

Summary Funding Statement 2018

Based on 31 March 2017
Annual Actuarial Report



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SUMMARY FUNDING STATEMENT

The last ongoing funding Valuation

The most recent formal funding Valuation showed that, on 31 March 2017, the funding position of the Scheme was as follows:

Assets (excluding AVCs)	£2,253 million
Amount needed to provide benefits	£2,615 million
Surplus/deficit	(£362 million) deficit
Funding level	86%
Statutory estimate of solvency deficit as at valuation at 31 March 2016	(£2,178 million) deficit
Statutory estimate of solvency ratio (excluding ABF) as at valuation at 31 March 2016	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 £4,013 million. 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 2016

We previously provided you with the actuary's triennial formal actuarial valuation on the Scheme's funding position as at 31 March 2016 which showed that the Scheme's funding position had worsened since the 2013 actuarial valuation. The actuary has prepared his annual actuarial report as at 31 March 2017 and the table below shows a side by side comparison of the estimated funding positions as at 31 March 2017 and as at 31 March 2016.

	31 March 2016	31 March 2017
Assets	£1,835 million	£2,253 million
Amount needed to provide benefits	£2,201 million	£2,615 million
Surplus/deficit	(£366 million) deficit	(£362 million) deficit
Funding level	83%	86%

As you can see from the table above, the Scheme's assets have increased between 31 March 2016 and 31 March 2017, whilst the amount required to provide benefits has also increased, albeit by very slightly less. As a result, the funding deficit as at 31 March 2017 has very slightly decreased and the funding level has increased.

The increase in assets is mainly due to the Scheme's hedging assets increasing, primarily as a result of gilt yields falling. The growth assets also had a higher than assumed investment return and have been further increased by deficit contributions made as detailed below. The fall in UK gilt yields also increased the value placed on the amount required to pay out benefits.

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 2017, the annual contribution is £13.2M
- £8M over the period 1 July 2017 – 31 March 2018, paid in monthly instalments
- £8M over the year from 1 April 2018 – 31 March 2019
- £11M per year 1 April 2019 – 31 March 2021, uplifted at 1 April 2020 in line with RPI
- £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 2016 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 for all 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 AA out of Scheme funds since the date of the last Summary Funding Statement (in this case in 2017). We can confirm that there has not been any payment to the AA out of Scheme funds since that date.

How the Scheme operates

How is my pension paid for?

The AA 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 AA pays these to the Trustee, as well as their 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.

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 AA'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 AA continuing to support the Scheme because:

- The AA will be paying the future expenses of running the Scheme on an annual basis;
- The funding level can fluctuate and, when there is a funding shortfall, the AA will usually need to put in more money; and
- The target funding level may turn out to be insufficient, in which case the AA 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 AA 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 AA would not be able to pay this full amount. If the AA 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:
The 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 AA 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 with the Delegated Consulting Service (DCS) portfolios are invested in a wide range of assets according to each portfolios mandate

Leaving the Scheme

Important: If you are thinking of leaving the Scheme for any reason and transferring your Scheme 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 likely to be 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

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 paid tax free and also do not 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.

Use of personal data

The Trustee of the Scheme needs to collect and use personal information about its members and their survivors. Please refer to the privacy notice here [Privacy policy - AA Pension Scheme](#) which sets out how we collect, use and protect your personal information as well as your rights in relation to your information.

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 in the privacy notice referred to previously.

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 see if your query can be answered by the FAQs. A list of more detailed documents, which provide further information, is also included in the Members' Report.

If your query is not covered please contact the Scheme's Administrators at the address below:

AA Pensions Administration,
AON Hewitt, PO Box 196
Huddersfield HD8 1EG

AA pensions Helpline: 0345 850 6406 (you will need to answer some security questions)

Email: AA.pensions@aonhewitt.com

AA Pension Scheme website: www.AApensions.com