

# guaranteed pension fund update

january 2010

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## introduction

Welcome to the January 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 investment since October 2002, but continues to hold investments made before that time, and operates to best achieve its aims. Although the UK is still officially in a recession, there has been a recovery in stock markets since our last update. Whilst this is a positive sign, the improvement hasn't taken us back up to the levels experienced in recent years. For this reason, we cannot return to regular monthly bonuses. However, the guarantee of £1 per unit held at your Selected Guarantee Date remains in place.

The rise in stock markets has, however, resulted in improved values should you decide to leave the Fund before your Selected Guarantee Date (see [question 4](#)).

You may wish to 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.

This guide updates you on how these aims are being met, and the prospects for these aims in the future.

## current conditions

The Fund rules set out the way bonuses are allocated in 'normal' market conditions, and allow for the management of the Fund in 'abnormal or extreme' conditions. As previously reported, the Fund remains in abnormal or extreme conditions and this continues to affect the prospects of the Fund.

Under these conditions, the Board of Directors of Skandia Life ('the Board') will continue to exercise the discretion it has in the rules of the Fund to determine the bonus rates each month.

## action required by you

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. You can choose to remain invested in the Fund and continue to enjoy the guaranteed £1 for each unit you hold on your Selected Guarantee Date or you can switch, free of any administration charge, to an alternative fund or funds but without any guarantee of future value. You should remember that any switches prior to your Selected Guarantee Date will take place at a value which may be less than £1 per unit depending on the discount which may apply to your holding. See [question 7](#) of this update for details on how to get an up to date value of your pension plan.

## your questions answered

### 1. How is the Fund invested and what has been the impact of the recent difficult market conditions?

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 held at the Selected Guarantee Date chosen by each individual investor and also to provide for the prospect of bonuses to be added.

As at 4 January 2010 the Fund held 65.8% in Gilts and the remaining 34.2% in equities.

The details of what the Fund is currently invested in can be obtained from <http://www.skandia.co.uk/funds/assetallocation.asp>

To manage the Fund prudently Skandia must arrange the investments of the Fund so that when an investor reaches their Selected Guarantee Date it is able to sell the necessary investments and provide the guarantee of £1 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?

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)

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 declared since October 2008.

\* Unless you have a trustee investment plan the guarantee of £1 per unit is also applicable on your death if this is before your Selected Guarantee Date.

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

You will no doubt appreciate that stock markets have been experiencing difficult conditions. Although markets have seen a recovery over the last six months, they are still below the levels seen in recent years. Restoration of bonus declarations will require further recovery in stock market values, the timing of which is extremely difficult to predict. The priority, as referred to earlier, must be to meet the guarantee of £1 for each unit at the Selected Guarantee Date chosen by each individual investor.

While all units built up in the Fund, including all bonus units, are guaranteed to be worth £1 at your Selected Guarantee Date\*, the existence of a discount (see [question 4](#)) decreases the scope for further bonus payments as any investment growth may be needed to cover the shortfall in the Fund's assets so that the guarantee is covered. However, the recovery in the last six months has meant that values have improved for those wishing to leave the Fund before their Selected Guarantee Date.

### 4. What are the current discounted values?

One of the fundamental principles of the Fund is that the total encashment value of all the units is always equal to the total value of the assets. 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 in 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.

If you leave the Fund before your Selected Guarantee Date and the value of the assets in 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 the units will be less than £1 each. If units are discounted, the closer you are to your Selected Guarantee Date, the closer the encashment value of each unit will be to £1.

The following table compares the discounted value 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 improved since our 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
02/06/2008	£1	81p	£1	81p
02/02/2009	92p	81p	92p	66p
01/07/2009	95p	82p	95p	68p
04/01/2010	£1	84p	£1	84p

Please remember that discount values are calculated daily.

Please note all units built up in the Fund, including all bonus units, are guaranteed to be worth £1 at your Selected Guarantee Date\*.

We must emphasise that, as illustrated above, the presence of a discount and its size will vary from day to day depending on financial markets. For both contribution and bonus units, on leaving the Fund before your Selected Guarantee Date, you could get less than £1 per unit.

\* Unless you have a trustee investment plan the guarantee of £1 per unit is also applicable on your death if this is before your Selected Guarantee Date.

## 5. 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 choose to change, or 'switch', your investments from the Fund into one or more of those funds. The funds available offer a wide variety of different investment styles 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 simply complete the enclosed switch authority, indicating the alternative fund(s) you wish to invest in, and the percentage(s) you wish to switch to each. 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 4](#)), 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.

Or 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 allocations.

## 6. Does the previously announced Special Switching Service still operate?

Skandia introduced a Special Switching Service that allowed you to set up a standing instruction to automatically switch any investment from the Fund to a cash deposit fund should the Fund reach parity and the encashment value of your units become equal to £1 each at any time before your Selected Guarantee Date. The service will continue to be available.

If you wish to use this facility you must complete a Special Switching Service Instruction Form and send it to us at the address shown on the form. You can 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 covering 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 [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 and the latest versions of our documentation including [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 call 023 80916624.

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 a pre-selected date. Past performance is not necessarily a guide to the future.

*\* Unless you have a trustee investment plan the guarantee of £1 per unit is also applicable on your death if this is before your Selected Guarantee Date.*

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

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