ALLIED DOMECQ PENSION FUND

Rothesay Life Buy-In
Questions & Answers

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1. What decision has the Trustee made?

The Trustee of the Allied Domecq Pension Fund ('the Fund'), after consulting with Pernod Ricard SA ('the Company'), has taken an important step to provide additional protection for your benefits by making a significant investment in an insurance policy with a UK regulated insurance company, Rothesay Life. This investment is known as a 'buy-in'.

2. What happens now?

We don't expect you to see any changes as a result of purchasing the buy-in policy. All members' benefits will continue to be administered by Barnett Waddingham, on behalf of the Trustee, and they will continue to be paid in line with the Fund rules in the same way as they were before.

a. Will my pension still be paid on the same day?

Yes. If you're already being paid a pension, Barnett Waddingham will carry on making payments to you in exactly the same way as before and on the same dates.

b. What if I've not yet started drawing my pension?

You'll continue to be able to view your pension records and obtain benefit quotations using BWebstream in exactly the same way as before and you'll also have the same range of benefit options.

(i) Will I still be able to take a tax-fee cash sum (pension commencement lump sum) on retirement?

Yes. You'll still be able to exchange part of your pension for a tax-free cash sum. Details will be given to you as part of your pension quotation.

(ii) Can I still transfer out my benefits?

Yes. You may still choose to take a transfer value from the Fund to another authorised pension arrangement of your choice. As before, you need to apply to Barnett Waddingham for a transfer value quotation, or you can login to the BWebstream portal for a quotation. As is currently the case, you won't have the option of taking a transfer value once you have started to receive your pension.

(iii) Is it still possible to take early retirement?

Yes. If you've not already started to receive your pension, you may generally do so at any time between age 55 and your normal retirement date, or later if you prefer. If you draw your pension prior to your normal retirement date, it'll be reduced to reflect the longer expected period of payment (as is currently the case).

c. What happens if I have Additional Voluntary Contribution ('AVC') funds?

Again, there is no change. Barnett Waddingham is continuing to administer your AVCs in exactly the same way as before.

d. What happens if I die?

Should you die, either before or after you begin to draw your pension, any death benefits due to your dependants or beneficiaries will be paid in line with the Fund rules, as they were before.

e. Will I experience any delays in benefit quotations as a result of the buy-in?

There's likely to be a short transitional period during which the new arrangements with Rothesay Life bed down in the background. Barnett Waddingham will do their best to minimise any delays, but if there's a high volume of extra queries this will inevitably take some time for them to work through.

If you have a particularly urgent request, please do make that clear when you raise your enquiry, but otherwise do bear with us whilst things settle in.

3. How does a buy-in work?

Put simply, the Trustee has paid a premium from its assets to Rothesay Life to purchase an insurance policy, which is designed to cover the vast majority of the Fund's pension liabilities.

In return for this premium, Rothesay Life guarantees that it will make monthly payments to the Fund to cover the majority of pensions that are due from the Fund both now and in the future. We also continue to hold some residual investments to ensure that we have enough money in total to cover all of the benefits that are due and to pay for our day-to-day running costs and other ongoing projects.

In practice, we'll continue to pay benefits to all of our members and so you'll see no change. Barnett Waddingham will continue to act as our administrator and so they'll still be your main point of contact.

4. Who is Rothesay Life?

Rothesay Life is a leading provider of pension policies in the UK. It's approved by the Prudential Regulation Authority ('PRA') and regulated by both the Financial Conduct Authority ('FCA') and the PRA.

You can read a bit more about Rothesay Life in their information leaflet, which you can find online at *www.allieddomecqpensions.co.uk.*

5. Why is the Trustee taking this step?

Over the last few years, the Fund's financial health and strong funding position has allowed us to follow a strategy of reducing risk by aligning our investments more closely with the pension benefits that we need to pay to members.

This buy-in policy helps to increase the Fund's protection against risks such as poor investment returns and paying pensions for longer than currently expected, which improves the financial security of all members' benefits.

6. How did the Trustee make this decision?

We took detailed professional advice from specialist advisers as well as our actuary, legal adviser and investment adviser about whether to proceed with a buy-in. We conducted a very thorough review of the insurance market and ran a competitive selection process, which resulted in us choosing Rothesay Life. This included a separate and comprehensive due diligence exercise, where an independent expert analysed and advised upon the financial strength and resilience of Rothesay Life as our selected insurer.

Taking all of that into account, and after consulting with the Company, we're satisfied that proceeding with the buy-in policy represents the most appropriate way to further secure all members' benefits.

7. How is a buy-in different to an individual annuity?

An individual annuity provides an individual with a regular pension for life in exchange for a pot of retirement savings.

By contrast, the buy-in policy is a single investment held by the Trustee that provides a level of income on pre-agreed terms. It's often called a 'bulk annuity' because it relates to a group of members, rather than belonging to specific individuals.

8. Will my benefits still be secure?

Yes. The Fund relies on its investment assets and the backing of the Company. Currently, in order to generate the investment returns required to pay member benefits, the Trustee has to take some investment risk. The Fund is also exposed to other risks such as the longevity of our members and running expenses.

The buy-in policy helps the Fund minimise the risks that it is exposed to and so it reduces the chance of having to ask the Company to make good any funding shortfalls.

Insurance companies are regulated by the FCA and the PRA. The insurance regulatory framework is set up with strict reserving requirements and oversight from the PRA to provide a secure environment for providing pension benefits over the long term.

Like a pension fund, an insurer also relies on its existing assets as the primary security for its policyholder's benefits. However, unlike a pension fund, insurers are not allowed to run any deficit and they are also required to hold a solvency margin over and above the assessed cost of policyholder benefits, designed to withstand the impact of any adverse events. Insurers also have access to and typically make use of reinsurance arrangements to help manage their risks.

Overall, we've concluded that investing in a buy-in policy with Rothesay Life is in the best financial interests of members, because it provides additional security for the Fund's overall pension liabilities and reduces long-term risks.

9. Are all members being treated equally? What happens if my own benefits are not covered by the buy-in policy?

Yes, all members will continue to be treated equally and everyone will carry on being entitled to the same benefits as they were before.

The Rothesay Life policy covers the vast majority of the Fund's liabilities, but not all of them. So, we also continue to hold certain other investment assets in addition to those that we've invested in the buy-in policy. These residual assets are designed to support the payment of any pension liabilities that are not covered by the Rothesay Life policy itself, as well as to cover our day-to-day running costs and ongoing projects. We'll keep these assets under regular review to ensure that they remain appropriate.

The buy-in is designed to reduce the overall funding risk of the Fund and to improve the financial security for all members. It therefore doesn't matter whether your benefits are specifically covered by the policy, as it's simply treated as an investment that belongs to the whole Fund, regardless of exactly which members are included in it.

It's important to note that, in the unlikely event of the failure of the Company, members with benefits included in the buy-in policy will not receive any different treatment. All members will benefit from the additional security provided by the buy-in policy, and all would also be treated equally in the unlikely event of a failure. There is more information on this in question 11 below.

10. Does the Fund still have the support of the Company?

Yes. The Company is legally required to continue to support the Fund in the same way that it always has been; its obligations have not changed. There will still be a valuation of the Fund every three years to check that the total assets, including the buy-in policy, are enough to cover all of our liabilities.

Over many years, the Company has made significant financial contributions to the Fund to bring it to a level that has made it possible to purchase the buy-in policy and to retain additional assets to cover the remainder of our liabilities and our ongoing costs. Like the Trustee, the Company wants to improve the financial security of the Fund as much as possible.

So, we'll continue to work closely with the Company to maintain an appropriate level of funding, taking into account both the value of our investment in the buy-in policy and the amount of any residual assets that we need to hold to fully cover all of the Fund's estimated liabilities and costs. The Company is fully supportive of the buy-in policy and has been involved throughout the process.

11. What if the worst happens and either the Company or Rothesay Life fails?

In the very unlikely event of the failure of the Company and if there was a shortfall in the Fund, all members of the Fund continue to be protected by the Pensions Protection Fund ('PPF') - even though the Trustee has now arranged the buy-in policy. The PPF provides compensation of between 90% and 100% of members' benefits, although this is subject to an upper limit and there are restrictions on future pension increases and spouse benefits. You can find more information about the PPF at https://www.ppf.co.uk/our-members.

Quite separately, in the insurance regime, the Financial Services Compensation Fund ('FSCS') is designed to provide 100% compensation to policyholders with no upper limit should Rothesay Life fail in its obligations to the Trustee and the Fund.

So, the Fund and all of its members now have the benefit of being protected by the insurance regime in relation to the buy-in policy itself, whilst also continuing to be covered by the PPF. Again, it's important to note that members with benefits included in the buy-in policy will not receive any different treatment to those who are not included.

12. Did the Trustee consider the recent High Court case involving Rothesay Life and Prudential Assurance Company Limited?

You may have seen in the news during August 2019 that the High Court decided not to allow another insurance company, Prudential Assurance Company Limited ('PACL'), to transfer some of its insurance business to Rothesay Life. PACL had already passed on the financial and demographic risks of certain policyholders' contracts to Rothesay Life. However, to transfer the administration and operation of those policies, the insurance regulations required High Court approval.

In summary, the Judge recognised that "the Independent Expert is of the opinion, with which the Regulators [i.e. the PRA and FCA] do not disagree, that the implementation of the Scheme will cause no material adverse effect upon the security of benefits and reasonable expectations of Transferring Policyholders as regards service standards and governance". However, he determined that it was reasonable for the policyholders to assume that they would remain with PACL for life, even though he also concluded that Rothesay Life's capital position was at least as good as Prudential's.

It's possible that the case will be appealed. Whatever the outcome, there'll be little financial impact on Rothesay Life in the long term.

We looked at this issue very carefully as part of the separate due diligence review that we commissioned to support our final decision to go ahead with the Rothesay Life buy-in. In conclusion, we're entirely satisfied that the judgment presents no significant financial or operational implications for Rothesay Life and so it does not alter the Trustee's view that the buy-in policy with Rothesay Life is the right step for the Fund and its members.

13. Does Rothesay Life hold my personal data?

We need to provide Rothesay Life with limited personal data about any members whose liabilities are covered by the buy-in policy (including information about their dependants, where applicable). This data enables Rothesay Life to record, manage and finance their payments to the Fund so it's critical to the operation of the policy.

As 'Data Controllers' the Trustee and Rothesay Life are both legally responsible for processing personal data and ensuring that it's appropriately protected. This means they must comply fully with the requirements of the Data Protection Act 2018 and the EU General Data Protection Regulation.

You can find out more about how Rothesay Life shares and manages your personal data by reading their Privacy Policy, which is available as part of their information leaflet, which you can find online at *www.allieddomecqpensions.co.uk*.

14. Will there be any other changes to the Fund in the future?

The buy-in policy we have arranged is between the Trustee and Rothesay Life, who are legally bound to continue to make payments in respect of the members who are covered for the rest of their lives (and those of any dependants).

The Fund will continue to be managed by the Trustee for the foreseeable future, although we'll continue to review how best to deliver to members the benefits that they have been promised.

If there are any future changes, you will of course be notified.

15. Who do I contact with any further questions about the Fund or my benefits?

As we've outlined, the buy-in policy that we've arranged is a contract between the Trustee and Rothesay Life. Because your benefits will continue to be administered by Barnett Waddingham on the Trustee's behalf, your contacts for information about the Fund remain unchanged.

If you've not already done so, we encourage you to sign up to BWebstream by going online to *logon.bwebstream.com*.

A digital copy of this document, together with our recent letter about the buy-in and a separate leaflet provided by Rothesay Life, can also be found online at *www.allieddomecqpensions.co.uk*.

Alternatively, you can contact a member of the Barnett Waddingham team by calling them on 0344 264 3586 (or if you are dialling from outside the UK +44 117 313 7233) – they're available to take your call between 9am and 5.15pm, Monday to Friday.

If you prefer, you can also write to us at:

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For and on behalf of the Trustee of the Allied Domecq Pension Fund
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