PHOENIX LIFE

# PHOENIX LIFE LIMITED
# SPI WITH-PROFITS FUND

Traditional with-profits endowments, traditional whole of life and traditional pension policies

**With-profits policy performance – your questions answered**

# With-profits policy performance – your questions answered

## Introduction

This leaflet aims to answer questions that are often asked about traditional with-profits policies, like yours, which are invested in the Phoenix Life Limited SPI With-Profits Fund ('this fund').

## Background

These policies were transferred into Phoenix Life Limited from Scottish Provident Limited on 6 February 2009 as a result of schemes approved by the UK High Court, the Royal Court of Jersey and the Royal Court of Guernsey.

## Contents

The questions we aim to answer are:



This leaflet is correct at 1 January 2022. The way we manage this fund may change from time to time. We will write to you if we make changes that may have a major effect on your policy.

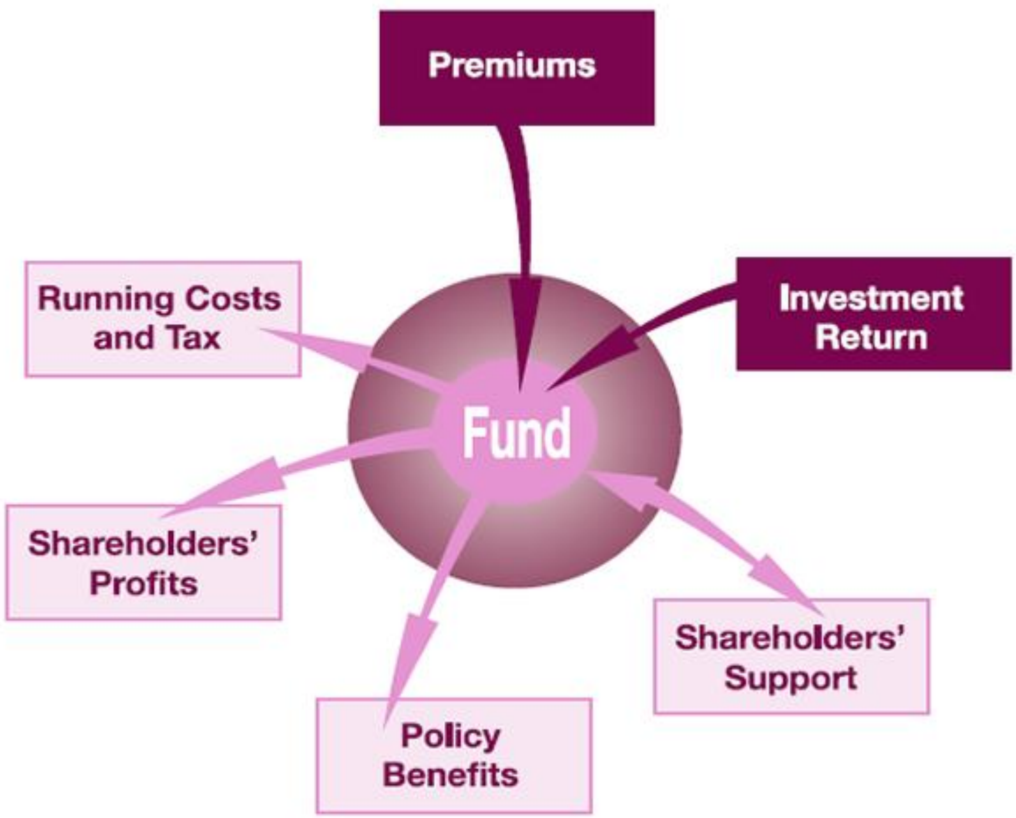
If you would like more details about any of the information in this leaflet, please see the section **Where can I find out more?**.

# 1. How does this fund work?

The payments you make into your policy ('the premiums') go into this fund. Your money is pooled together with the premiums of the other policyholders who invest in this fund.

We invest this fund in a variety of different types of investments which we describe in the section **How is this fund invested?**. The investment return consists of income from investments and profits and losses which increase or reduce the value of this fund.

We use this fund to pay the policy benefits to policyholders who have paid premiums into this fund. We also pay our running costs and tax from this fund and an amount each year to our shareholders. Shareholders are there to provide support to this fund, should it be needed (please see the section **What about the shareholders?)**.



## 2. What are my benefits?

**Endowment policies** guarantee to pay back a certain minimum amount, called the sum assured, provided they are held to the end date (sometimes called the maturity date) or on earlier death.

Earlier death is when the person (or one of the people) on whose death benefits are payable, dies before the maturity date.

This guaranteed minimum amount is increased by the annual bonuses which we have added over the lifetime of your policy, once added annual bonuses cannot be taken away. We may also add a final bonus when your policy matures.

The benefits we pay on earlier death are similar to those we pay at maturity.

Some policies also pay out on terminal illness or critical illness. Some policies have either an extra amount or a minimum amount which is payable on death (or, if applicable, on terminal illness or critical illness), but not on maturity. We do not add any bonuses to this extra or minimum amount.

Some endowments have early maturity options. They will pay a reduced guaranteed sum assured on surrender before maturity after a certain policy anniversary has been reached, normally the 10th. Your policy document will tell you if you have this guarantee.

To receive the full benefits, you must pay all the premiums that are due. If you decide to stop paying premiums to your policy, this will affect the level of benefit that you receive.

If you decide to surrender (‘cash in’) your policy early, we do not guarantee the amount that you will get back from your policy.

**Whole of life policies** do not have a maturity date – they guarantee to pay back a certain minimum amount, called the sum assured, only on death.

This guaranteed minimum amount is increased by the annual bonuses which we have added over the lifetime of your policy, once added annual bonuses cannot be taken away. We may also add a final bonus when your policy ends.

If you decide to surrender ('cash in') your policy early, we do not guarantee the amount that you will get back from your policy.

**Pension policies** either guarantee to pay back

- a certain minimum amount, called the cash sum; or
- a guaranteed income, called the basic annuity,

provided they are held to the selected retirement date.

This guaranteed minimum amount is increased by the annual bonuses which we have added over the lifetime of your policy, once added annual bonuses cannot be taken away. We may also add a final bonus when your policy ends.

The death benefit depends on the type of policy you have and will be one of the following:

- no benefit;
- a guaranteed minimum amount;
- a return of the premiums you have paid;
- a return of the premiums you have paid with interest; or
- the underlying value of your policy (see the section **How do you decide what bonuses to pay?**).

## Pension policies (ctd)

Originally these policies were set up on the basis that on the selected retirement date you would use the cash benefit to buy an annuity. An annuity is a product which provides an income for life after retirement.

As a result of the pension freedoms introduced by the government in April 2015, you no longer need to buy an annuity and you can take your retirement benefits in different ways. You can also access your pension benefits from age 55.

If you choose to buy an annuity, the income that you can buy will depend on the size of the cash sum, and the terms available at retirement for purchasing an income. Some policies have a guaranteed annuity rate (GAR). If yours does, and you choose to take an annuity from your pension policy, you are entitled to the guaranteed rate. This will be beneficial where the market annuity rate is lower than the guaranteed rate. It is important to check whether you have a GAR and how it operates, as this may give you a higher pension. (This guarantee does not apply to benefits arising from single premiums you have paid after November 1998 or from increases to regular premiums you have made after that time).

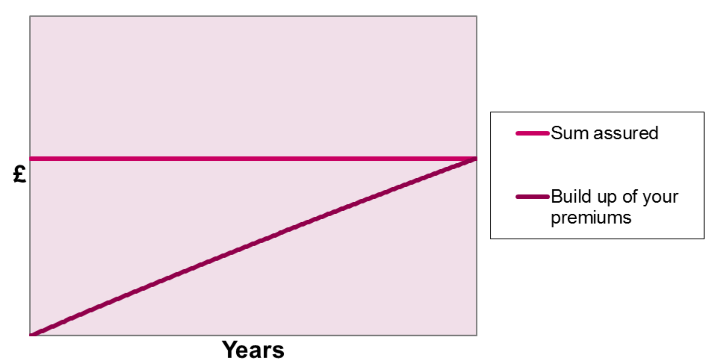
If you decide to take benefits or transfer the value of your policy to another provider before your selected retirement age, this will affect the level of benefit that you receive. If you decide to retire before, or after, the selected retirement date, we do not guarantee the amount that you will get back from your policy.

# 3. How do you decide what bonuses to pay?

Every policy has an amount (the ‘sum assured’ or ‘cash sum’) which is the minimum we guarantee to pay at the end date of your policy. The sum assured or cash sum is usually set cautiously, so that if we only earn a low return on the investments underlying your policy, we could still pay the sum assured or cash sum after meeting all the costs of selling the policy to you and running it.

Figure 1 shows how the money paid into a policy less our expenses grow with investment returns (this is the ‘build-up of premiums’). The build-up of premiums would grow to the sum assured or cash sum if we only earned a low investment return.

**Figure 1**



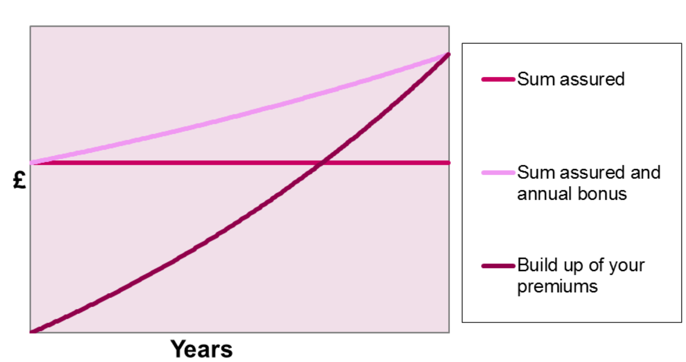

### Annual bonuses

If we earn a higher investment return, then the build-up of premiums will grow to a value higher than the sum assured. In the past if this happened we would normally have added annual bonuses to the policy to give the policy’s share of this extra return. Figure 2 shows how this would look.

Once added, we cannot take these bonuses away and they are guaranteed to be paid at the end date of the policy.

All policies of the same type receive the same rates of annual bonus.

**Figure 2**



We expect to earn a higher return by investing in higher risk investments such as equities (company shares) and property. However, as the returns from these are not guaranteed, we cannot be sure that our investments will not fall in value before the end date of your policy. (See the section How is this fund invested?)

## Why is my annual bonus zero? [PENSION ONLY]

Annual bonus rates have been nil in recent years because the benefits already guaranteed (sums assured and annual bonuses already added) are relatively high compared to the investment returns and other profits we have been able to earn after allowing for our expenses.

We add annual bonuses only if we are confident that the build-up of premiums will be enough to enable us to pay these bonuses at the end date, even if future investment returns or other factors become unfavourable.

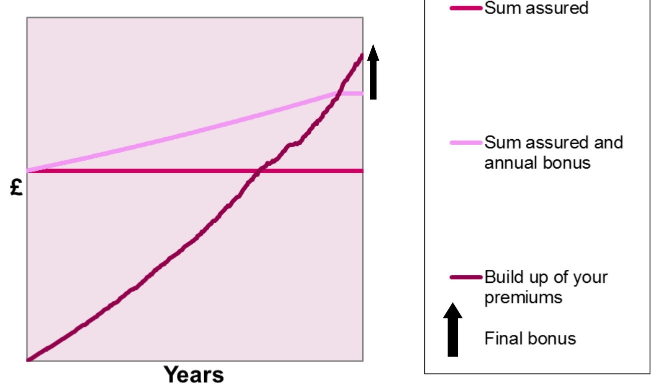
## Final bonuses

For most policies in the SPI with-profits fund the build-up of premiums is currently more than the sum assured and the bonuses already added, so we are adding a final bonus to payouts.

Figure 3 illustrates this.

However, if the value of the sum assured and bonuses already added (the guaranteed benefits) is more than the value of the build of premiums then we will not add a final bonus.

Figure 3




## Latest bonus information

The latest annual and final bonus information is available here.

## What is the build-up of premiums?

We aim to pay all policyholders their fair share of the 'profits' this fund has earned over the time they have held their policy. We consider the build-up of premiums when deciding what a fair share is.

The build-up of premiums (sometimes called the 'asset share') takes into account the policies' share of:

- this fund's investment performance;
- our running costs, which include our administration costs, investment costs and commission;
- the tax we have to pay;
- charges for death benefits and guarantees; and
- any distribution of surplus money (see below).

### Surplus money

There is more money in the fund than we expect to pay out in claims. Some of this surplus money is used to protect the fund against unexpected shocks, for example a fall in the value of the fund's investments. However, the remainder can be released and used to increase the final bonuses and hence the amounts we pay out to policyholders.

The amount we are able to add to policy values will be regularly reviewed and may increase or decrease, and could even be removed entirely. For the latest information on the amount of surplus money being distributed please visit here.

## 4. What can I expect to receive?

If you continue to pay premiums for the full duration of your policy, at the end date we will pay, as a minimum, the sum assured (or for pension policies the basic annuity) and all annual bonuses added. We may also add a final bonus.

If your **Endowment** policy was taken out to repay a mortgage then your most recent illustration (projection) provides an estimate of what you might expect to receive, including our estimate of any final bonus we may add. It is important to remember that this final bonus is only an estimate. What you ultimately receive depends on what profits the fund actually earns.

If you would like an illustration of what you might expect to receive when your policy reaches its end date, please contact us.

If you decide to surrender (cash in) your policy early (before its end date) then the level of benefits you can expect will be lower.

## 5. Why might payouts differ from projections?

When most of our with-profits policies were sold, investment returns had for many years been much higher than they are now. This was partly because of the high rates of inflation in the 1970s and 1980s. The projected payouts on these policies assumed that these high rates of inflation and investment return would continue. Despite recent small increases in interest rates, we still expect interest rates to remain at historically low levels over the next few years.

This means that actual payouts will be lower than were projected when policies began. Also, projections we give now on policies still to pay out are generally lower than before, as not only do we take into account lower earned returns, we also anticipate lower returns in future.

Payouts on with-profits policies reflect the profits (including investment performance and other profits and losses) made by the with-profits fund over the lifetime of the policy. Profits earned by the fund have been less than those needed to produce the projected payouts. A major contributor to this has been the need to set money aside to ensure that we can pay the future benefits guaranteed under our policies. This has restricted the amount we have been able to invest in higher risk investments such as equities (company shares) and property which potentially provide higher returns.

Many of our with-profits pension policies also have a guarantee, that the policy value at retirement can be converted into a pension at a rate which is currently more favourable than insurance companies generally now provide.

## 6. How is this fund invested?

We invest this fund in a mix of assets such as company shares, property, bonds (types of loan usually issued by the Government or companies) and cash deposits.

How much we put into each type of investment will change over time. We aim to make sure that this fund can always meet the promises we made to policyholders. Subject to this, we aim to get the highest possible investment return while balancing this with the degree of risk being taken. We currently hold some higher risk investments which we expect to provide a higher return, such as company shares and property. The rest are lower risk investments such as bonds and cash. We review our investment strategy regularly, taking account of a variety of considerations, including our approach to responsible investment. Responsible investment is the practice of incorporating environmental, social and governance considerations into investment decisions.

At the moment, there are different groups of with-profits policies in this fund with different mixes of assets. The mixes of assets and/or the groups may change in the future if we think it would be fairer to with-profits policyholders. We use the relevant investment performance when working out underlying policy values.

The latest asset mix applying to with-profits policies in this fund and returns earned in recent years on investments underlying policies are available here.

## 7. What about the shareholders?

Shareholders can provide financial support to this fund. In extremely adverse conditions, we would use this support to provide for guaranteed policy benefits, if the Phoenix Life Limited SPI With-Profits Fund is not able to do so. In return for providing this support, the shareholders receive a share of the profits earned in this fund equal to one ninth of the value of any bonuses we add to traditional with-profits policies. Shareholders also receive an annual management charge on unitised with-profits policies.

Phoenix Life Limited is one of the life companies within the Phoenix Group of companies (Phoenix Group). Other companies in the Phoenix Group administer our policies. If they can carry out their responsibilities for less than the fees we pay them, this could result in profit for Phoenix Group. Phoenix Group pays its own directors and shareholders out of its profits from all sources, of which the payments described above form only a small part.

## 8. Who looks after my interests?

It is the responsibility of the Board to look after the interests of the policyholders. Our with-profits committee, with its majority of independent members, reviews all aspects of the operation of the fund and considers the fairness of risks and decisions from a policyholder perspective and advises the Board on their decisions.

# 9. Where can I find out more?

Our Principles and Practices of Financial Management document (**PPFM**) provides a much more detailed description of how we manage this fund.  You can read our **PPFM** here or you can ask us for a copy.

Any yearly statement that we send to you will include information about annual bonuses and changes to our practices.

Our **current information leaflet,** available here, has all the latest information for the Phoenix Life Limited SPI With-Profits Fund, including

- annual bonuses
- final bonuses
- investment performance
- asset mix
- surplus money

**The information in this leaflet is correct as at 1 January 2022.**

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