



ReAssure

ReAssure Limited

Guardian Assurance With Profits Fund

Consumer-Friendly Principles and Practices of Financial Management

July 2020

**This guide is for you if you have a
Traditional With-Profits Pension policy with either
ReAssure Ltd or Countrywide Assured that is written in the
Guardian Assurance With Profits Fund.**

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Glossary

1 What is this guide for?

In this guide we explain how we manage the money invested in the Guardian Assurance With Profits Fund (GAWPF) and what it means for you. We'll explain any investment terms as we go through this guide, but there's also a glossary of terms at the end for easy reference.

If you require financial advice when you've read this guide, then you should contact your financial adviser.

Please note we can't give you any financial advice, but if you would like more information about your policy or how we run the GAWPF, please contact us:-

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or +44 1952 292 929 (overseas)

We have separate guides for other types of policy, available on request:

- With-profits life assurances
- Unitised with-profits pensions and life assurances
- With-profits group pension schemes

In addition, we have a more detailed guide to our with-profits management strategy called 'Principles and Practices of Financial Management of With-Profits Business' (PPFM). We also produce a yearly report on our with-profits business confirming whether we've complied with the PPFM during the year. If you would like any of these documents, please ask us or download them from our website www.reassure.co.uk

The Fairness Committee reviews and challenges the with-profits management on a quarterly basis and ensures an element of impartial judgement in the ongoing assessment of our compliance with the PPFM.

2 Background to Guardian Assurance With Profits Fund

ReAssure Ltd is a life insurance company that is part of Phoenix Group. Phoenix Group acquired ReAssure in July 2020.

Premiums paid by with-profits policyholders are paid into the GAWPF. The profits arising in this fund are shared between our with-profits policyholders and the shareholder. The with-profits policyholders receive 90% of the profits and the shareholder receives 10%.

In 1998 the with-profits fund was closed to new business. The estate (that's the excess of the fund's assets over its liabilities) is being distributed gradually to with-profits policyholders by paying higher bonus rates than would otherwise have been the case. Only with-profits policies that were in-force when we announced that the fund was closing will benefit from the distribution of the estate.

In 2012 the GAWPF was restructured and most of the guaranteed annuity business was transferred into a new non-profit fund. The impact of this on our with-profits policyholders will be a faster and more equitable distribution of the estate. Current final bonus rates for most policies are higher than they would have been had the 2012 restructure not taken place, and no policyholder has been adversely affected by the restructure.

In January 2016 Swiss Re bought the Guardian group of companies and Guardian Assurance Limited was renamed ReAssure Life Limited in June 2016.

On 31 December 2016 the assets and liabilities of ReAssure Life Ltd were transferred to ReAssure Ltd under the terms of the High Court approved Scheme in accordance with Part VII of the Financial Services and Markets Act 2000. The GAWPF is now a ring-fenced fund in ReAssure which means that it is managed and accounted for separately from all other funds of ReAssure.

3 What does my policy pay out?

A traditional with-profits pension policy pays out:

- A minimum guaranteed pension. This is the minimum amount per annum we will pay out providing you pay all the premiums due and keep the policy for the full term.
- A share in the profits and losses of the GAWPF by means of bonuses, providing you pay all the premiums due and keep the policy for the full term.
- If you die before retirement, the benefits payable will be limited to that indicated in your policy provisions. Some policies may pay nothing at all or just a small amount.
- At retirement it may be possible to convert your pension into a lump sum payment. Generally, pension is converted into a lump sum based on conversion factors specified in your policy – usually a factor of 9 or 10 at age 65, e.g. if you convert £100 of pension this will give a lump sum of £900 if the conversion factor is 9.

This lump sum may be classed as earned income and therefore taxable. To be able to convert your pension savings into a lump sum payment, you may need to take appropriate independent financial advice.

4 Where do profits and losses come from?

The main source of profits and losses are the GAWPF's investments. Minor profits also come from non-profit policies.

As you pay into your policy, we put your payments together with those of the other with-profits policyholders.

- This 'pooling' of money generally means that on your behalf we can invest in a wider spread of assets than if you'd invested on your own. This can help to spread the risk and the costs.

We invest your money in a mixture of company shares (equities), fixed interest securities (for example loans to the Government or to large corporations) and cash deposits.

We aim:

- To earn dividend income and an increase in value from the equities,
- To earn interest on the fixed interest securities and cash deposits.

The return on these investments is put back into the fund and is then shared by with-profits policyholders and the shareholder (See Section 2 - "Background to Guardian Assurance With Profits Fund")

5 What bonuses might I get?

We add your share of the profits through two main types of bonus:

Annual bonus (also known as regular bonus or reversionary bonus):

- We add it at 31 December each year.
- It is an additional guarantee on top of your minimum guaranteed pension.
- Once we add it to your policy, we guarantee to pay it provided you pay all the premiums due and keep the policy for the full term.

- Annual bonus may not be paid in the final year of your policy.

Final bonus (also known as terminal bonus)

- We may pay a final bonus when the policy reaches its end date.
- Final bonus is not payable for most traditional with-profits pension policies (see Section 8 – "How are final bonus rates set?").
- Final bonus is not guaranteed.

Final bonus on transfer or early retirement

- We may also pay some final bonus if you transfer your policy to another provider or if you choose to retire early.
- If you do this, the amount you will get is not guaranteed.
- If you transfer your pension to another provider you will lose the benefit of the minimum guaranteed pension. It may be necessary to take appropriate independent financial advice for the transfer to go ahead.
- If you retire early the pension you can get may be less than the minimum guaranteed pension plus annual bonus additions.

6 How are annual bonuses set?

We have set our annual bonus rates at 0.5% for Buy-Out Plan, Pension Plus and Versatile Individual Pension Plan, and 1.0% for Personal Pension and Participating Pension, and they will remain at these levels in the future, except in extreme or exceptional circumstances. Our investment strategy is consistent with our intention to maintain the annual bonus rates at this level.

We send you a yearly statement to confirm the annual bonus added to your policy.

7 What affects final bonus?

Various factors affect how much final bonus we may pay. These include:

- **The guarantees offered on your policy.** This is the biggest factor affecting how much you might get. Final bonus is determined as your fair share of the GAWPF on top of the guaranteed amount. The high level of guarantees on traditional with-profits pension policies mean that for most policies no final bonus is added (See Section 8 - "How are final bonus rates set?").
- **The performance of the investments.** (See Section 10 - "What is your investment strategy for the GAWPF?")
- **The smoothing of investment returns.** We do not alter the rate of final bonuses for normal day-to-day fluctuations in investment markets (for example, share prices going up and down). However, we may alter the rate in response to significant market movements such as investment value movements greater than 5% compared to when final bonus rates were previously set.
- **Transferring your policy to another provider.** If you transfer your policy to another provider, the amount paid may include some final bonus. You should note that by transferring your policy you will lose the benefit of the minimum guaranteed pension. You may also need to take appropriate independent financial advice before the transfer can go ahead.
- **Early Retirement.** If you take your benefits early, if this is possible, you can get a pension less than the minimum guaranteed pension plus annual bonus additions.

This is because these amounts are based on the assumption that you will pay all the premiums due and keep the policy for the full term.

- **Any enhancements from excess assets**, known as the estate (See Section 11 - "What is the estate and how do you manage it?").

8 How are final bonus rates set?

The final bonus rate for your policy will normally be the rate we determine for the group of policies with similar characteristics to yours taken out in the same calendar year as yours. If the number of policies taken out in a particular calendar year is low then we may also group calendar years together and use an average policy approach based on appropriate specimen policy details.

For Buy-Out Plan, Pension Plus and Versatile Individual Pension Plan the high level of guarantees mean that final bonus is generally not paid on these policies.

We use the "asset share" for a group of policies as the basis for that group's final bonus, early retirement benefits or

transfer values.

- The asset share is a calculation of the policies' accumulated income including investment return, less outgoings.

The outgoings could potentially include deductions for the cost of guarantees provided. However, currently we do not make these deductions because the cost of guarantees is currently met by the estate.

When we set final bonus rates we look at the relationship between asset shares and the minimum guaranteed pension plus annual bonus additions.

- If the asset share for the group of policies is more than the value of the minimum guaranteed pension plus annual bonus additions then final bonus will be payable. The amount of final bonus will be set so that the value of the pension provided at retirement equals the asset share, e.g. if the asset share is £10,000 and the value of the minimum guaranteed pension plus annual bonus additions is £7,500, then final bonus will be payable.
- However, if the value of the minimum guaranteed pension plus annual bonus additions is more than the asset share then no final

bonus will be payable. This is the case for most of our traditional with-profits pension policies, e.g. if the asset share is £10,000 and the value of the minimum guaranteed pension plus annual bonus additions is £12,500, then no final bonus will be payable.

We usually review final bonus rates every month.

- We will change them if the asset shares for groups of policies are less than 95% of the value of the pension provided at retirement or more than 105%.
- We don't give advance notice when we change final bonus rates.
- The rate may be zero for certain classes and certain calendar years.

9 What if I take early retirement, cash-in or transfer my policy?

Similar to the calculation for final bonus rates, we use the asset share for the group of policies similar in age and type to yours as described in the section above.

Again, if the number of policies taken out in a particular calendar year is low then we may also group calendar years together and use an average policy approach based on appropriate specimen policy details.

If you choose to retire early, the minimum guaranteed pension plus annual bonus additions will be reduced to reflect the fact that benefits are being taken early.

- If the value of the reduced pension is greater than the asset share then no final bonus will be payable. This is the case for most of our traditional with-profits pension policies.
- If the value of the reduced pension is less than the asset share then final bonus will be payable. The amount of final bonus will be set so that the value of the pension provided at retirement equals the asset share.

The transfer amount or cash-in value, if either are available, are based on the pension available at retirement. The pension available is converted into a transfer or cash-in amount based on conversion factors specified in the policy – usually a factor of 9 or 10 at age 65. This approach is used for transfers or

cash-in calculations at normal retirement age or earlier ages.

If you choose to transfer or cash-in before your normal retirement age, the value is reduced to reflect the fact that benefits are being taken early.

You should note that generally the conversion factors specified in your policy are such that the pension available from your policy is worth more than the transfer value or cash amount available.

If you choose to transfer or cash-in your policy then you will lose the benefit of the minimum guaranteed pension plus annual bonus additions.

If you are thinking of retiring early we strongly recommend you seek guidance or advice to help with your decision. If you're thinking of transferring or cashing-in your policy it may be necessary to take appropriate independent financial advice before you can go ahead.

If you do not have a financial adviser and you are resident in the United Kingdom, you can find one in your area from the website www.unbiased.co.uk. If any factual information would be helpful

(including whether it is possible to take your benefits early, or transfer or cash-in your policy) please contact us at the address given in Section 1 - "What is this guide for?".

10 What is your investment strategy for the GAWPF?

We invest the GAWPF in a mixture of company shares (equities), fixed interest securities (for example loans to the Government or to large corporations) and cash deposits.

We choose fixed interest securities and cash deposits to provide the fund with sufficient money at the right time to match the minimum guaranteed pension, plus annual bonus additions, for policies as they fall due.

- We use the same approach for other business within the fund, such as pensions in payment.
- This approach of matching known commitments with fixed interest securities plus cash deposits aims to protect the fund from strains arising from interest rate movements.

However, the fund is not protected against significant levels of defaults on corporate bond holdings. By defaults we mean large corporations failing to repay their loans.

The benefits which are not guaranteed, such as final bonus, are backed by equity investments.

- The proportion of assets invested in equities is known as the equity backing ratio.
- The equity backing ratio for with-profits policies varies from class to class and also by duration within each class reflecting the investment strategy.
- For Buy-Out Plan, Pension Plus and Versatile Individual Pension Plan the current ratios are between 0% and 10%. For Personal & Participating Pension the current ratios are between 0% and 30%.
- These ratios vary from time to time.
- A table of the equity backing ratios is available on our website at www.reassure.co.uk and is updated every 3 months.

If we make any significant changes to the asset mix, we will write to you to let you know.

11 What is the estate and how do you manage it?

The estate is the excess of the GAWPF's assets over its liabilities. By liabilities, we mean an estimate of the amount needed to pay all the claims on policies as they become due.

The estate exists to cover the risk of any unforeseen decrease in the value of the fund's investments or increase in the amounts it needs to pay out to policyholders.

The estate is also used to meet:

- the cost of guarantees, e.g. the cost of future pensions. The cost of guarantees also includes meeting the excess when more than the asset share is paid out,
- the cost of smoothing of investment returns, and
- any policyholder compensation due in connection with the way we have marketed or sold the policies.

The cost of the above has been estimated and allowed for in determining the size of the estate. If the costs are greater, or other unforeseen costs emerge, then the estate will be smaller.

When we pay the shareholder their share of the profits arising in the fund some additional tax has to be paid, and this is met by the estate.

If there are no unforeseen circumstances then we intend over time to distribute the estate fairly to customers who have with-profits policies. The distribution of the estate is achieved through enhancements to asset shares which improves final bonuses. However, for Buy-Out Plan, Pension Plus and Versatile Individual Pension Plan the high level of guarantees mean that final bonus is generally not paid on these policies despite the distribution of the estate.

12 What are the ongoing risks to my investment in this fund?

We have set our annual bonus rates at 0.5% for Buy-Out Plan, Pension Plus and Versatile Individual Pension Plan, and 1.0% for Personal Pension and Participating Pension, and they will remain at these levels in the future, except in extreme or exceptional circumstances.

For Buy-Out Plan, Pension Plus and Versatile Individual Pension Plan the high level of guarantees mean that final bonus will generally not be paid on these policies despite the distribution of the estate.

For Personal Pension and Participating Pension the level of final bonus payable will depend on the investment return achieved on equity investments over the term of your contract. Hence, if equity returns are "poor" then final bonus rates will be lower than they would otherwise have been.

For these contracts, the level of final bonus will also potentially be impacted by the level of defaults on our corporate bond holdings.

If defaults are significantly greater than expected then final bonus rates will be lower than they would otherwise have been. By defaults we mean large corporations failing to repay their loans.

The level of final bonus will also depend on future distributions from the estate. The factors influencing the size of the estate, and hence the level of distributions from the estate, are described above in Section 11 – “What is the estate and how do you manage it?”.

Finally, increases in life expectancy will reduce final bonus as pensions would on average be payable for a longer period and hence would cost us more to provide.

13 What discretion does the company have?

The directors of ReAssure Ltd have discretion over the key aspects of the operation of all with-profits policies, in particular the investment policy, bonuses and early surrender adjustments.

However, the Principles and Practices of Financial Management of With-Profits Business (PPFM) for the GAWPF tell you how the directors expect to exercise this discretion. If this expectation changes and we change the PPFM, we'll let you know.

14 Other relevant issues

There are a number of additional issues that are relevant to the operation of the GAWPF:

- The fund pays the shareholder an agreed annual fee based on the number of policies in-force. The shareholder administers the policies in return for the fee.
- The fund also pays the investment managers an agreed annual fee based on the value of investments. The investment managers manage the investments in return for the fee. From 2013 the equity investment objective is to closely track the performance of an index that represents the 350 largest companies on the London Stock Exchange.

- The equity investment management fee was reduced accordingly to the benefit of policyholders.
- GAWPF does not sell new with-profits policies but is legally obliged to accept additional payments from current policyholders and options on certain life and pension policies.
- Once the value of the assets in the GAWPF falls below a stated level then management actions can be considered to merge the GAWPF with another with-profits fund and also to consider potential conversion to non-profits status. These actions would be subject to approval of the Fairness Committee, Board of Directors, Regulators and an Independent Expert appointed to review the exercise to ensure with-profits policyholders are treated fairly.

Glossary of Terms

Annual bonus:

Also known as regular bonus or reversionary bonus. When an annual bonus is added to your policy, it's guaranteed to be paid in full provided you pay all the premiums due and keep the policy for the full term.

Asset share:

This is a calculation we use when setting final bonus rates and cash-in/early retirement values for with-profits policies. It is done for each policy and is the accumulated income, including premiums, investment returns and distributions from the estate, less outgoings, including expenses.

Estate:

The estate is the amount by which the fund's investments are more than the amount we believe it will need to pay out to all the policies as they become due. It exists to cover the risk of any unforeseen decrease in the value of the fund's investments or increase in the amounts it needs to pay out to policyholders.

Final bonus:

Also known as terminal bonus. We may pay a final bonus at the end of your policy. Final bonus is not guaranteed and it is possible that no final bonus will be payable.

For Buy-Out Plan, Pension Plus and Versatile Individual Pension Plan the high level of guarantees mean that final bonus will generally not be paid on these policies.

Shareholder:

The shareholder is ReAssure Group PLC. Part of Phoenix Group.



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the Prudential Regulation Authority. Firm reference number 110495. Member of the Association of British Insurers.