



Dear Plan Policyholder

I chair Standard Life Assurance Limited's ("SLAL's") Independent Governance Committee ("IGC"). We are an independent body and oversee the governance of Standard Life's Workplace personal pension plans covering:

2.3 million

individual policies for current
and former policyholders in

32,265

employer arrangements, with total assets
under management (AUM) of

£39.74 billion¹

All of the major UK Workplace personal pension providers have Independent Governance Committees. Our duty is to act solely in the interests of policyholders, and to independently review and challenge SLAL. Our most important duty is to review their products to see whether they are providing policyholders with Value for Money ("VfM").

We have just produced our fourth annual report. The full report runs to 85 pages including Appendices so we also provide a summary report. The reports which are attached explain the work we have completed in our fourth year.

In addition to our on-going monitoring of the VfM provided to Standard Life policyholders, we have focussed on three significant issues, which we cover in these reports. These are the efforts to modify pension strategies to make them more appropriate for a post pension freedoms world; our challenge as to the risk levels and implementation of Standard Life's core default strategies; and improving policyholder access and engagement.

This report also sets out how we assessed VfM and incorporated the results of these pieces of work into our assessment of whether or not SLAL's pensions policies provide VfM.

As our last report was being finalised, Standard Life Plc. announced its intention to sell SLAL to Phoenix Group. The transaction, which closed in August 2018, resulted in all of the activities overseen by the IGC transferring to the ownership of Phoenix Group. However, the personnel and operations which administer the SLAL workplace pensions business remain largely unchanged and continue to operate under the Standard Life brand.

If you are unsure of which type of pension plan you have with Standard Life (and therefore how you are affected by this review) please refer to your plan documentation, or phone Standard Life on 0345 266 5833.

If you would like to contact the IGC in relation to the report or anything else, you can email us from the IGC home page <https://www.standardlife.co.uk/c1/independent-governance-committee.page>

¹ Information correct as at 31 December 2018 (source: Standard Life)

As this report was being finalised, Phoenix Group informed the IGC of its intention to align the membership of the IGCs responsible for both its SLAL and Phoenix workplace pensions. As a result this will be my last report to you as Chair of the SLAL IGC. The report has not been redrafted and as such the decisions as to whether to continue the future activities of the SLAL IGC as laid out in the report will be the responsibility of David Hare, the new Chair of the Standard Life IGC.

I would like to thank my IGC colleagues and the many Standard Life employees whose co-operation has enabled the IGC to contribute to the improvement of VfM across the range of services provided to you in your workplace pension with Standard Life. I would also like to wish every success to David Hare, the new IGC Chair.

Thank you for reading this report.



Rene Poisson
IGC Chair



Policyholder's Report

1. Why an Independent Governance Committee?



In 2015, the Financial Conduct Authority ("FCA") required Standard Life and other pension providers to appoint Independent Governance Committees ("IGCs"). Their objective was to achieve better Value for Money ("VfM") for workplace contract pensions. The Committee must have at least five members, and a majority independent of Standard Life. We must review how Standard Life provide Workplace pensions; assess whether those pensions represent VfM; and, challenge Standard Life where we think they do not. Our authority for this is set out in a Terms of Reference document, based on the FCA's rules (see **Appendix 3** of the main report).

If we are not satisfied with Standard Life's products, proposals or their response to any concerns we raise, we are authorised to escalate those matters to the Standard Life Board; to discuss our concerns with the FCA; and/or to write to you.

In 2018/19 the IGC has been responsible for reviewing the value for money received by 2.3 million policyholders with £39.7 billion of investments across the pension schemes run by 32,265 employers

The IGC intends to meet at least four times a year. In the year to 27th March 2019, the IGC met on ten separate occasions.

2. Who are we?



Standard Life's IGC has five members. Four are independent of Standard Life, and were appointed after an open market search, using a market leading recruitment firm. Once appointed as Chair, I was involved in reviewing a long list of candidates and interviewing prospective independent members.

I am satisfied that the IGC, as formed, brings a wide range of relevant knowledge and understanding to our work.

The fifth member is employed by Standard Life. He is required to ignore Standard Life's interests when acting as a member of the IGC. Our names and backgrounds can be found in **Appendix 2** of the main report.

2.1 THE PHOENIX TRANSACTION

In February 2018, Standard Life Aberdeen announced that the Phoenix Group ("Phoenix") would acquire Standard Life Assurance Limited in return for a 19.99% shareholding in Phoenix and a payment of £2.28 billion. Phoenix is a specialist pensions business that has acquired closed pension books from UK Life companies and that prior to this transaction had administered some 5.6 million policies and £74 billion of assets under some 100 legacy brands. The entire pensions business including your investments and substantially all of the people, systems and assets were transferred to Phoenix. The transaction closed on August 31st 2018 and Phoenix now administers 10.4 million policies and assets of £240 billion across three business segments: UK Heritage, UK Open and Europe.

Phoenix tell us they intend to continue to invest and grow the workplace pensions business under the Standard Life brand, retain an operational hub in Edinburgh and maintain the quality of support and service available to employers and policyholders. Aberdeen Standard Investments (“ASI”) will be the strategic investment provider.

The IGC was concerned that the transaction involved moving 3,500 people across six buildings in Edinburgh and ensuring that on Day one customer service could continue seamlessly. We met with the new Chief Executive, Susan McInnes, and other senior members of her management team to understand their plans to achieve a smooth transition. The IGC considers the transition to have been well managed with no noticeable impact on the quality of overall service.

The IGC understands that Phoenix intends to align the membership of the Standard Life and Phoenix IGCs during 2019. As such this report will be the final report of the current Standard Life IGC.

I would like to express my thanks to my fellow members of the IGC and to those we have worked closely with in Standard Life over the last four years. I would also like to wish every success to David Hare, my successor as IGC Chair.

3. What did we do in our first three years

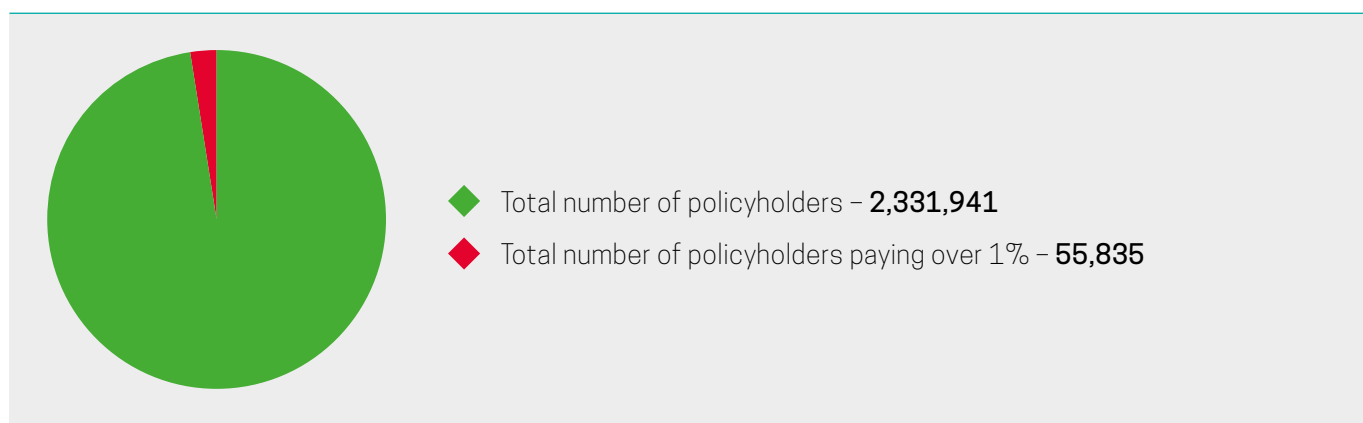


3.1 POLICY CHARGES

When we began work, of your 1,300,000 policies, 266,684 policies or 20.51% paid charges in excess of 1% for a variety of reasons². As a result of our discussions with Standard Life, your charges were reduced to a maximum of 1% unless you chose a higher price fund or reconfirmed your decision to pay a financial adviser through your charges.

We asked Standard Life to write to those of you investing in higher priced funds in October 2016 and August 2017, prompting you to reconsider whether those options remained the right choice for you and to ensure you remained satisfied that they continued to meet your needs.

As a result of these actions, of the 2,331,941³ of you currently paying charges as active or deferred policyholders, only 55,835 or 2.39% continue to pay charges in excess of 1%. 55,536 because you have chosen more expensive funds; 148 because you have chosen to pay for advice; and, 151 because you have chosen to pay for advice and have also chosen more expensive investment options.



² As at 31.12.15 – source Standard Life

³ As of 31.12.18 – source Standard Life

3.2 EXIT CHARGES

When the IGC began its work in 2015, Standard Life had some 2.6 million pension policies (of which 1.3 million were within scope for the IGC). Some 17,000 policies (1,201 within scope for the IGC) were potentially subject to Exit Charges in excess of 5%⁴. As a result of our discussions with Standard Life, charges for all 17,000 policies were capped at 5% from 13th January 2016 and subsequently reduced to 1% as at 15th February 2017.

3.3 DEFAULT STRATEGY EVALUATION AND DESIGN

The IGC, with the help of its advisers at Redington, has reviewed the effectiveness and value of the Standard Life and employer developed lifestyle strategies and the investment funds used in the construction of those strategies in each of the last three years.

In our reports we identified eight default strategies used by employers that used a single fund. We concluded that these did not provide VFM.

During 2017/18 Standard Life engaged with the relevant employers and their advisers to seek their support for change and wrote to those of you affected to offer you the opportunity to move to a more appropriate investment design.

As a result of that work, a small number of employer bespoke strategies have been closed. The IGC also raised concerns that the majority of employer designed strategies, which were designed for those purchasing annuities, were no longer appropriate because few policyholders purchased annuities. This has now been addressed by changes to the construction of the component funds used in the strategies and by modifications to the scheme rules which now allow Standard Life to make appropriate changes. The impact is set out below.

In our last report we challenged Standard Life to review the objectives of the defaults you invest in and how they invest to meet those objectives.

We are pleased that Standard Life intend to make changes during 2019 in response to our challenge. Details are set out in Section 2.5 and 3.1.2 of the main report.

3.4 SERVICE AND ACCESSIBILITY

The IGC has spent considerable time reviewing the service you receive from Standard Life across the full range of transactions you might make during your savings relationship with Standard Life. Standard Life has made significant improvements to: your ability to access assistance both by phone (through extended opening hours) and by secure messaging; both your access to and range of digital transactions; and the speed of transaction processing where that is not an automated task. We believe the service as a whole is robust and delivers well for you.

⁴ As at 31.12.15 – source Standard Life

4. What have we done in 2018/19



4.1 YOUR INVESTMENTS

In our 2016/17 report we reported that “the short term performance of the growth component of Standard Life’s risk based strategies had suffered” and that the IGC would “continue to monitor performance during 2017”. While 2017/18 performance improved, we continued to challenge Standard Life to consider the construction and implementation of the core default strategies to improve the Value for Money you receive.

In the light of disappointing performance of the core defaults in 2016 and 2018, the IGC has reviewed the longer term performance of Standard Life’s core default strategies.

While we are satisfied that over the longer term these have provided good outcomes for those who have saved consistently over their working lives (see Section 3.1.2 of the main report), we are pleased that Standard Life has recently announced that they will make a number of changes to the core defaults during 2019.

We consider these changes are likely to improve Value for Money over your savings lifetime and are satisfied that other than in respect of the issues highlighted above, the default investment strategies available to policyholders have been designed in your interests and continue to provide Value for Money.

2018 has seen the completion of a series of changes resulting from our engagement with Standard Life over the last four years.

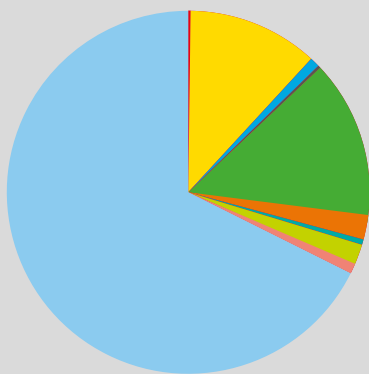
765,000 of you were invested in older style strategies which assumed you would purchase an annuity at retirement. Standard Life have amended the funds which are used in these strategies to make them more suitable for those choosing cash or drawdown at retirement. This will immediately benefit 65,000 of you already within ten years of retirement (with £600 million invested) and over time benefit a further 700,000 currently more than ten years from retirement.

The IGC also asked Standard Life to write to employers who had specified a default strategy targeting an annuity. 59 employers agreed to change their default to a Standard Life core profile. As a result, a further 34,300 policyholders are invested in more modern default strategies.

During 2019, Standard Life expects to modify 54,241 policyholders’ plans with AUM of £963.4 million pursuant to scheme rule changes.

Previously we have met with Share Action, Client Earth and a small number of Standard Life policyholders to discuss the approach to Environmental Social and Governance issues. We have continued our discussions with Standard Life and note that they are updating their Responsible Investment policy and require their managers to operate within that policy. The IGC would be happy to hear your views on this area of investment, which can be sent to us via the IGC web page at <https://www.standardlife.co.uk/c1/independent-governance-committee.page>

Top IGC insured funds by Workplace AUM, excluding With Profits and Bespoke Trust Based Funds*



- ◆ Standard Life Active Plus II Pension Fund – £32.4m (AUM)
- ◆ Standard Life Active Plus III Pension Fund – £2,339m (AUM)
- ◆ Standard Life Active Plus IV Pension Fund – £174.5m (AUM)
- ◆ Standard Life Passive Plus II Pension Fund – £43.1m (AUM)
- ◆ Standard Life Passive Plus III Pension Fund – £2,992m (AUM)
- ◆ Standard Life Passive Plus IV Pension Fund – £302.4m (AUM)
- ◆ Standard Life MyFolio Managed II Pension Fund – £65.9m (AUM)
- ◆ Standard Life MyFolio Managed III Pension Fund – £281.5m (AUM)
- ◆ Standard Life Managed IV Pension Fund – £174.5m (AUM)
- ◆ Standard Life Managed Pension Fund – £10,252m (AUM)

*Source: Standard Life as at 22.3.19

5. Your service from Standard Life



5.1 SERVICE TIMELINESS AND ACCURACY

The IGC has closely monitored developments over the last 12 months and is satisfied that the steps previously taken together with further process improvements during 2018 (particularly in respect of the settlement of claims for death benefits) have significantly improved transaction timeliness. We expect these improvements to continue into 2019 and will continue to keep timeliness and accuracy under review.

5.2 OPERATING HOURS AND CONTACT CHANNELS

In our previous reports we have challenged Standard Life to improve your ability to deal with them at a time and in a way that suits your needs. As a result, a number of improvements have been agreed and are being introduced. In particular, improvements have been made to enable you to access the online site more easily; secure messaging allows you to ask for what you require at any time, with a 24-hour turnaround for a response; and telephone access hours have been extended from 8am-6pm to allow contact outside of normal office hours for those of you unable to contact Standard Life while at work.

6. Your costs



The IGC has again sought to review the transaction costs taken within the investment funds used in your policies. We have received costs calculated in accordance with the requirements set out by the FCA for some of the investments used in your strategies and report on them in **Appendix 13** of the main report.

Unfortunately, not all investment managers yet provide the information we need to provide meaningful comparisons.

The IGC continues to press for that information so that we can benchmark Standard Life against other providers. We expect to be able to benchmark these costs once all pension providers publish transaction costs on a consistent basis using the FCA methodology.

7. Other matters



7.1 DATA SECURITY

The issues of Data Security and the protection of personal information have grown in importance over the last few years. The IGC has received in depth presentations during 2018 from Standard Life's Chief Information Security Officer ("CISO") and from the team responsible for compliance with the General Data Protection Regulation ("GDPR") which came into force in May 2018. We recognise that Standard Life are investing significant resources to ensure the safety of your assets and information. We will continue to review Standard Life's work on cyber security in 2019/20.

7.2 MEMBER MEETINGS

The Standard Life IGC held member meetings in both London and Edinburgh during 2018. Unfortunately, only a few of you attended the meetings, but those who did told us they found them useful and would attend future meetings. The IGC had intended to hold similar meetings in 2019 (this will now be subject to the decision of the new IGC as discussed below).

7.3 VULNERABLE CUSTOMERS

Many of you at one time or another may find yourself less able to deal with your financial affairs because of illness, bereavement or other issues. Standard Life have briefed the IGC on the significant investment that they are making in staff training (for which they have won an award), to help in these circumstances. If for any reason you feel that extra assistance would be helpful, you should explain this to those you are dealing with at Standard Life.

7.4 RETIREMENT

For those of you approaching retirement, the IGC has been briefed on the development and roll out of the new retirement webinar and seminar programmes. These together with the online retirement journey provide considerable assistance as you decide on how you wish to access your benefits. The IGC is pleased to note that in response to our challenge in last year's report there is no longer a £495 charge for a telephone retirement consultation.

8. Our conclusions



The IGC has concluded overall that Standard Life's various Workplace Personal Pension products continue to offer policyholders value for money; are of good quality; benefit from well-designed investment solutions (subject to the execution of the changes discussed above); have good administration and governance; and comprehensive policyholder support and have communications materials which continue to evolve to deliver a better service to policyholders.

IGC
March 2019
