








How the Windsor Life With-Profits Fund is managed

Aims Of This Guide

The guide:

-  answers some of the questions you might have about how the Windsor Life With-Profits Fund works;
-  covers how the established approach to managing the Windsor Life With-Profits Fund affects the amount you get back from your policy;
-  explains briefly some of the business risks in the fund;
-  helps you decide whether a with-profits policy is right for you; and
-  will help you discuss with-profits with your financial adviser.



When To Read The Guide

You may wish to read this guide after you have read:

For current policyholders:

-  your latest yearly bonus information.

For prospective policyholders:

-  the key features document, which covers such things as the risks, our charges, where your payments are invested, and your choices when the benefit becomes payable; and
-  your illustration, which explains what you might get back from your investment.

This document is important. Please keep it in a safe place with your other policy documents.



- 1 What is a with-profits policy?
- 2 How does the Windsor Life With-Profits Fund work?
- 3 What are some of the business risks in the Windsor Life With-Profits Fund?
- 4 What is the Estate and what is it used for?
- 5 What are the bonuses?
- 6 What affects the value of my policy?
- 7 What if I decide to move out of with-profits?
- 8 Where can I find out more?

With-profits policies provide:

- the possibility of long-term growth (by long term we mean at least 10 years);
- some guarantees of the minimum amount you will receive on certain dates; and
- some protection against the ups and downs of the stock market (known as **smoothing**).

We have two main types of with-profits business:

- conventional policies**, where benefits at the start of the policy are defined in terms of a guaranteed minimum amount known as the Sum Assured (or in the case of annuities, the initial annuity amount); and
- unitised policies**, where benefits are defined in terms of the number and value of units held by the policy within the fund.

If you are a current policyholder you can get details of the type of policy you have by referring to your policy conditions issued at sale and either your yearly bonus notice (issued for **conventional policies**) or your yearly unit statement (issued for **unitised policies**).

The established approach to managing your policy is governed by the **Guiding Principles** and the **Principles and Practices of Financial Management** (see section 8).

The approach can change from time to time, so we'll write to you if we make alterations that may significantly affect your policy.








How Does The Windsor Life With-Profits Fund work?

2

We pool your money with that of many other policyholders in the Windsor Life With- Profits Fund.

The Windsor Life With-Profits Fund invests this money in different types of assets. These include:

-  company shares quoted on the stockmarket (including a proportion of overseas companies);
-  property;
-  fixed interest government bonds (loans to UK and overseas governments and other public bodies);
-  fixed interest corporate bonds (loans to companies); and
-  cash deposits.



The proportion we put into each type of investment will vary over time and is referred to as the **asset mix**. Further details of the **asset mix** can be found on our website (www.windsor-life.com).

The main factor affecting the **asset mix** is the size of the **Estate** (see section 4).

The return on company shares and property is more risky than the other types of investments (in that their market values can fluctuate significantly), but, over the longer term, they have tended to produce higher returns. However, due to the need to secure guaranteed benefits and the solvency regulations governing insurance companies, there are prudent limits on the proportions of such investments that we decide to hold.







The **asset mix** may vary between different groups of policies. Policies are grouped together with others that share common characteristics (for example, the date the policy was taken out and the number of years over which the policy was intended to run).

The factors affecting the **asset mix** for each group include:

-  the level of policy guarantees (see section 6); and
-  how much longer the group of policies is expected to remain in force until the benefits are paid out.

Fairness To All Policyholders In The Windsor Life With-Profits Fund

We aim to pay all policyholders a **fair share**, which takes into account a number of factors including:

-  how much has been invested;
-  investment performance (including gains and losses) over the lifetime of the policy;
-  the charges that have been made (see section 6);
-  the amounts guaranteed under the policy;
-  tax; and
-  the contribution to benefits from the **Estate**.

We use these **fair shares** to help us decide what **bonuses** to pay to each group of policies and also, for **unitised policies**, whether a **Market Value Reduction** must apply (see sections 5 and 6).

What Are Some Of The Risks In The Windsor Life With-Profits Fund?

3

Certain risks exist in the fund, as is the case for all types of life insurance and pensions business.

Investment Risk (& Guarantees)

There is a general risk that poor investment returns reduce the amount available for **bonuses**.

All **conventional policies** have a guaranteed level of benefits, and some **unitised policies** have either guaranteed benefits or a guaranteed minimum **bonus** rate. The guarantees are usually subject to conditions, such as paying all future premiums.

All guarantees introduce investment risk to the fund, in the event that investment performance may not be sufficient to pay for the cost of the guarantees.

A number of pension policies have a guaranteed annuity rate option — this means that at retirement, we will offer an annuity on guaranteed terms. In recent years, interest rates have fallen and people are surviving for longer into retirement. So, the guaranteed rate is now generally better than annuity rates available from other providers in the market. There is a risk that the cost of the guarantees could increase further and this risk is borne by the Windsor Life With-Profits Fund.

Longevity Risk

The Windsor Life With-Profits Fund contains many different types of life assurance policy, including annuity policies. For these policies, the Windsor Life With-Profits Fund bears the risk that these policyholders live longer than currently predicted.

New Business Risk

Selling new with-profits policies can increase future profits in the fund, but can also introduce risk. We control this risk by ensuring that adequate premiums have been set and by limiting the volume of new business sold.

Other Risks

Other risks include expense inflation risk (but see section 4), increasing cost of claims (for example, death claims higher than currently predicted), changes to the regulatory environment and changes to tax paid by the Windsor Life With-Profits Fund.

Adverse experience under any of these risks will, in the first instance, affect the **Estate**, as described below.



What Is The Estate And What Is It Used For?

4

The Windsor Life With-Profits Fund has a certain level of assets in excess of the **fair share** attributed to policies (as referred to in section 2) and the expected cost of meeting other liabilities and guarantees to policyholders. This is called the **Estate**.

The size of the **Estate** is maintained within a target range.

If the size of the **Estate** exceeds this target range then the **Estate** may be used to improve the **fair share** of policyholders (referred to as a contribution from the **Estate**).

If the size of the **Estate** falls below the target range, then this may result in a temporary charge being applied to the **fair share** of policyholders until such time that the **Estate** recovers (referred to as a negative contribution from the **Estate**).

The **Estate** is available to:

- 👑 cover the business risks (including those in section 3);
- 👑 provide a cushion to allow the Windsor Life With-Profits Fund greater freedom to invest a higher proportion of its assets in company shares and property than would otherwise be prudent (see section 2);
- 👑 provide flexibility in the **smoothing** of **bonus** rates (see section 6);
- 👑 finance the selling of new policies when suitable opportunities exist; and
- 👑 improve benefits to policyholders whenever possible (given the need to provide for the flexibility and risks above). In recent years, the contribution from the **Estate** has been to increase the investment return added to with-profit policyholders **fair shares** typically by around 1% per year and we currently expect that this will continue into the future, although see above regarding the possibility of a negative contribution in certain circumstances.

The Windsor Life With-Profits Fund has a fixed expense agreement that protects the fund (and the **Estate**) against rapidly increasing expenses should the number of policies in the fund decline.

What Are The Bonuses?

5

Each year we determine the profits made by the Windsor Life With-Profits Fund that will be distributed in the form of **bonuses** to be added to the guaranteed benefits of with-profits policyholders. The Windsor Life With-Profits Fund pays 90% of its profits to with-profits policyholders and 10% to the shareholders, which is known as the **shareholders' share**.

We can add two types of **bonus**, known as **regular bonus** and **final bonus**. Between them they determine the final benefits paid out on with-profits policies.

👑 **Regular bonuses** increase the guaranteed minimum amount for **conventional policies** and, once added, we can't take them away (see section 6).

For with-profits annuities, the **regular bonus** is added to the regular annuity payments and we guarantee that payments will never fall during the lifetime of the policyholder.

For **unitised policies regular bonuses** are added to the price of your units on a daily basis.

👑 **Final bonus**, which we may add on top of **regular bonus** when your policy matures, surrenders or transfers (or in the event of death).

There is some discretion in deciding both the level of profit to allocate and the **bonuses** to add. Generally, **bonuses** are reviewed quarterly, but they can be changed at any time should circumstances require it. The **Principles and Practices of Financial Management** document governs the way in which **bonuses** are added to policies. However, it isn't guaranteed that **bonuses** will always be added.

The yearly bonus notices and yearly unit statements we send out include information about the current **bonuses** and full details can be obtained from the With-profits section of our website (www.windsor-life.com).

How We Determine Regular Bonuses

When deciding how much **regular bonus** to pay, we look at how the **fair share** will compare to the level of guaranteed benefits at a future date. For policies entitled to a **final bonus**, we have a target for the amount of **final bonus** we aim to pay (see below).

We then adjust the level of **regular bonus** in the light of this comparison (taking into account the target **final bonus**) to achieve consistency between the **fair share** and the level of pay-outs at the future date, whilst making appropriate allowance for **smoothing**.

How We Determine Final Bonus

When deciding how much **final bonus** to pay, we look at how the current **fair share** compares to the level of guaranteed benefits. We then adjust the level of **final bonus** in the light of this comparison to achieve consistency between the **fair share** and the level of pay-outs, whilst making appropriate allowance for **smoothing**.

Some types of policies (including with-profits annuities) are not entitled to a **final bonus**.

What Affects The Value Of My Policy?

6

Many factors affect what you'll get back from your policy. These are the main ones.

Investment Performance

The biggest factor is investment performance. Investment returns depend on several things, including how much of the fund we invest in different types of asset. We hold some higher-risk, and potentially higher-return, investments such as company shares and property. The rest is in lower-risk investments, such as fixed-interest bonds and cash deposits that earn interest.

Over time, the performance of different types of investment varies a lot, so we may change the balance of the investments depending on the size of the **Estate**, but always making sure that the fund can meet its guarantees. Subject to this, our objective is to maximize long-term investment performance.

Smoothing

With-profits policies include a special feature called **smoothing**. The main result of **smoothing** is to limit the impact of short-term investment fluctuations on what you get back. So, for example, in years where investment performance is strong, we will hold back some of the profits and use them to top up **bonuses** in poorer years, thereby ensuring more consistent long-term payouts for all policyholders. **Smoothing** cannot prevent the rate at which **bonuses** are added and, therefore, payouts from falling if investment returns remain low over several years.

Due to the impact of **smoothing**, not all with-profits policies will get precisely their **fair share**, but most will receive payouts between 80% and 120% of their **fair share**.



Guarantees To You (And Other Policyholders)

Your policy guarantees a minimum amount that you will get back, but the guarantee only applies if you keep your policy in force until its original maturity date (unless you die earlier) and pay all premiums due.


Some policies have a guaranteed cash value on early surrender and others have guaranteed annuity rate options. For with-profits annuities, we guarantee that the regular annuity payments will never fall during the lifetime of the policyholder.


For **conventional policies**, the guaranteed minimum amount is the Sum Assured or the initial annuity amount, plus any **regular bonus** already added to the policy.

For **unitised policies**, the guaranteed minimum amount is the value of units held by the policy less any **Market Value Reduction** that may apply (see below) other than on dates on which it is guaranteed that no Market Value Reduction will be applied.

Guarantees to other with-profits policyholders can affect what you get back (see section 3 for further details).

Charges

 For **conventional policies** (including with-profits annuities), the **fair share** of the policy includes an allowance for the expenses required to set up and maintain the policy and manage investments. It also includes the cost of any benefits provided under the policy (including life cover), and for the **shareholders' share** (see section 5).

 For **unitised policies**, the charges to units are detailed in the policy conditions. In determining the **fair share** of the policy, an allowance is made for the expenses required to set up and administer the policy and manage investments and for the **shareholders' share**.

Tax

The **Guiding Principles** and **Principles and Practices of Financial Management** govern the tax basis for the Windsor Life With-Profits Fund. Any tax paid by the Fund on behalf of policyholders reduces what those policyholders may get back.

Tax is also charged to the Windsor Life With-Profits Fund as a result of the transfer of the **shareholders' share** out of the Windsor Life With-Profits Fund.

Future tax changes may have an impact on the returns from policies.

Market Value Reductions

For **unitised policies** we have the right to deduct a **Market Value Reduction** from the amount paid out in certain circumstances set out in the policy conditions (for example, poor performance in the investment markets). This allows us to reduce the amount payable when policyholders are surrendering their policies on any date other than when the **Market Value Reduction** is guaranteed not to apply.

We monitor investment conditions and may apply a **Market Value Reduction** at any time if we think it is necessary to protect the interests of other with-profits policyholders. We are likely to do this whenever payouts would otherwise be above the **fair share**.

We would not use the **Market Value Reduction** to pay out significantly less than the **fair share**. At least once every three months after introducing a **Market Value Reduction**, we check whether it should still apply.






What If I Decide To Cancel My With-Profits Policy?

7

With-profits annuities are designed to pay out a regular income throughout the life of the annuitant and it is not possible to cancel this type of policy.

For other types of with-profits policy, you may choose to cancel your policy. For instance, you might choose to:

-  take an early cash surrender value from your policy;
-  take early retirement; or
-  take a transfer value and move a pension policy to another company.

If you do this, we still aim to ensure that you get your **fair share**, but we do not guarantee the minimum that you could get. In particular you may get back less than you invested. For **united policies**, this may involve a **Market Value Reduction**. We aim to maintain a fair level of future pay-outs to everyone investing in the Windsor Life With-Profits Fund.

Where Can I Find Out More?

8

If you are still unclear about your existing with-profits policy or about investing in with-profits, please seek advice from your financial adviser or contact us direct.

If you want a more detailed and technical guide to how the Windsor Life With-Profits Fund is managed, you can get a copy of the **Principles and Practices of Financial Management** from our call centre on 0800 073 1777 or from the With-profits section of our website (www.windsor-life.com).

Note that the Principles and Practices of Financial Management (together with the Guiding Principles) governs the management of the Windsor Life With-Profits Fund and takes priority over this document, which is intended as a “consumer-friendly” summary only.