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# The Guaranteed Pension Fund

## An Investor's Guide

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## Selecting your Guarantee Date

You select the guarantee date when you first invest in the Guaranteed Pension Fund. It is the date you want your units to be guaranteed to be redeemed for £1 each. This date does not have to coincide with the retirement age shown on your pension plan. Your unit statements will show the guarantee date you have selected.

The terms to the guarantee date are set out in the table below and must currently be at least two years. This applies on investing in the Guaranteed Pension Fund for the first time, on any switch into the Fund and following a change to the guarantee date.

	Minimum Term
Personal Pension Plan - PP1, PP2, PP3, PP4 and PP5	2 Years
Executive Pension Plan - EP1, EP2, EP3, EP4 and EP5	2 Years
Free Standing Pension Plan - FS1, FS2, FS3 and FS4	2 Years
Trustee Investment Plan - T11, T12, T13, T14 and T15	10 Years
Personal Pension Income Plan - DA2	10 Years
Personal Pension Income Facility - DA3	10 Years

Only investors who have a minimum two year term are able to make regular contributions, increments to regular contributions and single contributions up to the guarantee date.

If you reach your guarantee date but do not select a new date your fund will be transferred to the Skandia Deposit Fund or, in the absence of this fund, to one of a similar nature.

## Contribution Units

Initially, your contributions are allocated to units in the Guaranteed Pension Deposit Fund. Please see the terms of your pension plan for details of whether your contributions are allocated at the bid price or the offer price. Switches into the Guaranteed Pension Fund are allocated units in the Guaranteed Pension Deposit Fund at the bid price.

Guaranteed Pension Deposit Fund unit prices move in line with the return earned on deposit type investments. On the first working day of each month the bid value of your Guaranteed Pension Deposit Fund units is converted into £1 contribution units in the Guaranteed Pension Fund.

## Investments

Historically, over the long term, equities have provided the greatest investment returns. Although past performance is no guide to the future, Skandia expects this will continue and so the aim of the Fund is to invest predominantly in a wide range of equities throughout the world with the largest allocation in the UK.

Assets will be managed by fund managers specialising in the different types of asset held by the Fund and selected by Skandia from premier fund management groups. The Investment Committee (a committee of the Skandia Group which reports to the Board of Directors) establishes the criteria within which each manager operates and monitors their performance. The Actuary advises the Investment Committee on the proportion of the Fund that should be invested in fixed interest investments having regard to prevailing investment conditions and the nature of the liabilities within the Fund. In the event of adverse investment conditions, the proportion of the Fund invested in equities may need to be reduced, for a period, in order to support the guaranteed benefits.

Certain assets, such as those required to support the investment guarantees, will be selected by Skandia.

The Investment Committee can change the types of asset and the fund managers although this will not disturb the investment guarantees you have built up within the Fund.

### **Bonus Rates**

There are two bonus rates each month.

The minimum rate of bonus on contribution units is normally equal to the return that would have been received if the assets of the Guaranteed Pension Fund had been invested in a deposit fund.

If, at the end of the month, the value of the assets is less than the total number of units in issue then this bonus rate will be increased to half of the performance of the assets over that month if it is greater than the minimum.

Assets will be valued in accordance with regulations issued under the Insurance Companies Act 1982 and will include all the income and capital gains (realised and unrealised) and by the Fund after deducting the charges that are based on the value of those assets. The performance is the percentage change in the value of the assets excluding changes due solely to new money entering and leaving the Fund during the month.

If, after distributing the bonus on contribution units, the value of the assets in the Guaranteed Pension Fund is less than or equal to the total number of units in issue then there is no investment growth available to distribute and the bonus rate on bonus units for that month will be zero.

If, after distributing the bonus on contribution units, the value of the assets in the Guaranteed Pension Fund is greater than the total number of units in issue then there is investment growth available for distribution. The whole of the difference between the value of the assets and the number of units in issue is distributed by way of the bonus rate on bonus units. If appropriate, the number of contribution units eligible for the additional bonus (see Bonus Units) will be taken into account when calculating the bonus rate on bonus units.

If the resulting rate of bonus is more than three times the rate on contribution units the latter rate is increased. The bonus rates are calculated so that, in addition to distributing all the available investment growth, the rate of bonus on bonus units is equal to three times the rate of bonus on contribution units.

Details of current and past bonus rates are published regularly - please ask your Independent Financial Adviser for details.

As all the available investment growth is distributed whenever a bonus on bonus units is added, then after such a distribution, the value of the assets in the Fund will always be equal to the total number of units in issue.

The bonus rate on bonus units is expected, on average, to be greater than the bonus rate on contribution units. As the proportion of bonus units builds up over time, the expected investment return on a contribution increases the longer that contribution remains invested in the Fund without alteration.

Although the approach set out above (including the minimum rate of bonus on contribution units) may need to be modified in abnormal or extreme conditions to protect the solvency of the Fund, the guarantees (see Investment Guarantees) and the requirement to distribute all the available investment growth each month will always apply.

## Bonus Units

As the example shows, the two bonus rates are applied to your contribution and bonus units to give the number of new bonus units to add to your pension fund for that month.

### Example

Assume you have 2000 contribution units and 1000 bonus units.

If, in a month:

the bonus rate on contribution units = 0.7% and

the bonus rate on bonus units = 0.5%

then you would have:

$2000 \times 0.7\% + 1000 \times 0.5\% = 14 + 5 = 19$  bonus units added to your pension fund that month.

In months when the bonus rate on bonus units is greater than the rate on contribution units you will receive additional bonus units. As the following example shows, the difference in the rates is applied to a proportion of your contribution units.

### Example

Assume you have 2000 contribution units and 1000 bonus units and that 1500 of your contribution units are eligible for the additional bonus.

If, in a month:

the bonus rate on contribution units = 0.7% and

the bonus rate on bonus units = 1.1%

then you would have:

$2000 \times 0.7\% + 1000 \times 1.1\% = 14 + 11 = 25$  bonus units plus an additional

$1500 \times (1.1\% - 0.7\%) = 1500 \times 0.4\% = 6$  bonus units

making a total of 31 bonus units added to your pension fund that month.

The proportion is assessed separately for each contribution and is equal to 3% multiplied by the term to your guarantee date at the time that contribution is invested in the Fund. For terms of more than 30 years the proportion is 90%. In this way the longer your investment term the greater your prospects for investment growth.

Contribution units eligible only for the bonus rate on contribution units will be shown on your unit statements as contribution 'A' units. Contribution units eligible for both the bonus rate on contribution units and the additional rate of bonus will be shown as contribution 'B' units.

You can call us on 0800 181396 for the up-to-date position - the call is free of charge.

## Investment Guarantees

Your units are **guaranteed** to be redeemed for £1 each at the guarantee date you have selected, or in the event of your earlier death, regardless of any setbacks in investment markets at that time.

Payments expected to be made in this way on death are included with maturities (that is those reaching the guarantee date they have selected) when determining the extent of the guarantees to be met by the Fund. Deaths in excess of those expected when the value of the assets is less than the number of units in issue will give rise to an additional payment from the Fund to meet the guarantees and vice versa. Any such differences will be reflected in the bonus rates.

The guarantee on death means if you invest solely in the Guaranteed Pension Fund then, at any point in time, the total number of units you hold will also be the minimum amount payable on your death under your pension plan.

Deaths during a month at a time when the value of the assets is greater than the total number of units in issue will receive more than £1 per unit. The amount in excess of £1 per unit will be in lieu of the bonus accrued during the month up to the date of death.

In order to provide extra protection for your investment guarantees, Skandia has entered into an agreement with Skandia Liv, which is also owned by Skandia Insurance Company Limited. Established in 1872, Skandia Liv underwrites the fund and in adverse investment conditions will, if necessary, provide additional support to ensure that the investment guarantees are met. Skandia will continually review its protection strategy to ensure the security of your guaranteed benefits and may enter into new or different agreements in the future.

## Charges

An annual management charge of 0.75% per annum and a fund management charge of 0.45% per annum are deducted from the assets in the Fund on a daily basis. The fund management charge meets the fees charged by the fund managers and other administration costs directly associated with the management of the Fund.

The bid price of units in the Guaranteed Pension Deposit Fund is 5% less than the offer price of units.

Skandia reserves the right to increase the fund management charge in line with future changes in the underlying external fund management charges and other administrative costs relating directly to the Fund, and if such a change becomes necessary, we will notify you at the first practicable opportunity. An important feature of the Guaranteed Pension Fund is that, unlike some other funds that also provide guarantees, it is not possible to deduct from the bonuses expense overruns, that is, expenses incurred that are in excess of those specified, or the costs of any other business activities.

Under the terms of your pension plan the cost of any optional benefits you have selected and any other administration charges are met by cancelling units. In these circumstances, units in the Guaranteed Pension Fund will be cancelled for £1 each.

## Leaving the Fund before your Guarantee Date

You can encash units before their guarantee date by switching to other Skandia funds, on taking a transfer value to another approved pension arrangement, on taking benefits earlier than the guarantee date and on transferring units to a Personal Pension Income Facility. This particularly needs to be borne in mind if you have selected the Guaranteed Pension Fund to provide withdrawals and tax-free cash from a Personal Pension Income Facility or Personal Pension Income Plan. Depending on the outstanding period to Selected Guarantee Date, encashments may be subject to a discount.

Providing, at that time, the value of the assets of the Fund is equal to the total number of units in issue then your units will be redeemed for £1 each. This applies regardless of how far away you are from your guarantee date.

Normally, encashments during a month at a time when the value of the assets is greater than the total number of units in issue will receive more than £1 per unit. The amount in excess of £1 per unit will be in lieu of the bonus accrued during the month up to the date of leaving the Fund.

If you encash units before the guarantee date you have selected at a time when the value of the assets of the Fund is less than the total number of units in issue then a discount rate will apply and your units will be redeemed for less than £1 each. This is to protect the interests of those remaining in the Fund at such a time.

### **Discount Rates**

There are separate discount rates for contribution units and bonus units. The value of your units on encashment before their Selected Guarantee Date when a discount rate applies depends on the term outstanding to that guarantee date and level of the discount rate.

Discount rates are calculated so that if everyone left the Fund the discounted value of all the units would be equal to the value of the assets. The rates are kept under constant review as asset values change regularly. Bonus units are discounted first. Discount rates will normally be subject to a maximum of the gross redemption yield on medium term gilts.

Discount rates are applied over the term outstanding to the guarantee date. For example, if the discount rate on bonus units was 4% per annum then the value of each bonus unit would be £1 divided by 1.04 for each year outstanding to the guarantee date.

The table shows the amount (rounded to the nearest 1p) a unit would be redeemed for under various combinations of discount rate and term outstanding to the guarantee date:

Discount rate (% per annum)	Term outstanding (in years) to the guarantee date					
	0	5	10	15	20	25
0	£1	£1	£1	£1	£1	£1
2	£1	91p	82p	74p	67p	61p
4	£1	82p	<b>68p</b>	56p	46p	38p
6	£1	75p	56p	42p	31p	23p
8	£1	68p	46p	32p	21p	15p
10	£1	62p	39p	24p	15p	9p

For example, if the discount rate applying to bonus units was 4% per annum and the units were encashed 10 years before their guarantee date then bonus units would be redeemed for 68p each.

As the table shows, for a given discount rate, the further away you are from the guarantee date at the time of encashment the greater the discount will be. Conversely, the closer you are to the guarantee date at the time of encashment when a discount applies, the closer the value of your units will be to £1 each.

### **Changing your Guarantee Date**

You select the guarantee date most appropriate to your circumstances when you first invest in the Guaranteed Pension Fund. You can change this date at any time in the future to meet your changing circumstances and this can result in a change to the number of contribution and bonus units you hold.

If you bring your Selected Guarantee Date forward and both the discount rates are zero then there will be no change to the number of contribution and bonus units you hold and the guarantee will apply at the earlier date. Otherwise units are discounted over the period the guarantee date is brought forward.

For example, if the guarantee date is brought forward 5 years from age 65 to age 60 and the discount rate on bonus units is 1.5% per annum then 500 bonus units with a guarantee date of age 65 would be reduced to 500 divided by  $(1.015)^5 = 464.13$  bonus units with a guarantee date of age 60.

The proportion of your contribution units eligible for the additional bonus is recalculated when the guarantee date is brought forward. The original number of contribution units eligible for the additional bonus is multiplied by the ratio of the new term to the old term to the guarantee date. In each case the term is measured from the date of the change and is subject to a maximum of 30 years.

If you extend the term to your Selected Guarantee Date then some of your bonus units will be converted to contribution units, the total number of units you hold will remain unchanged.

For example, if your current age is 40 and the guarantee date is extended from age 60 to 65 so the outstanding term is extended from 20 years to 25 years then 500 bonus units with a guarantee date of age 60 would be reduced to:

$$500 \times \frac{20}{25} = 400 \text{ bonus units with a guarantee date of age 65.}$$

The number of contribution units would be increased by  $500 - 400 = 100$  units and you would have your guarantee date changed from age 60 to age 65. The reduction in bonus units is equal to the increase in contribution units so the total number of units you hold remains unchanged.

The proportion of your contribution units eligible for the additional bonus is recalculated when the guarantee date is extended. The proportion is made equal to 3% multiplied by the term to the new guarantee date. The term is measured from the date of the change and is subject to a maximum of 30 years.

Skandia reserves the right to disregard the change to the guarantee date if units are encashed within 90 days of such a change.

**Your Independent Financial Adviser will always be pleased to discuss with you any aspect concerning the operation of the Fund, particularly selecting the guarantee date most appropriate to your personal circumstances.**

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To avoid misunderstandings, the Skandia Group may record telephone conversations.

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