



ReAssure

ReAssure Limited

National Mutual With-Profit Fund

Consumer-Friendly Principles and Practices of Financial Management

July 2020

A guide to how the National Mutual With-Profit Fund is managed

Aims of this guide

The guide:

- answers some of the questions you might have about how the National Mutual With-Profit Fund works;
- covers how the established approach to managing the National Mutual With-Profit Fund affects the amount you get back from your policy;
- explains briefly some of the business risks in the fund; 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 your latest yearly bonus information.

National Mutual With-Profit Fund

1



ReAssure

Contents

- 1 Introduction**
- 2 How we decide how much you receive**
- 3 How we decide bonuses**
- 4 What happens if you want to receive your benefits early**
- 5 How we invest your money**
- 6 The risks you are subject to**
- 7 How we cushion you from stock market fluctuations**
- 8 How we decide how much to charge you**
- 9 What the Estate is and how we manage it**
- 10 How you can find out more**

National Mutual With-Profit Fund



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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 against stock market fluctuations.

About us

The National Mutual With-Profit Fund is a fund within ReAssure Limited ("ReAssure"), managed separately from the rest of the business. ReAssure is an insurance company that is part of Phoenix Group.

All the with-profits policies investing in the National Mutual With-Profit 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 ReAssure, 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 it pays. We call this amount an asset share.

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 reflecting the full movement in the value of our investments would result in too large an immediate change. This is called smoothing (see section 7).

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:

- conventional policies, where benefits payable at the end of the term of the policy are defined in terms of a guaranteed minimum amount; and
- unitised policies, where benefits are defined in terms of the number and value of units held by the policy.

National Mutual With-Profit Fund



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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). Should you decide to receive benefits early, then we will often reduce the amount payable.

Different amounts may be payable on other events, such as death. The details will be shown in your policy document.

3 How we decide bonuses

We aim to set aside a high proportion of the return we earn on the National Mutual With-Profit Fund each year to pay as final bonus, and use only a low proportion of it to increase the guaranteed benefits under policies through regular bonuses.

We use final bonus to increase the guaranteed policy benefits up to the amount determined in accordance with section 2 of this guide.

Regular bonus

Once added, a bonus increases the guaranteed policy benefits, so cannot be taken away. For conventional policies we aim to increase the amount payable at the end of the term of your policy by adding a bonus each year. For unitised policies we aim to increase the price of the units allocated to policies at a rate that we review at least once a year.

The regular bonus 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 regular 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 fixed interest securities) 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

We may add a further 'final' bonus when we pay your benefits. 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 asset share underlying your policy. If this latter amount falls below the guaranteed benefits, then a final bonus would not normally be paid (see also section 4: 'Market Value Reduction').

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.

National Mutual With-Profit Fund



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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 conventional 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

We have the right in certain circumstances (typically where there has been a sharp fall in the value of our investments which has not yet been reflected fully in final bonus rates) to reduce the amount paid out under your policy by applying an adjustment known as a "Market Value Reduction". We would apply this when policyholders are taking benefits from their policies on any date other than when the Market Value Reduction is guaranteed not to apply (set out in the policy conditions), to protect the interests of the policyholders who are remaining with us.

When we are using a Market Value Reduction, 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.

We would not use the Market Value Reduction to pay out significantly less than the asset share. After introducing a Market Value Reduction, we check frequently whether it should still apply.

5 How we invest your money

We hold a range of investments aimed at maximising the return on the National Mutual With-Profit 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.

Investment mix

We periodically review the proportions of our investments in these different asset types, and publish our current benchmark investment mix on our website. However, the actual mix will often differ from this when we believe one type of investment to be more attractive than another.

National Mutual With-Profit Fund



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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 within it. This exposes the with-profits policies in the National Mutual With-Profit 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 National Mutual With-Profit 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 charging part of the cost to your policy benefits.

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 National Mutual With-Profit 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 stock market fluctuations

National Mutual With-Profit Fund

6



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One feature of with-profits policies is smoothing. The main result of smoothing is to limit the impact of short-term investment fluctuations on the payout of a policy. 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 does not affect the frequency of bonus declarations and therefore will not prevent payouts from falling if investment returns remain low over several years. The only protection you have against a prolonged period of negative or very low investment returns is the guaranteed minimum level of the benefits payable at the end of the term of your policy or on earlier death.

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

Benefits at the end of the term of your policy

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 smoothed across more than one final bonus review.

The change made to these benefits 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 payable 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 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 ReAssure in 2007.

Level of fees

The fees payable by the National Mutual With-Profit Fund for administration and investment services were specified until 2012 in an agreement made when National Mutual demutualised. The fees are expressed as amounts per policy and as a percentage of the funds being invested. Under the agreement, the fees from 2012 changed to the actual costs being incurred, with administration costs being no higher than the continuation of the fees payable under the previous arrangement.

National Mutual With-Profit Fund



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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 its 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 payout. 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.

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.reassure.co.uk or write to us at ReAssure 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).

Note that the Principles and Practices of Financial Management governs the management of the National Mutual With-Profit Fund and takes priority over this document, which is intended as a “consumer-friendly” summary only.