

# How we manage the Phoenix Life Limited SPI With-Profits Fund

A guide for policyholders with traditional  
with-profits policies invested in this fund

## **The aims of this guide**

The guide explains how we manage this with-profits fund and what it means for your policy.

## **Why this guide is important**

It gives important information about how these with-profits policies work and what you can expect back from them.

Please keep this guide in a safe place with your other policy documents.

## Introduction

This guide covers traditional with-profits policies like yours, which invest in the Phoenix Life Limited SPI With-Profits Fund ('this fund').

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.

Separate guides are available for other types of with-profits policies investing in this fund.

Phoenix Life Limited has a number of other with-profits funds and separate guides are available for with-profits policies which invest in these funds.

We aim to answer some of the questions you might ask about what happens to the money you have paid into policies invested in this fund, and what affects the amount you may get back from your policy. The questions we aim to answer are:

- How does this fund work?
- What are my benefits?
- How do you decide what bonuses to pay?
- What if I decide to cancel my policy early?
- How is this fund invested?
- What about the shareholders?
- Who looks after my interests?
- Where can I find out more?

This guide is correct at 6 February 2009. 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.

In particular, under the terms of the transfer into Phoenix Life Limited, when the value of the liabilities in this fund falls below £50 million, we will convert the remaining with-profits policies into non-profit policies with guaranteed future bonuses. This is not expected to occur before 2025.

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

This guide does not form part of, or change, the terms or conditions of your policy.

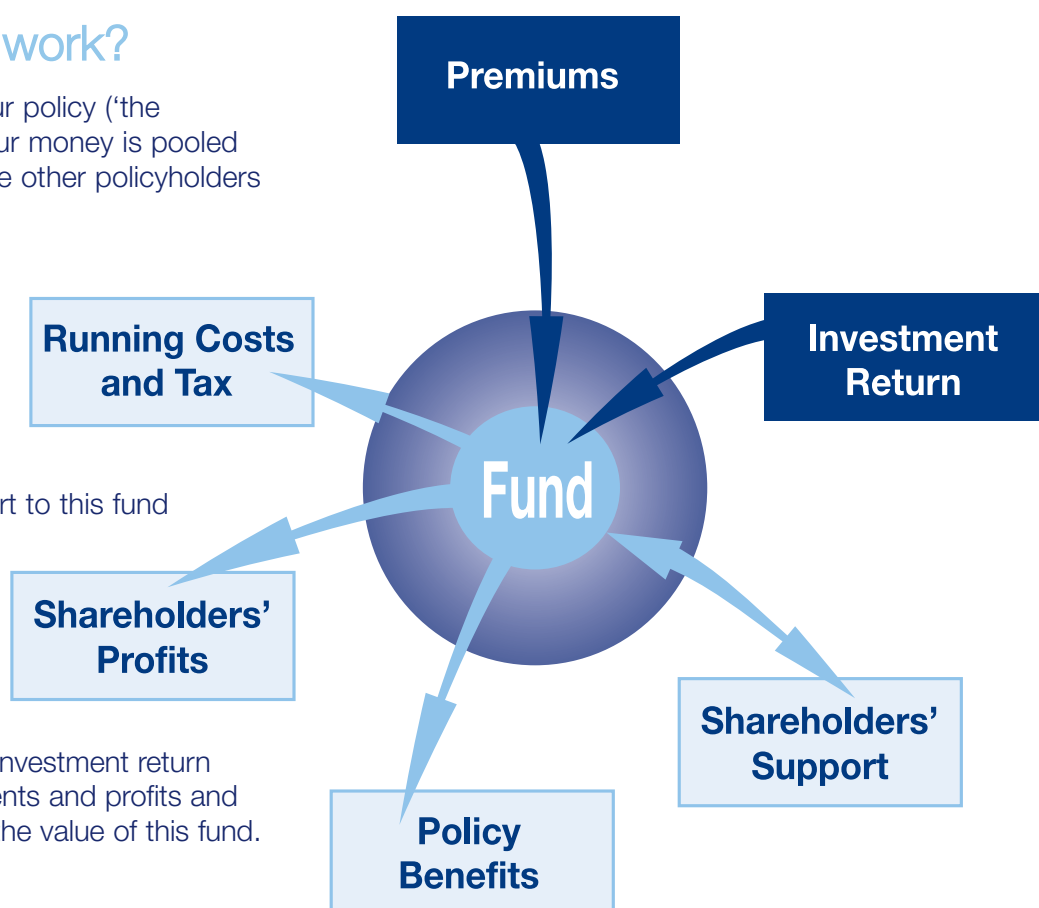
## How does this fund work?

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 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 also provide support to this fund which we describe in the section **What about the shareholders?**

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.



## What are my benefits?

Benefits from with-profits policies can be divided into two main types – benefits payable at maturity and those payable on earlier death:

- **Maturity** – This is when your policy has run for the number of years previously selected. For pension policies, the maturity date is usually called the 'selected retirement date';
- **Earlier death** – This is when the person (or one of the people) on whose death benefits are payable, dies before the maturity date.

Some policies do not have a maturity date – they pay out only on death.

The benefits payable at maturity are:

- a guaranteed amount, called the sum assured;
- annual bonuses, which we may add each year as part of the annual bonus declaration. These increase the guaranteed benefit; and
- a final bonus, which we may add when your policy matures.

For pension policies, the benefits are either a series of payments (called an annuity or pension), or a cash sum which is available to purchase an income. In either case, a proportion of the benefit may usually be taken in cash form.

Where the pension benefit is a cash sum, the income that can be purchased will depend on the size of the sum, and the terms available at retirement, for purchasing an income. For some policies, the terms are guaranteed.

The following sections give more information on guarantees and bonuses.

For policies, other than pension policies, the benefits we pay on earlier death are similar to those we pay at maturity. For pension policies 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.

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. There are more details in the section **What if I decide to cancel my policy early?**.

If you decide to surrender ('cash in') your policy, this will also affect the level of benefit that you receive. For pension policies, this applies if you decide to take benefits or transfer the value of your policy to another pension provider before your selected retirement age. There are more details in the section **What if I decide to cancel my policy early?**.

Your policy document will tell you more about your policy benefits.

### Guarantees

We guarantee a minimum amount that you will get back from your policy, but the guarantee only applies at maturity or, for some types of policy, on earlier death.

The guaranteed minimum amount is initially the sum assured (cash sum or guaranteed amount of pension). This guaranteed minimum amount is increased by the annual bonuses which we have added over the life of the policy.

If you decide to cancel your policy early, we do not guarantee the amount that you will get back from your policy. There are more details in the section **What if I decide to cancel my policy early?**.

### Annual bonuses

Each year, we may add an annual bonus to your policy. If we do add a bonus, the amount that we guarantee to pay, when your policy matures, or on earlier death for life policies, will increase by the amount of bonus.

Any yearly statement that we send to you will include information about the annual bonuses added to your policy.

### Final bonuses

Your benefits may also include a final bonus, which is payable when your policy matures or, for some types of policy, on earlier death. We normally review final bonuses at least twice a year, but we may change them at any time. We will tell you the exact amount of any final bonus we have added to your benefits when we make a payment.

How we decide the annual and final bonuses is described in the section **How do you decide what bonuses to pay?**.

## How do you decide what bonuses to pay?

We aim to pay all policyholders their fair share of the 'profits' this fund has earned over the time they have held their policy. When deciding what a fair share is, we consider the underlying value of specimen policies (sometimes called the 'asset share'), which takes into account the premiums paid and a number of factors including the policies' share of:

- this fund's investment performance (see the section **How is this fund invested?** for more details);
- our running costs, which include our administration costs, investment costs and commission;
- the tax we have to pay;
- charges for death benefits;
- charges for guarantees; and
- other profits and losses in this fund, including any distribution of the estate (these are explained later).

We work out the underlying value of policies to help us decide what bonuses to add.

### Annual bonuses

When deciding whether we should add annual bonuses, we look at the current financial position of this fund and estimate how we expect this to change in the future. We compare the guaranteed benefits with the underlying value of policies. We will add annual bonuses only if we are confident that the underlying value of policies will be enough to enable us to pay these bonuses at maturity, even if future investment returns or other factors become unfavourable.

### Final bonuses

When deciding the final bonus rates, we compare the underlying value of specimen maturing policies with the value of their guaranteed benefits. If the underlying value of the policies is more than the value of their guaranteed benefits, we will add a final bonus. However, if the value of the guaranteed benefits is more than the underlying value of the policies, we will not add a final bonus. The amounts of final bonus are affected by 'smoothing' as described below.

The final bonus we pay on death is what we would have paid on a policy which had started at the same time and which matured on the date of death.

## Smoothing

We aim to avoid very large differences in with-profits maturity payments over relatively short periods of time. We consider the maturity payments that we have made for similar policies in the past and limit, where possible, changes to final bonuses to avoid very big differences in payments from one review to the next. This practice is known as smoothing. Smoothing means that we may pay more or less than the underlying value of policies.

## Charges for guarantees

We currently do not deduct a charge for guarantees from the underlying policy value when determining bonus rates. However, we can change the charges for guarantees at any time and they are regularly reviewed.

## Other profits and losses in this fund

These arise from the other business risks that may affect the value of your policy.

Paying benefits to with-profits policyholders who leave their policy early and benefits paid on types of policy other than with-profits policies, may give rise to profits or losses in this fund. However, these profits and losses are not taken into account when calculating the underlying value of policies.

There may be other sources of profit or loss, although the costs of paying compensation for inappropriate sales advice is not taken into account when calculating the underlying value of policies.

Some with-profits funds, including this fund, have what is known as an 'estate'. This is a pot of money that provides working capital for this fund and supports the running of this fund. The estate is the excess assets that are not needed to support this fund's current and future liabilities. Profits and losses arising in this fund affect the estate only if they are not allocated to the underlying value of with-profits policies. These include the cost of providing guarantees (offset by any guarantee charges we make) and the cost of smoothing.

As this fund is a closed fund (it no longer actively seeks new business), we aim to ensure a fair and orderly distribution of all of this fund's assets including the estate, over the remaining lifetime of the policies in force. While making sure that we have enough working capital to cover the risks in this fund, we expect the estate to run down to zero over time, broadly in line with the remaining lifetime of the policies in this fund. We will include a fair share of any distribution of the estate in the underlying value of with-profits policies once the estate is large enough to cover the risks.

The underlying policy values may also be charged for interest payable on loans made by the shareholders to this fund (see the section **What about the shareholders?** for more details).

The Phoenix Life Limited with-profits funds are each managed separately, as is the company's non-profit fund. In the unlikely event that one of the funds cannot afford the guaranteed benefits payable to its policyholders and there is no further support available from the shareholders, it may be necessary for the Phoenix Life Limited SPI With-Profits Fund to provide financial support. However, support would not be provided if this would cause this fund to be unable to support its own guarantees.

In the similarly unlikely event that this fund was unable to pay the guaranteed benefits payable to its policyholders and there was no further support available from the shareholders, financial support would be provided from the other with-profits funds, provided that they were still able to meet their own guarantees.

## What if I decide to cancel my policy early?

If you decide to stop paying premiums to your policy before maturity or earlier death:

- a surrender value will be available; or
- the policy will be made 'paid-up' (see opposite for an explanation of this).

If you surrender ('cash in' or 'transfer') your policy, we work out how much to pay you with the aim of being fair to policyholders who are leaving this fund and those who are staying. If there is any difference between the interests of policyholders who are leaving and those who are staying, we normally give priority to those who are staying.

We work out surrender values for policies which are close to maturity to avoid a big difference between the surrender value and the maturity value. For other policies, we may pay less than the underlying value to protect the interests of policyholders who are staying in this fund.

For pension policies, the surrender value can either be paid to another pension provider (called a 'transfer value') or it may be used to provide benefits allowed by the pension rules at that time. If you decide to retire before, or after, the selected retirement date, the amount of pension you receive will change.

If your policy is made paid-up, you will not need to pay any more premiums. Your policy will continue until maturity or earlier death. We will then pay a reduced guaranteed benefit. A surrender value will be available at any future time.

## 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 its guarantees. 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.

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.

As this fund gets smaller and policies on average get closer to maturity, we expect that we will invest less in higher risk investments and more in lower risk investments.

Any yearly statement that we send to you will include information about the mix of assets applying to with-profits policies in this fund.

## What about the shareholders?

Shareholders can provide financial support to this fund. This, together with any excess assets in the non-profit fund, provides support to all the Phoenix Life Limited with-profits funds. 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.

In certain circumstances, the shareholders will loan money to this fund and they will be entitled to receive interest on any loan that has been provided.

## Who looks after my interests?

The Phoenix Life Limited with-profits committee make decisions on the investment strategy and bonus policy related to this fund. The Phoenix Life Limited Board make any other decisions in agreement with our with-profits committee. Our with-profits committee provides an independent view.

## Where can I find out more?

You can get a more detailed description of how we manage this fund in our Principles and Practices of Financial Management document (PPFM). You can read our PPFM on our website at [www.phoenixlifegroup.co.uk](http://www.phoenixlifegroup.co.uk) or you can ask for a copy.

Your policy document will provide more information on the guarantees and options applying to your particular policy. Any yearly statement that we send to you will include information about annual bonuses and changes to our practices.