Equitable Life

A guide to how we manage the with-profits fund

Introduction

The Society's aim is to distribute all of its assets amongst with-profits policyholders as fairly as possible over time.

What we want to do here is explain as simply as we can how the with-profits fund works, how it affects your with-profits policy and how we go about distributing it to you fairly.

You may find this guide useful:

- when you receive your yearly statements; or
- if you receive an illustration about what you might get back from your policy.

What is the with-profits fund?

We receive premiums from you and other with-profits policyholders and create a large fund, known as the with-profits fund. Such a large fund allows the Society to appoint expert investment managers, who invest the money, as well as they are able, thereby maximising the chances of the fund increasing. We can then pass those increases on to you.

With-profits policies have a guaranteed benefit which is the minimum amount payable on maturity, death or at a time specified in the policy. If you take the benefits when the guarantee applies, the with-profits fund will pay at least that amount.

The costs of running the Society's business – such as administration fees and staff costs - are paid by the with-profits fund.

How we manage the fund

We need to be confident we can pay at least the guaranteed benefit under each policy, so we are cautious in our management of the with-profits fund and invest mostly in things which give a fixed return such as Government bonds.

For additional protection, we set aside a further amount of money from the fund and this is known as ‘solvency capital’. Solvency capital provides a shield against changing circumstances, so the more capital we hold, the better the shield it provides.

The regulators take a very close interest in the level of solvency capital and prescribe certain minimum amounts, known as ‘regulatory solvency capital’. The Society’s policy is to hold amounts in excess of regulatory solvency capital.

How we work out the amount we will pay

We work out the amount we pay by looking at:

- your Policy Value which depends on the type of policy you have, the amount of the premiums you have paid and when you paid them, the investment returns on the fund, the costs and charges and any other profits and losses from the Society’s business; and
- an enhancement earmarked for you which aims to pay policyholders a fair share of solvency capital.

If you take your benefits at a time when the guarantee applies and the total of these two parts works out at less than the guaranteed benefit, then we will pay the larger figure.

Smoothing

Policy Values and enhancements are not guaranteed and can go down as well as up as the financial position of the Society changes. Having said that, we aim to avoid the need for Policy Values and enhancements to change frequently in the way that the values of the fund's investments do. This is known as 'smoothing'.

In consequence, Policy Values may not go up as quickly when the value of our investments rises, but also payments may not fall as quickly when the value of our investments falls.

The amount of the enhancement may go up or down if, for example, investment conditions change significantly, or if a change is needed to maintain fairness for all policyholders, or if the Society decides it needs to hold more capital.

In normal circumstances, we expect to review Policy Values and the enhancements once a year, but they can be changed at any time.

Cashing in your with-profits investment early or transferring it

If you cash in the with-profits part of your policy when the minimum guaranteed benefit does not apply, then, depending on the type of policy, you may:

- take a cash sum, known as a surrender value;
- instruct us to transfer a lump sum direct to another insurance company, known as a transfer value; or
- instruct us to transfer an amount to unit-linked funds within your policy if it allows this. That is known as a switch. A unit-linked fund is where the premiums you pay buy units in that fund and the value of the policy is based on the day-to-day price of the units you have bought.

When policyholders cash in their with-profits benefits early, all the Society's future costs will then be shared by a smaller group of policyholders. We need to protect the financial position of those remaining policyholders while still paying you a fair amount. We do that by reducing your Policy Value and enhancement by a financial adjustment to determine the surrender value, transfer value or switch.

The total of the Policy Value and enhancement may be significantly less than the minimum guaranteed benefit under your policy even before the reduction of the financial adjustment. That is because minimum guaranteed benefits under the Society's policies can be high. You and your adviser should always take account of the guarantee you will be giving up when deciding whether to cash in your policy early.

Types of with-profits policy

We manage a range of with-profits policies and the two main types are:

1 Recurrent single premium

With this type of policy, each premium secures its own guaranteed benefit. All of these guaranteed benefits added together make up the guaranteed amount we must pay you at times given in the policy.

If you have a pension policy with us, it is probably a recurrent single premium policy even if you pay premiums regularly.

Many of our policies have a provision where we promise to increase the guaranteed benefits at a minimum rate of return which is typically 3.5% each year. You will need to look at your own policy to see if this applies to you.

2 Conventional with-profits

This sort of policy starts with a guaranteed amount, known as the 'sum assured', that you will get if you pay all the premiums due. Examples of this type of policy are:

- whole-of-life plans, which pay out when you die; and
- endowments, which pay a lump sum at the end of the policy, or when you die, if this is earlier.

Reversionary bonus

In the past, we have increased the guaranteed benefits of some policies by adding a bonus, known as a ‘reversionary bonus’. We do not expect to add any more reversionary bonuses to policies in the future.

Options to pay premiums and have new policies

While Equitable Life is closed to new business, we will continue to accept premiums if the conditions of your policy allow further payments to be made.

You can take out a new policy with us only if an existing policy gives you the option to do so.

What are the main things that may affect the value of the with-profits fund?

a) Investment performance

We mostly hold investments which give a fixed return so that we can meet the guaranteed benefits under the policies when they fall due.

Those investments give us some stability in the value of the fund and reduce the risk that Policy Values may fall. This type of investment also reduces the amount of solvency capital we need to hold.

While fixed return investments protect you when investment prices fall, they limit the money the fund earns when investment prices rise. So, by investing to meet the guarantees under the policies, the long term benefits may be lower than if the policies did not have guarantees.

b) The costs of running Equitable Life

All expenses are paid out of the with-profits fund. We aim to provide the best value for money cost base and to spread the cost fairly across all policies. These costs include:

- fees paid to third parties for administration and investment services;
- our business expenses such as for projects and reviews;
- staff salaries; and
- tax.

c) The cost of guarantees

If the value we work out when we pay the benefits under a policy is less than the guaranteed benefit, then there is a cost to the fund in paying the higher, guaranteed amount. We hold back some of the with-profits fund each year so that we can meet the extra costs of paying guaranteed benefits in the future.

How we manage risks

We have to be able to respond to a number of things that may go wrong which could affect the benefits you receive. For example:

- The returns on our investments may not be what we expect.
- The profits and losses of running our policies may not be what we expect. For example, if people live longer than we expect, we will have to pay pensions for longer.
- Our costs of administration in future may not be what we expect.

The way we deal with this is by setting aside solvency capital. That capital acts as a shield so that we can pay the guaranteed benefits under policies even if things go wrong.

Information and advice

We update this guide from time to time and the latest version is always available on the Society's website www.equitable.co.uk or on request.

To keep it as simple as possible, this guide contains only the most important points. Your policy may contain other valuable options and these will be described within your policy document. If there are any differences between this guide and your policy documents, the terms and conditions set down in your policy will apply.

If you have any questions about your policy, please call our helpline on 0845 603 6771, between 8am and 6pm Monday to Friday. Calls are charged at local rates.

You should not use this guide as a replacement for professional advice. We do not give advice but, where appropriate, we may give you wider information that may be relevant to your enquiry. However, we recommend that you speak to your independent financial adviser before making any decisions about your policy. Financial advisers may charge a fee for their services. Equitable Life will not pay those fees.

If you do not have an adviser, you can find details of the advisers in your area on the internet at www.unbiased.co.uk.

We also publish a much more detailed description of the management of our with-profits fund in the Principles and Practices of Financial Management on our website at www.equitable.co.uk. Your adviser may want to read this document.

About us

Your policy is issued by Equitable Life which is an independent mutual life assurance company, with its own Board of Directors.

Under the direction of our Board, BlackRock Investment Management (UK) Ltd together with Invista Real Estate Investment Management Ltd manage our investments.