

# **With-Profits Summary**

A guide to how we manage our with-profits business

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

## Background

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

## Aims of this guide

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

The PPFM itself is available from our website, [aviva.co.uk/ppfm](https://www.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 our with-profits policies 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 304 0401** giving your policy number. Calls may be recorded.

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## How does your policy work?

With-profits policies share in the profits made in the WL With-Profits Sub-Fund (called the with-profits sub-fund in the rest of this booklet).

There are two main types of policy which invest in the with-profits sub-fund:

- conventional with-profits policies; and
- unitised with-profits policies.

Your Annual statement or bonus notice will show you which type of policy you have. If your statement shows units and unit prices, then you have a unitised policy. 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 with-profits sub-fund. For most unitised policies, we add regular bonuses, if there are any, once a year by adding extra units. For the remaining unitised policies, we add regular bonuses, if any, at least monthly by increasing the unit price or by a combination of this and adding extra units.

We may also include a final (terminal) bonus when your policy ends on top of any guaranteed amount we have agreed to pay you.

### Guarantees

There may 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.

## How are bonus rates determined?

Our overall aim is to make sure that all guarantees are met and that all policyholders are treated fairly. We regularly review our bonus rates and they may change at any time. Future bonuses can not 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.

When we determine bonus rates we normally use example model policies.

There are two types of bonus which we may add, regular bonuses and final bonuses:

### Regular bonus rates

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 that the expected final bonus is too low then we will reduce regular bonus rates (if necessary to zero). Similarly, if we consider that the expected final bonus is too high then we will increase regular bonus rates.

### Final bonus rates

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, we compare each example policy's guaranteed benefits with its asset share. The asset share is an amount we work out by looking at how much of the premiums paid into the sample policy were invested in the with-profits sub-fund and the investment returns earned in respect of the policy. We then take away certain deductions which may include expenses, tax, our shareholders' profit, and the cost of providing the agreed benefits for the policy (such as life insurance). For more information on expenses, please see the section on page 7, 'What are the charges and expenses?'

We aim to pay out, on average, the asset share of a policy when it reaches the end of the term. However, we may pay more or less than this as a result of smoothing (see the next section). We aim for your payout to be between 80% and 120% of the asset share of your policy.

### Smoothing

Over time the value of the investments held by the with-profits 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 normally aim not to change payouts for similar policies by more than 10% from one half year to the next. This protects payouts temporarily against falls in investments greater than this.

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

## What happens if you leave the with-profits sub-fund early?

You may decide to move some or all of your investment out of the with-profits 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 the asset share as a guide. Our aim is to be fair to you and other policyholders leaving the with-profits sub-fund, and to those policyholders staying in the with-profits sub-fund.

If you leave the with-profits sub-fund early we aim for your payout to be between 80% and 120% of the asset share.

### Conventional policies

We reduce your policy's guaranteed benefits to reflect the fact that you have been invested in the with-profits sub-fund for a shorter time and paid fewer premiums than we expected when you took out your policy. We may add a final bonus as described earlier.

In adverse financial conditions, for example if investment markets fall significantly, we may change the way we determine how much is due to you. This may mean that we reduce the amount we pay you in order to be fair to all policyholders.

### 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 with-profits sub-fund which back your policy have performed worse than we assumed when we added regular bonus to your policy 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 with-profits sub-fund is left for the remaining policyholders.

For certain policies we guarantee not to apply an MVR on certain dates. 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 with-profits sub-fund; and
- the amount of surplus assets in the with-profits sub-fund.

The with-profits sub-fund invests in a mixture of assets; mainly shares, bonds (loans to governments, known as gilts and loans to companies, known as corporate bonds), and money market investments (such as bank deposits).

Historically, shares have produced higher returns than bonds and money market investments over long periods such as twenty years. However, bonds and money market investments are considered lower risk and are more suitable for backing guaranteed payments.

Policies with very high guarantees and those that are within three years of maturity or retirement will have a higher proportion of bonds and money market investments and a lower proportion of shares.

We set guidelines for our investment managers to tell them the proportions of the with-profits sub-fund that should be invested in each type of asset. We also control any potential risks to the with-profits 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 with-profits sub-fund is exposed to a number of risks. The cost of risks is normally allocated to the with-profits sub-fund as a whole not to individual policies.

Our biggest risks come from the need to pay the guaranteed payments on all with-profits and non-profit policies when they become due, and from the possibility of falls in asset values.

We control the risks to the with-profits sub-fund by monitoring the various risk factors, and taking action to reduce our exposure to risk, for example by changing our investment strategy.

## What are the charges and expenses?

For conventional policies, policy charges will have been allowed for in the premium that you pay. For unitised policies, these will have been set out in your policy document.

Expenses are what it actually costs us to look after your policy. When we calculate your policy's asset share the expenses we allow for include:

- fees we pay for administration;
- commission paid to intermediaries;
- fees for investment management services;
- other investment related expenses, for example the cost of buying and selling assets; and
- part of the general expenses of the with-profits sub-fund, such as fees we pay to the financial regulator.

## What are the estate and the capital support?

### The estate

Over time, we will pay out all the assets in the with-profits sub-fund in a way that we believe is fair to all policies. However, whilst the sub-fund still has many years to run we keep aside an amount known as 'the estate'.

The estate:

- provides us with investment flexibility;
- enables bonuses on with-profits policies to be smoothed; and
- enhances the security of policy benefits generally.

We maintain the amount of the estate within specified limits. If the amount of the estate becomes too high, we increase policy payouts in order to bring it back within the limits. Similarly, if the amount of the estate is too low we reduce policy payouts. Eventually, as the sub-fund runs off, we will have paid out the estate.

### Capital support

In addition to the estate, some capital support assets are available within other parts of Aviva Life & Pensions UK Limited, in all but extreme circumstances. Support assets will be used to maintain the value of ex-Colonial Life conventional with-profits policies in certain circumstances. Once an amount of support assets has been transferred to the sub-fund it cannot be repaid.

## Are new policies still being issued?

The with-profits sub-fund is closed to new customers. However, subject to policy conditions, existing

policyholders can still top up their plans and new members can still join existing group pension policies.

## How much profit are our shareholders entitled to?

Both policyholders and our shareholders share in the profits of the with-profits sub-fund.

Shareholders are entitled to one ninth of the value of bonuses added to most with-profits policies.

## How can you find out more?

This guide is a summary of our 'Principles and Practices of Financial Management' (PPFM) document, which gives a more detailed description of how the with-profits 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](http://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 that they may charge you for any advice given; or
- call **0345 304 0401** giving your policy number. Calls may be recorded.