ISSUE 7 | Summer 2017

AA Pension Scheme
Your Future Now

CONNECTIONS

Welcome to the seventh edition of Connections

It has been another busy year for the Scheme. The biggest issue that the Trustee and Company have had to deal with was completing the Actuarial Valuation of the Scheme which happens every three years. This was calculated as at 31 March 2016 and the deficit in the Scheme had increased from the amount three years' previously. Full details of this can be found on pages four and five of this edition of Connections.

A new payment plan has been agreed which is intended to see the increased deficit identified at 31 March 2016 paid off over nine years whilst the deficit identified in 2013 continues to be paid off over a longer period. It should be of comfort to members of the Scheme to know that the Pensions Regulator worked with the Trustee on this occasion in its negotiations with the AA on the Scheme deficit plan.

As part of the negotiations between the Trustee and Company on the Valuation, it became evident that the Company would need to take some further steps to contain the build-up of future pension risks and a full consultation was held with affected members during Spring of this year. The outcome of that consultation and the resulting changes to the Scheme are explained in greater detail on pages six and seven of this edition of Connections.

We have also included in this edition a little more information about the Trustee and how its committees manage the Scheme.

Please take the time to read this edition of Connections as it very important that you understand the benefits of the AA Pension Scheme and how they will assist your financial future in later life.

As always, we are happy to hear comments and suggestions from our Scheme members about this newsletter or any other points relating to the Pension Scheme. You can contact me and the pensions team at **pensions@theaa.com** or on **0800 587 7877** (select three for pensions and three for general enquiry).

Mike Sullivan
Head of Pensions

THE TRUSTEE

The Trustee is responsible for the management of the Scheme. Currently eight Trustee Directors make up the Trustee Board, three are selected from nominations made by the Scheme membership with the remaining five appointed by the Company. The Current Trustee Directors are listed below.

		Investment Committee	Administration Committee	Audit, Risk and Compliance Committee
PAN Governance*	Company appointed	✔	✔	✔
Pete Foster	Member nominated	✔		✔
Steve Millman	Member nominated		✔	
Rob Warner	Company appointed	✔ Chair		
Ben Ryan	Company appointed			✔ Chair
Charlie Norman	Company appointed		✔ Chair	
Jay Stewart	Company appointed	✔		
Vacancy #	Member nominated			

** PAN Governance is an independent organisation providing trusteeship and governance services. It is represented by Steve Delo who is also the Chairman of the Trustee Board.*

 # A process is currently underway to seek nominations from the Active membership to fill this vacancy.

Running a pension scheme is complicated, therefore some of the responsibilities of the Trustee are delegated to Committees which can focus on specific aspects of the Scheme's management. We have three Committees and further information on each of these Committees is shown below. Each Committee must be made up of at least one Member Nominated Trustee Director and at least two Company Appointed Trustee Directors.

The Investment Committee

The Trustee appoints a number of specialist managers who invest the assets of the Scheme. With the support of the Scheme's Investment Consultant, Aon Hewitt, the Investment Committee is responsible for monitoring the performance of these managers. The Committee has the delegated authority to appoint or dismiss managers based on performance and the recommendation of the Investment Consultant. The Committee also monitors the Scheme's cash flow and ensures the appropriate mix of investments is maintained.

The Administration Committee

The day to day running of the Scheme is undertaken by Aon Hewitt ('Aon'). Aon are responsible for maintaining the Scheme's records as well as calculating and paying benefits to members. As a member if you have a question, which cannot be answered on the Scheme website (**www.AApensions.com**), you will likely need to contact Aon Hewitt. Their contact details are on the back page of this newsletter.

The Administration Committee oversees the services provided by Aon Hewitt, addressing any concerns or issues. This Committee is also responsible for any communications you receive from the Trustee, including this newsletter and the Scheme website.

The Audit, Risk and Compliance Committee

Each year the Trustee produces a fully audited set of Scheme accounts. These accounts are made available to members via the Scheme website. This Committee manages the production and audit of these accounts. The Committee is also responsible for ensuring the management of the Scheme is in accordance with current legislation and best practice.

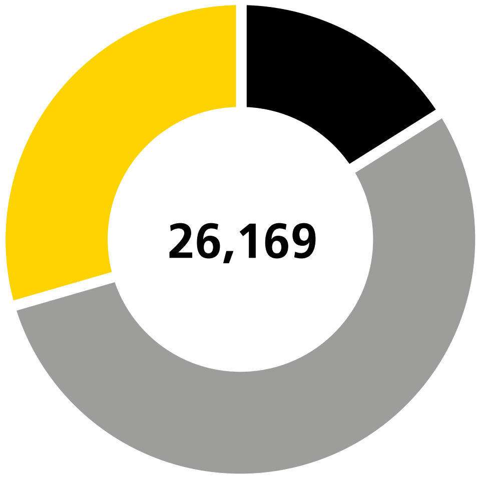
The Trustee recognises that the Scheme faces a number of potential risks. This Committee monitors both the risks the Scheme faces along with any mitigating actions the Trustee is taking to ensure these are effective and appropriate.

Scheme membership

The total Scheme membership as at 31 March 2016 was 26,169 and can be sub-divided into the following categories:

■	Active members	**4,204**
■	Members with deferred benefits	**14,247**
■	Pensioners *	**7,718**

* Includes 1,410 dependant members receiving a pension.



SUMMARY FUNDING STATEMENT

The most recent formal funding Valuation showed that, on 31 March 2016, the funding position of the Scheme was as follows:

Assets (excluding AVCs)	£1,835m
Amount needed to provide benefits	£2,201m
Surplus/deficit	(£366m) deficit
Funding level	83%
Statutory estimate of solvency deficit	(£2,178m) deficit
Statutory estimate of solvency ratio (excluding asset backed funding)	46%

The estimated amount needed on 31 March 2016 to ensure that all members' benefits could have been paid in full if the Scheme had started winding up (full solvency) was around £4,013m. The Trustee is required by law to provide you with this information. It does not imply that there is any intention of winding up the Scheme.

Change in funding position since the previous update in 2015

We previously provided you with the Actuary's annual update on the Scheme's funding position as at 31 March 2015 which showed that the Scheme's funding position had worsened since the previous update and the 2013 Actuarial Valuation. The Actuary has prepared his triennial formal Actuarial Valuation as at 31 March 2016 and the table below shows a side by side comparison of the estimated funding positions as at 31 March 2016 and as at 31 March 2015.

	31 March 2015	31 March 2016
Assets	£1,849m	£1,835m
Amount needed to provide benefits	£2,190m	£2,201m
Surplus/ deficit	(£341m) deficit	(£366m) deficit
Funding level	84%	83%

As you can see from the table above, the Scheme's assets have reduced slightly between 31 March 2015 and 31 March 2016, whilst the amount required to provide benefits has increased slightly. As a result, the funding deficit as at 31 March 2016 has grown.

The small reduction in assets is due to the weak performance of growth assets over the period only being partially offset by the contributions paid and an increase in the value placed on the Scheme's matching assets due to falling UK gilt yields. The fall in UK gilt yields also increased the value placed on the amount required to pay out benefits, but the impact of this has been largely offset by the changes to the assumptions agreed for the 2016 Actuarial Valuation. These changes were made to better reflect the circumstances of the Scheme.

How is the funding deficit going to be eliminated?

In order to eliminate the funding deficit revealed at the Actuarial Valuation as at 31 March 2016, the Trustee and the Company have agreed a Recovery Plan, whereby the Scheme will receive:

- The deficit contributions agreed as part of the 2013 Actuarial Valuation. These were £12.2m each year uplifted in line with RPI for 25 years from 1 November 2013 to 31 October 2038. At 1 April 2016, the annual contribution is £13.2m;
- £8m over the period 1 July 2017 to 31 March 2018, paid in monthly instalments;
- £8m over the year from 1 April 2018 to 31 March 2019;
- £11m per year 1 April 2019 to 31 March 2021, uplifted at 1 April 2020 in line with RPI; and
- £13m per year from 1 April 2021 to 30 June 2026, uplifted on 1 April 2022 and each subsequent 1 April in line with RPI.

The deficit contributions agreed as part of the 2013 Actuarial Valuation are being paid from an asset backed funding arrangement (the "ABF", which is secured against the assets of AA Brand Management Limited, which owns all of the AA group's intellectual property). In the event that the ABF is unable to pay any of the deficit contributions in full, the Company is required to pay the balance.

In addition, the Company will continue to pay contributions in respect of benefits accruing and pay most of the costs associated with the running of the Scheme (including the payment of PPF levies).

Statutory information

The Pensions Regulator can modify future accruals under the Scheme, give directions about working out its Technical Provisions or impose a Schedule of Contributions. I am pleased to say that the Pensions Regulator has not needed to use its powers in this way for the Scheme.

Legislation requires that we must tell you if there have been any payments to the Company out of Scheme funds since the date of the last Summary Funding Statement (in this case in 2016). We can confirm that there has not been any payment to the Company out of Scheme funds since that date.

How the Scheme operates

How is my pension paid for?

The Company pays contributions to the Scheme so that the Scheme can pay pensions to Scheme members when they retire. Active members also pay contributions to the Scheme, mainly via a Salary Sacrifice arrangement (AA Plus) and the Company pays these to the Trustee, as well as its own employer contributions. The money to pay for members' pensions is held in a single fund and invested in a variety of different assets with the aim of generating investment returns (i.e. interest on the money the Scheme holds). It is not held separately for each individual member of the Scheme.

How do we calculate the amount the Scheme needs?

The Trustee obtains regular Valuations from the Scheme Actuary of the benefits earned by members. Using this information, the Trustee comes to an agreement with the AA on future contributions.

The importance of the Company's support

The Trustee's objective is to have enough money in the Scheme to pay pensions now and in the future. However, the success of the Scheme relies on the Company continuing to support the Scheme because:

- The Company will be paying most of the future expenses of running the Scheme on an annual basis;
- The funding level can fluctuate and, when there is a funding shortfall, the Company will usually need to put in more money; and
- The target funding level may turn out to be insufficient, in which case the Company will need to put in more money.

What would happen if the Scheme started to wind up?

If the Scheme winds up, you might not get the full amount of pension you have built up, even if the Scheme is fully funded. However, whilst the Scheme remains ongoing, even though funding may temporarily be below target, benefits will continue to be paid in full.

If the Scheme were to start to wind up, the Company would have to pay enough into the Scheme to enable the members' benefits to be completely secured with an insurance company. It may be, however, that the Company would not be able to pay this full amount. If the Company became insolvent, the Pension Protection Fund might be able to take over the Scheme and pay compensation to members.

Further information and guidance is available on the Pension Protection Fund's website at: **www.pensionprotectionfund.org.uk**

Or you can write to:
Pension Protection Fund,
Renaissance, 12 Dingwall Road,
Croydon, Surrey CR0 2NA

Why does the funding plan not call for full solvency at all times?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers 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. By contrast, our funding plan assumes that the Company will continue in business and support the Scheme.

What is the Scheme invested in?

The Trustee's policy is to invest in a broad range of assets subject to asset class limits as follows:

Equities	8.0%
Fixed Interest Government Bonds	2.0%
Index-linked Government Bonds	12.0%
Multi Asset Credit	5.0%
Hedge Funds	7.5%
Property	8.0%
Opportunistic Property	7.0%
DCS*	50.0%
Cash	0.5%
Total	100%

** Assets in the Delegated Consulting Service (DCS) portfolios are invested in a wide range of assets according to the portfolios' mandate.*

Use of personal data

In providing actuarial services to the Trustee, including preparing this Summary Funding Statement, the Trustee, their adviser Aon Hewitt and the Scheme Actuary require access to personal data about members and their dependants. The Data Protection Act governs how the Trustee, Aon Hewitt and the Scheme Actuary use and store personal data. Members can find out more information about how their personal information is used in the provision of actuarial services at **www.aonhewitt.co.uk/privacy-statement**. Should a member have further questions regarding the processing of their personal information, they should contact the Trustee in the first instance (Trustee contact details can be found in the Scheme booklet or regular communications such as this). General guidance is also available from the Information Commissioner's website (**ico.org.uk**).

Where can I get more information?

If you have any other questions, or would like any more information, please go to the AA Pension Scheme website at **www.AApensions.com** and click on the AA Pension Scheme button.

If your query is not covered on the website please contact the Scheme's Administrators at the address on the final page of this edition of Connections.

SCHEME CHANGES

The AA is one of a very few PLCs that is still offering a Defined Benefit Pension Scheme to a substantial number of current employees with the Scheme only having been closed to new employees from 1 October 2016.

As part of the 31 March 2016 actuarial review of the financial health of the Scheme the Company proposed various benefit changes which, following a consultation process with current relevant members, resulted in various changes.

Below we have set out the key items that you need to know depending on which category of member you are.

If you are currently drawing your pension from the Scheme and were a member of the Final Salary sections of the Scheme (Staff, Management 1 or Management 2):	There are no changes to your benefits that are in payment.

If you are drawing your pension and were a member of the CARE section of the Scheme:	Your future pension increases, starting from the increase due on 1 April 2018, will be based on the Consumer Price Inflation index rather than the Retail Price Inflation index.

If you were a deferred member of the Final Salary sections of the Scheme prior to 30 June 2017 whose pension is not yet in payment (Staff, Management 1 or Management 2 sections).	There are no changes to your benefits unless you paid Additional Voluntary Contributions (AVCs) whilst you were a member of the Scheme. If you did and you left on or after 1 March 2015 you will not be able to take more than 25% of your AVCs as a cash sum when you retire. If you left the Scheme before 1 March 2015 this restriction already applies to you.

If you are a deferred member of the CARE section of the Scheme:	Your deferred pension will increase each year up to retirement and once your pension is in payment. In future and until further notice these increases will be in line with the increase in Consumer Price Inflation index rather than the Retail Price Inflation index. If you paid Additional Voluntary Contributions (AVCs) whilst you were a member of the Scheme and you left on or after 1 March 2015 you will not be able to take more than 25% of your AVCs as a cash lump sum when you retire. If you left the Scheme before 1 March 2015 this restriction already applies to you.

If you were a contributing member of the Final Salary sections of the Scheme (Staff, Management 1 or Management 2) on 30 June 2017:	Your Pensionable Service in the Final Salary section of the Scheme terminated on 30 June 2017 and your benefits earned up to that point will be treated as deferred benefits payable from your retirement age. You were automatically transferred to the CARE section of the Scheme for future service from 1 July 2017. You will earn pension in the CARE section at the $1/60^{th}$ accrual rate unless you completed a change accrual form which was received by Payroll by 15 August 2017. You were not able to pay any further Additional Voluntary Contributions (AVCs) to the Scheme from 30 June 2017. When you retire you will not be able to take more than 25% of your AVC fund (if you have one) as a cash sum at retirement. With the agreement of the Company and Trustee you may be able to apply to have your Final Salary benefits put in to payment from age 55 whilst still being a member of the CARE section of the Scheme (this is called flexible retirement). With the agreement of the Trustee you may request a transfer of your Final Salary benefits to another arrangement and continue to build up CARE benefits (this is called a partial transfer). A transfer will still be subject, by law, to members taking independent advice if the value exceeds a certain amount (currently £30,000).

If you were a contributing member of the CARE section of the Scheme on 30 June 2017:	Your pension contributions will have increased by 1.5% of Pensionable Pay from 1 July 2017 (unless you elected to change to a different accrual rate and submitted a change rate form that was received by Payroll by 15 August 2017). Your pension benefits earned up to 1 April 2017 will increase each year up to retirement and once your pension is in payment. These increases will be in line with the increase in an index selected by the Company. From the April 2018 increase, until further notice, the increase will be related to the change in the Consumer Price Inflation index rather than the Retail Price Inflation index. You were not able to pay any further Additional Voluntary Contributions (AVCs) to the Scheme from 30 June 2017. When you retire, you will not be able to take more than 25% of your AVC fund (if you have one) as a cash sum at retirement. With the agreement of the Company and the Trustee, you will be able to apply to have your CARE benefits put in to payment from age 55 whilst still working for the Company and will be able to join the AA Worksave Pension Plan for future service with the AA (this is called flexible retirement).

If you were a deferred member of the Management 3 section of the Scheme on 30 June 2017:	There are no changes to your benefits under the Scheme.

All of the above changes are subject to the exact definitions in the Pension Scheme Trust Deed and Rules (which will override anything stated above if different) and benefits may change further in the future either due to subsequent changes proposed by the Company or due to changes in legislation.

OTHER IMPORTANT INFORMATION

Below you will find a number of articles from the news section of the Scheme website. To see all the articles please visit **www.AApensions.com**

Taking a Transfer Value

If you are thinking of transferring your benefits out of the Scheme, you should consult a professional adviser, such as an Independent Financial Adviser, before taking any action. Furthermore, if the value of your Scheme benefits (referred to as a 'transfer value') is in excess of £30,000 you are required to provide evidence that you have taken independent financial advice before you will be permitted to transfer your benefits out of the Scheme. You should also be aware of pension scams and the risks attached. For further information and details of the steps to take if you think you are being targeted by a pension scam, please visit **www.pension-scams.com**

Protecting your data

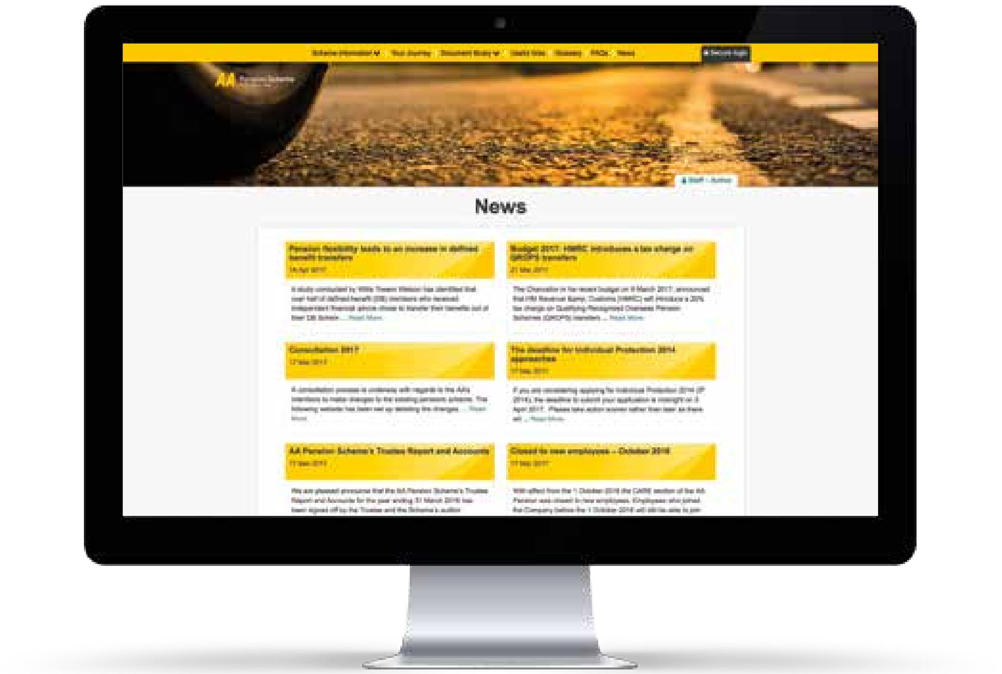
The current data protection legislation will be replaced in May 2018 by new regulations. The Trustee has refreshed its Privacy Statement for members, which explains how it uses your personal data. The Statement also sets out important information about your rights in relation to your personal data and the third parties with whom the Trustee may share your personal data in order to administer the Scheme. This Statement is now available on the Scheme website in the documents section. Please familiarise yourself with this.

Expression of Wish

No one likes to think about what will happen when they die but in certain circumstances lump sum benefits may be payable on the death of a member, deferred member or pensioner. Benefits on death from the Scheme are generally paid tax free and also do not usually form part of your estate for Inheritance Tax purposes. However, in order to avoid any delay in payment, the Trustee would encourage you to complete an Expression of Wish form. This form can be accessed from the AA Pension Scheme website at **www.AApensions.com** under the Document library tab.

If you have previously completed an Expression of Wish in paper form, the Trustee would still ask that you enter your wishes online to ensure they are up-to-date and can be reviewed by you in the future.

GOING DIGITAL



Over the last few years the Trustee has been developing the Scheme's digital communication strategy with the view to providing you with a simple to use, cost effective way to access all the information you need to know about your AA pension.

Why not visit **www.AApensions.com** and then click on the AA Pension Scheme button to access:

- Scheme information, including how your pension is calculated;
- Useful documents, including a member guide and the formal documents relating to the Scheme;
- A secure area where you can view information about your own pension entitlement; and
- General pensions news.

We have now also included a "Sign me up" section, here you can provide an email address and/or mobile phone number and we will let you know every time we add something new to the Scheme website.

BE PREPARED

The Trustee and Aon Hewitt, your pension administrator, take the matter of protecting your personal information very seriously indeed. That is why in accordance with best practice guidelines laid down by the Financial Conduct Authority, callers to Aon Hewitt will always need to be security checked.

These controls are in place to protect your personal information from being passed to unauthorised parties.

When you call the helpline, the following questions will always be asked:

- Full Name;
- Full Address; and
- Date of Birth.

...Plus one of the following additional questions:

- Your pension reference number;
- Date you joined the Scheme (year/month);
- Date you joined the Company (year/month);
- Date you left the Company (year/month if applicable);
- Amount of the last payment you received (to the nearest pound – pensioners only); or
- Date your pension commenced (year/month – pensioners only).

Protection of your confidential data is the Trustee's primary concern. If you cannot pass the data security questions, Aon Hewitt will not be able to divulge any information.

Contact details

If you have any questions about your Scheme pension, please contact the AA administration team at Aon Hewitt:

Write to:
AA Pensions team
Aon Hewitt
PO Box 196
Huddersfield
HD8 1EG

AA Pensions Helpline
0345 850 6406 (you will need to answer some security questions. Please see the 'Be prepared' section of this newsletter)

Email
AA.pensions@aonhewitt.co.uk