

# Aviva With-Profits End of year 2012 bonus update



8 February 2013

On 1 January 2013 we changed the bonus rates payable on our with-profits policies. Below we summarise some of the main changes and answers to some questions you may have.

## What's stayed the same?

### Regular bonus rates

- Regular bonus rates for most **unitised** and **conventional** with-profits policies remain the same (with the exception of ex-CU bonds and ex-NU bonds as detailed below).
- Bonus rates for new business remain the same as at mid-year 2012, as shown below.

Product	Current rates
Portfolio bond	2.50%
Pensions	3.00%
Stakeholder Pensions	2.75%
With-Profit Annuity	1.50%

## What's changed?

### Regular bonus rates

- Regular bonus rates for **unitised** ex-CU with-profit policies have reduced from 2.5% to 2%.
- Ex-NU **unitised** policies (without guaranteed bonus rates) have reduced from 1% to 0.75%.
- Ex-CGNU with-profits **annuities** regular bonus rates have reduced by 0.5%.
- Some Provident Mutual with-profits **annuities** rates have reduced by up to 2.5%.

### Final bonus rates

- Final bonus rates have increased by an average of 2.5% for most **unitised** with-profits policies.
- Final bonus rates have increased by an average of 3% for some **conventional** with-profits policies.

### Market value reductions (MVRs)

- Most market value reductions have reduced by an average of 2% where they are already applying.
- Market value reductions for bonds are applying to investments in specific months in years: 1998-2001 and 2006-2007.

### With-Profit Income bonus rates

- Some reductions have been made to total bonus rates of between 0.25% and 1.25% depending on the year of investment.

## How will these changes affect payouts?

- The change to rates will be reflected in your annual statement. You can also get an online valuation at [aviva.co.uk/existing-customers](http://aviva.co.uk/existing-customers) or you can call us on 0800 068 6800.

To give you an idea of the impact of the changes, below we've shown the payout value and annual growth for our unitised With-Profit Bond, Pension and Endowment, compared to an average savings account.

Product (term)	Investment details (started on)	Total investment	Payout value 1 January 2013 + annual yield	Change in payout value over last year (excluding premiums)	Average savings account payout + annual yield
Bond (5 years)	£10,000 single premium (1 January 2008)	£10,000	£11,503 2.8% p.a.	£766 7.1% p.a.	£10,704 1.4% p.a.
Bond (10 years)	£10,000 single premium (1 January 2003)	£10,000	£17,082 5.5% p.a.	£965 6.0% p.a.	£12,228 2.0% p.a.
Pension (20 years)	£200 month from 1 January 1993	£48,000	£81,643 5.0% p.a.	£6,410 8.8% p.a.	£65,037 2.9% p.a.
Endowment (25 years)	£50 month from 1 January 1988	£15,000	£29,765 5.1% p.a.	£1,740 6.3% p.a.	£21,724 2.8% p.a.

The table above shows typical changes in policy value over the last 12 months for with-profits products invested in our main With-Profit Fund. They do not necessarily reflect the changes to an individual policy. All values are net of charges and tax where appropriate. The 20 year pension value at 1 January 2013 assumes retirement at selected retirement age and therefore benefits from the market value reduction (MVR)-free guarantee (Source: Aviva).

The table also details the equivalent payout value from an average savings account available from a bank or building society. The average savings account used is the Moneyfacts Average up to 90 days notice (Source: Lipper IM).

Money in a savings account is accessible and safe, and interest, once earned, is guaranteed. In comparison, with-profits investments are for the medium to long-term, and the value could fall. It is possible that you may not get back the amount invested.

Past performance is not a guide to the future. The value of investment-linked funds can go down as well as up and is not guaranteed. You may get back less than you invested.

## Answers to some questions you may have

### What are bonuses?

- We add your share of the returns which the with-profits funds earn to your investment, through a system of bonuses.

There are two main types of bonus:

- Regular bonus
- Final bonus

### What's the difference between regular and final bonuses?

- Regular bonuses are designed to provide steady growth in the value of your guaranteed benefits over the lifetime of your policy. They are not intended to fully reflect the performance of the fund.
- Final bonuses aim to pay any balance between the regular bonuses which we have already added to your policy and the performance of the fund over the whole period of your investment.

- Final bonuses do reflect the performance of the fund. They are payable when you cash in or switch your investment out of the With-Profits Fund, but they are not guaranteed.
- Our aim is to use regular and final bonuses together to provide a balance between the guaranteed and non-guaranteed policy benefits. The guarantees provided protect your benefits from adverse conditions such as investment market falls or poor investment returns.

### Why have we reduced some regular bonus rates?

When deciding on regular bonus rates we look at:

- how the fund has performed in the last year
- what we expect the fund to earn in future years
- the benefits we have already guaranteed.

Although investment returns have been reasonable in 2012, when we looked at what we expect the fund to earn in future years and the level of existing guaranteed benefits, we've reduced some regular bonus rates to provide a better balance between the guaranteed and non-guaranteed benefits.

However, we've kept the majority of our regular bonus rates unchanged, as they provide a good balance between the guaranteed and non-guaranteed benefits.

### Why have we reduced some final bonus rates?

In managing our with-profits funds we use what is called 'smoothing' to reduce the ups and downs in the value of your investment. This means that we keep back some of the investment returns earned in good years and use them to help pay bonuses in years when returns are poor. Smoothing also holds back some of the losses made in years where investment performance is poor, and these losses are 'smoothed in' over time.

The better investment performance in 2012 means that we have been able to increase the majority of final bonus rates.

Where final bonus rates have reduced, the poor investment returns of recent years are still being 'smoothed in'.

Where final bonus rates are at zero, customers are already receiving at least their fair share of the investment returns, and the guaranteed benefits have shielded the policy from some of the poor investment performance in recent years.

You can find out more about smoothing in our 'simplified guides' – these are available from [aviva.co.uk/ppfm](http://aviva.co.uk/ppfm).

Our 'information sheets' show how the with-profits funds have performed in recent years – these are also available from [aviva.co.uk/ppfm](http://aviva.co.uk/ppfm).

All bonus rates are set in accordance with the rules outlined in the Principles and Practices of Financial Management (PPFM). This document provides greater detail than the simplified guide mentioned above, you can find out more about our bonus process in section two of the Principles and Practices of Financial Management (PPFM), which is available from [aviva.co.uk/ppfm](http://aviva.co.uk/ppfm).

## Glossary

### Conventional with-profits policies

An initial guaranteed amount is increased by the addition of regular bonuses. We may also add a final bonus when a claim is made. We don't guarantee to add a regular bonus every year or to add a final bonus. However, once added, regular bonuses are guaranteed to be paid at the end of your plan or on death. Bonuses depend on fund performance, costs and the need to smooth bonuses between good and poor investment years.

### Unitised with-profits policies

Unitised with-profit policies are split into units – when you invest you buy a certain number of units at the current price. Unit prices increase in line with declared regular bonuses, and do not fall. If additional units have been added, these are not taken away (but market value reductions can be applied).

### Annuities

An annuity is a retirement income plan, which is designed to provide an income for the rest of your life, no matter how long you live.

## Market value reductions (MVRs)

This is a reduction that **may be** made when customers leave unitised with-profits funds to make sure that customers remaining in with-profits are not disadvantaged. A market value reduction is most likely to apply following a large or sustained fall in the stock market or when investment returns are below the level we normally expect.

### How it works:

Suppose there are three investors in a with-profits fund, who each pay in £10,000, so the total with-profits fund is worth £30,000. Stock markets fall by 20% so that the total with-profits fund drops to £24,000. A fair share for each of the investors would be £8,000. If one investor then withdraws his original £10,000, without an MVR being introduced, this would leave only £14,000 in the fund to be shared between the remaining two investors, only £7,000 each. The investor who encashed his policy early would take more than his fair share of the fund at the expense of the remaining two.

## Assets

An asset is a type of investment. Different types of assets include equities (company shares), gilts (loans to the UK government), corporate bonds (loans to companies), property or cash and cash alternatives. Cash and cash alternatives include a range of short term deposits (cash) - similar to a bank or building society account - and money market securities (cash alternatives), which are interest generating investments, issued by governments, major banks and other institutions. Cash and cash alternatives play an important role in providing a balanced return.

Assets can rise and fall in value. A selection of assets is known as the asset mix and this makes up our with-profit fund. How well your investment does depends on how well the assets perform that make up this mix. Because with-profits investments are low to medium risk investments, the asset mix will always include a mixture of higher and lower risk investments.

## Further information

You can find out more about with-profits at [aviva.co.uk/with-profits](http://aviva.co.uk/with-profits).

If you have any questions about your investment in with-profits you should talk to your financial adviser. They will be able to consider your current circumstances and financial goals. If you don't have a financial adviser, you can speak to one of our advisers on 0800 068 6800 who can provide advice on our products and funds, or you could find a financial adviser in your area at [unbiased.co.uk](http://unbiased.co.uk). Where advice is provided, there may be an additional cost to you.

The Money Advice Service also has a website dedicated to financial education, which includes information about with-profits investments, [moneyadvice.service.org.uk](http://moneyadvice.service.org.uk).