

# guaranteed pension fund update

july 2010

## Contents

### Introduction

#### Your questions answered

1. How is the Fund invested?
2. What bonuses have been added in the last six months?
3. What are the prospects for the Fund?
4. What are my alternative fund options?
5. Will the guaranteed value of my units be discounted on switching out of the Fund before my Selected Guarantee Date?
6. Can I use the Special Switching Service?
7. Where can I get additional information?

#### Appendices:

Form A – Switching Form

Form B – Special Switching Service Instruction Form

## introduction

Welcome to the July 2010 issue of these regular six-monthly updates for the Skandia Guaranteed Pension Fund (the 'Fund'). You hold the Fund as one investment option within your Skandia pension. The Fund has been closed to new investments since October 2002. It retains investments made before that date and continues to operate to best achieve its aims as set out in the next section.

Abnormal conditions continue to be experienced, particularly the exceptional market conditions that have followed the global credit crisis which was triggered by the sub-prime lenders. For many countries, including the UK, the credit crunch caused a recession and for those who have emerged from the recession, the exit has been fragile. In the past six months there have been large fluctuations in equity (share) prices over short periods of time. There has been an unprecedented period of low interest rates and, more recently, unparalleled concerns over a sovereign debt crisis – the risk that countries will default on their debts.

In the current circumstances, the Board of Directors of Skandia Life (the 'Board') has decided that abnormal or extreme conditions, referred to in previous Updates, continue to apply.

It has been a huge challenge to manage a fund that provides guarantees during these turbulent times while also balancing the interests of the many different types of investor in the Fund.

The rules of the Guaranteed Pension Fund set out the way bonuses are allocated in 'normal' conditions, and allow for the management of the Fund in 'abnormal or extreme' conditions. Under these conditions, the Board is continuing to exercise the discretion it has in the rules of the Fund to determine the bonus rates each month.

Despite these conditions, while the value of your units in the Fund will vary according to the period remaining to the guarantee date you have selected, it is pleasing to report that in recent weeks the average value of units (the value of the assets divided by the number of units in issue) has been close to their guaranteed value of £1 per unit. However, the challenge to manage the Fund is likely to continue for the foreseeable future. Information is updated monthly on the website and you will continue to be kept informed of how these challenges are being managed via these Updates that are sent to you around January and July each year.

In the circumstances, the Fund may no longer remain appropriate for you. We would, therefore, recommend that you review whether or not the Fund continues to meet your investment needs. There are other investment options available within your Skandia pension that you can choose to move your investments to, and these may be better suited to meet your goals.

Please read this Update carefully to assess your options. We recommend you consult your financial adviser to decide the course of action best suited to your needs.

## fund aims

The Fund has two aims:

- To guarantee £1 for each unit you hold on your Selected Guarantee Date.
- To maximise the growth through the allocation of bonus units subject to not adversely affecting the long-term solvency of the Fund.

This Update keeps you informed on how these aims are being met and the prospects for these aims in the future. Please see [question 7](#) for details of where to get additional information on the Fund.

## action required by you

You need to decide which of the following three options continues to best meet your needs:

1. you can choose to remain in the Fund and continue to enjoy the guarantee of £1 for each unit you hold on your Selected Guarantee Date, or
2. you can switch\* now to an alternative fund or funds that you consider may offer better prospects for growth but without any guarantee of future value – such a switch may take place at a value of less than £1 per unit depending on whether a discount applies (see [question 5](#)), or
3. you can use the Special Switching Service to pre-book a switch\* out of the Fund the next time you will receive an encashment price of £1 per unit (see [question 6](#)).

For general queries about your pension plan including the current unit position and the value of your investment on switching out of the Fund, please see the schedule in the letter that accompanied this Update or call 023 8091 6624.

Skandia can provide you with information on your investment but is unable to provide advice. We recommend that you consult your financial adviser on whether this investment is still suitable for your needs.

The following questions and answers have been produced to keep you up to date and to provide you with some information that might be helpful in reviewing whether investment in the Fund continues to meet your needs.

## your questions answered

### 1. How is the Fund invested?

The Fund invests in UK Government bonds (gilts) and stocks and shares (equities). The Fund is managed in such a way as to meet the aims set out above, ie to provide a guarantee of £1 per unit at the Selected Guarantee Date chosen by each individual investor and also to provide for the prospects of bonuses to be added.

As at 1 July 2010 the Fund held 70.2% in gilts and the remaining 29.8% in equities.

A more detailed breakdown of how the Fund is currently invested is available on our website at

<http://www.skandia.co.uk/funds/assetallocation.asp>.

The figures on this site are updated monthly.

To manage the Fund prudently Skandia must arrange the investments of the Fund so that when investors reach their Selected Guarantee Date, it is able to sell the necessary investments and provide the guarantee of £1 per unit, if possible, without impacting the remaining investors. This means that the Fund will hold fewer equities and more gilts as investors get closer to their Selected Guarantee Date.

### 2. What bonuses have been added in the last six months?

From April 2008 the Fund has been managed according to the abnormal or extreme conditions referred to in the literature and previous correspondence.

Under these conditions the Board exercises the discretion it has in the rules of the Fund to determine the bonus rates each month as opposed to applying the fixed rules set out in the literature.

There have been no bonuses added since October 2008.

The full bonus history of the Fund is available on our website at [www.skandia.co.uk/funds/bonus.asp](http://www.skandia.co.uk/funds/bonus.asp)

\* switches are free of any administration charge

### 3. What are the prospects for the Fund?

As explained in the introduction on page 1, conditions for world economies and stock markets continue to be very difficult.

There have been some very large swings in world stock markets over the past six months. Taking as an example the FTSE® 100 index (the leading index of the top 100 equity shares in the UK market), this index fell by 7% in January, rose by 15% over the next two months and then fell by over 15% in half that time. In just two weeks at the end of June the index fell by over 6%.

With just under a third of the Fund invested in equities (see [question 1](#)), the Fund is in a position to benefit in part from any recovery in equity markets. Following the 15% rise in the index referred to above, the Fund very nearly returned to parity (the point at which the value of the assets in the Fund is equal to the number of units in issue, so all units are valued at £1 each).

If parity had been reached, all units in the Special Switching Service would have been automatically switched out of the Fund into the Skandia Life Deposit Fund.

The two thirds of the Fund that is invested in UK Government bonds (gilts) has helped to protect the Fund. Following the 15% fall in the index referred to above, the average value of units in the Fund fell by less than 3%.

The gilts have a mixture of short, medium and long terms to match the profile of the guarantees that are provided by the Fund. The prospects for this part of the Fund will depend on how the markets react to the recent austerity budget and the new coalition Government's attempts to resolve the current financial crisis.

The Directors and the With-Profits Committee keep the situation under close review. They believe the abnormal or extreme conditions referred to in the introduction will continue to apply considering that there is only a limited chance of a significant improvement in the economic situation in the near future.

The fact that the Directors consider abnormal or extreme conditions continue to apply allows them to decide the bonus rates each month. Thus the Directors could decide to reinstate bonus payments when they consider that market conditions are such as to minimise any threat to the long-term solvency of the Fund, or they could decide to make one-off bonus additions.

It is important to remember that whenever the Fund is above parity at the end of a month (ie when the value of the assets is greater than the number of £1 units in issue) then a bonus will always be added regardless of whether the Fund is in abnormal or extreme conditions.

### 4. What are my alternative fund options?

The Skandia Guaranteed Pension Fund is one of a number of investment fund options within your Skandia pension and you can change, or 'switch', your investments from the Fund into one or more of those funds at any time. The funds available offer a wide variety of different investment styles and opportunities for growth and can be used to create a portfolio to meet your investment needs. It is important to note that any amount switched from the Fund will no longer benefit from a future guaranteed value on your Selected Guarantee Date\*\*.

If you wish to switch out of the Fund you need to complete the enclosed switch authority (Form A), indicating the alternative fund(s) you wish to invest in, and the percentage(s) you wish to switch to each. You can also obtain this form by logging on to [www.skandia.co.uk/funds/gpf.asp](http://www.skandia.co.uk/funds/gpf.asp) or from your financial adviser. We will value your units on the day we receive your switch instruction. There is no charge for switching, so the full amount,

subject to any relevant discount (explained in [question 5](#)), will be reinvested in your chosen fund(s).

For the sake of clarity, the enclosed switch authority includes a section where we ask you to acknowledge you understand that any amount switched from the Fund will no longer benefit from a future guaranteed value.

Once switched, you can then choose to make further switches between funds in the future, to best match your investment goals, giving you future flexibility. Your financial adviser will be able to help you choose the most appropriate mix of funds for your portfolio.

Of course, you can choose to remain in the Fund and benefit from the guaranteed value of £1 per unit on your Selected Guarantee Date\*\*. In addition, and dependent upon market conditions, you may receive further bonus unit additions.

### 5. Will the guaranteed value of my units be discounted on switching out of the Fund before my Selected Guarantee Date?

One of the fundamental principles of the Fund is that the total encashment value of all the units in the Fund is always equal to the total value of the assets held by the Fund. As asset values vary daily, the encashment value of each unit is calculated daily to ensure that the total assets of the Fund are always shared fairly between all the investors.

If you leave the Fund before your Selected Guarantee Date and the value of the assets held by the Fund is equal to the number of £1 units in issue then the Fund is said to be at parity and all units can be encashed for £1 each regardless of how far away you are from your Selected Guarantee Date.

*continued*

\*\* Unless you have a trustee investment plan, the guarantee of £1 per unit will also apply on your death before your Selected Guarantee Date.

5. Will the guaranteed value of my units be discounted on switching out of the Fund before my Selected Guarantee Date? (continued)

If you leave the Fund before your Selected Guarantee Date and the value of the assets held by the Fund is less than the number of £1 units in issue then a discount will apply and the encashment value of some or all units will be less than £1 each.

The following table compares the discounted values which would have applied for each £1 unit as at the date of this Update with each of the previous three Updates. Figures are shown for two indicative outstanding terms to the Selected Guarantee Date of 60 and 120 months. As you can see, these values have again improved since the last Update.

Date	60 months outstanding		120 months outstanding	
	Discounted value of contribution units	Discounted value of bonus units	Discounted value of contribution units	Discounted value of bonus units
02/02/2009	92p	81p	92p	66p
01/07/2009	95p	82p	95p	68p
04/01/2010	£1	84p	£1	84p
01/07/2010	£1	95p	£1	95p

Please remember that, as illustrated above, the presence of a discount and its size will vary from day to day depending on financial markets. Discounted values of units are calculated daily and, for both contribution and bonus units, you could get less than £1 per unit on leaving the Fund before your Selected Guarantee Date.

Please note that all the units you have built up in the Fund, including bonus units, are guaranteed to be redeemed for £1 each at your Selected Guarantee Date.\*\*

If you would prefer to switch out of the Fund without a discount applying to your units, you can use the Special Switching Service to pre-book a switch out of the Fund – see [question 6](#).

6. Can I use the Special Switching Service?

Yes. The Special Switching Service was introduced four years ago and since then it has been used by a large number of investors to switch out of the Fund, prior to their Selected Guarantee Date, at £1 per unit.

If you would like to use the Special Switching Service to pre-book a switch from the Fund into the Skandia Life Deposit Fund the

next time you will receive an encashment price of £1 per unit then please complete the enclosed Special Switching Service Instruction Form (Form B). You can also obtain this form by logging on to [www.skandia.co.uk/funds/gpf.asp](http://www.skandia.co.uk/funds/gpf.asp) or from your financial adviser.

7. Where can I get additional information?

Detailed information about the Fund including the options that are available to you is contained in the document [an investor's guide](#) sent to you when you first invested in the Fund. Copies are available from [http://www.skandia.co.uk/funds/investors\\_guide.asp](http://www.skandia.co.uk/funds/investors_guide.asp).

For up to date information about the Fund, copies of the latest annual reports from the Directors and from the With-Profits Actuary and the latest versions of our documentation including [the principles and practices of financial management \(PPFM\)](#) and [a guide to how we manage our with-profits fund](#) please visit [www.skandia.co.uk/funds/gpf.asp](http://www.skandia.co.uk/funds/gpf.asp)

For general queries about your pension plan including the current unit position and the value of your investment on switching out of the Fund, please see the schedule in the letter that accompanied this Update or call 023 8091 6624.

For details of the funds available to you for future investment please visit [www.skandia.co.uk/funds](http://www.skandia.co.uk/funds)

Please bear in mind that the value of investments may fall as well as rise, although units in the Fund have their value guaranteed at your Selected Guarantee Date.\*\* Past performance is not necessarily a guide to the future.

\*\* Unless you have a trustee investment plan, the guarantee of £1 per unit will also apply on your death before your Selected Guarantee Date.

[www.skandia.co.uk](http://www.skandia.co.uk)

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

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6. (Applies only if switch requested by the financial adviser)

The financial adviser:

- a) confirms that an Investment Management Authority or similar document ('The Authority') is currently in force authorising the signatory/signatories below to make investment decisions on behalf of the Planholder. The Authority (or a certified copy) has been sent to Skandia or is enclosed. The Authority has been drawn up in accordance with the rules established under the Financial Services and Markets Act 2000 or any other relevant statutory provisions. Where the financial adviser is acting with discretion, they have the appropriate permission from the Financial Services Authority.
- b) will indemnify Skandia for any losses arising from processing this form if the request is made without sufficient lawful and/or Planholder authority.

Print full name

Capacity  Planholder  Employer (see note 1)  Trustee   
 Financial adviser (see note 2)  Other

Signed  Date (dd/mm/yy)

Print full name

Capacity  Planholder  Employer (see note 1)  Trustee   
 Financial adviser (see note 2)  Other

Signed  Date (dd/mm/yy)

Print full name

Capacity  Planholder  Employer (see note 1)  Trustee   
 Financial adviser (see note 2)  Other

Signed  Date (dd/mm/yy)

Print full name

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 Financial adviser (see note 2)  Other

Signed  Date (dd/mm/yy)

Notes

1. EMPLOYER-SPONSORED PENSION SCHEMES  
Changes to fund choice for an executive or director's pension scheme should normally be requested by the scheme member or by the sponsoring employer as agent of the scheme member.
2. FINANCIAL ADVISER  
Financial adviser means the individual, partnership, company or other body authorised to make investment decisions under the terms of an Investment Management Authority.

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# guaranteed pension fund

## special switching service instruction form

Name

Policy number

Yes please, I would like to take advantage of the Special Switching Service referred to in the Update for the Guaranteed Pension Fund.

I understand that:

- At the first available opportunity after receipt of this completed form, providing I receive an encashment price of £1 per unit, Skandia will switch all my units from the Guaranteed Pension Fund into the Skandia Life Deposit Fund.
- Skandia will notify me as soon as practically possible after such a switch has taken place so I can consider whether switching from the Deposit Fund to other funds may be more appropriate for my circumstances.
- I can cancel this request at any time by writing to the address below.
- Skandia reserves the right to withdraw this Special Switching Service at any time and will provide at least four weeks' notice.

Signature

Date  (dd/mm/yyyy)

If you wish to use this service please complete the details above and return to:

Pension Service Team  
 Skandia  
 Skandia House  
 Portland Terrace  
 Southampton  
 S014 7ZW

[www.skandia.co.uk](http://www.skandia.co.uk)

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