

The **co-operative** investments  
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# Your policy with The Co-operative Investments

A reference guide to how your Option 32  
Pension Transfer policy works

# Your policy with The Co-operative Investments

## A reference guide to how your Option 32 Pension Transfer policy works

### At a Glance – some common questions

This page contains brief answers to some commonly asked questions.

#### What is an Option 32 Pension Transfer Policy?

An Option 32 Transfer Policy is a 'buyout bond' which enabled those, such as yourself, with preserved benefits in an ex-employer's occupational pension scheme (OPS) to transfer them to an insurance policy.

The 'transfer value' from your OPS was paid to us as a lump sum and invested in our with-profits fund.

#### What are the guarantees provided by my policy?

In return for your transfer value we guarantee to pay you a basic pension plus all annual bonuses we may have previously added. We'll do this on the retirement date that you originally selected for your policy, i.e. your Normal Retirement Date (see section 3).

If you transfer the value of your policy to another pension provider you'll give up the guarantees that you would otherwise receive at your Normal Retirement Date – see below.

#### What risks are there in investing in the with-profits fund?

No future bonuses will be added to your policy, but on your Normal Retirement Date we guarantee to pay you the 'total guaranteed pension' amount that is shown in your annual statement (see section 3). As such, you're not exposed to the usual risks of investing in the with-profits fund, such as the risks relating to how well our investments might do and how much our costs might be.

#### What if I decide to transfer the value of my policy to another pension provider?

It may not be in your best interest to transfer the value of your policy to another pension provider, as you'll give up some or all of the valuable guarantees that you would otherwise receive at your Normal Retirement Date. However, if you do transfer, we will provide a fair transfer amount (see section 4).

Before proceeding to transfer the value of your policy to another pension provider, we would recommend that you seek independent financial advice.

#### What happens if I retire early?

If you contact us to request an earlier retirement date we will recalculate your benefits to reflect the fact you are retiring before your Normal Retirement Date. On early retirement you will receive a fair amount taking into account factors such as our costs and investment returns over the time that the policy was held and allowing for smoothing.

If your chosen early retirement date is within five years of your Normal Retirement Date the amount payable will be smoothed into the guaranteed benefits you would have received at your Normal Retirement Date.

However, early retirement will only be possible if your retirement fund is sufficient to pay your Guaranteed Minimum Pension (GMP) at that time (see below for further details).

#### What happens if I decide to take late retirement?

If you decide to take late retirement we will recalculate your basic pension to reflect the fact you are retiring after your Normal Retirement Date. The amount payable to you on late retirement is the recalculated basic pension plus all annual bonuses previously added, any interim annual bonuses and any final bonuses due.

#### Guaranteed Minimum Pension (GMP)

If your Occupational Pension Scheme automatically contracted you out of the State Earnings Related Pension Scheme (SERPS), then part of your benefits will provide a Guaranteed Minimum Pension (GMP).

Regulations require that we must pay this amount to you as a minimum (from age 60 if you are female and from age 65 if you are male) and in a certain format.

#### PPFM changes – notification to policyholders – July 2011

We have updated the PPFM for the Long Term Business Fund for the following reasons:

- We hold assets in the fund in excess of those we need to meet the liabilities of the fund. These excess assets are known as the working capital of the fund. We have recently enhanced the security of the fund by investing such assets in UK Government fixed-interest securities (known as gilts).

For more complete answers please see the rest of this guide. It's not necessary for you to read it now, but we suggest that you keep it in a safe place in case you wish to refer to it in the future.

- We currently hold a separate shareholder-owned fund (the General Reserve) outside the Long Term Business Fund which, if available, may be used in exceptional circumstances to help meet the Long Term Business Fund's solvency requirements. We recently assessed the level of risks within the Long Term Business Fund and this showed that the fund was expected to remain strong under a wide range of future financial and other conditions. Therefore our Board, with the agreement of the FSA, decided to reduce the size of the General Reserve by £117m to a new level of £200m. The General Reserve could be reduced further or removed altogether, subject to our Board ensuring that with-profits policyholders are treated fairly.
- We've introduced some actions which our Board may decide to take in exceptional circumstances to protect the strength of the fund. These actions include reducing the proportion of riskier assets held for accumulating with-profits business as well as reductions to future annual bonuses for such business.

## 1. What is this guide for?

This guide should answer most of the questions you might have. If you have any further questions then please contact us – our contact details are shown at the end of this guide.

The guide explains the main points about how your Option 32 Pension Transfer policy works. It covers the key points from the detailed technical guide called the Principles and Practices of Financial Management (PPFM) document, but is not a replacement for it. Please see the PPFM for a fuller description of how your Option 32 Pension Transfer policy works. If this guide is inconsistent with the PPFM, the PPFM overrides this guide.

You can download all of our guides, including the PPFM documents, from our website, [co-operativeinvestments.co.uk](http://co-operativeinvestments.co.uk) or instead you can contact us for a copy.

If we make a significant change to how we manage your Option 32 Pension Transfer policy in the future, we'll write to tell you and also provide you with an updated copy of this guide.

## 2. What is an Option 32 Pension Transfer Policy?

An Option 32 Transfer Policy is a 'buyout bond' which enabled those, such as yourself, with preserved benefits in an ex-employer's occupational pension scheme (OPS) to transfer them to an insurance policy.

The money (or 'transfer value') from your OPS was paid to us as a lump sum and invested in our with-profits fund.

On retirement, we will pay you a taxable pension monthly in advance for the remainder of your life, with a guaranteed period of five years. You may be able to exchange part of this pension for a tax-free lump sum, subject to certain restrictions.

## 3. What are the guarantees provided by my policy?

In return for your transfer value we guarantee to pay you a basic pension plus all annual bonuses we may have previously added. These bonuses represent your share in the profits of our long-term insurance business (or 'with-profits' fund), which includes life assurance and pensions business.

Unlike simpler stock market investments, your policy contains very high levels of valuable investment guarantees regarding the amount of money you'll receive at the Normal Retirement Date that you originally selected for your policy (which is shown in your policy document). These guarantees ensure that in all circumstances you'll receive your guaranteed benefits at your Normal Retirement Date.

## How were my guaranteed benefits calculated?

When you took out your policy we set your policy's basic pension amount by making assumptions regarding:

- the future investment return we would achieve each year on the transfer value that we received from your former pension scheme, and
- the number of years (from your Normal Retirement Date) over which we would subsequently pay you a pension, i.e. life expectancy.

## Investment returns

**Initially**, when you purchased your policy, we invested your money in assets, such as shares and property, which we expected to continue performing in line with the market conditions prevailing at the time. During this period, when investment returns were good, we increased the guaranteed value of your plan each year by adding annual bonuses, to pass on your share of the investment profits.

**In recent years**, and following the significant stock market falls over the period 2000 to 2003, investment returns have been much lower than the returns we assumed at outset.

Expected **future** investment returns are also much lower than the returns we assumed at outset.

## Life expectancy

Life expectancy rates have increased over the period since you took out your policy. This means that we now expect to pay you a pension over a longer period of time.

## How do these factors affect my future bonuses?

As a consequence of:

- lower than expected investment returns in recent years
- lower expectations of future investment returns, and
- an increase in life expectancy rates

the underlying value of your policy is significantly less than the value of your guaranteed benefits and will remain so at your Normal Retirement Date.

Following from this, and in order to ensure that all of our with-profits policyholders are treated fairly, **we will not be adding any future annual bonuses or a final bonus to your existing guaranteed benefits**. As such, on your Normal Retirement Date you will receive the 'Total guaranteed pension each year' shown in your annual statement.

## 4. What if I decide to transfer the value of my policy to another pension provider?

Your policy is a long-term investment and is designed to be held until its retirement date. It may not be in your best interest to transfer the value of your policy to another pension provider, as you will give up the valuable guarantees that you would otherwise receive at your Normal Retirement Date. However, if you do decide to transfer, we will adjust your benefits to pay a fair amount taking into account factors such as our costs and investment returns over the time that the policy was held and allowing for smoothing.

The way that smoothing works means that in any one year the amount paid out for each group of policies may be more, or less, than the amount that would be paid if there were no smoothing. Over the longer term we aim to set transfer and retirement values so that the fund does not make a profit or loss from such payouts and we normally expect that the majority of payouts would be within 20% of the unsmoothed amounts.

Before proceeding to transfer the value of your policy to another pension provider, we would recommend that you seek independent financial advice.

## How to contact us

If you have any questions about your policy, then please contact us on:

Telephone number: **08457 46 46 46**

Lines open Monday-Friday 8.30am to 5pm.

Email: **pensionretirements@cfs.coop**

Office address: **The Co-operative Investments  
PO Box 4363  
Manchester  
M60 0YZ**

Website: **co-operativeinvestments.co.uk**

In addition, the website includes all of our guides like this one, as well as the more detailed guides called the Principles and Practices of Financial Management.

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**Please call 08457 46 46 46 if you would like to receive this information in an alternative format such as large print, audio or Braille.**

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