providers.

## GMP equalisation update

You may remember that in last year's newsletter we let you know about a High Court ruling in 2018 stating that pension schemes must equalise Guaranteed Minimum Pensions (GMP) between men and women.

This could affect you if some or all of your GMP was accrued between 17 May 1990 and 5 April 1997. The Trustee continues to work through the complexities of this change and will contact you in future to explain any rights and options you might have if you are impacted.

## Changes to RPI held back until 2030

As you may be aware from media reports, the Government and the UK Statistics Authority have decided that the Retail Price Index, also known as RPI (in the form in which it is calculated today) is going to be phased out because the authorities have concluded it is no longer a statistically or economically credible measure of inflation.

In very broad terms, the Government plan is that RPI will continue, but the calculation would be made closer to a different measure of inflation, known as the Consumer Prices Index Including Owner Occupiers' Housing Costs (CPIH). All else being equal, CPIH could report lower rates of inflation than old-style RPI.

The authorities can make this change to RPI from 2030 in any event, but have been consulting on whether to make the change before then, as early as 2025.

The change to RPI is potentially relevant to the Scheme and members because:

- Some benefits in the Scheme receive increases to help protect against the effect of inflation and some of these increases are calculated by reference to RPI, as published by the Government. Consequently, future increases could be affected by the Government's change to RPI. However, the exact effect depends on the precise benefit entitlement specified under the Scheme's rules and the law.
- Some Scheme assets are invested in investments linked to RPI. Again, these would be affected by any Government change to RPI and the Government is not proposing any compensation.

As a result, the Trustees have been monitoring this matter.

The latest development is that, as part of the November spending review last year, the Chancellor of the Exchequer and the UK Statistics Authority announced that the change will not be made from 2025 and will instead be held back until 2030.

Now that we have greater clarity on the proposals and the timetable for change, the Trustee and its professional advisers will be reviewing the position in more detail. We will provide a further update in a future newsletter or other communications, as needed.

# Investment principles updated to reflect climate concerns

You'll be pleased to hear that the Statement of Investment Principles, which sets out the Trustee's policies on how pension contributions should be invested, was updated this year to reflect the Trustee's commitment to managing Environmental, Social and Governance (ESG) factors and climate risks.

The Trustee believes that ESG factors (including but not limited to climate risk) will become increasingly important in investments in the future, although this importance will vary depending on the type of assets held.

The Trustee has already adopted a policy consistent with AXA's, and implements it where possible. Where it isn't possible, the Trustee adopts the best practice ESG considerations of its investment managers. The next steps for the Trustee will be to build a comprehensive ESG monitoring framework that encompasses all viable assets, and implementing a Scheme-specific ESG policy.

Please note that the Trustee may consider non-financial factors (such as ethical or moral beliefs) in their investment decision-making, but only to the point where they do not have a negative financial impact on the Scheme.

You can find more information in the Statement of Investment Principles in the Important Documents section at **pensions.axa-employeebenefits.co.uk/library/forms-and- guides**

# We want to hear your views

We'd love to hear what you think about our current communications, particularly as we plan to move to online newsletters next year. Let us know what we could do better and how you'd like us to keep in touch with you going forwards.

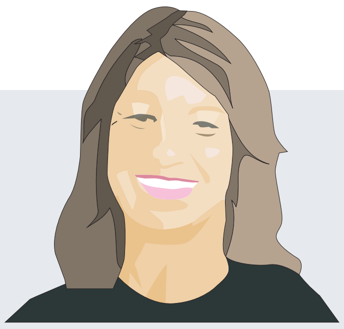
To have your say, email **pensions.uk@axa.co.uk** using the subject header 'Feedback'.

# Brexit update

As you will know, the transition period for the UK leaving the European Union (EU) ended on 31 December 2020.

On 24 December 2020, the UK and EU agreed a deal which contains new rules for how the UK and EU will live, work and trade together. The Trustees and their advisors continue to monitor the position.

# Dear Rebecca...



**Rebecca Shevill**, Head of Pensions Administration and Trustee Services, answers your pension questions.

### Q) What are the best three things I can do for my pension?

### Register for an online account

One of best things you can do to make it easier to manage your pension is to register for an online account. This means that you won't lose track of your pension and if you register an email address, it means we will be able to keep in touch with you even if you move house.

You can manage your pension through our Hartlink Online Portal which can be found at **hartlinkonline.co.uk/axa-employeebenefits**

You'll also find a retirement modeller that you can use to run retirement illustrations to make it even easier to plan for the future.

### Check you're on track

Once you've registered for an online account, it's easy to check how much you're on track to receive when you retire. If you also do this with any other retirement benefits you have, whether it's a personal pension or a pension you joined through another employer, you'll have a much clearer picture of what you can expect to receive when you retire. And don't forget to include your State Pension!

If you're not on track to have the retirement lifestyle you want, you can look into increasing your savings in your current pension scheme.

### Update your nominations

If you die before you take your pension, your spouse or dependant(s) may be eligible for some benefits. You can contact Capita using the details on the back page for more information about your death benefits and to understand what this would mean for you personally.

# Master Trust change for DC

Following a consultation earlier this year, AXA closed the Defined Contribution (DC) section of the Scheme to all future contributions from 30 September 2020. Members have been transferred to a Master Trust arrangement called LifeSight.

Following this decision, the Trustees decided to move all existing savings within the DC section over to LifeSight as well. This transfer impacted only those members with DC benefits and was completed in December 2020.

# The State Pension age is changing

Since April 2010, the State Pension age for both men and women has undergone radical changes. The most recent change, in October 2020, saw the State Pension age increase to 66.

The next change, to age 67, is expected to be happen between 2026 and 2028. The State Pension age is then expected to increase further, to age 68, between 2037 and 2039.

To find your State Pension age, and to get a forecast of your state pension, visit **www.gov.uk/state-pension-age**

# AXA UK Group Pension Scheme Summary Funding Statement

This is the latest Summary Funding Statement of the Defined Benefit section of the AXA UK Group Pension Scheme. It includes a recap of the results of the full actuarial valuation carried out as at 31 March 2018, and an update of the funding position as at 31 March 2020.

## Recap of the results of the 31 March 2018 actuarial valuation

As a reminder, the actuarial valuation has two main purposes. It looks at:

- whether there is enough money in the Scheme to pay benefits that members have earned to date (the 'funding position'); and
- how much money is needed to pay for benefits that will come into payment in the future.

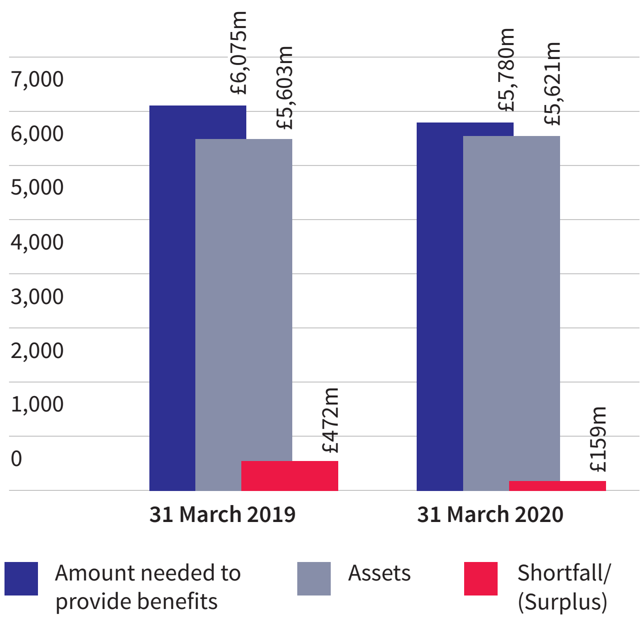
The latest formal actuarial valuation showed that, as at 31 March 2018, the assets of the Scheme (including the value of the asset-backed structure supporting it) could be expected to cover around 90% of its liabilities. This represented a shortfall of around £631 million. This was a slight increase in the shortfall compared to the last valuation as at 31 March 2015. However, the main reason for the increase was that the Trustee and AXA agreed to a stronger funding target as at 31 March 2018 than for the 2015 valuation.

The Trustee and AXA have agreed a recovery plan to eliminate the shortfall in the Scheme assets. From 2022 onwards, AXA will pay an additional £81 million into the Scheme each year. This will be adjusted depending on how the funding position progresses. Contributions of around £20 million per year in respect of the asset-backed structure supporting the Scheme will continue throughout.

We expect these contribution rates, and the above deficit payments, will next be reviewed as part of the 31 March 2021 full actuarial valuation. As part of the 2018 valuation, AXA agreed to extend the funding guarantees from AXA UK plc and AXA SA to the Scheme. These guarantees provide additional security to support the recovery plan if the Scheme's sponsoring employers are not able to make the contributions due, subject to certain limits.

## Change in funding position to 31 March 2020

An interim valuation was carried out to assess the funding position as at 31 March 2020. The chart below shows the results of the 2020 funding update, compared with the results of last year's funding update as at 31 March 2019.




The financial markets were particularly volatile at 31 March 2020 as they reacted to the COVID-19 pandemic. In particular, the expected return on certain assets was elevated at that time which was a key reason for the reduction in the shortfall of the Scheme versus the previous year. Since 31 March 2020, the shortfall has increased as these expected returns have returned to more normal levels.

The funding agreement reached as part of the 2018 valuation included a projection of the expected funding position over the next 10 years, which the Scheme would then be measured against, from 2021, to determine the contributions payable by AXA. The expected position at 31 March 2020 was that the Scheme would have a deficit of £578 million. The 31 March 2020 results show that the Scheme is in a better position as the deficit is lower than expected at £159 million.

The next formal valuation of the Scheme's finances will be carried out as at 31 March 2021 and we expect to be able to share the results of that valuation with you in 2022.

Finally, there have been no payments of surplus made to AXA over the last 12 months.

## What if the Scheme were to close?

Whilst the Scheme is a long-term venture, legislation requires the Trustee to look at the position if the Scheme were to be wound up. **Please note that there is no intention to wind up the Scheme at this time.**

If the Scheme did wind up, and the Company became insolvent and was unable to meet the shortfall, the Pension Protection Fund (PPF) would take over the Scheme and pay compensation to members. In this scenario, the Scheme's assets would be used to buy annuity (annual income) policies with an insurer. This could mean that you might not receive the full amount of pension you have built up, even if the Scheme is fully-funded according to the 'ongoing' valuation. **However while the Scheme remains ongoing, pensions will continue to be paid in full, even though there is a shortfall.**

If no new contributions were paid (other than those reasonably expected from the asset-backed structure supporting the Scheme), the additional amount needed to ensure that all members' benefits would be paid in full was around £2.0 billion as at 31 March 2020. If the Scheme were to be wound up, the Company would be required to pay the shortfall. It may be, however, that the Company would not be able to pay this amount.

You can find out more about the role of the PPF at **ppf.co.uk** or by writing to **The Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey CR0 2NA**.

## The Pensions Regulator

The Pensions Regulator has powers under the Pensions Act 2004 to intervene in the funding of a pension scheme. We are pleased to report that the Scheme has not been modified by the Regulator, is not subject to any directions from the Regulator, nor is it bound by a schedule of contributions imposed by the Regulator.

# Who's who

### Your Trustees are

**Andrew Bradshaw**
Ross Trustees Services Limited, Company-appointed

**Dianne Chua**
Company-appointed

**Stephen Yandle**
Company-appointed

**Ed Davis**
Member-nominated (appointed from 1 January 2021)

**Ken Smith**
Member-nominated

**Samantha Pitt**
The Law Debenture Pension Trust Corporation plc – Independent Trustee

# Contacts

If you have a question about your benefits in the Scheme, you can get in touch with Capita:

**Capita, PO Box 555, Stead House, Darlington DL1 9YT**
**axa-pensions@capita.co.uk**
**0370 1234 701**

The **AXA UK Pensions Team** is here to provide information and help you with your pension queries:

**Rebecca Shevill**, Head of Pensions Administration & Trustee Services

**John Manuel**, Pensions Manager

**Alex McMaster**, Pension Administrator

If you have any concerns that cannot be dealt with by Capita, or if you wish to give us your comments on or suggestions for this Report, please contact the AXA UK Pensions Team at **pensions.uk@axa.co.uk**.

# We're moving

On 1 April 2021 the address of AXA UK Plc's head office is changing from 5 Old Broad Street, London, EC2N 1AD to **20 Gracechurch Street, London EC3V 0BG**.

# Is your 'Expression of Wish' form up to date?

An 'Expression of Wish' form lets us know who you'd like to receive any pension benefits payable if you die – so it's really important you keep this updated.

If you need to nominate a beneficiary, or make changes to your existing nomination, you can download an 'Expression of Wish' form in the Forms section at **pensions.axa-employeebenefits.co.uk/library/forms-and-guides**



Date of publication: February 2021