

Windsor Life Assurance Company Limited

National Mutual With-Profit Fund

July 2009

# **A Guide to how we Manage the National Mutual With- Profit Fund**

## **PURPOSE OF THIS GUIDE**

- *This guide is an important document which you should keep for future reference*
- *It tells you how we manage the National Mutual With-Profit Fund*
- *You may wish to read it alongside the documents we sent to you when you started your policy*

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## 1 INTRODUCTION

### *What is a with profits policy?*

- A with profits policy is an investment designed to provide:
  - long-term growth in the money you invest;
  - a minimum guarantee of the amount you can receive on certain dates; and
  - some protection from the ups and downs of the stockmarket.

### *About us*

- The National Mutual With-Profit Fund is a separate fund within Windsor Life Assurance Company Limited ("Windsor Life"), an insurance company that is part of Swiss Re, a global diversified reinsurer.
- All the with profits policies investing in the Fund were transferred from NM Pensions Limited ("NM Pensions") in 2007. NM Pensions in turn received them from National Mutual Life Assurance Society ("National Mutual"), from where they were transferred on National Mutual's demutualisation in 2002.
- The High Court approved the terms on which NM Pensions' business was transferred to Windsor Life, such as the charges we make for managing the National Mutual With-Profit Fund. It also imposed a number of restrictions designed to protect policyholder interests.

## 2 HOW WE DECIDE HOW MUCH YOU RECEIVE

- *We aim to pay you an amount that reflects the money you have paid us and the investment return we have earned on it, along with a number of other items set out elsewhere in this document, such as the charges we make to the National Mutual With-Profit Fund and the tax the Fund pays.*
- *However, in calculating the amount you receive, we make a number of approximations. Sometimes we also limit the change in the value of your policy where to reflect fully the movement in the value of our investments would result in too large an immediate change.*

### *Types of policy*

- The nature of the benefits you receive depends in part on the type of policy you have. There are two types of with profits policy:

	<b>Traditional</b>	<b>Unitised</b>
Description	The benefit is expressed as an amount (or series of amounts) payable at the end of the term of the policy.	Units are purchased at the current unit price as premiums are paid.
Annual Bonuses	We aim to increase the amount payable at the end of the term of your policy by adding a bonus each year.	We aim to increase the price of the units allocated to policies at a rate that we review at least once a year.
	Once added, a bonus increases the guaranteed policy benefits, so cannot be taken away.	
Final Bonus	We may add a further 'final' bonus when we pay your benefits.	

Guarantees	Your policy document sets out the minimum benefits payable to you at the end of the term of your policy (and sometimes at other dates).
Other benefits	Different amounts may be payable on other events, such as death. The details will be shown in your policy document. Should you decide to receive benefits early, then we will often reduce the amount payable.

### 3 HOW WE DECIDE BONUSES

- *We aim to set aside a high proportion of the return we earn on the With Profits Fund each year to pay as final bonus, rather than using it to increase the guaranteed benefits under policies through annual bonuses.*
- *We use final bonus to increase the guaranteed policy benefits up to the amount determined in accordance with section 2 of this guide.*

#### *Annual bonuses*

- We set annual bonus rates each year, although we may review the unit price growth rate for unitised policies more frequently.
- The rates are currently at very low levels. We would only increase them if we believed that to do so would be in the interests of policyholders generally.
- Low annual bonus rates have two principal attractions:
  - we can maintain our investment flexibility, as a higher level of guaranteed benefits would require us to invest more conservatively (more in bonds) to ensure that we remain able to meet the guarantees under almost any circumstance; and
  - we have greater flexibility to set benefits which are fair to all policyholders.

#### *Final bonus*

- At present we review final bonus rates quarterly. We set the rates so as to increase policy benefits from their guaranteed level to an amount that fairly reflects the investment performance underlying your policy. If this latter amount falls below the guaranteed benefits, then a final bonus would not normally be paid.
- In assessing the overall amount payable, we take into account the various items set out in section 2 of this guide.

### 4 WHAT HAPPENS IF YOU WANT TO RECEIVE YOUR BENEFITS EARLY

- *We follow a similar approach to determine the amount you receive if you cash in your policy early to that used to determine the amount payable at the end of the term of your policy.*
- *However, we may reduce the amount payable if we have not yet reduced final bonus rates fully to reflect a fall in the value of our investments.*

### **Amount payable**

- If you decide to cash in your policy early, we recalculate the guaranteed benefits (for traditional policies only) to allow for the reduced period you have held your policy. We then add final bonus, using the rate applying to a similar policy maturing over the shorter period.

### **Market value reduction factor**

- If you decide to receive benefits from your policy at a point during its term when it has no guaranteed minimum encashment value, then we may reduce the amount payable by applying an adjustment known as a “*market value reduction factor*”.
- We keep the level of this adjustment under regular review. The circumstances where we might make an adjustment are those where we would otherwise pay you more than an amount that fairly reflects the market value of the assets we have accumulated from the money you have paid us. We typically make it where there has been a sharp fall in the value of our investments which has not yet been reflected fully in final bonus rates. It is used to protect the interests of the policyholders who are remaining with us.
- When we are using a market value reduction factor, we would typically apply it not just to early encashment values, but also to early and late retirements (if your policy document permits it) and to switches by unitised policies out of with profits into our other investment funds.

## **5 HOW WE INVEST YOUR MONEY**

- *We hold a range of investments aimed at maximising the return on the With Profits Fund, whilst keeping a low risk of being unable to meet the guaranteed policy benefits in full.*

### **Types of investment we hold**

- We invest the money you pay us in a mix of fixed interest securities (bonds), commercial property, shares in UK and overseas companies (equities) and cash deposits.

### **Proportion of the Fund we hold in each type of investment**

- We generally aim to invest around 45% of our investments in fixed interest securities and cash deposits, 40% in equities and 15% in property. However, the actual mix will often differ from this when we believe one type of investment to be more attractive than another. We review these proportions periodically and they are likely to change over time.

### **Investment risk**

- Investments can fall in value. We seek to control these risks by setting limits on the amount that we invest in a single asset and on the exposure we have to any other company.

## 6 THE RISKS YOU ARE SUBJECT TO

- *We aim to meet all the obligations and liabilities of the National Mutual With-Profit Fund from the investments held by the Fund. This exposes the with profits policies in the Fund to a number of risks.*

### Types of risk

- The National Mutual With-Profit Fund holds investments:
  - that are subject to sharp short-term movements (see section 7 on how we aim to cushion you from these movements in some circumstances); and
  - which may experience long periods of negative or very low returns.
- In addition to investment risks, the National Mutual With-Profit Fund (and hence the with profits policies in it) is exposed to a number of business risks. These include having to meet the costs of:
  - the guaranteed benefits in the Fund, including the guarantee to provide annuities under a number of pension policies on terms that are costly; and
  - paying any compensation (arising for example from a claim that a policy was incorrectly sold) caused by events that took place prior to National Mutual's demutualisation in 2002.

### Allocation of cost

- If the cost of these business risks were to exceed the assets specifically set aside to meet them, we would in the first instance charge the excess cost to the estate (see section 9). Only if the estate were insufficient would we consider meeting part of the cost from the money you have paid us.

### New business

- We are no longer writing any new business in the National Mutual With-Profit Fund (other than increases to existing policies), so the Fund is not exposed to the costs and risks that this activity entails.
- We normally accept increases where this is permitted by the policy conditions, but possibly only when these conditions have been met in full (for example, provided that premiums have been paid when due).

## 7 HOW WE CUSHION YOU FROM THE UPS AND DOWNS OF THE STOCKMARKET

- *The impact of a sudden sharp movement in the value of our investments on the benefits that we pay you at the end of the term of your policy or on earlier death is normally spread across more than one final bonus review.*
- *However, we take greater account of a sharp fall in the value of our investments when assessing the amount that we would pay you if you were to cash in your policy early.*
- *The only protection you have against a prolonged period of negative or very low returns on our investments is the guaranteed minimum level of the benefits payable at the end of the term of your policy or on earlier death.*

### **Benefits at the end of the term of your policy**

- The change made to the policy benefits payable at the end of the term of your policy or on earlier death to reflect movements in investment markets is generally unlikely to exceed 5% at a single final bonus review in normal circumstances, or 10% if warranted by more exceptional circumstances. As a result, payments receive some protection from the immediate impact of a sharp fall in the value of our investments, though equally do not immediately benefit fully from a sharp rise. In exceptional investment conditions, we may reduce benefit payments immediately if this is required to protect the interests of our remaining policyholders.

### **Benefits when cashing in your policy early**

- Benefits taken early are not normally cushioned from a sharp fall in the value of our investments. In these circumstances, the benefits are reduced fully to reflect the fall, through using a market value reduction factor as described in section 4.

## **8 HOW WE DECIDE HOW MUCH TO CHARGE YOU**

- *We aim to apportion the costs allocated to the National Mutual With-Profit Fund amongst policies in a fair manner. These costs were agreed when NM Pensions transferred its business to Windsor Life in 2007.*

### **Level of fees**

- The fees payable by the National Mutual With-Profit Fund for administration and investment services are agreed until 2012. The fees are expressed as amounts per policy and as a percentage of the funds being invested. In 2012, they will change to the actual costs being incurred. For administration costs, this will be subject to a cap based on a continuation of the fees payable under the arrangement applying previously.

## **9 WHAT THE ESTATE IS AND HOW WE MANAGE IT**

- *The estate comprises those investments in the National Mutual With-Profit Fund that we do not expect will be required to meet the Fund's obligations (which includes paying benefits to with profits policyholders determined in accordance with section 2 of this guide).*
- *With the National Mutual With-Profit Fund closed to new business, we are aiming to distribute the estate to policies in a fair, consistent and orderly manner as the business runs off.*

### **Distribution of the estate**

- We are distributing the estate to eligible policies (broadly, with profits policies written before March 2001) by increasing the benefits that we would otherwise pay. The increase is a percentage uplift to the policy pay-out. We set the percentage with the aim that it should grow by a similar amount each year. However, in practice the change in the percentage will fluctuate and could be negative, as it depends on the future experience of the National Mutual With-Profit Fund. We publish details on our website.

### *When the National Mutual With-Profit Fund is too small*

- When the size of the National Mutual With-Profit Fund is too small to be maintained (a point expected to be many years away), we will either merge it with another Fund or convert the policy benefits to fully guaranteed amounts. At that point, we will distribute the remainder of the estate amongst those policies left in the Fund on a basis to be determined at the time.

## **10 HOW YOU CAN FIND OUT MORE**

We have set out a more detailed description of how we manage the with profits business in the National Mutual With-Profit Fund in our *Principles and Practices of Financial Management* (PPFM). If you would like a copy free of charge, then you can download it from our website at [www.windsor-life.com](http://www.windsor-life.com). Alternatively, you can write to us at Windsor Life Assurance Company Limited, Windsor House, Ironmasters Way, Telford Centre TF3 4NB or telephone us on 0800 073 1777. The lines are open from 9.00 am to 5.00 pm on Monday to Friday (excluding bank holidays).

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