

Increasing the security of your benefits – Buy-in announcement (November 2020) – Member Q&A

What decision has the Trustee made?

The Trustee, with agreement of the Company (M&S plc), has made an additional investment with two UK-regulated insurance companies (Aviva Life & Pensions and Phoenix Life) called a 'buy-in' or 'bulk-annuity policy' totalling approximately £750m.

These investments are in addition to the similar investments made in 2018 and 2019 and have been made with insurance companies with whom the Trustee had purchased buy-in policies previously. In total, roughly 80% of the Scheme's pensioner payments are now covered by buy-in policies.

What does this mean for my pension in the Scheme?

Your benefits are not affected by this investment and all pensions will continue to be paid directly from the Scheme in line with the Rules.

How does a buy-in work?

Put simply, the Trustee invests an amount (called a premium) with each insurer for a proportion of the Scheme's pensions; in return the insurer guarantees that it will make monthly payments to the Scheme to cover the payments for those pensions. The Trustee holds the policy as an investment and remains responsible for paying the pensions covered.

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

An individual annuity provides an individual (typically a member of a defined contribution pension scheme) with a pension for life in exchange for a pot of retirement savings.

A buy-in is an investment held by a Trustee that provides income to a defined benefit pension scheme relating to all or a proportion of the pension payments due.

Why is the Trustee making these investments?

The Scheme's financial health and strong funding position has allowed the Trustee to follow a plan of reducing risk by aligning investments more closely with the pension benefits it will need to pay to members.

These additional buy-in policies help to protect the Scheme against certain risks, which improves the financial security for all members' benefits.

Why did the Trustee make these investments during a pandemic when the markets have been unstable?

It's important to be aware that, like other types of insurance policies, the cost of a buy-in policy depends on a number of factors and not just what is happening in the wider economy and population. This may include the appetite and ability within each insurance

company to offer this type of investment, the conditions of the wider insurance market and the details and nature of the pension payments that would need to be covered by the policy.

The Trustee took detailed professional advice on the current market conditions and the COVID-19 pandemic and how this might impact the pricing put forward by insurers. It was assured to find that there was strong interest amongst insurers in offering these policies to the Trustee and the market conditions had resulted in attractive pricing for this investment.

How does it increase the security of members' pensions?

The insurer takes on some of the risks linked to making sure there is enough money set aside for as long as the pension benefits covered by the policy are in payment.

These include:

- Poor economic conditions, which might reduce the returns being made on the Scheme's investments.
- Members living longer than expected, increasing the length of time that a pension is being paid and the amount of money needed to do so.

This means the amount of risk being managed by the Trustee is reduced and the future cost of paying these pension benefits is easier to predict. The reduced risk combined with increased certainty for a large proportion of the Scheme's pensions in payment, increases the security of all members' pensions.

Are all members being treated equally?

Yes. These buy-in policies are investments that belong to the Scheme as a whole to reduce the overall funding risk of the Scheme and improve the financial security for all members, not just a proportion of members.

Does this mean the Trustee has transferred its responsibility for paying the pensions that these policies cover to insurers?

No, the Trustee holds the buy-in policies as investments. It has not transferred any of its responsibilities to the insurers and all pensions will continue to be paid directly from the Scheme.

Does this mean the Company is no longer supporting the Scheme?

The Company (M&S) will continue to support the Scheme in the same way it does at present and its obligations have not changed.

The Trustee will continue to work closely with the Company to maintain an appropriate level of funding in the Scheme.

How did the Trustee make this decision?

The Trustee, alongside the Company, took detailed professional advice, completed a thorough review of the market and ran a competitive selection process before deciding to purchase the bulk annuity policies.

Who are “Aviva Life & Pensions” and “Phoenix Life”?

Aviva Life & Pensions and Phoenix Life are substantial UK insurance companies, authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and PRA. This regulatory framework is set up with strict capital requirements and is overseen by the PRA to provide a secure environment for providing pension benefits over the long term.

Does the insurer hold my personal data?

We may need to provide the insurers with limited personal data about the members these investments cover (including about their dependants, where applicable). This data enables them to provide the buy-in policies (including to record, manage and finance their payments to the Scheme). This may include data being sent outside the European Economic Area.

The Trustee and the insurers are legally responsible for processing personal data and ensuring it is appropriately protected. This means they must comply fully with the requirements of the General Data Protection Regulation (GDPR).

You can find out more about how the Trustee shares and manages your personal data by reading its Privacy Policy, which is available at www.mandspensionscheme.com/privacy-policy.

Does the Trustee plan to purchase further buy-in policies in addition to the ones purchased so far?

The Trustee will continue to pursue opportunities that further protect the security of benefits as part of its strategy to reduce risk over time, which may include further buy-in policies.

The Trustee will take such steps if it believes it is in members' interests to do so based on professional advice and taking account of market conditions and insurance pricing at the time.

Date: 4 November 2020