AA Pension Scheme
Your Future Now

Summary Funding Statement 2020

Based on 31 March 2019
Annual Actuarial Report

Based on 31 March 2019 Actuarial Valuation

SUMMARY FUNDING STATEMENT

The latest ongoing funding valuation

The most recent formal funding Valuation showed that, on 31 March 2019, the ongoing funding position of the Scheme was as follows:

Ongoing position	**As at 31 March 2019**
Assets (excluding AVCs)	£2,404 million
Amount needed to provide benefits	£2,535 million
Surplus/deficit	£131 million deficit
Funding level	95%

Change in funding position since the previous update in 2018

We previously provided you with the Scheme Actuary's annual update on the Scheme's funding position as at 31 March 2018 which showed that the Scheme's funding position had improved since the 31 March 2017 update and the 2016 actuarial valuation.

The Scheme Actuary has prepared his triennial formal actuarial valuation as at 31 March 2019 and the table below shows side by side comparisons of the estimated funding positions as at 31 March 2019 and 31 March 2018.

	31 March 2018	**31 March 2019**
Assets	£2,313 million	£2,404 million
Amount needed to provide benefits	£2,655 million	£2,535 million
Surplus/deficit	£342 million deficit	£131 million deficit
Funding level	87%	95%

As you can see from the table above, the Scheme's assets have increased between 31 March 2018 and 31 March 2019, whilst the amount required to provide benefits has decreased. As a result, the funding deficit as at 31 March 2019 has decreased and the funding level has increased.

The increase in assets is mainly due to:

i) The assets held to match the Scheme's benefits increasing as a result of falling long term interest rates,
ii) Better than expected investment returns from the Scheme's growth assets, and
iii) Payment of deficit contributions by the Company.

The amount required to provide benefits has increased as a result of falling long term interest rates. However, the impact of this has been largely offset by the changes to the assumptions agreed for the 2019 actuarial valuation; primarily a lower outlook for future life expectancy which has reduced the amount required to provide benefits. 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 2019, the Trustee and the Company have agreed a Recovery Plan. Based on this Recovery Plan it is expected that the Scheme would be fully funded by the end of July 2025. To achieve this the Company will pay the following contributions:

- 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. These deficit contributions are payable up to the end-date of the Recovery Plan, 31 July 2025 and, in the event that a deficit emerges after the end-date, the deficit contributions will be made available up to 31 October 2038. At 1 April 2020, the annual contribution is £14.55M
- £8.25M over the period 1 April 2019 – 31 January 2020, paid in monthly instalments
- £0.8M in respect of February 2020
- £10M over the period from 1 April 2020 to 31 March 2021, paid in monthly instalments
- £11M over the period from 1 April 2021 to 31 March 2022, paid in monthly instalments
- £12M each year over the period from 1 April 2022 to 31 July 2025, paid in monthly instalments

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.

Changes since 1 April 2020

Following the Pension Consultation in early 2020, no further future pension benefits will accrue in the Scheme with effect from 1 April 2020. All pension benefits already accrued 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 Company has paid contributions in respect of benefits that have accrued up to 31 March 2020. As there will be no future benefits being accrued from 1 April 2020, further contributions in respect of future pension benefit accrual will no longer be payable. Future costs associated with the running of the Scheme will be met from the Scheme assets with effect from 1 February 2020.

Solvency estimate as at 31 March 2019

The estimated solvency position as at the most recent formal funding Valuation is as set out below:

Solvency position	As at 31 March 2019
Statutory estimate of solvency deficit as at valuation at 31 March 2019	£1,481 million deficit
Statutory estimate of solvency ratio (excluding ABF) as at valuation at 31 March 2019	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. 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.

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 2019). 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. Up to 31 March 2020, active members also paid contributions to the Scheme, mainly via a Salary Sacrifice arrangement (AA Plus) and the AA paid 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. Following cessation of future benefit accrual from 1 April 2020, the only contributions payable to the Scheme from this date will be those outlined in the section above titled "How is the funding deficit going to be eliminated?"

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 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.ppf.co.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 as at 31 March 2019:

Liquid Return Seeking Assets Sub-Portfolio	**10.5%**
Listed Equities	5.0%
Multi Asset Credit	1.5%
Hedge Funds	4.0%
Cashflow Matching Sub-Portfolio	**20.0%**
Bulk annuities	15.0%
Gilts	5.0%
Core Property Sub-Portfolio	**7.0%**
Illiquids Sub-Portfolio	**12.0%**
Private Equity	4.0%
Opportunistic Property	4.0%
Property Debt	2.0%
Direct Lending	2.0%
Delegated Sub-Portfolio*	**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 deferred member or pensioner. Any lump sum death 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 indicating who you would like to receive any lump sum death benefit although your wishes are not binding on the Trustee. 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. The website reference for the privacy notice is www.AApensions.com/privacy-policy.

In providing actuarial services to the Trustee, including preparing this Summary Funding Statement, the Trustee, its adviser Aon Solutions UK Limited and the Scheme Actuary require access to personal data about members and their dependants. The Data Protection Act governs how the Trustee, Aon Solutions UK Limited 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 https://aon.com/unitedkingdom/retirement-investment/retirement-investment-services-privacy-statement.jsp.

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 Pension Scheme,
Aon Solutions UK Limited, 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

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