

The AA logo is positioned in the top right corner of the page. It consists of the letters 'AA' in a bold, black, sans-serif font. The background of the entire page is a photograph of a winding asphalt road on a grassy cliffside overlooking the ocean. A red car is driving away on the road. A large, bright yellow geometric shape overlaps the right side of the image, serving as a background for the text.

**AA**

# Summary Funding Statement

December 2020

# **Funding your benefits**

**An update on the arrangements in place to support the benefits you have built up in the Scheme**

**December 2020**

## **Welcome to our new-look summary funding statement**

As Trustees, we work with the AA to make sure the Scheme has sufficient funds to pay the benefits that members have built up, whenever they need to be paid. This amount is the Scheme's 'funding target'.

To help us understand how our plans are developing, the Scheme Actuary carries a detailed check of the Scheme's finances at least once every three years – a process called a valuation. This process compares the funding target with the money that is building up in the Scheme from contributions and investment returns (its 'assets'). The valuation also helps us to identify and agree with the AA on the level of contributions the Scheme needs to receive to support the benefits that members have built up.

In the years between valuations, the Scheme Actuary provides us with less formal updates. These updates do not go into the same level of detail as a valuation, but they allow us to monitor changes in the funding level and take any steps that might be appropriate.

We share the results of our valuations and updates with you in our summary funding statements. The summary funding statement inside contains:

- the results of the Scheme Actuary's latest update, which is based on information as at 31 March 2020; and
- a recap of the results of the latest valuation as at 31 March 2019.

This document also contains other information we want to bring to your attention. The noticeboard section on page 4 includes a reminder about the dangers of pension scams and how you can keep your benefits safe, and the importance of making sure we hold up-to-date information about the people who matter to you.

If you have any questions about this update, or if you need more information and can't find what you need on the Scheme website, please get in touch. The contact details you need are on page 6.

**Steve Delo, Chairman of the Trustees**

# Summary funding statement

## The headlines

The Scheme's assets increased in value over the year to 31 March 2020. This was due mainly to the assets that are held to match the Scheme's benefits increasing as a result of falling long term interest rates and the contributions the AA paid during this period.

However, the amount needed to provide members' benefits rose by a greater amount, mainly because of falling long-term interest rates.

The result is that at 31 March 2020, the Scheme's funding level had gone down to an estimated 93%.

	Valuation	Update
	31 March 2019	31 March 2020
The Scheme's assets	£2,404 million	£2,500 million
The amount needed to provide members' benefits (the 'funding target')	£2,535 million	£2,695 million
The shortfall (or 'deficit')	£131 million	£195 million
The funding level	95%	93%

Following the consultation that the AA carried out with employed members in early 2020, the Scheme closed to the future build-up of benefits from 1 April 2020. The AA has written to all affected members about this change. All pension benefits accrued up to 31 March 2020 are unaffected and will increase, broadly in line with UK price inflation up to certain limits, until you start taking retirement benefits.

## The AA's support

Following the 2019 valuation, the Trustees and the AA agreed on a plan to help make up the funding shortfall by 31 July 2025.

Under this plan, the AA agreed to continue paying the deficit contributions agreed as part of the valuation at 31 March 2013.

- These annual contributions started from 1 November 2013 at £12.2 million and increase each year in line with the Retail Prices Index. At 1 April 2020, the annual contribution is £14.55 million.
- These contributions will continue up to 31 July 2025. If the Scheme still has a deficit at that time, the contributions will be made available up to 31 October 2038 (the original end-date agreed following the 2013 valuation).

These deficit contributions are being paid from an asset-backed funding arrangement which is secured against the assets of AA Brand Management Limited, which owns the AA group's intellectual property. If this funding arrangement is unable to pay any of the deficit contributions in full, the AA is required to pay the balance.

The AA also agreed to pay the following contributions (in monthly instalments):

- £8.25 million over the period from 1 April 2019 to 31 January 2020
- £0.8 million in respect of February 2020
- £10 million over the period from 1 April 2020 to 31 March 2021
- £11 million over the period from 1 April 2021 to 31 March 2022
- £12 million each year over the period from 1 April 2022 to 31 July 2025

From 1 February 2020, the costs of running the Scheme have been met from the Scheme's assets and not paid directly by the AA.

### **A different view**

The figures above assume that the Scheme continues in its current form. This is called the 'ongoing' basis.

However, as part of the valuation, we are required to look at the funding position if the Scheme ended and had been wound up on the valuation date. The Trustee is required by law to provide you with this information. This does not imply that there is any intention of winding up the Scheme.

This view of the funding position is known as the 'full solvency' basis and it assesses how much money would be needed to buy insurance policies to provide all members' benefits at once.

As a rule, this tends to cost more than gradually providing benefits into the future as they become due to members. This is because insurance companies are obliged to take a very cautious view of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. As a result, the full solvency funding level is generally lower than the ongoing funding level – which is the case in the Scheme.

- At the 31 March 2019 valuation, the statutory estimate of the solvency deficit was £1,481 million. This means that the amount needed to meet the members' benefits on the 'full solvency' basis exceeded the assets by this amount. This is equivalent to a funding level of 62%.
- The estimated amount needed on 31 March 2019 to ensure that all members' benefits could have been paid in full if the Scheme had started winding up (full solvency) was around £3,886 million. As mentioned above, the Trustee is required by law to provide you with this information.

If the Scheme was wound up and the AA was unable to meet the full cost of securing members' benefits with an insurance company, the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members.

There is more information about the PPF on its website at [www.ppf.co.uk](http://www.ppf.co.uk). Or you can write to: The Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey CR0 2NA.

## **Other information we need to give you**

The Scheme has not made any payments to the AA since our previous summary funding statement in summer 2020 which covered the year from 1 April 2018 to 31 March 2019.

The Pensions Regulator has the power to change the running of UK pension schemes, change the way they are funded or impose a schedule of contributions. The Regulator has never had to use its powers in this way for the Scheme. Learn more online at [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk).

## **Noticeboard**

### **Are you scam smart?**

Your pension benefits are valuable and – unfortunately – a lucrative target for scammers. The scammers' tactics are sophisticated and their 'offers' often appear convincing, which can make it difficult to know if you have been targeted.

The good news is that there is a lot of support available to help you spot the warning signs and steer clear of the scammers. This includes the resources on the Financial Conduct Authority (FCA) website, which also explains the steps to take if you think you have been scammed.

If you have not already done so, take a few minutes to visit the FCA website and equip yourself with the knowledge and tools you need to stay scam smart.

[www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)

The benefits that the Scheme provides are likely to be appropriate for most members. However, if you are a deferred member you have the option to transfer your Scheme benefits to another pension arrangement if you think this is the right decision for your circumstances.

If you are thinking about a transfer and your transfer value is £30,000 or over, you will be required to take advice from a regulated financial adviser before the Trustee can let the transfer go ahead.

When choosing an adviser, make sure they have adopted the Pension Transfer Gold Standard. This voluntary code of good conduct is designed to give you confidence that you are dealing with an ethical firm that will give you honest advice about whether you should transfer your benefits. There is more information about the Pension Transfer Gold Standard on the Personal Finance Society website.

[www.thepfs.org](http://www.thepfs.org)

(Search for 'Understanding the Pension Transfer Gold Standard')

### **Tell us who matters to you**

The Scheme was established to help you build up benefits for your retirement. However, in certain circumstances it will also provide benefits for the people who matter to you in

the event of your death. The actual benefits payable will depend on whether you are a deferred member or drawing your pension but may include a cash sum for your nominated beneficiaries and pensions for eligible dependants.

Where a cash sum is paid, the recipients will be chosen at the discretion of the Trustee. In this way the benefit can be paid tax free and does not form part of your estate for Inheritance Tax purposes. When the Trustee makes its decision, it will consider the beneficiaries you have nominated on your Expression of Wish Form (although your wishes are not binding on the Trustee).

If you have not yet logged in to the Scheme website to complete an online Expression of Wish form, please could we ask you to do this as soon as possible.

If you have previously completed an Expression of Wish form, please take a moment to check that the information on it is up to date. If you need to make changes, you can do this online.

If you have previously completed an Expression of Wish in paper form, the Trustee would still ask that you enter your wishes online.

**[www.AApensions.com](http://www.AApensions.com)**

(Click on the 'Secure login' button and follow the on-screen instructions.)

### **Your personal data**

We need to collect and use personal information about members and their survivors, so we can run the Scheme efficiently. Our formal Privacy policy explains how we collect, use and protect your personal information, as well as your rights in relation to this information. This is on the Scheme website.

**[www.AApensions.com/privacy-policy](http://www.AApensions.com/privacy-policy)**

In providing actuarial services to the Trustee, including the preparation of the summary funding statement on page 2, the Scheme Actuary (Aon Solutions UK Ltd) requires access to personal data about members and their dependants. The Data Protection Act governs how this data should be shared and stored. There is more detail about this online.

**<https://aon.com/unitedkingdom/retirement-investment/retirement-investment-services-privacy-statement.jsp>**

If you have any questions about your personal information and how it is used, please contact the Trustee in the first instance. Trustee contact details can be found in the Scheme booklet or regular communications such as this.

The Information Commissioner's Office provides general guidance about the use of personal data.

**[ico.org.uk](http://ico.org.uk)**

## **COVID 19 – market volatility and administrative services**

- You may be aware of the market volatility as a result of the pandemic, however, at the time of writing the funding level is broadly similar to the level that it was at the end of March 2020. The Trustee has deliberately diversified the Scheme's investment holdings over recent years which has helped mitigate the impact of the swings in market conditions
- The Scheme administrators have been working satisfactorily throughout the pandemic, maintaining a good service to Scheme members.

## **Newsflash**

As you may be aware from recent news, the AA has received an offer to be purchased by a consortium comprising of TowerBrook Capital Partners and Warburg Pincus International. The offer is being recommended to shareholders by the AA Board and will be subject to a vote in January 2021. The Trustees will continue to assess its impact on the AA's support for the Scheme going forward.

## **Contact points**

### **The Scheme website**

If you have any questions about the Scheme or your benefits, the Scheme website should be your first port of call.

[www.AApensions.com](http://www.AApensions.com)

### **The Scheme Administrators**

If you cannot find the information you need online, or want to speak to someone, please contact the Scheme Administrators.

Write to:

AA Pension Scheme,  
Aon Solutions UK Limited, PO Box 196  
Huddersfield HD8 1EG

Phone:

0345 850 6406 (you will need to answer some security questions)

Email:

[AA.pensions@aon.com](mailto:AA.pensions@aon.com)

**AA**