

## **Forester Life Limited – Directors’ Annual Report to planholders in the Deferred Pensions Fund – 2023**

The Deferred Pensions Fund was established as a separate ring-fenced fund in late 2016, and in November 2018 published its Principles and Practices of Financial Management (PPFM). The PPFM is the document that sets out how the company will manage the fund. A copy of the PPFM can be found on our website [www.foresters.com/wp](http://www.foresters.com/wp).

This annual report explains how we managed the Deferred Pensions Fund in 2023. In particular, it considers:

- if our operation of the Deferred Pensions Fund during 2023 complied with the fund’s Principles and Practices of Financial Management (PPFM);
- the way we have exercised management discretion in making key decisions during 2023 and whether this was consistent with the PPFM; and
- how we have addressed any competing or conflicting rights, interests or expectations of the fund’s planholders.

In order to ensure that the PPFM is maintained and complied with, we have established a Forester Life Funds Advisory Panel. The panel acts in an advisory capacity in order to inform and monitor the decision-making of Forester Life in its management of the Deferred Pensions Fund and thereby protect the interests of the planholders in the fund.

In addition to taking advice from the panel, we also receive advice from our With Profits Actuary (WPA) on the management of the fund. The WPA is required to produce an annual report to planholders and a copy of the report for 2023 is also available on our website. The panel, although not required to do so, can choose to write to planholders if it feels it appropriate. However, as the panel considers that this report provides a full and fair view of the fund’s operation during 2023, it does not intend to produce a separate report.

### **Statement of Compliance**

Forester Life, having considered the advice of the panel and the WPA, believes that in respect of the calendar year 2023 it has complied with the PPFM. In particular, management discretion has been exercised appropriately and the competing or conflicting rights, interests or expectations of different groups of planholders have been taken into account.

### **Overview of 2023**

In managing the fund, key areas of management discretion concern pay-outs and the management of the fund’s surplus assets, investment management, expenses and changes to the PPFM. Each of these areas is now considered below.

## **Pay-outs and the Management of the Fund's Surplus Assets**

Forester Life aims to provide the fund's planholders with a fair return on their investment. This is achieved through the setting of crediting rates and final bonuses and determining the amounts to be paid for plans leaving the fund before their selected retirement date. To do this, we calculate a value known as an asset share for sample plans that are representative of all the plans in the fund. An asset share consists of the payments made into the sample plan, less management expenses and other charges, plus any allowances for exceptional miscellaneous profits and losses. These amounts are then built up at the rate of investment return allocated to the plan.

In addition, as the Deferred Pensions Fund is closed to new business, pay-outs will include a distribution of the fund's surplus assets. This surplus is the excess of the assets required to meet the plans' asset shares and additional guaranteed payments and is currently paid as an enhancement to pay-outs.

Forester Life believes that the methodology of setting final bonus rates based on asset shares for sample plans together with an allowance for distribution of any surplus assets means that pay-outs are appropriate and fair.

During 2023 the crediting rates were increased to reflect higher yields on the fund's fixed interest assets. Final bonus rates were reduced from 1 April 2023 to reflect poor returns on the underlying assets. In respect of smoothing, we limited changes in payouts to minus 10% for the sample plans and there were no changes to the methodology set out in the PPFM during 2023.

## **Investment Management**

Investment management of the Deferred Pensions Fund is undertaken by Schroders.

The aim of the investment strategy is to secure the guaranteed liabilities of the fund with a high degree of confidence and to maximise the investment return on Planholders' assets by taking an acceptable level of risk. The investment strategy was reviewed during 2023. We increased the proportion of the fund invested in gilts from 20% to 25% and reduced the proportion invested in index-linked investments from 5% to 0%. To allow for this, we increased the target asset allocation for the fixed interest investments from 54% to 59%. We believe that this is consistent with the PPFM requirement to maximise returns whilst also ensuring that the guaranteed benefits are secure.

## **Expenses**

The expenses charged to the fund in 2023 were based on the number of plans in force, the number of claims and the funds under management. The methodology is considered to represent a fair allocation of expenses between the different funds managed by Forester Life.

### **Changes to the PPFM**

We amended the PPFM with effect from 1 June 2023 to reflect the changes to proportions invested in gilts and index linked investments, as described in the Investment Management section above. We also amended the wording to clarify that the guaranteed payment is equal to at least the contributions paid less charges, accumulated at the crediting rates. We removed references to index-linked assets within the fund as it no longer has any of these investments.

From 1 September 2023 we removed the references to benchmarks for fixed interest investments. This will allow our investment manager, Schroders, to have greater freedom to choose the fixed-interest investments and we have other safeguards in place regarding the proportions invested in different categories.

These changes were communicated within the annual statements.

### **Further Information**

If you have any questions regarding this document, please write to the following:

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Dated: 1 May 2024