CLIFFORD CHANCE

December 2016

Clifford Chance Pension Scheme

Pensions Update

The Trustee of the Clifford Chance Pension Scheme looks after the Scheme on behalf of its members. This statement outlines the funding position of the final salary section of the Clifford Chance Pension Scheme. It also sets out details of some changes to the UK pensions' environment that may be of interest to both members of the final salary section and members of the money purchase section.

Legislative reminder

Pension Tax Limits

The 2015 March and July Budgets announced significant changes to the limits above which pension benefits attract additional tax with effect from 6 April 2016.

Annual Allowance (AA)

The AA limits the amount of tax privileges available on pension savings paid by, or in respect of, an individual in a tax year (this includes employer contributions). The tax relief on the total value of pension accrued in a year is limited to £40,000 with effect from the 2015/16 tax year.

From the 2016/17 tax year, individuals with earnings assessed to be more than £150,000 are subject to an AA of less than £40,000. The AA reduces steadily in proportion to earnings, ultimately reaching £10,000 for those deemed to be earning over £210,000. In addition the period over which the AA is assessed has moved to be in line with the tax year and complicated transitional arrangements existed for the 2015/16 tax year.

Lifetime Allowance (LTA)

The LTA is the maximum value of pension (including lump sums) that can be taken from all of your pension schemes (except State pensions) without attracting additional tax. The LTA for the 2015/16 tax year was £1.25 million. From 6 April 2016 the LTA has reduced to £1 million. From 6 April 2018, the Government has indicated that it intends to increase the LTA in line with the Consumer Prices Index inflation. If the value of your benefits are already over the LTA, or are projected to exceed the LTA in the future, you may be able to protect the current higher LTA.

Do these changes affect final salary or money purchase section members?

The AA changes will not directly affect your benefits in this Scheme. However, if you have savings in other arrangements you may be affected.

It is possible that the changes to the LTA will affect members of the Scheme who are yet to retire. If you would like more information in order to help you assess your benefits against the LTA please contact Andrew Darlison at the address shown at the end of this statement.

Increased Pension Flexibility for DC Pensions

The Trustee issued an announcement last year about the significant changes to the pension industry and wanted to remind you of those changes.

Defined Benefit (DB) and Defined Contribution (DC) definitions:

For DB members, pensions are worked out using the service and salary when the member leaves and are paid to the member for as long as they live.

DC plans work differently; during employment the member and company pay fixed contributions into an account. The member decides how to invest the account, and uses it to buy benefits at retirement. The exact level of benefits is therefore not known in advance. If you make additional voluntary contributions, (AVCs) these work in a similar way to DC benefits. Therefore references to DC below also refer to AVCs.

The DC Proposals: What you need to know

Historically, DC members could take a quarter of their DC account as a tax-free cash sum when they retire, and use the remaining funds in the DC account to buy an ‘annuity’ (a product that provides a regular income for an upfront single payment). However, debate over whether or not annuities have provided good value has prompted the Government to allow more flexibility over how members use their DC accounts.

The changes allow members to take their DC account in full as cash, or directly as income, without the need to buy an annuity. In particular, members will be able to vary the income they receive from their DC pension plan from year to year. Any funds left in their DC account on death are payable to the member’s beneficiaries.

Do these changes affect final salary section members?

Not directly, your pension will continue to be paid by the Scheme in line with the Scheme rules. You will have some choice about how you receive your benefits – for example, you can give up part of your pension for a tax-free cash sum at retirement. However, after that, your pension will be a set income for life.

You do have the option of transferring your final salary benefits into a DC arrangement, which would then give you the option to take advantage of the new flexibility available to DC pension holders. However, there is a requirement for individuals with pension savings valued at over £30,000 who want to transfer their DB benefits to a DC arrangement to take advice from an authorised independent adviser.

If you have built up Additional Voluntary Contributions (AVCs) in the Scheme, the same flexibility announced in the Budget for DC plans will apply to how you take cash from your AVC savings as well.

Getting Advice

It is against the law for anyone involved in your pension scheme – the company, trustees or their advisers – to give you advice about your personal finances. If you are at all uncertain about anything to do with these changes please consider taking independent financial advice.

The following website can be used to help you find an independent financial adviser in your area:

www.fca.org.uk/consumers/finding-adviser

Remember to check that whoever you speak to is properly qualified, and find out what they plan to charge you before seeing them.

Further information and relevant updates regarding the Scheme are provided on the Scheme’s website at **www.ccpensionsinfocus.co.uk** (access details are shown on page four of this statement).

Final salary section – how is my pension funded?

The remainder of this statement is only relevant for members of the final salary section of the Scheme.

The financial position of the Scheme could ultimately affect the benefits you will receive, so we recommend you take some time to read through this statement.

If you have not yet retired you will have earned benefits during your Scheme membership which will be payable at retirement. If you have already retired then you should be receiving a pension from the Scheme. The estimated costs of these benefits are referred to as the Scheme's liabilities.

The Scheme's assets are held in a collective fund and not in separate funds for each member. If you had chosen to pay Additional Voluntary Contributions, these are separately identifiable for each member.

To check the Scheme's financial position we compare the value of the liabilities to the amount of the assets built up. If the Scheme has fewer assets than liabilities, it is said to have a 'deficit'. If the assets are worth more than the liabilities there is said to be a 'surplus'.

An in-depth review of the Scheme's financial position is performed at least every three years. This is called an actuarial valuation and is prepared by a qualified, independent professional, known as an actuary. The latest completed valuation was the 30 April 2013 review and the 30 April 2016 review is currently in progress. At each review the Trustee and the Employer, Clifford Chance London Limited, must agree appropriate assumptions to use to assess the value of liabilities.

Using this information and taking advice from the actuary, the Trustee agrees with Clifford Chance London Limited the amount of contributions to be paid in order to keep the Scheme on track to meet the objective of continuing to pay pensions and other benefits as they become due. This agreement is recorded in a document called the Schedule of Contributions. This Schedule is reviewed and updated at each actuarial valuation.

In practice the financial position of the Scheme is monitored more regularly, with a formal actuarial update being provided at least annually.

What were the results of the last actuarial valuation and latest annual reviews?

The results of the last formal valuation of the Scheme (undertaken) at 30 April 2013 together with the annual updates at 30 April 2014 and 30 April 2015 are shown below:

	Position as at 30 April 2013 valuation	Position as at 30 April 2014 review	Position as at 30 April 2015 review
Assets	£308 million	£338 million	£376 million
Amount assessed as needed to provide benefits (Liabilities)	£432 million	£438 million	£502 million
Deficit	£124 million	£100 million	£126 million
Funding Level	**71%**	**77%**	**75%**

Since the Scheme has fewer assets than liabilities (a funding deficit), a Recovery Plan was put in place following the 2013 valuation to set out how the deficit will be paid off.

In view of the results from the 2013 actuarial valuation Clifford Chance London Limited agreed to continue the annual payments it was already making to address the deficit for a period of 11 years and 5 months from 30 April 2013. The annual payment for the year to 30 April 2016 was £13.0 million and future payments increase annually with inflation. In addition Clifford Chance London Limited pays the expenses of operating the Scheme (other than Scheme investment expenses).

The financial position can be affected by the value of the investments held. Following each quarter, updated investment performance information is set out on the Scheme's website (access details are provided on the back of this statement) along with month-to-month movements in the unit price.

Does the Trustee always calculate the Scheme's liabilities in the same way?

Each time the Trustee assesses the Scheme's liabilities, the approach taken previously is reviewed. This is to ensure that the calculation made takes into account the most up to date information available. Following the review as part of the 30 April 2013 valuation of the Scheme several of the assumptions were strengthened compared to those used under the previous valuation. These assumptions are currently being reviewed again as part of the 30 April 2016 valuation.

The approach used to value the liabilities is set out in the Trustee's 'Statement of Funding Principles'. This document sets out how the Trustee aims to fund the Scheme with the objective of targeting that it has enough money to pay members' benefits as they become due under the Scheme.

What is the Scheme invested in?

The Trustee invests in a broad range of assets with the objective of generating moderate returns above inflation while taking account of the liabilities of the Scheme. It also considers the risks associated with having too much money in any one type of investment. As at 30 April 2016, the Scheme was invested in the following asset classes (target allocation in brackets):

Shares in UK companies	29%	(30%)
Shares in overseas companies	21%	(20%)
Bonds	15%	(15%)
Commercial property	13%	(12.5%)
Diversified Growth Funds	22%	(22.5%)
Total	**100%**	**(100%)**

Is my pension guaranteed?

The Trustee's primary objective is to have enough money in the Scheme to pay pensions now and in the future, as they become due, but this depends partly on Clifford Chance London Limited continuing in business and supporting the Scheme, because:

- The value of assets can go down as well as up, and when there is a deficit, more money will usually be required to be put in.
- The cost of benefits (liabilities) may increase, which may also result in having to contribute more money.
- Clifford Chance London Limited pays the future expenses of running the Scheme on an annual basis.

The sponsoring employer of the Scheme is Clifford Chance London Limited. Clifford Chance LLP, the global legal partnership, has given a formal guarantee of the contributions required to be paid by Clifford Chance London Limited to the Scheme, as set out in the Schedule of Contributions produced following the 2013 actuarial valuation, and as set out in the Schedule of Contributions to be produced following the actuarial valuations in 2016, 2019 and 2022 (provided they are carried out on a consistent basis to the 2013 actuarial valuation).

If Clifford Chance London Limited were to cease operating it would be required, if sufficient funds were available, to pay enough money into the Scheme to enable the Trustee to secure all of the benefits built up by members with annuity policies bought from an insurance company. This is referred to as the Scheme being 'wound up'.

The comparison of the Scheme's assets to the cost of fully securing the benefits with an insurance company is referred to as the Scheme's 'solvency position'.

Is there enough money in the Scheme to provide my full benefits if the Scheme was wound up?

If the Scheme were to wind up you may not receive the full amount of pension you have earned, even if the Scheme is fully funded on its ongoing funding level. Whilst the Scheme remains ongoing however, even though funding may temporarily fall below that target, pensions will continue to be paid in full.

If the Scheme were to wind up, Clifford Chance London Limited would be required to pay enough money into the Scheme to enable the full amount of your benefits to be secured with an insurance company. At 30 April 2013, the estimated amount that the insurance company would require was £1,015 million. This amount exceeds the value of the assets held by the Scheme. The position is different from the ongoing financial position because the basis uses different and very cautious assumptions about the future, as well as including margins to cover the insurance companies' expenses and profits. The effect of the insurer's approach is to increase the value that is attributed to the Scheme's benefit liabilities, as compared to the approach that is agreed between the Trustee and Clifford Chance London Limited for determining the contributions needed to enable the benefits to be paid from the Scheme as they become due.

Please note that this information is designed to be informative and a winding up of the Scheme is not being considered and is considered unlikely.

If this were to change and were the Scheme to be wound up it may be the case that Clifford Chance London Limited would have insufficient available resources to pay the full amount required by an insurance company. If this were the case the Pension Protection Fund (PPF) might be able to take over the Scheme and pay a prescribed level of compensation to members (see opposite).

Why does the Trustee's funding plan not call for full solvency at all times?

The full solvency position assumes that members' benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and also seek to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes that Clifford Chance London Limited will continue in business and support the Scheme.

What happens if the Scheme is wound up and there is not enough money to pay for all my benefits?

The Government has set up the PPF to pay benefits to members if a scheme is wound up when the scheme and its sponsoring company do not have enough money to cover the cost of buying members' benefits (up to a limited level, which is prescribed in legislation) with an insurer.

The PPF has been set up by the Government to help protect members' pensions where a company becomes insolvent. It does not, however, pay the full amount of scheme members' benefits and the statutory PPF compensation levels are limited in certain respects.

Further information and guidance is available on the PPF's website at **www.pensionprotectionfund.org.uk**. Or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA

Where can I get further information?

If you have any other questions on this statement, or would like any more information about the Scheme, please use the contact details on the Scheme's website at:
www.ccpensionsinfocus.co.uk

You will need to use the following username and password to access the site:

User name: **ccpensions**
Password: **Clifford2**

The document library pages on the site provide a full list of documents for the Scheme, including the Statement of Investment Principles, the Schedule of Contributions, the Recovery Plan, the Scheme's Annual Report and Accounts, the Actuarial Valuation as at 30 April 2013 and the Scheme Explanatory Booklet.

Alternatively you can get further information regarding the Scheme by writing to:

Andrew Darlison
Pensions & Benefits Manager
Clifford Chance
10 Upper Bank Street
London E14 5JJ

If, for any reason you are considering leaving the Scheme or transferring your pension benefits, you should carefully consider consulting an independent financial adviser or other professional adviser before taking any action. The Trustee is not able to provide you with any financial advice.

Please do also remember to let us know if you change address or if there are any other changes to your personal details that may be relevant to your benefits under the Scheme (by writing to the Trustee at the address set out above). In particular if you are employed by Clifford Chance London Limited or if you have any AVCs in the Scheme your beneficiaries may be entitled to a cash payment in the event of your death. In order for the Trustees to direct this benefit in line with your wishes please ensure that your 'expression of wish form' is up to date. A copy can be found in the documents library on the Scheme's website at: **www.ccpensionsinfocus.co.uk**