Healthy Investment

A Guide to How We Manage Our 'With Profits' Business

Contents

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

These are initials used to describe our Customer Friendly Principles and Practices of Financial Management, which is this document. It provides you with information on how we manage our 'with profits' fund.

Final bonus

This is the bonus that we add at the end of the investment.

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.

PPFM

The Principles and Practices of Financial Management is the more detailed and technical document which sets out how we manage our 'with profits' fund.

Regular bonus

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

Reversionary bonus

This is another way of saying regular bonus.

Smoothing

Rather than amending the terminal bonus rates every time there is a rise or fall in the stock market we aim to make your return more even.

Stock market

In this document we mean stocks and shares quoted and traded on the UK Stock Market and major overseas markets.

Sum assured

This is the amount shown on your personal illustration and is the guaranteed minimum you will receive on death or maturity providing you continue to pay all the premiums you committed to making when you took out the policy.

Surrender

To cash in, withdraw or stop paying the regular premiums to your policy.

Surrender valuation

If you are considering cashing in your investment we will tell you what it is worth. This is a surrender valuation.

Terminal bonus

This is another way of saying final bonus.

The estate

The value of assets in the total 'with profits' fund which have built up over time and are not part of an individuals asset share, which we use to help with the costs of running the Society.

With profits Actuary

The Actuary, or 'with profits' Actuary is the appropriately qualified and FSA regulated person the Society employees to undertake its investment, solvency and asset share calculations and to advise the Board on its compliance with the Principles and Practices of Financial Management.

With profits

The name or description of the type of investment that this document describes.

With profits fund

This is all the money that has been invested in our 'with profit' policies which is held in a variety of different assets.

A guide to how we manage our 'with profits' business.

The premiums you pay into your Healthy Investment 'with profits' policy are invested in Healthy Investments 'with profits' fund. This guide tells you how we manage the fund and explains what you can expect to get back. It is the consumer friendly version of the Principles and Practices of Financial Management (PPFM).

Please read this guide – it gives important information about how 'with profit' policies work.

2. Introduction

We manage our 'with profits' fund by following 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 content of the PPFM.

We can, over time change the principles by which we manage our 'with profits' fund. If we do this we will write to all our 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) on 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. The amount of terminal bonus and regular bonuses added will depend on how the investments in the 'with profits' fund have performed while you have been paying premiums into it. 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' which means that there are no shareholders and the 'with profit' policyholders are the effective beneficial owners of the Society. Please see section 13 'What risks is the with profit 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 treat all policyholders fairly.
- We aim to ensure that we can pay all guaranteed benefits as and when they become due.

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 based on the investment returns achieved within the fund after allowing for the level of guaranteed benefits in each individual policy.
- We normally set regular bonus rates once every year.

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.

Regular bonuses may vary from year to year and they may be reduced to nil for some years if the fund falls to a level where the guaranteed benefits may not be paid.

Regular bonuses are expressed as a percentage of your sum assured or sum assured plus attaching bonuses less withdrawals, depending upon the type of policy.

6. How do we decide terminal bonuses?

The rate of terminal bonus is decided by the Society's Board of Directors after taking professional advice from the Society's Actuary.

Terminal bonuses are paid to make sure that you get back an amount that fairly reflects the performance of the 'with profits' fund investments, if the regular bonuses we have added have not already done this. We call this amount your 'asset share'.

When we calculate your 'asset share' we take into account the premiums you have paid, the investment performance of the 'with profits' fund while the premiums have been invested and the charges we make to cover our expenses. The investment returns credited to the 'asset share' reflect the level of guarantees on the individual policy. The higher the level of guaranteed benefits on maturity are compared to the 'asset share', the more the investment return will reflect the safer assets (such as fixed interest securities and deposits) that we have in the overall fund. The smaller the level of guaranteed benefits, the more the investment return will reflect the return on the assets we expect to outperform these safer assets in the long term (such as shares) that we have in our fund.

We aim to pay out on average the full 'asset share' to policyholders but we ignore small day to day movements in the value of the fund. We also use a method called smoothing, outlined in section 8, to make sure payouts from one year to the next do not change significantly. There is a target range set by the Board and details of this target range is shown in the full PPFM.

Terminal bonuses may not be added at all if the value of the 'with profits' fund falls to a level where there may be a risk that policyholders' guaranteed benefits may not be paid.

Bonuses are also affected by other profits or losses made by the Society. See section 13 'What risks is the 'with profit' fund exposed to?'

7. What are the charges?

Normally, the charges will be those shown in the illustration originally issued by the Society.

The charges are to cover the expense of selling and setting up the policy, the expense of investing the premiums, the cost of ongoing administration and the cost of providing life insurance.

Ultimately, all expenses of the Society need to be met by the members. The Society will normally meet any excesses of the expenses above those illustrated from the estate (see section 12 'Why does the fund have assets in excess of the total asset share'). However, any longer term trend in expenses will need to be met by charging the excess against the asset share and, therefore, the bonuses credited.

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 around 100% of the 'asset share'.

Smoothing works both to:

- reduce the variation in maturity values between different policies maturing at the same time with different contribution levels and of different types.
- reduce the variation in maturity value at different maturity dates. (For example, it is highly unlikely that we will change bonus rates during a year unless there had been major changes in the value of the stock market).
- normally reduce the variation between maturity values from one year to the next, the aim being to avoid short term temporary movements in stock markets affecting the maturity payout.
- allow death benefits to follow the same bonus rates as maturity benefits to ensure that benefits are equal.

Some smoothing may be applied to surrender values but at a much lesser 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 currently experienced.

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 target range for surrender payments is also around 100% of the fair share.

If you stop your policy early (e.g. surrender 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 minimum amount. If you surrender your policy within the first two years you will not receive any benefit at all on a regular premium policy. If the value of the assets in the 'with profits' fund is low, you may get back less than you invested.

A Market Value Reduction (MVR) may apply to withdrawals from 'with profits' bonds and ISAs. An MVR is a reduction in the value of your investment to bring the overall payout closer to the 'asset share' when the underlying value of the assets in our fund are lower.

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, say, a sudden drop in the value of stocks and shares.

All our 'with profits' bonds and ISAs have an MVR free period where you can withdraw your investment without an MVR being applied, even if the Stock Market has fallen in value and we are applying MVRs on withdrawals. This is on the 10th anniversary of the investment and every 5th anniversary thereafter.

If you are considering stopping paying your regular premiums, surrendering or cashing in your policy early we strongly recommend that you seek professional financial advice.

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 shares, fixed interest securities, property, commercial bank deposits and cash. We aim to maximise the investment returns whilst ensuring the fund can meet its commitments to policyholders to pay guaranteed 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 and property invested in the fund as returns from these investments are generally more volatile than those from fixed interest securities and cash. As at 31st December 2007, 51% of the 'with profits' fund assets were invested in shares and property. We would expect this to generally be in the range of 40% to 70%.

Your policy's bonus performance will depend on the proportion of your own policy's asset share that we believe is suitable for higher performing assets like shares and property. The higher the level of the value of guaranteed benefits compared with your policy's asset share, the lower the proportion that we feel can be invested in higher performing assets. Therefore, the overall amount invested in shares and properties is an average over all policies and is not used to determine the amount of bonuses that we credit to any one policy.

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 bonuses, or by the asset share for surrender values.

Over the history of the Society, the 'with profits' fund has built up more assets than the asset shares of the individual insurances. The extra assets are called the 'estate'. The estate provides the working capital that supports the 'with profits' fund and allows it to make promises in the future. The estate also provides a buffer to allow the 'with profits' fund to smooth policy payouts and to absorb losses and profits.

The Society targets the amount of estate that it feels is appropriate to hold for the size of its fund and its policies in force. Over the long term, the Board of the Society will credit or debit 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 the ability to meet guaranteed benefits may be put at risk.

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 interests of existing policyholders.

Any other business ventures undertaken by the society may generate profits or losses which again will accrue to the 'with profits' fund. These activities must be approved by the Board of Directors. These ventures might include launching new products or wider strategic developments such as changing the way products are distributed and sold. The Board will act after taking advice from the 'with profits' Actuary who is required to report to the Board on whether the treatment 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 subtractions 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 should they occur.

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

14. Where can I find out more?

The full PPFM 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 FSAs website **www.moneymadeclear.gov.uk** has further information on 'with profits'

You may find it helpful to speak to a professional financial adviser.

Healthy Investment

2 The Old Court House, Tenterden Street, Bury, BL9 0AL
Tel: 0161 762 5790 Fax: 0161 764 3557
Email: enquiries@healthyinvestment.co.uk

www.healthyinvestment.co.uk