



# Abbey Life

## Your guide to with-profits

**Important information  
about investing in the  
Hill Samuel with-profits  
fund**

### **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 our Hill Samuel Participating Fund through one of our with-profits assurance policies. The Hill Samuel Participating Fund is now a part of Abbey Life Assurance Company Limited.

When you invest your money, it is pooled with the money invested by other policyholders in our with-profits fund. What you get back from your policy depends on the fortunes of the with-profits fund, in particular how well the investments have done. Your with-profits policy:

- has guaranteed minimum values at the times explained later in this guide;
- may have bonuses added to these guaranteed minimum values; and
- will normally be cushioned from the daily ups and downs of the stockmarket.

After meeting its obligations, the with-profits fund will over time be distributed in full to with-profits policyholders.

The way that we do all of this is explained in this guide, which is a summary of a longer, more detailed, document called our Principles and Practices of Financial Management ('PPFM').

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 telephone us on 0845 6023 603 if you would like to be sent a copy of the PPFM.

After this introduction, we've set out the information in this guide as answers to the following questions.

- What is a with-profits policy?

- When do the guarantees apply?
- What are the guarantees?
- What types of bonus may be added to my policy?
- How do you decide the bonuses?
- What if I decide to cash in my policy?
- What affects how much I might get back?
- What are the risks of investing in the with-profits fund?
- Will my policy stay with-profits?
- How can I get more information?

The policies covered by this guide (including yours) were originally taken out with Hill Samuel Life Assurance Company Limited.

Throughout the guide we've assumed that you make all of the payments that are due while your with-profits investment continues. You may have stopped paying into your policy but not yet cashed it in. If so we will add bonuses to your policy using the same rates of bonus that we use for other policies.

## What is a with-profits policy?

Your with-profits policy has a minimum guaranteed amount, and this increases over time when we add regular bonuses. This minimum amount, including regular bonus, will be paid out in certain circumstances. (See “*What are the guarantees?*” below). At these times we may add a final bonus, in which case the amount paid would be more than the minimum amount.

All of the policies can also be cashed-in at other times, but at these times there is no guaranteed minimum payment (although we will still make a fair payment).

Your money is pooled in our with-profits fund with the money of other investors. The profits, or losses, that we make on this pooled money will affect the bonuses that we may add to your with-profits policy, and what you get back from it.

Our approach to managing our with-profits fund can change from time to time.

### *The with-profits fund*

The with-profits fund invests mainly in bonds (which are a type of loan, usually to the Government or companies) and cash deposits. The rest of the fund invests in a mix of assets such as company shares and property. The proportion of the with-profits fund that is put into each of these different types of asset will vary over time.

The value of the assets can move up or down, with the value of shares and property usually varying more than bonds (and cash deposits). So one year the part of the fund that is invested in shares and property may do very well, but the next could see a big fall in value – this is often called ‘investment risk’.

What your policy will pay out doesn’t depend directly on the return earned by the assets in the with-profits fund. This return is an important factor, but what you get

back also depends on the other factors described in the rest of this guide.

## When do the guarantees apply?

This guide covers three types of policy, and the guarantees apply in different circumstances.

- If you have an endowment policy, the guarantees apply at the ‘maturity date’ set at the start of the policy, or if you die before then.
- If you have a Flexiplan, the guarantees can apply at a ‘maturity date’. This will usually be the anniversary of the date your policy started that falls in the 12 months before your 65<sup>th</sup> birthday (or the 65<sup>th</sup> birthday of the older person if yours is a joint policy). But, if you choose, the guarantees can apply instead at any earlier anniversary of the start of your policy (after the tenth one). You can think of this as having a series of maturity dates, which you can choose between. The guarantees would also apply if you die before you have cashed in your policy.
- If you have a whole of life policy, the guarantees apply if you die.

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 policy document will make this clear.

## What are the guarantees?

At times when guarantees apply (see “*When do the guarantees apply?*” above) we will pay at least the amount guaranteed.

If you have an endowment or whole of life policy this guaranteed amount is the ‘sum assured’ (as set out in your policy documents) plus the regular bonuses we have added.

Some endowment policies have additional benefits that are paid if you die (these policies are likely to have been taken out in connection with a mortgage). These additional benefits are not with-profits, and are not covered by this guide.

If you have a Flexiplan the guaranteed amount at your final maturity date is the ‘sum assured’ plus the regular bonuses we have added. Your final maturity date is usually the anniversary of the date you took out the policy that falls in the 12 months before your 65<sup>th</sup> birthday (or the 65<sup>th</sup> birthday of the older person, if yours is a joint policy).

If you choose to cash in your Flexiplan at an earlier maturity date then a lower sum assured will apply (the sum assured that would be paid on early maturity increases each year, as shown in your policy documents). The regular bonuses we have added to your policy would also be part of your guaranteed amount, but would be reduced to reflect the lower sum assured.

These reductions would be made because if you cashed in your policy at an earlier date you wouldn’t have paid in the full amount of premiums on which the full sum assured was based.

For all types of policy the guarantees set a minimum you will get from your policy, if you cash it in at a time when the guarantees apply. You may receive final bonus on top of that. This is described below.

If you cash in your policy when the guarantees don’t apply then there is no minimum amount that you might get. We will still pay a fair amount.

## What types of bonus may be added to my policy?

Three types of bonus may be added to your with-profits policy. Together, they help to determine what we pay out – when the guarantees apply. They are:

- regular bonus, sometimes called ‘reversionary bonus’, which may be added at the end of the year as permanent increases in the guarantees that apply to your with-profits policy (although they would be reduced for Flexiplans if you choose an earlier maturity date, as described above);
- final bonus, sometimes called ‘terminal bonus’, which we may add on top of those guaranteed amounts;
- interim bonus, a small amount of additional regular bonus which we may add alongside any final bonus.

We usually decide levels of bonus once a year, but we may sometimes change them at other times. Future rates of bonus are not guaranteed.

## How do you decide the bonuses?

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

### *Regular bonus*

Over time the regular bonuses increase the guarantees (see “*What are the guarantees?*” and “*When do the guarantees apply?*”, above).

We aim to set the regular bonus rate at a level which, if it continued indefinitely, would be likely to leave some scope for final bonuses. We do this for all Hill Samuel Participating Fund policies in total, not for each policy by itself.

If we were to set rates of regular bonus at higher levels we’d have to invest more of the with-profits fund in assets that give a more predictable return. That would mean investing less in the higher-risk but less predictable assets that we expect to give higher returns over the long term, so we would expect to have less to pay out to policyholders.

There could be no regular bonus in some years.

### *Interim bonus*

We will usually set interim bonus at the same rate as regular bonus.

### *Final bonus*

We pay final bonus if the amounts we have already guaranteed to pay plus any interim bonus are less than a target payout level. In other words we aim to ‘top up’ what investors get to reflect the target payout levels. We do this for the group of policies which will reach their final maturity date in the period we expect the final bonus rates to cover, not for each policy by itself.

The main factors we consider when setting the target levels are:

- the 'asset share' of the with-profits fund for this group of policies (see “*What affects how much I might get back?*” for a description of asset shares),
- the investment returns we expect for the next few months (so that what you get will include an allowance for these returns), and
- smoothing (which is explained below).

The final bonuses apply to all policies, of all types, if we are paying out at a time when guarantees apply (see “*When do the guarantees apply?*” above).

Bonus notices are sent to you annually in March. These give details of the regular bonus added to your policies and the new final bonus scales.

### *Smoothing*

With-profits investing includes a special feature called ‘smoothing’. The main result of smoothing is to reduce the effect of recent stockmarket fluctuations on what you get back. However, this will not lessen the effects on your return of longer-term changes in the stock market. Smoothing can increase or reduce what you get back from your policy.

Smoothing is an adjustment to the target payout levels (we top up the amount you get to these target levels, as explained above). If recent investment returns have been particularly good then we may reduce the target level, and we may increase it if recent returns have been less good. This evens out some of the recent ups and downs in our investments.

## What if I decide to cash in my policy?

For endowment policies and Flexiplans, if you cash in your policy at a maturity date then you will get back at least the guaranteed amount (see “*What are the guarantees?*”). You may also receive interim and final bonus, which ‘tops up’ payments to the target levels, which we explain above.

The same applies to all policies if you die.

You can also choose to cash in your endowment or whole of life policy at any other time but, if you do, the guarantees won’t apply. Instead you will receive a payment that is worked out using a similar approach to the way that we set final bonus.

We set a target payout level for endowment policies as a whole. The main factors we consider when setting the target levels are:

- the ‘asset share’ of the with-profits fund for this group of policies (see “*What affects how much I might get back?*” for a description of asset shares), and
- the investment returns we expect for the next few months (so that what you get will include an allowance for these returns).

We then compare the combined payments we would make if all endowment policies were cashed in with this total target level, and adjust what we would pay to bring the combined payments and total target level into line. We may smooth the payments we would make (smoothing is described above).

We follow a similar approach for whole of life policies.

## What affects how much I might get back?

### *Asset shares*

We aim to maintain a fair level of payouts to everyone investing in the with-profits fund.

To help us do this, we track what we call ‘asset shares’ of the with-profits fund. The way we use asset shares is described earlier in this guide.

When deciding what an asset share would be we look at:

- the amounts invested in policies;
- when they were invested;
- past investment performance;
- the charges we have made for administering policies;
- a contribution to providing death benefits;
- the profits and losses from ‘business risks’ (see “*What are the risks of investing in the with-profits fund?*” on page 8); and
- taxation.

The first three of these factors can have an important effect on what you might get back (see ‘Investments’ below). The charges we make are based on the actual costs of investing the fund’s assets and administering policies. We do not increase the administration costs by any more than cost inflation.

### *Investments*

The asset shares are an accumulation of the amounts invested in policies, allowing for the items in the list above. So the investment return that we earn from the time that each amount is invested in policies is a key factor in deciding the asset shares.

We hold bonds issued by companies and the UK government. These bonds provide a fixed flow of payments to the with-profits fund. We select a mixture of these bonds so that the flow of payments the fund receives from them broadly matches the expected pattern of guaranteed benefits we expect to pay in future. We use cash deposits, or similar assets, to cover amounts we expect to pay out in the short term.

We invest the rest of the with-profits fund in higher-risk, and potentially higher-return, assets such as shares and property.

#### *The shareholders*

Abbey Life Assurance Company Limited is a 'proprietary company'. This means that we have shareholders. The shareholders receive up to one-ninth of the value of the bonuses that we add to with-profits policies.

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

Your with-profits investment, by being part of our with-profits fund, is exposed to 'investment risks'. This is the risk that the value of the assets can fall as well as rise. There are other risks known as 'business risks'.

The main business risks for your policy come from the payments that we make to other with-profits investors. When we pay more on some policies because of guarantees or smoothing it leaves less in the with-profits fund for the other policies. On the other hand, when we pay some policies less because of smoothing it leaves more for the other policies.

There are naturally other risks that apply to other sorts of investment and not just to with-profits policies. For instance, your policy might not pay out as much as you had hoped or the Government might change the tax treatment of your policy or other investments. This guide deals only with

risks that are directly associated with your policy being invested in our with-profits fund.

#### **Will my policy stay with-profits?**

We have not issued any new policies since 1987 so the number of policies left in the fund is reducing each year. When the number of policies falls below 1,000 we may alter them so that future bonuses would be fixed. This would give those remaining customers certainty, instead of continuing to share in the profits and losses of the fund which would be likely to fluctuate more widely as the fund becomes smaller.

From the time that future bonuses become fixed the policies would no longer be with-profits policies. Based on a review in December 2009 we expect the number of policies to fall below 1,000 in around 2018.

Even though the policies may be altered so that bonuses are fixed, our aim would remain that the fund, after meeting its obligations, will be distributed in full to with-profits policyholders over time.

## How can I get more information?

If you're still not sure about your with-profits investment, you should speak to your normal financial adviser.

We'll write to you if we make a change to our approach to managing our with-profits fund that might have a significant affect on your policy. We'll also write if we change any of the 'Principles' in our Principles and Practices of Financial Management.

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 6023 603 (local call rates at all times).