



ReAssure

LG WITH-PROFITS FUND

Principles and Practices of Financial Management

REPORT TO POLICYHOLDERS ON COMPLIANCE FOR THE PERIOD 7 SEPTEMBER 2020 TO 31 DECEMBER 2020

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Report to Policyholders from the With-Profits Actuary

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1. Introduction

- 1.1 On 7 September Legal & General Assurance Society's With-Profits Fund ("Legal General With-Profits Fund" or "the Fund") transferred to ReAssure Limited ("ReAssure" or "the Company") where it is now called the "LG With-Profits Fund".
- 1.2 The LG With-Profits Fund is a ring-fenced fund within ReAssure. No new business is being written into the Fund, other than increases to existing policies and new members into existing pension schemes.
- 1.3 ReAssure maintains documents known as the Principles and Practices of Financial Management ("the PPFM") for each of its With-Profits funds. These set out the Principles and Practices that guide the management of the With-Profits business held in each fund.
- 1.4 The current PPFM for the Legal General With-Profits Fund was formally agreed as part of the legal Scheme of transfer and applied from the 7 September 2020.
- 1.5 This report to policyholders examines the management of the Fund during 2020, from the date of transfer to ReAssure. A separate report from the Legal & General Assurance Society Board covering the period in 2020 prior to the transfer is also available on our website.
- 1.6 This report sets out, with reasons, whether ReAssure complied with the obligations associated with the PPFM for the Legal General With-Profits Fund following transfer in 2020. These include the requirement to maintain appropriate governance arrangements designed to ensure that the Company maintains and complies with the PPFM. The report also describes the way in which ReAssure exercised discretion in the conduct of its With-Profits business in the LG With-Profits Fund and how it addressed any conflicting requirements of different groups of policyholders and shareholders.
- 1.7 In preparing this report, ReAssure has taken advice from its With-Profits Actuary.
- 1.8 Any terms used in the report have the meaning set out in the PPFM for the LG With-Profits Fund, a copy of which can be downloaded from ReAssure's website www.reassure.co.uk/fund-centre or by contacting us.

2. Governance arrangements

- 2.1 The ultimate responsibility for the management of ReAssure's With-Profits business following transfer in 2020 resided with the ReAssure Board ("the Board"). However, a Committee of the Board, known as the Fairness Committee, performed a number of functions in relation to the Company's With-Profits business. These included monitoring compliance with the PPFM and reviewing its contents.
- 2.2 The Fairness Committee met three times in 2020 following the transfer of the LG With-Profits Fund. There were also two meetings in 2021 where the LG With-Profits Fund's bonus declaration for the year ending in 2020 was considered. During this time the Fairness Committee consisted of six independent members (including the Chairman).
- 2.3 A With-Profits Actuary is appointed to provide advice on the exercise of discretion relating to matters affecting With-Profits business. The With-Profits Actuary for the LG With-Profits Fund at ReAssure during the period was Tricia Ross, who was also the With-Profits Actuary for Legal and General Assurance Society prior to the transfer of the Fund. The With-Profits Actuary attended meetings of the Fairness Committee.

- 2.4 The With-Profits Actuary prepared advice and recommendations relating to the Fund's With-Profits business, such as bonus declarations, the interests of the With-Profits policyholders and had an opportunity to comment on other relevant papers and matters in advance of their wider circulation and consideration.
- 2.5 The With-Profits Actuary prepared a report to the Board and Fairness Committee on the key aspects of discretion exercised during 2020 following transfer to the Company that affected the With-Profits business in the Fund. A separate report from the With-Profits Actuary to policyholders is annexed to this report.
- 2.6 It is intended that the governance arrangements will be amended during 2021, and the responsibilities of the Fairness Committee in relation to LG With-Profits Fund matters will be transferred to the newly established ReAssure With-Profits Committee, a Committee of the ReAssure Board.

3. Exercise of discretion

Bonus rates

- 3.1 Bonus rates previously set by Legal & General Assurance Society were adopted by the ReAssure Board with minor adjustments to reflect slight differences in the administration systems. These rates were shared with the Fairness Committee in advance of the transfer to allow their comments, and applied from the transfer in September 2020.
- 3.2 Regular bonus rates for 2020 and interim bonus rates for 2021 were set by the ReAssure Board in November and December 2020 after receiving advice from the With-Profits Actuary. These bonus rates were also considered by the Fairness Committee.
- 3.3 Final bonus rates were set by the ReAssure Board in February 2021 after receiving advice from the With-Profits Actuary and consideration by the Fairness Committee.
- 3.4 The bonus declaration was guided, for most With-Profits business, by the smoothing formulae used in recent years and designed to achieve the aims stated in the PPFM.
- 3.5 The reports on bonus rates presented to the Fairness Committee provided evidence that the bonus methodology was based around the stated aims and followed the approach set out in the PPFM. The material considerations used in determining the bonus rates were presented to the Fairness Committee. The bonus rates declared demonstrated clear differentiation between product types and generations, in accordance with the PPFM.
- 3.6 While investment returns are usually the most important factor in determining bonus rates, allowance is made for operating experience within the LG With-Profits Fund, such as surrender, expenses paid by the Fund and mortality profits or losses. The work carried out to investigate operating experience grouped together similar policies. Allowance was also made for tax where appropriate.
- 3.7 The Contractual Minimum Addition (CMA) applicable to certain of the Society's contracts was calculated in line with the formulae set out in the PPFM. The application of the CMA, however, differed from the description within the PPFM. The With-Profits Actuary commented that the operation of the CMA is as envisaged by the Part VII transfer that in her opinion the change does not constitute material customer detriment since it is compensated by changes to the allowance for CMA in any regular or partial withdrawals.

Surrender values

- 3.8 Surrender values (and transfer values for pension business) and MVRFs were regularly monitored throughout the period 7 September 2020 to 31 December 2020, with changes made in accordance with the PPFM and consistent with past practice, having regard to movements in the value of the underlying investments.
- 3.9 ReAssure did not make any changes in 2020 to the overall approach and methods used to determine surrender values (and transfer values for pension business) for conventional business or MVRFs for unitised business.

Payouts

- 3.10 The PPFM contains target ranges for payout ratios on With-Profits policies. The target range for both maturities and surrenders is 80% to 120% of asset share. This target range is considered to be realistically achievable and fair given the cross-subsidies inherent in With-Profits business.
- 3.11 ReAssure manages the LG With-Profits Fund with the aim that at least 90% of payouts fall within the target range. ReAssure complied with its policy for the LG With-Profits Fund on target ranges during the period following transfer in 2020.
- 3.12 To ensure ongoing compliance, payout ratios and investment variance were regularly monitored throughout the period so that bonus rates, market value reduction factors (MVRFs) and surrender factors could be adjusted if necessary.
- 3.13 Bonus rates were generally set so to target a maturity or death payout ratio of 100% in the longer-term. In some circumstances, in the interests of fairness, a payout ratio higher than 100% was targeted.

Investment strategy

- 3.14 The operation of the investment of the Fund's assets was overseen by the Policyholder Investment Committee, which met monthly during 2020 and included oversight of the LG With-Profits Fund following transfer. Relevant investment information relating to the LG With-Profits Fund was also provided to the Fairness Committee
- 3.15 There are separate guidelines for assets backing asset shares (whose returns directly influence bonus rates) and assets backing the cost of guarantees on With-Profits business, other liabilities and the Estate.
- 3.16 The LG With-Profits Fund was managed in a manner consistent with the overriding principle that its assets should be sufficient to meet its current and future liabilities, including its regulatory and other capital requirements, without the need for capital outside the Fund, whilst maintaining a balance between risk and return for policyholders and the Fund as a whole.
- 3.17 The Estate is the excess of the value of the assets in the Fund over the value of the assets needed to support the current and expected future liabilities of the Fund. These Estate assets are invested with the aim of protecting the value of the Estate.

- 3.18 In order to partly protect the LG With-Profits Fund's capital position against possible changes in equity, property, corporate bond and government bond prices, hedging positions were held within the Estate. The costs and benefits of this hedging accrue to the Estate and do not directly affect the investment returns credited to asset shares.
- 3.19 The proportion of the assets backing asset shares invested in fixed interest securities and equities remained broadly the same over the period, and broadly unchanged from the proportions prior to transfer.
- 3.20 No material changes were made to the investment strategy of the LG With-Profits Fund during the period, nor were any material changes made to the schedules of investment fees payable to external asset managers.

Business risk

- 3.21 No additional business risks were introduced into the Fund during 2020.
- 3.22 The LG With-Profits Fund is closed to new With-Profits business, however, new members to existing group personal pension schemes were permitted during the period. We will review the impact of allowing new members into these schemes during 2020 in order to eliminate any expected adverse impact on the LG With-Profits Fund and its existing With-Profits policyholders.
- 3.24 All annuities arising from vesting pension policies were secured outside the LG With-Profits Fund as agreed during the Part VII transfer.
- 3.25 Currently profits and losses from business risks relating to With-Profits policies are generally distributed to asset shares. Profits and losses from Non-Profit policies within the Fund are allocated to the Estate.

Charges and expenses

- 3.26 The administration charges and expenses charged to the LG With-Profits Fund are set out in the Scheme. Under the Scheme, the majority of the expenses of the Fund are calculated by a fixed amount per policy, varying by policy type, multiplied by the average number of policies in force over the period.
- 3.27 The Scheme also specified that 'equalisation multipliers' would be calculated for the purpose of avoiding any offsets between the product groups as the business runs off.
- 3.28 The fees charged to the Fund in 2020 by ReAssure for administration and investment services were estimated at the end of 2020. In March 2021 'equalisation multipliers' and adjusted fixed amounts per policy were agreed by the ReAssure Board. ReAssure will ensure that an appropriate adjustment for any differences against the estimate is made.
- 3.29 The majority of investment management expenses, commission and any rectification payments to policyholders are not included within the expense agreement. ReAssure will ensure that the costs allocated to the LG With-Profits Fund in addition to the regular fees are as permitted by the Scheme.
- 3.30 There were no exceptional costs charged to the LG With-Profits Fund in 2020 post transfer.

- 3.31 Judgements as to the level of support from the Estate, for example by limiting the amount of transfer to shareholders or expenses deducted from policies when determining levels of benefits, were taken by ReAssure alongside the main bonus investigation exercise for the declaration announced in February 2021. In general, decisions relating to these matters were made at the product launch date (or date of subsequent review).
- 3.32 Certain pension plans currently benefit from our Recurring Charge Rebate rider, which means the value of the plan will not be less than it would have been if they had transferred to a Stakeholder Pension in April 2001.
- 3.33 With-Profits customers aged 55 or over at the time they access their pension pot have any exit charges that may apply to their plan capped at 1% of their total pension pot.

Management and Distribution of the Estate

- 3.34 The LG With-Profits Fund contains an excess of assets over liabilities known as the Estate, which is used to provide freedom for the Fund's investment policy, enable smoothing of benefits, absorb financial strains, provide support for expenses, to meet part of the cost of shareholder transfers and to cover capital requirements. Management of the Estate is therefore critical to the financial health of the Fund.
- 3.35 As the LG With-Profits Fund is closed to new business, the Estate is being distributed in its entirety over time to eligible Policies. This is achieved through an enhancement to Asset Shares and thus to payouts.
- 3.36 The Estate and assets backing the cost of guarantees and options follow a different investment strategy to that for the assets backing asset shares. This strategy, coupled with the Estate distribution mechanism, and the hedging of certain market risks, is designed to protect solvency in adverse conditions and provide greater stability.
- 3.37 The Board is required to consider the size of the Estate annually with a view to assessing whether any may be distributed or whether a charge is required to increase its size. The Board, following advice from the With-Profits Actuary and the Fairness Committee agreed that no distribution should be made in 2020.

Equity amongst policyholders and with shareholders

- 3.38 The LG With-Profits Fund was ring-fenced from the other business in ReAssure. All the surplus emerging in it is available for distribution over time to policyholders. None of the policyholders in the Fund had any interest in any surplus arising elsewhere in the Company. The items that are allowed to be allocated to the LG With-Profits Fund, such as the fees for administration and investment services and the amount charged for tax, are all prescribed by the Scheme. Audited accounts provided evidence of the separate treatment of the Fund.
- 3.39 No shareholder transfer was made from the Fund during this period, the amount of shareholder transfer in respect of 2020 will be calculated and reviewed in 2021. Shareholders are entitled to not more than 10% of distributed surplus from the Fund. Both policyholders and shareholders have an interest in the controlled distribution of surplus, including the split of the distribution to policyholders between annual and final bonus, and in the continued prudent financial management of the Fund.

- 3.40 As outlined in the PPFM the Fund has an established practice of calculating its tax liability on a stand-alone basis and this continued during 2020. It has been the established practice that additional tax due in respect of the transfer to shareholders is charged to the Estate and this is expected to continue.
- 3.41 Different groups of With-Profits policyholders may have competing or conflicting rights, interests or expectations. For example, different policyholders could receive different benefits relative to each other depending on how discretion is exercised.
- 3.42 The main areas in which judgement and discretion are exercised in balancing the interests of different groups of policyholders are in the:
- smoothing of policy benefits;
 - grouping of policies for setting bonus rates and surrender values and sharing of investment and other experience;
 - relative levels of benefits paid on surrender or maturity;
 - allocation of asset mix and investment returns;
 - level of risk embedded in the Non-Profit business held.
- 3.43 Where bonus rates are guided by asset share calculations, a consistent approach to smoothing across product types was applied, in which a proportion of investment and other experience was not immediately reflected in policy benefits at contractual points. In the minority of cases where bonus rates are not guided by asset share calculations, other techniques, such as comparison with similar products whose bonus rates are guided by asset share calculations, were used in order that a consistent approach to smoothing could be applied across different groups of policies.
- 3.44 The approach of grouping of policies depends on the different aspects of experience (such as investment returns, expenses and mortality). For given aspects of experience, policies judged to have similar characteristics were grouped together, in order that a practical and equitable approach to the sharing of experience could be achieved.
- 3.45 Surrender values were reviewed with the aim that payments to those policyholders taking benefits other than at contractual points did not adversely affect the interests of remaining With-Profits policyholders.

4. Maintenance of the PPFM

- 4.1 No changes were made to the PPFM during 2020 after the transfer to ReAssure.
- 4.2 Any future changes to the PPFM would be reviewed by the Fairness Committee (or any successor Committee) and approved by the ReAssure Board. Appropriate communications in line with the regulatory guidance would also be made.

5. Policyholder communications

- 5.1 Policyholders received information about their policies, including information regarding bonuses added, via an annual statement. Supplementary information including a summary of the investment mix was published on the website.
- 5.2 A copy of the Consumer-Friendly PPFM (called "A guide to how the Legal General With-Profits Fund is managed") was **not** held on the Company's website during 2020 following transfer.



5.3 Provision of the Consumer-Friendly PPFM is specified in the current PPFM, and therefore in this respect the Company did not comply with the PPFM. ReAssure will address this issue in 2021.

6. Conclusion

6.1 In the opinion of both the ReAssure Board and the Fairness Committee, the Company complied in all material respects with the obligations set out in the LG With-Profits Fund PPFM for the period of 2020 following transfer. In particular, it:

- maintained appropriate governance arrangements designed to ensure that it complied with the LG With-Profits Fund PPFM;
- exercised discretion appropriately and fairly in the management of its LG With-Profits business; and
- addressed appropriately and fairly any competing or conflicting rights, interests or expectations of its LG With-Profits Fund policyholders (or groups of policyholders) and shareholders.

30 June 2021



Annex

LG WITH-PROFITS FUND REPORT TO POLICYHOLDERS FROM THE WITH-PROFITS ACTUARY For the period 7 September to 31 December 2020

The Financial Conduct Authority's rules require an actuary appointed to perform the With-Profits Actuary function to report to the With-Profits policyholders as to whether the annual report of the firm and the discretion exercised by the firm in respect of the period covered by the report may be regarded as having taken the interests of the With-Profits policyholders into account in a reasonable and proportionate manner.

This is my report for the period from 7 September 2020 to 31 December 2020 following the transfer from Legal & General Assurance Society Limited to ReAssure Limited.

In producing this report, I have based my opinion on the information and explanations provided to me by ReAssure Limited ("The Company"), having regard to the Principles and Practices of Financial Management ("PPFM") for the LG With-Profits Fund.

I have also had regard to the relevant Technical Actuarial Standards issued by the Financial Reporting Council.

I have carried out a review of compliance with the PPFM and the exercise of discretion over 2020 in respect of the period following transfer to ReAssure Limited. A key element of the use of discretion is the setting of bonuses and hence payouts to customers and so my report has also considered bonuses in respect of 2020.

I am satisfied that the Company has complied, in all material respects, with the principles and practices set out in the PPFM for the period in 2020 post transfer to ReAssure Limited. I am satisfied that the Company's report and its exercise of discretion over this period may be regarded as having taken the With-Profits policyholders' interests into account in a reasonable and proportionate manner. I also note that, due to the short time since the transfer, not all of the annual activities of the fund have yet been undertaken and there remains some activity to embed some of the operational processes with the aim of ensuring the future fair treatment of policyholders.

Tricia Ross FIA
With-Profits Actuary