

ReAssure Limited

Windsor Life With-Profit Fund

Consumer-Friendly Principles and Practices of Financial Management

July 2020

A guide to how the Windsor Life With-Profit Fund is managed

Aims of this guide

The guide:

- answers some of the questions you might have about how the Windsor Life With-Profit Fund works;
- covers how the established approach to managing the Windsor Life 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.

Windsor Life With-Profit Fund

ReAssure Ltd, Registered in England No. 754167 Registered Office: Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB
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1 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.

We have two main types of with-profits business:

- 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.

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 or 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 9).

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

2 How does the Windsor Life With-Profit Fund work?

We pool your money with that of many other policyholders in the Windsor Life With-Profit Fund. The fund invests this money in different types of assets. These include:

- company shares (equities), 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 "investment mix". Further details of the investment mix can be found on our website (www.reassure.co.uk).

Company shares and property have tended to produce higher returns in the longer term, but they are more risky than the other types of investments (in that their market values can fluctuate

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significantly) and the returns are not guaranteed. To ensure the Windsor Life With-Profit Fund is able to pay the guaranteed benefits, we limit the amount of investment in these assets.

The investment 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 investment mix for each group include:

- the level of policy guarantees (see section 5); 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-Profit Fund

We aim to pay all policyholders an amount 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 5);
- the amounts guaranteed under the policy;
- tax; and
- the contribution to benefits from the Estate.

We call this amount an asset share. We use asset shares to help us decide what bonuses to pay to each group of policies (see section 4) and also, for unitised policies, whether a Market Value Reduction should apply (see section 5).

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 6).

3 What are some of the risks in the Windsor Life With-Profit Fund?

Certain risks exist in the fund, as is the case for all types of life insurance and pensions business. We manage the Windsor Life With-Profit Fund so that it remains solvent following a '1 in 200 year event'.

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Investment Risk and 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 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 annuity is now generally better than annuities 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-Profit Fund.

Longevity Risk

The Windsor Life With-Profit Fund contains with-profits annuity policies. For these, the Windsor Life With-Profit Fund bears the risk that these policyholders live longer than currently predicted, and therefore has to make payments to the policyholders for longer than expected.

New Business Risk

We are no longer writing any new business in the Windsor Life With-Profit Fund, so the fund is not exposed to the costs and risks that this activity entails.

Other Risks

Other risks include increasing cost of claims (for example, death claims being higher than currently predicted), changes to the regulatory environment and changes to tax paid by the Windsor Life With-Profit Fund.

Costs arising from any of these risks will, in the first instance, affect the Estate (see section 8).

4 What are the bonuses?

Each year we determine the profits made by the Windsor Life With-Profit 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-Profit Fund pays 90% of its profits to with-profits policyholders and 10% to the shareholders, which is known as the shareholders' share.

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There is some discretion in deciding both the level of profit to allocate and the bonuses to add. 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.

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 bonus

Regular bonuses increase the guaranteed minimum amount for conventional policies and, once added, we can't take them away (see section 5).

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 increase the price of the units on a daily basis.

Generally, regular bonuses are reviewed annually for conventional policies. They are generally reviewed annually for with-profits annuities and twice-yearly for unitised policies, but these can be changed at any time should circumstances require it. The yearly bonus notices and yearly unit statements we send out include information about the current regular bonuses.

Final bonus

Final bonus may be added on top of regular bonus when a policy matures, surrenders or transfers (or in the event of death). Generally, final bonuses are reviewed quarterly, but they can be changed at any time should circumstances require it.

How we determine regular bonus

When deciding how much regular bonus to pay, we look at how the asset 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.

We use this comparison and the target final bonus amount to set the level of regular bonus. We also bear smoothing in mind, and therefore aim to not change bonus rates by too much from one bonus declaration to the next.

How we determine final bonus

When deciding how much final bonus to pay, we look at how the current asset 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 asset share and the level of payouts. We also

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bear smoothing in mind, and therefore aim to not change bonus rates by too much from one bonus declaration to the next.

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

5 What affects the value of my policy?

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 maximise long-term investment performance.

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 or retirement 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 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 a Market Value Reduction if one is in force and if benefits are taken on a date when a Market Value Reduction may be applied).

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

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Charges

For conventional policies (including with-profits annuities), the asset 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 4).

For unitised policies, the charges applied to units are detailed in the policy conditions. In determining the asset 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 the Principles and Practices of Financial Management govern the tax basis for the Windsor Life With-Profit Fund. Any tax paid by the fund reduces what policyholders may get back.

One such tax charge paid by the Windsor Life With-Profit Fund is the tax arising from the shareholders receiving the shareholders' share.

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

Market Value Reductions

For unitised policies 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.

6 How we cushion you from stock market fluctuations

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

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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 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 5.

7 What if I decide to cancel my with-profits policy?

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.

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

8 What is the Estate and what is it used for?

The Estate comprises those investments in the Windsor Life 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 Windsor Life With-Profit Fund closed to new business, the Estate will be distributed to with-profits policyholders over the lifetime of the remaining business in the fund. We aim to do this by increasing policy asset shares (referred to as a contribution from the Estate) and therefore declaring higher bonus rates than if we were not distributing the Estate. An initial uplift to asset shares was made to all with-profits policies which were in force when the fund closed to new business, depending on the length of time each policy had been in force. Every year we review the amount by which we further increase asset shares, with the aim that this addition stays fairly constant from one year to the next. In practice it will fluctuate and could be negative (referred to as a negative contribution from the Estate), as it depends on the future experience of the Windsor Life With-Profit Fund. We publish details of these increases on our website.

The Estate is available to:

- cover the business risks (including those in section 3);
- provide a cushion to allow the Windsor Life With-Profit 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); and
- improve benefits to policyholders whenever possible (given the need to provide for the flexibility and risks above).

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

9 Where can I find out more?

We have set out a more detailed description of how we manage the with-profits business in the Windsor Life 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,

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

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