



Abbey Life

Your guide to with-profits

**Important information
about investing in the
Abbey Life
with-profits fund
through a
Planned Investment
Endowment plan**

Why this guide is important

Please read this guide. It gives important information about how your with-profits policy works and what you can expect back from it.

*If you decide not to read this guide now,
please keep it in a safe place with your
other policy documents*

Introduction

This guide has been written to give you more information about investing in the Abbey Life with-profits fund through a Planned Investment Endowment plan.

This is a unit-linked plan. This means that most of each premium you pay is invested in a fund that rises and falls in value in line with the investments that are held in the fund (which will be company shares). Bonuses may be added to the value of the unit-linked fund, and the plan also guarantees a minimum amount in certain circumstances.

This guide explains how this works. It is a summary of a longer, more detailed, document called Principles and Practices of Financial Management ('PPFM'). The PPFM describes how we currently manage our with-profits plans. We have tried to make sure that this guide accurately reflects the PPFM. But the PPFM will apply if there is any difference between the information in it and the information in this guide. Please ask us if you would like us to send you a copy of the PPFM.

We've set out information in this guide as answers to the following questions.

- What is a with-profits investment?
- What types of bonus may be added to my plan?
- What are the guarantees?
- How do you decide the bonuses?
- What if I decide to cash in my plan when guarantees don't apply?
- What affects how much I might get back?
- What are the risks of investing in the with-profits fund?
- How can I get more information?

Although we refer in this guide to making payments if 'you' die, your policy may pay out in the event of someone else's death instead of yours. Your plan document will make this clear.

What is a with-profits investment?

We use the term 'with-profits' to mean a type of investment. It provides medium to long-term growth potential with some guarantees (see "*What are the guarantees*" below).

The with-profits fund

Your money, after any initial charge, is invested in one of our unit-linked funds.

The unit-linked benefits will rise or fall in line with the value of units in the unit-linked fund (you will see this in the 'bid price' of the units, which is the value at which units are cashed in when you take your benefits from your plan). Dividends on shares are not added to the unit-linked funds. Instead they are accumulated in the with-profits fund and, after covering costs and charges, paid out as bonuses.

What we pay you depends on both the value of your investment in the unit-linked fund and the bonuses. More detail is given under "*What are the guarantees?*" and "*What if I decide to cash in my plan when guarantees don't apply?*"

What types of bonus may be added to my plan?

Some bonuses are 'regular bonuses' (these may sometimes be referred to as 'reversionary' or 'sterling' bonuses). The regular bonus that we add each year is a proportion of the guaranteed sum set out in your plan document and is fixed in money terms.

Other bonuses are 'interim' and 'final' bonuses. These may be added when you cash in your plan. Interim bonuses are a last instalment of regular bonus and work in the same way. Final bonuses are a proportion of the units held for your plan.

We decide bonuses by following the steps set out in the PPFM, which are summarised in this guide. Future rates of bonus are not guaranteed.

What are the guarantees?

We guarantee a minimum amount to pay out. However, this guarantee only applies in the circumstances set out in your plan documentation. For most plans the guarantee applies if you die or at a date that was chosen when the plan started.

When the guarantee applies the benefit we pay will be at least the guaranteed sum set out in your plan documents, plus the sum of all regular bonuses that we have added in the past. But we will instead pay the following if it is higher.

The sum of:

- The value of units bought by what you have paid into your plan.
 - The total of past regular bonuses we have added to your plan.
 - Final bonus
- less a charge to cover capital gains tax.

The charge for capital gains tax is made because capital gains tax has not been allowed for in determining the value of your units.

Instead of taking a cash sum you have the option of leaving your money with Abbey Life. Two of the options available offer fixed regular payments (or “an annuity”) that are likely to be higher than those generally available in the market if you were to use the cash sum to buy an annuity. We explain the options to you shortly before they become available (the date chosen when your plan started). You can also find details in your plan documents.

How do you decide the bonuses?

Regular bonuses and final bonuses have different purposes, and we decide them differently.

Regular bonus

Regular bonus scales have not changed since 1996. Each year we check whether there are enough assets in the with-profits fund to meet all future benefits (including future bonuses). While this check continues to show that there are enough assets we will continue to add regular bonus to plans at the same rate as now. We expect the check to continue to show that there are enough assets, though in exceptional circumstances we may reduce regular bonus (but we would reduce final bonuses first).

If we do need to reduce regular bonuses there is no limit on the reduction we might apply. There could be no regular bonus in some years.

Final bonus

We aim to keep final bonus rates at least at current levels, in most circumstances. To help us do this we set aside extra units in the unit-linked funds to cover the costs of paying final bonus to policies in future. These extra units are not added to your plan but are held aside in the with-profits fund.

We may also be able to increase final bonus rates in future. We will do this if we decide that the assets in the with-profits fund would be more than enough to meet all future benefits (including future bonuses).

We aim to pay as high a final bonus as possible, so when deciding whether the assets in the with-profits fund are enough to meet all future plan benefits we only take account of possible losses to the with-profits fund that are reasonably foreseeable.

We would only reduce final bonus if we make unexpected losses in the with-profits fund (for example if the dividends from shares fell sharply). If we do need to reduce final bonuses there is no limit on the reduction we might apply. There could be no final bonus in some years.

What if I decide to cash in my plan when guarantees don't apply?

You can choose to cash in your plan in circumstances where your plan's guarantees don't apply.

If you do this, we'll still aim to give you a fair value for your investment. However, there is no minimum guarantee of what your plan will pay, and you won't get anything for guarantees you are giving up. You could get back less than you invested if markets are low enough.

How much you get back if you cash in your plan when guarantees don't apply will depend on:

- the bid price of the units in the unit-linked fund allocated to your plan,
- the amount of past regular bonuses added to your plan, reduced by a factor to reflect the future investment returns that would have accumulated in the with-profits fund if your plan had continued; and final bonuses (calculated at the current rates of final bonus).

We also make a charge to cover capital gains tax because capital gains tax has not been allowed for in determining the value of your units.

What affects how much I might get back?

Your money, after any initial deduction, is invested in one of our unit-linked funds which in turn is invested in shares. What you get back is directly affected by the value of the investments in the unit-linked fund.

As well as the performance of your unit-linked fund, what you might get back is also influenced by:

- the level of dividends the with-profits fund receives,
- the charges we make,

- the share of bonus that our shareholders get, and
- the return we earn on the 'surplus' held in the fund.

These are explained in the rest of this section of this guide.

Income from dividends on shares is not added to the unit-linked funds. Instead it is accumulated in the with-profits fund and, after covering costs and charges, is accumulated as 'surplus'. Over time this surplus is paid out as bonus. We aim to keep the level of 'surplus' in the fund as small as possible, by increasing final bonus rates when we can afford to do so.

We keep back only enough surplus to avoid reducing future regular or final bonus rates in most reasonably foreseeable conditions.

Investment performance

The investment performance we earn will have an effect on what you might get back. In particular your share of the unit-linked fund is invested in company shares. The performance of these shares will affect what you get back because:

- part of your benefits is 'unit-linked' and is affected directly by the performance of those shares, and
- final bonuses are paid as a proportion of the value of your share of the unit-linked funds, so their value also depends on the performance of the shares.

Guaranteed future benefits and future regular bonuses (if the current rate remains unchanged) are fixed in money terms, and so we cover most of them with assets that pay a fixed return (we use fixed-interest bonds issued by the Government or by companies). The rest is covered by the dividend income we expect to receive. This means that the value of these assets overall should move broadly in line with the cost to the with-profits fund of paying these benefits, so we expect scale of future regular bonuses not to change.

The ‘surplus’ in the fund is invested in a mix of different assets, including shares, property and fixed-interest bonds. The return on these assets will affect the level of final bonus rates.

Shareholders, charges and tax

Abbey Life Assurance Company Limited is a ‘proprietary company’. This means that we have shareholders. Our shareholders get one-ninth of the value of bonuses that we add to plans. The cost of this comes from the with-profits fund.

The Abbey Life plans are administered by an external company. Abbey Life must pay fees to that company, and the with-profits fund must meet its share of these. However, if actual fees increase by more than our estimate of UK cost inflation we will limit any increase in the charge to the with-profits fund (our shareholders will make up the difference).

The with-profits fund must pay tax based on the level of investment returns, less expense charges. We adjust for this when we calculate the effect of investment performance on what you might get back.

What are the risks of investing in the with-profits fund?

Your with-profits investment is exposed to ‘investment risks’. This is the risk that the value of the assets in the fund can fall as well as rise. This will affect what you might get back.

There are other risks known as ‘business risks’, though we have taken steps to limit these. The plan covered by this guide guarantees a minimum amount if this is larger than the value of the unit-linked benefits, including final bonus (see “*What are the guarantees?*”). We do not charge the with-profits fund for the cost of these guarantees.

How can I get more information?

If you’re still not sure about your with-profits investment, you should speak to your financial adviser or contact us direct.

Our full contact details are on the statement that we send you each year. Please contact our Client Line if you have any questions. Our lines are open from 9:00am to 5:30pm Monday to Friday excluding Bank Holidays. The number is 0845 9600 900 (local call rates at all times).

We’ll write to you if we make a change to our approach to managing the with-profits fund that might have a significant effect on your plan. We’ll also write if we change any of the ‘Principles’ in the PPFM. We’ll normally include a replacement guide.