9. What happens if you leave early?

We also use an asset share approach when we work out how much to pay if you decide not to pay premiums until the maturity date. The larger range for surrender payments is around 100% of the asset share.

If you stop your policy early (e.g. cancel your policy), we work out how much to pay you with the aim of being fair to all policyholders, that is those leaving the fund and those staying. There is generally no guarantee that you will be paid a certain amount at any time if there is a sudden drop in the value of stocks and shares.

When you request a surrender valuation we will always advise you if we are applying an MVR at present, although this can change at any time if there is a sudden drop in the value of stocks and shares.

10. What happens if you die before the end of the policy term?

The guaranteed sum assured or fund value, plus all regular bonuses added up until the time of death are paid out. Terminal bonus may also be paid but this will depend on the number of years the policy was in force before the date of death. The same bonuses will apply to death benefits as to maturity values. We never apply market value reductions on death.

11. What does the With-profits Fund invest in?

The With-profits Fund invests in a range of assets including UK and overseas stocks and shares, fixed interest securities, commercial property and bank deposits. We aim to maximise the investment return whilst ensuring that the fund can meet its commitments to policyholders to guarantee benefits. We formally review the percentage of each asset in the fund every year and more frequently when market values are volatile. We closely monitor the amount of shares, property and lower quality corporate bonds invested in the fund as returns from these investments are generally more volatile than those from fixed interest and cash.

The percentage of shares and property held within the fund can range from 0% to 50% although different minimum and maximum investments are generally more volatile than those from fixed interest and cash.

12. Why does the fund have assets in excess of the total asset shares?

At all times the With-profits Fund needs to hold enough assets to pay policyholders the benefits promised to them by the guarantees and the terminal bonus, or by the asset share for surrender values. The With-profits Fund is an incorporated Friendly Society and has been approved to operate as an insurance fund. It is licensed by the Financial Conduct Authority and is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services Register number 10,70944.

The Society targets the amount of estate that if it is available it would be appropriate to hold for the size of the fund and to police in force. Over the long term, the Board of the Society could consider having any difference in the estate back to or from the asset shares of policyholders. The Board will aim to do this gradually but may need to carry out larger adjustments if its ability to meet guaranteed benefits may fall at all.

13. What risks is the With-profits Fund exposed to?

The Society does not have any shareholders so the With-profits policyholders receive the benefits but also bear the costs of the risks of all business activity.

There is a risk associated with selling new policies. There are currently no limits on the amount of new business that may be accepted into the With-profits Fund. However, we review our business plans each year to ensure that the costs of selling and maintaining the policies can be supported by the fund without damaging the returns for policyholders. Any other business ventures undertaken by the Society may generate profits or losses which will again accrue to the With-profits Fund. These activities must be approved by the Board. These ventures might include launching new products or vessel strategic developments; strategic changes are done and sold.

The Board will act only after taking advice from the With-profits Actuary who is required to report to the Board on whether this investment of the With-profits policyholders is in accordance with the Principles and Practices of Financial Management.

The profits or losses from these ventures or activities are normally added into the individual asset share by a smoothed addition (or subtraction) from the investment return. The estate allows the Board to smooth this addition and may allow the Board to avoid contributions from the investment return. Large scale losses that cannot be absorbed by the estate or smoothed into the investment return will need to be included in the individual asset shares they should occur.

The fund is also exposed to the general risks of carrying out insurance business. This includes risks associated with operational or compliance failures as well as whether other non-profit business experiences with that expected in arriving at the premium rates charged.

14. Where can I find out more?

The PFRM is available on our website www.healthyinvestment.co.uk, you can request a copy by calling 0161 762 5790 or freephone 0800 731 2422 or by writing to the Society’s Head Office, 2 The Old Court House, Tenterden Street, Bury, Greater Manchester, BL9 0AL.

The independent website www.moneymadeclear.gov.uk has further information on With-profits.
1. Glossary

Asset share — The term used to describe your fair share of the underlying assets in the fund.

Board — In this document the Board refers to the Board of Directors of the Society as elected by the membership.

CFPPFM — In this document we mean stocks and shares quoted and traded on the UK stock market and major overseas markets.

Surrender valuation — This is the amount shown on your Personal Illustration and is the guaranteed minimum you will receive on death or maturity providing you have maintained the policy throughout the full term.

Maturity — When the policy has run its full term and the investment pays out it is said to have reached maturity.

Policy term — This is the length of time that you commit to maintaining your policy when you take it out.

Smoothing — This is the bonus that we add annually to your sum assured.

Reversionary bonus — This is another way of saying regular bonus.

Asset share — The amount of terminal bonus and regular bonuses will also depend on the allowance we make for the expenses of setting up and running the policy. The bonuses will also reflect any other profits or losses made by the Society. The Society is a mutual organisation which means that neither shareholders nor members of the With-profits polity share in the profits of the Society.

Smoothing — This is another way of saying regular bonus.

Final bonus — A final bonus, called a terminal bonus, may be added at the maturity date or in the event of a death claim or for single premium plans at the time of the surrender valuation. The amount of terminal bonus and regular bonuses will also depend on the allowance we make for the expenses of setting up and running the policy. The bonuses will also reflect any other profits or losses made by the Society. The Society is a mutual organisation which means that neither shareholders nor members of the With-profits polity share in the profits of the Society.

2. Introduction

We manage our With-profits fund in line with a set of principles. These principles and how we follow them in practice are explained in a document called the Principles and Practices of Financial Management (PPFM). The PPFM is a detailed document. This guide is a summary of the contents of the PPFM.

We can, over time change the principals by which we manage our With-profits Fund. If so this we will write to all our members to give them time to consider the proposed changes. If we change any of our practices we will write to members at the earliest opportunity and inform them of this change.

3. What is a With-profits policy?

A With-profits policy guarantees to pay a minimum cash sum (the sum assured) in death or maturity. Regular bonuses may be added which increase the guaranteed minimum cash sum. These bonuses may increase or decrease or may not be added at all. A final bonus, called a terminal bonus, may be added at the maturity date or in the event of a death claim or for single premium plans at the time of the surrender valuation. The amount of terminal bonus and regular bonuses will also depend on the allowance we make for the expenses of setting up and running the policy. The bonuses will also reflect any other profits or losses made by the Society. The Society is a mutual organisation which means that neither shareholders nor members of the With-profits polity share in the profits of the Society. Please see section 13 “What risks is the With-profits Fund exposed to?” and section 8 “What is smoothing”.

The bonuses added to With-profits policies depend on the way we manage the With-profits Fund.

4. What are the main principles we follow?

We manage the With-profits Fund and determine bonus payments in a lawful, sound and prudent manner.

We aim to manage the With-profits Fund and determine bonus payments in a lawful, sound and prudent manner.

5. How do we decide regular bonuses?

Regular bonuses are set by taking into account what the fund can afford now and in the future.

Regular bonuses are set by taking into account what the fund can afford now and in the future.

6. How do we decide terminal bonuses?

The rate of bonus is decided by the Society’s Board of Directors after taking professional advice from the Society’s With-profits Actuary.

When regular bonuses are added to the guaranteed sum assured, they cannot be taken away, providing the policy is maintained until maturity.

Reversionary bonus — This is another way of saying regular bonus.

The target range for maturity payments is between 70% to 130% of the asset share. However, any longer term trend in expenses will need to be met by charging the excess against the asset share and, therefore, will reduce the future bonus rate.

8. What is smoothing?

We aim to target policy payouts so that policyholders receive their asset share. However, With-profits policies normally smooth out the highs and lows in the change in values of investments. The target range for maturity payments is between 70% to 130% of the asset share, for regular premium plans and between 80% and 120% for the single premium Bond and the ISA. These ranges are non-binding guidelines from the With-profits Actuary.

Smoothing works both to:

a) reduce the variation in maturity values between different policies, maturing at the same time with different contribution levels and of different types.

b) reduce the variation in maturity values at different maturity dates. (For example, it is highly unlikely that we will change bonus rates during a year there has been major changes in the value of the stock market.)

c) reduce the variation between maturity values from one year to the next, the aim being to avoid short term movements in stock markets affecting the maturity payout.

d) allow death benefits to follow the same bonus rates as maturity payments to ensure that benefits are equal.

Some smoothing may be applied to surrender values but at a much lower extent than to the maturity or death benefit value. Whilst smoothing helps to protect members from short term fluctuations in the stock market it will not protect against long term and sustained falls in the value of stocks and shares. Equally, smoothing will not protect members from reductions in bonus rates caused by returns over the longer term being less than commonly experienced.