

Summary Funding Statement for the period ended 31 December 2019

Introduction

The Trustees of the Standard Life Staff Pension Scheme (the Scheme) regularly write to you as members to give an update on the Scheme's funding position; this is also a legal requirement. This latest statement, which is known as the Summary Funding Statement, provides you with an indication of how the Scheme's funding position has developed during the period 1 January 2019 to 31 December 2019. This provides you with a three-year rolling illustration of the fluctuating funding position going back to 31 December 2016. This includes the position of the last Full Actuarial Valuation as at 31 December 2016. It is worth noting that the Trustees are currently progressing the Full Actuarial Valuation as at 31 December 2019. This Statement includes an estimate of the updated position as at 31st December 2019 which has been derived by rolling forward the position at the last Full Actuarial Valuation as at 31 December 2016. The Trustees are required by law to conduct a Full Actuarial Valuation as at a date, every 3 years. The final results of the 2019 Valuation will be based upon updated data and therefore will be different to the estimated position indicated here.

Christopher Wheeler, BESTrustees plc
Chairman of the Trustees

How does the Scheme work?

Following closure of the Scheme to future Defined Benefit accrual, with effect from 16 April 2016, there are no future service contributions payable by the Company (or by employees) in respect of that section of the Scheme. However, the Company is still required to provide financial support and pay into the Scheme if the funding position would require this and also, where applicable, to meet ongoing Scheme running costs. This Summary Funding Statement only provides information on the Defined Benefit part of the Scheme - it does not cover any Defined Contribution benefits you might have. Information on any Defined Contribution benefits can be found on the Member Hub, at "Information on Scheme Investments" <https://www.slsps.co.uk/slsps/information-on-scheme-investments.page>

What is the funding position and how did it change during 2019?

At the Actuarial Valuation as at 31 December 2016, the Scheme's funding position (the value of the assets as a % of the value of the liabilities) was 117%. The Actuarial Report as at 31 December 2017 showed that the Scheme's funding position had increased to 121% with a further increase to 122% as at 31 December 2018. It is estimated that as at 31 December 2019 the Scheme's funding position has now increased to 126%. The increase in funding position over the year to 31 December 2019 is mostly due to investment returns outperforming the increase in the value of the liabilities.

	Actuarial Valuation as at 31 December 2016	Actuarial Report as at 31 December 2017	Actuarial Report as at 31 December 2018	Actuarial Update as at 31 December 2019
Assets (A)	£4,931m	£4,521m	£4,244m	£4,602m
Liabilities (L)	£4,215m	£3,731m	£3,469m	£3,657m
Surplus or (Deficit) (A-L)	£716m	£790m	£775m	£945m
Funding level (A/L)	117%	121%	122%	126%

The figures in the table above allow for a Scheme expense reserve, which was set at £47m at all the above dates. This is an estimate of the amount required to cover all future expenses of running the Scheme. This reserve value is being reviewed as part of the 2019 Valuation.

How do the Trustees know what the liabilities are and decide how much money is needed?

Every three years, the Scheme Actuary must carry out a full financial review of the Scheme - known as an Actuarial Valuation. The most recent completed valuation looked at the position as at 31 December 2016. The Scheme Actuary makes assumptions about the amount of each member's future pension payments and about how long each pension is likely to be in payment. They then sum up these future payments, using an appropriate discount rate, to estimate the value of the Scheme's benefits both now and in the future. This indicates how much money is needed to pay members' benefits. This amount is usually referred to as the Scheme's liabilities or technical provisions.

The Scheme Actuary then makes a calculation to assess any shortfall or surplus of the Scheme's assets over the liabilities; if a shortfall is identified, the Trustees and Company will agree what additional contributions are required to eliminate the shortfall. Since the Scheme closed to accrual on 16 April 2016, no more contributions are required to meet the cost of new benefit accruals. Any Company contributions due to the Scheme will be paid by Standard Life Employee Services Limited ("the Company").

As at 31 December 2016, the Scheme had a surplus (i.e. the assets exceeded the technical provisions), and so no regular contributions were required to be paid between then and the next Actuarial Valuation as at 31 December 2019. As mentioned in the introduction, the Trustees are currently progressing the 2019 Valuation.

The Trustees are currently targeting a funding model known as "self-sufficiency". This means that the Trustees are committed to holding an appropriate buffer above the technical provisions for security against longevity risk, hedging risk and market volatility. This buffer also provides the Trustees with the opportunity to grant discretionary pension increases. This target is expected to be achieved by excess investment returns since no company contributions are payable whilst the Scheme is in surplus.

Under certain circumstances and within certain parameters, the Trustees have sole discretion over setting discretionary pension increases to pensions in payment within the calculation of the liabilities. The discretionary increases under any other circumstance will require the consent of the Company.

Between Valuations, the Scheme Actuary prepares annual Actuarial Reports and Actuarial Updates, which are based on the assumptions used in the previous full Actuarial Valuation but updated for market conditions. The current estimate of the funding position as at 31 December 2019 reflects the 2016 Actuarial Valuation assumptions.

Coronavirus and the Standard Life Staff Pension Scheme

The Trustees, like everyone else, are monitoring the current Coronavirus pandemic. With their advisers, the Trustees are monitoring developments closely and how the pandemic may affect the Scheme.

For the latest position on the Scheme's operational and financial position in light of Coronavirus please visit the Member Communication Hub at www.slsp.co.uk and read the 'Coronavirus Update' which is available via a link on the home page.

What Company contributions were paid into the Scheme?

Over the year 1 January 2019 to 31 December 2019, as the Scheme was in surplus and closed to future accrual, no contributions were required to be paid. This is in line with the Schedule of Contributions in force during the year. There was no payment to the Company out of the Scheme funds during the period and there are no proposals for any such refund.

The Scheme's assets are invested by Standard Life Investments Limited ("SLIL") on behalf of the Trustees in a strategy which primarily aims to match the liabilities of the scheme with gilts. The Trustees have given SLIL the objective of increasing the value of the investments at a rate of 1.5% above the growth in liabilities each year, subject to acceptable levels of risk. The combination of past contributions plus investment income and growth is intended to be sufficient to pay the promised benefits. These investments are held in a common fund; separate funds are not allocated to you as an individual.

During the year to 31 December 2019, business as usual Scheme expenses, pension industry levies, and other fees for the Defined Benefit part of the Scheme were all met by the Scheme as there were sufficient excess funds available for this purpose in addition to the estimated amount of assets required to provide members' benefits.

What is meant by "the IAS 19 Funding Position" and is it relevant?

You may have seen reference in Standard Life Aberdeen's group accounts to the "IAS 19 Funding Position". This is an accounting measure by which Standard Life Aberdeen is required to express its pension Scheme liabilities in the accounts. It is not the same as the prudent basis upon which the Trustees' funding strategy is based.

What happens if the Scheme cannot continue?

Please note that there is no intention to wind up the Scheme but we are required by the Pensions Act 2004 to give you this information.

The current financial position assumes that the Scheme will continue with the ability to call on the Company's support if necessary. There are strict rules which prohibit the Company from withdrawing its financial support of the Scheme whilst it can afford to do so. In the event that the Company was no longer able to support the Scheme because it had become insolvent, the Trustees would have to consider two options:

1. Continuing the Scheme without the Company's support

No new contributions would be paid, but pensions would continue to be paid.

2. Winding up the Scheme

If the Scheme were to start to wind up, the participating employers would by law be required to pay enough into the Scheme to enable members' benefits to be completely secured with an insurance company. As these policies have guarantees, they are more expensive than providing benefits from the Scheme. The Scheme Actuary estimated in the latest Actuarial Valuation as at 31 December 2016 that an additional £290m would have been required to buy insurance policies and so that on this "buy-out" basis the Scheme was 94% funded. These figures reflect only the guaranteed benefits being secured (i.e. they exclude discretionary benefits). If the discretionary benefits were also to be secured, the estimated shortfall would have increased to £1,404m as at 31 December 2016, which represents a funding level of 78%.

The Scheme Actuary has stated that, in his opinion, the funding position was such that the Pension Protection Fund would not have been required to assume responsibility for the Scheme had it wound-up as at 31 December 2016.

Additional documents available

Additional documents which provide more information on the Scheme can be found on the Member Communication Hub - www.slsp.co.uk. This statement and previous versions of the Summary Funding Statement are also available on the Hub.

How can I get more information?

You can ask for copies of the Actuarial Report and the Statement of Funding Principles or the most recent Actuarial Valuation or the annual scheme accounts by writing to:

Mr Stephen Davidson,
Secretary to the Trustees of the Standard Life Staff Pension Scheme
Aon
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

or by e-mail to: standardlifetrusteesecretarialmailbox@aon.com

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