With-Profits Summary

A guide to how we manage our with-profits business

Aviva Life & Pensions UK Limited FP With-Profits Sub-Fund – October 2017

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Background

Within Aviva Life & Pensions UK Limited, there are a number of separate with-profits sub-funds. This guide applies to the FP With Profits Sub-Fund.

Aims of this guide

This guide tells you how we manage the FP With-Profits Sub-Fund ('the Sub-Fund'). It is a summary of the key points in the 'Principles and Practices of Financial Management' (PPFM) document for the Sub-Fund. The Principles are statements of the overall standards we adopt; the Practices describe our current approach to managing the Sub-Fund.

The PPFM itself is available from our website, **aviva.co.uk/ppfm**, or we can send you a copy if you ask us to – please see the contact details at the end of this booklet. The terms of the PPFM apply in the case of any differences between it and this document.

Why this guide is important

Please read this guide. It gives important information about how with-profits policies in the Sub-Fund work and what policyholders can expect from them.

Please keep this guide in a safe place with your other policy documents. When reading this guide you may find it helpful to have your policy documents ready to refer to.

If, having read this guide, you need more information, please:

- call us using the phone number shown on the documents provided with this booklet;
- contact your financial adviser. Please note they may charge for any advice given; or
- call **0345 602 9199** giving your policy number. Calls may be recorded.

Contents

How does your policy work?

With-profits policies share in the profits made in the Sub-Fund. There are three main types of with-profits policy in the Sub-Fund:

- conventional with-profits policies;
- unitised with-profits policies; and
- accumulating with-profits group pension policies.

Your yearly statement or bonus notice will help you tell which type you have. If your statement shows units and unit prices, then you have a unitised policy. If you are an employer with a pension scheme, you may have an accumulating with-profits group pension contract. Otherwise, your policy is a conventional one.

If you are unsure about what type of policy you have, and need more information, please use the contact details given at the end of this booklet.

Conventional policies

If you have a conventional policy, we pay you a guaranteed amount on your policy's maturity date or on your death. This may be:

- a lump sum payment (called a 'sum assured'); or
- a series of payments (called an 'annuity' or 'pension').

We may add regular bonuses once a year to the guaranteed amount. On your policy's maturity date or on your death, we may also add a final (terminal) bonus to the guaranteed amount.

Unitised policies

If you have a unitised policy, we use your premiums to buy units in the Sub-Fund. We add regular bonuses, if any, by increasing the unit price daily in line with the rate of regular bonus we declare. We may also include a final (terminal) bonus when your policy ends, on top of any guaranteed amount we have agreed to pay you, by adding extra units.

Accumulating with-profits group pension policies

For accumulating with-profits group pension policies, we keep an account for each scheme or member. We credit the account with payments into the scheme, any guaranteed interest payments due and bonuses allocated. We debit the account with the cost of members' benefits and charges. Most accumulating with-profits group pension policies are not entitled to final bonus.

Guarantees

There are likely to be guarantees under your policy. These apply if certain events happen or on specific dates stated in your policy document. For example, the event may be your policy's maturity date as agreed when you took it out. Or, for a pension policy, it may be the date you intended to retire when you started the policy.

Non-profit policies

There are also a large number of policies in the Sub-Fund which are not entitled to a share in profits of the Sub-Fund ('non-profit policies') so do not receive bonuses. The non-profit policies are mainly policies that provide a guaranteed series of payments (called 'annuities'). Some with-profits policies share in the profits and losses on the non-profit policies in the Sub-Fund (see also 'How are business risks managed?').

How are bonus rates determined?

Our primary aim is to make sure that all guarantees are met and that all policyholders are treated fairly. Future bonuses cannot be guaranteed as they come from profits that have not yet been earned. This means that it is possible that no bonuses will be added. Some policies include guarantees of minimum bonus rates; in these cases the minimum bonuses will always be added but future bonuses above the minimum may not be.

Regular bonus rates for conventional and unitised policies

To determine regular bonus rates for conventional and unitised policies, we estimate the future investment return we expect to earn in the long term on the assets of the Sub-Fund. Regular bonus rates are then set taking this into account, together with other factors such as tax and expenses. Our aim is to allow a big enough margin to pay final bonus on most policies of each particular type when they end. If we consider the expected final bonus is too low then we will reduce regular bonus rates. Similarly, if we consider that the expected final bonus is too high then we will increase regular bonus rates.

Bonus rates for accumulating with-profits group pension policies

The approach described in the section before is followed, except that we do not aim to allow a margin for final bonus.

Final bonus rates for conventional and unitised policies

We normally review final bonus rates twice a year. However, final bonus rates can change at any time and we may review them more frequently if there are large changes in investment markets.

To determine final bonus rates on conventional and unitised policies we group similar policies together. We compare the guaranteed benefits with the asset share for the group. The asset share is an amount we work out for a policy by looking at how much has been paid into the Sub-Fund and the investment returns earned in respect of the policy.

We then take away certain deductions which include expenses, tax and the cost of providing other policy benefits (such as death or sickness benefits). For more information on expenses, please see the section 'What are the charges and expenses'.

We aim to pay out, on average, the asset share of a policy, plus any enhancement which may be available when it reaches the end of the term. However, sometimes we may aim to pay more or less than this (see 'Smoothing').

An enhancement is an increase that we may apply to payouts from the excess assets in the Sub-Fund. Not all policies are entitled to enhancements and the level of enhancement may vary depending on which type of policy you have. Enhancements are reviewed at least twice a year and are not guaranteed.

We aim for payouts on individual policies to be between 80% and 120% of the enhanced asset share of a policy when it reaches the end of its term.

Smoothing

Over time the value of the investments held by the Sub-Fund will rise or fall. We control the value of your policy using bonuses, with the aim of providing payouts that are close to the value of the underlying investments. We do not change bonus rates as frequently as the value of the Sub-Fund's assets change and this can lead to payouts being temporarily different from our target payouts.

We also aim to not change payouts for similar policies by more than 20% from one year to the next, but this only protects payouts temporarily against falls in asset share larger than this.

If your policy is not entitled to any final bonus, its regular bonuses may vary more than other policies' because we cannot use a final bonus to adjust the overall amount we pay you. Policies where we do not pay final bonuses include accumulating with-profits group pensions.

Over the long term, we would not expect the Sub-Fund itself to gain or lose from smoothing and we adjust final bonus rates to ensure this.

What happens if you leave the Sub-Fund early?

You may decide to move some or all of your investment out of the Sub-Fund early. For example you might:

- cash in your policy;
- transfer to another company; or
- switch to another type of Aviva fund.

We would then work out how much to pay you using 100% of enhanced asset share as a guide. Our aim is to be fair to you and other policyholders leaving the Sub-Fund, and to those policyholders staying in the Sub-Fund. We aim for most payouts to fall within a range of 20% either side of the target.

Conventional policies

We reduce your payout to reflect that you have been invested in the Sub-Fund for a shorter time than originally planned. Also, for regular premium policies, we reduce your policy's guaranteed benefits to the proportion bought by the premiums you have already paid.

Unitised policies

We work out the cash-in, transfer or switch value by looking at the value of the units in your policy and then apply any reduction as described in your policy booklet. We may then add a final bonus as described earlier.

If the assets in the Sub-Fund which back your policy have performed poorly, then we may reduce your payout by applying what is known as a 'Market Value Reduction' ('MVR'). We apply an MVR to make sure that:

- the cash-in, transfer or switch value is fair compared to the asset share of the policy; and
- a fair share of the Sub-Fund is left for the remaining policyholders.

For certain policies we guarantee not to apply an MVR on certain dates or events. Your policy booklet will tell you if this is the case.

How is your money invested?

Our investment strategy for with-profits policies is to invest in a broad range of assets. We aim to provide the best possible investment returns for the benefit of policyholders generally, allowing for:

- the level of guarantees within the Sub-Fund; and
- the amount of excess assets in the Sub-Fund.

The Sub-Fund invests in a mixture of assets: mainly shares, property, bonds (loans to governments or companies), and money market investments (such as bank deposits). Historically, shares and property have produced higher returns than bonds and money market investments over long periods, such as twenty years. However, bonds and money market investments are lower risk and are more suitable for backing guaranteed payments.

We set guidelines for our investment managers to tell them the proportions of the Sub-Fund that should be invested in each type of asset. We may apply different mixes of asset type for different groups of policies. We also control any potential risks to the Sub-Fund by setting guidelines covering the quality of the assets, and setting limits on the amount that we invest in any one asset or with any third party.

We review our long-term investment strategy at least yearly but may do so more often if market conditions change quickly.

How are business risks managed?

The Sub-Fund is exposed to a number of risks. For policies sold before 9 July 2001 the cost of risks is normally borne by the Sub-Fund. Our biggest risks come from the need to pay the guaranteed payments on all with-profits and non-profit policies when they become due, particularly as, that in order to generate a better investment return, we do not invest only in asset types which would minimise this risk. The risk that annuity policyholders live longer than we currently expect is also significant.

Policies sold from 9 July 2001 are exposed only to the cost of guarantees built up by regular bonus additions on this business. Other business risks for these policies are borne by the shareholders.

We control the risks to the Sub-Fund by monitoring the various risk factors, and taking action to reduce our exposure to risk, for example by changing our investment strategy or entering into arrangements to transfer risk to other companies.

What are the charges and expenses?

Expenses are what it costs us to sell and look after your policy.

For policies sold before 9 July 2001, when we calculate your policy's asset share the expenses we allow for include:

- the cost of administering policies and paying out benefits;
- commission paid to intermediaries and other sales expenses; and
- investment management expenses.

The expenses which we may charge are limited to the lower of what it would cost us to run the Sub-Fund as a stand-alone insurance company and what a third party would charge us to do this.

For policies sold from 9 July 2001, when we calculate your policy's asset share, we deduct the charges as set out in your policy document. If actual expenses are different from the charges any profit or loss is borne by the shareholders. Any payments you make for death or sickness benefits will also be deducted.

What are the excess assets and the capital support?

The excess assets of the Sub-Fund are used to enhance payouts on policies that are entitled to them, in a way that is fair to all policyholders.

If at any time we believe that the amount of the excess assets is too low then we will take action to increase it, for example by changing our investment strategy or by setting aside a small amount of asset share to meet the expected cost of guarantees. Any increase in excess assets will be used to enhance payouts for certain policies sold before 9 July 2001.

In addition, certain capital support assets are available within other parts of Aviva Life & Pensions UK Limited, in all but extreme circumstances. Support assets may be used to pay policy benefits of the Sub-Fund, should the reserves and estate prove insufficient.

In certain circumstances the support assets will be transferred to the Sub-Fund. The assets will also be repaid when no longer required.

The excess assets and capital support assets:

- provide us with investment flexibility; and
- enhance the security of policy benefits generally.

Are new policies still being issued?

Subject to policy conditions, existing policyholders can still top up their plans, and new members can still join existing company pension schemes.

We closed the Sub-Fund to new customers on 30 September 2017.

Although we no longer sell new policies, the Sub-Fund will continue to be managed in line with our PPFM.

How much profit are our shareholders entitled to?

Shareholders receive a share in the investment and other profits and losses of the business written prior to 9 July 2001.

They are entitled to:

- one ninth of the value of bonuses added to conventional with-profits policies;
- 60% of the non-investment profits on unitised with-profits business; and
- 60% of the profits on non-profit business in the Sub-Fund.

These entitlements are not deducted from asset share. The amounts that were expected to be paid in all future years were included in the Sub-Fund for this purpose in 2001; any difference compared to the actual amount paid will be added or deducted from the excess assets of the Sub-Fund.

In respect of business written from 9 July 2001, shareholders are entitled to any profit or loss as a result of differences between actual expenses and the charges made to policies.

How can you find out more?

This guide is a summary of the 'Principles and Practices of Financial Management' ('PPFM') document, which gives a more detailed description of how the Sub-Fund is managed.

If you would like a copy, please use the contact details below. Or you can read it on our website **aviva.co.uk/ppfm**.

If, having read this guide, you need more information, please:

- call us using the phone number shown on the documents provided with this booklet;
- contact your financial adviser. Please note they may charge for any advice given; or
- call **0345 602 9199** giving your policy number. Calls may be recorded.

Aviva Life & Pensions UK Limited.

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