

# London Life

A Guide to How We Manage Our  
With-Profits Fund



# Aims of this guide

This guide is a summary of how we manage the with-profits fund.

## Why this guide is important

You have a with-profits policy and as a result your money is invested in the London Life with-profits fund. This guide is a summary of how we manage the with-profits fund and how that affects your policy.

Some of our policies allow you to invest in more than one type of fund and to switch between funds. If that is the case, this guide refers only to that part of your policy which is invested in the with-profits fund.

You may want to read this document with your annual statement. Keep it safe with your policy, as you may want to refer to both of them in future. Do not worry if you have mislaid your policy as you can complete a declaration when you claim against the policy. Please contact us in writing if your policy is lost and you need to confirm the terms and conditions.

## Index

1. Introduction to the Principles and Practices of Financial Management
2. What is a with-profits policy?
3. How is the value of a with-profits policy calculated?
4. The with-profits fund and how we invest it
5. Charges and expenses
6. Guarantees and regular bonuses
7. Final bonus and how with-profits policies can cushion you from some of the ups and downs of the investment market
8. How we decide how much you get if you end your policy early
9. What type of policy do you have?
10. How we manage exposure to risk
11. What is the 'estate'?
12. Fairness between policyholders and shareholders
13. How to find out more

# 1. Introduction to the Principles and Practices of Financial Management (PPFM)

## What is the PPFM?

The PPFM explains in detail how we manage the with-profits fund. The PPFM is quite a long, detailed and complex document so this guide is designed to explain the most important points to you as simply as we can. If you want to see the full PPFM you can get a copy from our website ([www.london-life.com](http://www.london-life.com)) or by writing to us.

## What are the Principles of Financial Management?

The principles are the philosophy on which we manage the with-profits fund. These are high-level statements that describe our long-term approach. We don't expect to change the principles often.

Some of the key principles are:

- We aim to treat all customers fairly.
- We will manage our business in a lawful and financially sound manner.
- We aim to manage the with-profits fund so that we can pay all guaranteed benefits.

We do not intend to change our approach to managing the with-profits fund. However, there are some circumstances when we might need to do so, for example, to:

- Protect the financial position of the fund in adverse circumstances;
- Ensure we comply with any changes in taxation or regulatory requirements; or
- Deal with unforeseen events that have a significant impact on the with-profits fund.

We will tell you at least three months in advance if changes are being made to the principles.

## What are the Practices of Financial Management?

Practices are more specific statements. They give more detail of how we are currently managing the with-profits fund. The practices may change more often as we respond to, for example, how the economy is performing, changes in the life assurance industry or to regulatory requirements.

We will publish any changes to practices on our website and inform you in writing at the next available opportunity.

## Governance arrangements

The responsibility for the management of the with-profits fund rests with the Board of London Life.

A separate With-Profits Committee provides independent verification that the processes followed are consistent with the PPFM and that decisions taken by the Board have followed due process and are consistent with the PPFM. The With-Profits Committee may also comment on matters relating to Treating Customers Fairly.

The With-Profits Committee will mainly consist of independent members.



Each year we will produce an annual report for with-profits policyholders stating whether throughout the previous year we believe we have complied with our obligations relating to the PPFM. Attached to that report will be a separate report from the with-profits actuary. You can obtain a copy of the latest report from our website ([www.london-life.com](http://www.london-life.com)) or by writing to us.

## 2. What is a with-profits policy?

A with-profits policy is usually a long-term investment, typically for ten years or more. Such policies are designed to provide policyholders with the opportunity of investing in a fund with a range of investments and where the full impact of changes in market value may not be immediately reflected in the value of the individual policy. With-profits policies generally provide a guaranteed minimum payout. There are different types of with-profits policy (see section 9).



## 3. How is the value of a with-profits policy calculated?

The value of your policy will depend on a number of factors, including:

- The number and amount of the premiums you have paid;
- The investment performance of the assets bought by the with-profits fund (see section 4);
- The charges and/or expenses deducted from your policy (see section 5);
- The level of any guaranteed benefits (see section 6);
- The extent to which your policy is cushioned from the ups and downs in investment markets (see section 7).

It is our objective that payouts to policyholders should be targeting their 'asset share' (see below). Whether you surrender your policy or hold it to maturity, we aim to pay on average your 'asset share'. However, when your policy matures we will compare the asset share with any guaranteed benefits. Where the guaranteed benefits are higher we will pay that amount.

If you surrender or transfer your policy early you will normally lose the additional value that you would have received from getting the guaranteed benefit at maturity.

The surrender value will generally be based on your asset share but some pension policies have certain guarantees on early transfer which means the transfer value will be greater than asset share.

### What does the Asset Share of a Policy mean?

'Asset Share' is a term used to describe your policy's share of the with-profits fund.



Asset Share =

- the total of all the premiums you have paid plus
- the investment returns minus
- expenses and charges made to your policy

Put simply, asset share is the money you have paid in, plus the investment return it has earned, less the expenses charged.

In most cases it is impractical to calculate the asset share for every individual policy in a fund. In these cases, we calculate the asset share by looking at groups of similar policies rather than individual policies.

#### 4. The with-profits funds and how we invest it

The London Life with-profits fund is managed as a number of separate sub-funds, each relating to different types of business. This is done so that we can apply different investment strategies (the selection of assets that we invest in) to the different types of business, depending on such things as the taxation position or the level of guarantees provided on those policies.

The with-profits sub-funds invest in different combinations of shares (often called equities), property, cash and fixed interest investments (such as Government and corporate bonds). Each sub-fund may also use 'derivatives' (for example, the right to buy or sell securities at a pre-agreed price on a specific date) as an efficient way of quickly changing the investments in the fund and/or to reduce risks.

All sub-funds can also invest in 'alternative investments'. These 'alternative investments' will include a wider range of assets, including derivatives. The aim is to reduce the variations in investment returns and improve the overall return to the fund.

The investment strategy for each sub-fund is dependent on a range of factors such as:

- The financial position of the relevant sub-fund;
- The value of guarantees already given to policyholders; and
- How much we need to keep in cash or in assets that can be easily sold, in order to meet claims in the near future.

We aim to maximise the returns for policyholders but we must bear in mind future commitments on those policies. We do not want to be forced into selling investments to meet these commitments at a time when their values are low or be subject to the risk that the value of investments is not sufficient to enable us to meet the guarantees on the policies. This is known as 'matching' assets (investments) with liabilities (commitments to pay out on policies).

We review our investments and matching regularly as market conditions can change quickly. There were significant falls in the stock market from 2000 through to 2003 and during this time London Life sold the majority of its equity investments in the conventional with-profits sub-funds. We did this to safeguard our ability to pay the guaranteed amounts promised by these policies.

As a result of the high levels of guarantees on conventional pension and cash bonus life business, the sub-fund relating to these policies is now invested in a mixture of fixed interest investments and cash.

For former AMP (UK) life business, guarantees are also high. The assets backing these policies are invested in a mixture of fixed interest investments and cash with about 15% of the assets invested in property. We expect that during the next few years these property investments will be sold and the proceeds invested in cash and fixed interest investments.

For the remaining life business (conventional life and deferred annuity business) we now have a target of around 35% invested in shares and property, with the balance in fixed interest investments.

The sub-funds in respect of unitised with-profits business (Life and Pensions) continue to be invested in a broad range of assets, with around 55% of the fund invested in UK and International shares and property, with the balance in fixed interest, reflecting the lower guarantees on these policies.

## 5. Charges and expenses

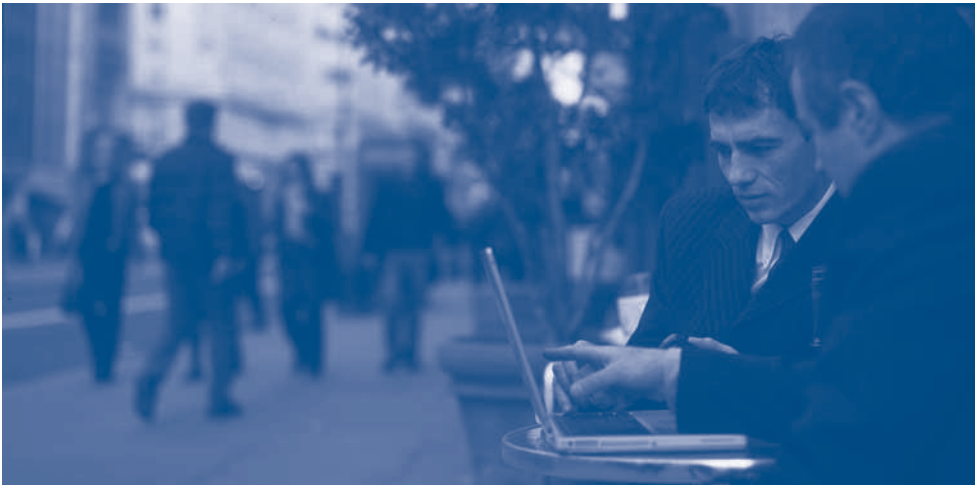
Expenses include the costs of managing the fund, any tax liabilities, the costs of guarantees and smoothing (see section 7) and the costs of providing other benefits, such as life insurance.

Administration and investment management are provided by a service company and investment managers respectively. Service company fees and investment management fees are deducted from asset shares.

All administration expenses charged to asset shares are based on set rates agreed with the service company.

The investment management expenses charged to asset shares are based on the costs negotiated with our investment managers.

The costs of buying and selling the different types of investments in the fund are reflected in investment returns.



## 6. Guarantees and regular bonuses

Your policy may guarantee to pay a certain amount at specific times in the future. Many with-profits policies have a basic sum assured. If you have such a policy, this basic guarantee will be set out in your policy document. Total guaranteed benefits include any annual or regular bonuses that have been added to the sum assured to date.

Typically we would pay guaranteed amounts:

- At a fixed maturity date for endowment life policies;
- At a fixed retirement date or age for pension policies;
- Between a range of retirement dates or ages for pension policies; or
- On the death of the life assured before any of the above dates.

### Why guarantees are important

In general, guarantees are set assuming a lower level of investment return than we expect to earn on the fund. This allows us some flexibility to invest in assets which are expected to offer a better long-term return but whose values can fluctuate in the short-term. We aim to pay out values reflecting actual returns. However when investment returns are poor you are protected and will, as a minimum, receive any guaranteed benefits.

### Regular (Annual) Bonus

Over time, regular bonuses may be added, which increase the amount we guarantee to pay. For example, if you hold your endowment policy to maturity any regular bonuses that have been added to the basic sum assured are also guaranteed to be paid at the maturity date.



London Life declares bonuses annually for conventional with-profits policies. The rate of bonus can vary and it may be nil.

Bonuses are calculated and added periodically for unitised with-profits policies. The level of bonus will depend upon the premiums invested and the bonuses previously added. The rate of bonus can vary and it may be nil.

Once an annual bonus has been added, it increases the guaranteed amount payable on the policy and cannot be taken away.

Bonuses should not be thought of as being the same as the investment return on your policy. The actual return on the premiums you have paid will be reflected in your asset share, which may be higher or lower than the guaranteed benefits on your policy.

## What we take into account in setting regular bonuses

When deciding whether to increase guaranteed amounts by adding regular bonuses we look at a number of factors:

- The current financial position of the fund and how this is likely to change in the future.
- The level of guaranteed benefits compared to the asset shares. If the guaranteed benefits are higher than the asset shares then there might be no further regular bonuses added.
- The performance of the fund – both short-term and long-term. Even if the fund has performed well in a particular year we may not be able to add any bonuses.

We aim to be consistent when making bonus payments and will try not to vary the amount of regular bonuses too much from year to year.

Because of the falls in the stock markets (see section 4), for many policies, the value of guarantees now significantly exceeds the underlying asset share. For this reason, no regular (annual) bonuses have been added over recent years.

In many cases, the most likely maturity value will be the amount of the existing guaranteed



benefits, although this is less likely to be true for unitised with-profits business and London Life conventional life business (compound bonus policies only).

## 7. Final bonus and how with-profits policies can cushion you from some of the ups and downs of the investment market

To make up any shortfall between guaranteed benefits and the actual performance of the fund, final bonuses may be added to the guaranteed benefits described above when you make a claim on your policy.

Final bonuses are set with the aim that, on average, the total policy payout targets asset share (see section 3). Final bonuses are not guaranteed and may be small or nothing depending on the performance of the with-profits fund.

Changes in the level of final bonuses may not directly correspond with changes in the value of the investments in the with-profits fund.

Investment values can go up and down quite dramatically in the short-term, but we aim to cushion with-profits policyholders from these to some extent. We do not change the rates of final bonus very frequently (typically every six months for conventional with-profits), and, to a limited degree, we hold back some of the performance in the good years to use when returns are low. This is known as smoothing.

When investment conditions decline for long periods, payouts to policyholders will correspondingly fall – we cannot fully protect policyholders from significant changes in investment returns over an extended period of time. However, as described above, the guaranteed benefits are the minimum we will pay and this guarantee can prove valuable in such circumstances.



## 8. How we decide how much you get if you leave your policy early

If you end your policy early, either by surrendering your policy, or in the case of pension plans, transferring its value to another pension provider, we aim to pay your policy's fair share of the fund – bearing in mind that we must be fair to policyholders who stay, as well as those leaving.

- For Conventional With-Profits policies we work out the surrender value with the aim of paying on average, around asset share. Individual payments will vary within a range about this target. We may make various deductions to protect the interests of remaining policyholders. For certain pension policies, the benefits payable on transfer or early retirement will be calculated allowing for the guaranteed benefits at maturity. In the case of most pension policies, this means the transfer value or early retirement value will exceed the underlying asset share.

- For Unitised With-Profits policies, we work out the surrender value by multiplying the number of units allocated to your policy by the current unit price (the 'unit value'). We may reduce the amount paid by applying an MVR (Market Value Reduction) unless your policy terms and conditions state otherwise.

### What is a Market Value Reduction (MVR)?

An MVR, also known as a Market Value Adjustment (MVA), is only relevant to Unitised With-Profits business. It may be used to reduce the amount paid out on unitised with-profits business when the current value of the policy (calculated as described above) is greater than the underlying asset share.

The size of any MVR imposed will change from time to time, depending on, in the main, the performance of the with-profits fund.

The times when we can and cannot apply an MVR to your policy depends on the type of policy you have and are set out in your policy document. For example, we cannot apply an MVR to a payment made on death, nor in some cases, at certain retirement ages.

## 9. What type of policy do you have?

London Life has two main types of with-profits policy:

- Conventional With-Profits; and
- Unitised With-Profits.

### Conventional With-Profits

If you have a Conventional With-Profits policy, there may be a guaranteed sum assured. Your premiums are applied to the with-profits fund and bonuses may be added, usually annually. There may be a final bonus at maturity.

### Unitised With-Profits

If you have a Unitised With-Profits policy, units are allocated to your policy every time you pay a premium. Your premiums are applied to the fund and bonuses are added. There may be a final bonus at maturity or an MVR may apply. These terms are explained in sections 6, 7 and 8.

Your annual statement will help you to identify which type of policy you have.

## 10. How we manage exposure to risk

The fund is exposed to a number of risks as a result of product design, for example providing guarantees to policyholders, selling and marketing practices, interest rate and market fluctuations and population changes e.g. how long people are living.

Overall, we look to minimise risks within the fund and our business:

- By careful selection and regular review of investments.
- By containing or removing risks from the fund, such as unexpected falls in asset values.
- By not accepting any new policyholders into the fund.

## 11. What is the 'estate'?

Some with-profits life companies have what is known as an inherited 'estate'. This is money, or surplus, built up over the years, which provides working capital for the fund and supports its operation. This surplus is built up from profits that are not needed to meet the fund's current and future liabilities to policyholders.

London Life has no inherited 'estate'. The shareholder provides working capital for the fund.

## 12. Fairness between policyholders and shareholders

We described in sections 6 & 7 how we set the level of bonuses. When bonuses are paid to policyholders, the shareholder is also entitled to a payment. However, at least 90% of the available funds go to policyholders.

## 13. How to find out more

You can get a more detailed technical description of how we manage the with-profits fund in the PPFM. You or your adviser can obtain a copy from our website ([www.london-life.com](http://www.london-life.com)), or by writing to us.



*None of the contents of this document forms part of, or varies, the terms or conditions of any policy issued or to be issued by London Life Limited. In the event of any inconsistency between the contents of this document and any policy, the terms and conditions of the policy prevail. Life policies are legal contracts and cannot be altered without the agreement of the policyholder.*

*This document is not a comprehensive explanation of either the management of the with-profits business of London Life or of every matter, which may affect the business. In addition, no part of this document should be read as a recommendation to policyholders or potential policyholders or their advisers, in relation to the effecting or maintaining a with-profits policy. Anyone considering whether to effect or maintain a with-profits policy with London Life Limited, or any company within the same group, should seek independent financial advice.*

*Statements in this document in relation to the risks and rewards involved in effecting and maintaining a with-profits policy with London Life are, by their nature, forecasts subject to a variety of uncertainties. Readers of this document should read such forward-looking statements in that context.*

## Contact us

London Life  
The Pearl Centre  
Lynch Wood  
Peterborough, PE2 6FY

### **TELEPHONE**

0845 887 3777

### **FACSIMILE**

01733 475141

### **E-MAIL**

[customersupport@london-life.com](mailto:customersupport@london-life.com)

### **INTERNET**

[www.london-life.com](http://www.london-life.com)

If you would like this information  
in large print, in Braille, or on  
CD, please call 0845 301 0160.

Pearl Assurance Limited No. 1419, London Life Limited No. 1179800, NPI Limited No. 3725037 and National Provident Life Limited No. 3641947 are authorised and regulated by the Financial Services Authority. All companies are registered in England and have their registered office at: 1 Wythall Green Way, Wythall, Birmingham, B47 6WG, Tel: 01564 204321. We may record or monitor telephone calls.

# London Life