



**LG With-Profits Fund**  
**Principles and Practices of Financial Management**  
**REPORT TO POLICYHOLDERS ON COMPLIANCE DURING 2022**

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Report to Policyholders from the With-Profits Actuary

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## 1. Introduction

- 1.1 On 7 September 2020, 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 PPFM for the LG With-Profits Fund was updated in March 2022 to include mention of the Phoenix Group's approach to responsible investment.
- 1.5 This report to policyholders examines the management of the Fund during 2022.
- 1.6 This report sets out, with reasons, whether ReAssure complied with the obligations associated with the PPFM for the LG With-Profits Fund in 2022. 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](http://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 during 2022 resided with the ReAssure Board ("the Board"). The With-Profits Committee performed several oversight functions in relation to the Company's With-Profits business. The duties of this Committee included monitoring compliance with the PPFM, reviewing its contents and providing independent judgement on any proposals to alter it.
- 2.2 The With-Profits Committee met ten times during 2022 and the membership changed over the course of the year.
- 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 until 3 May 2023 was Catherine Thorn. Brian Murray took over as With-Profits Actuary from 4 May 2023, prior to which a formal handover took place. The With-Profits Actuary attended meetings of the With-Profits 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 With-Profits Committee on the key aspects of discretion exercised during 2022 by 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.

### 3. Exercise of discretion

#### *Bonus rates*

- 3.1 Annual bonus rates for 2022 for all products apart from the With-Profits Annuity, and interim bonus rates for 2023 were set by the ReAssure Board in December 2022 after receiving advice from the With-Profits Actuary. These bonus rates were also considered by the With-Profits Committee.
- 3.2 Annual and temporary bonus rates for the With-Profits Annuity and final bonus rates were set by the ReAssure Board in March 2022 after receiving advice from the With-Profits Actuary and consideration by the With-Profits Committee.
- 3.3 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.
- 3.4 The reports on bonus rates presented to the With-Profits 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 With-Profits Committee. The bonus rates declared demonstrated clear differentiation between product types and generations, in accordance with the PPFM.
- 3.5 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.
- 3.6 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.

#### *Surrender values*

- 3.7 Surrender values (and transfer values for pension business) and MVRFs were regularly monitored throughout 2022, with changes made in accordance with the PPFM and consistent with past practice, having regard to movements in the value of the underlying investments.

#### *Payouts*

- 3.8 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.
- 3.9 ReAssure manages the LG With-Profits Fund with the aim that at least 90% of payouts fall within the target range and I have good reason to believe that this is the case.
- 3.10 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.
- 3.11 Bonus rates were generally set so to target a maturity or death payout ratio of 100% in the longer-term.

#### *Investment strategy*

- 3.12 We review our investment strategy regularly, taking account of a variety of considerations, including our approach to responsible investment. Responsible investment is the practice of incorporating environmental, social and governance considerations into investment decisions. You can find out more about the social and environmental impact our investments may have in our Fund Climate Report. You can read our report at [www.reassure.co.uk/sustainability](http://www.reassure.co.uk/sustainability)

- 3.13 The operation of the investment of the Fund's assets was overseen for the first part of 2022 by the Investment Management Committee, which was replaced by the Enterprise Asset Management Committee from November 2022. These committees met monthly during 2022 and included oversight of the LG With-Profits Fund. In addition, a sub-committee of the Board reviewed investment strategy and performance and met quarterly during 2022. Relevant investment information relating to the LG With-Profits Fund was also provided quarterly to the With-Profits Committees.
- 3.14 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.
- 3.15 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.
- 3.16 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.
- 3.17 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.
- 3.18 The equity backing ratios for individual products were reviewed and proposed changes were presented to the April 2022 With-Profits Committee.
- 3.19 Private Market exposures were diversified during the year, with recommendation to reduce Property and Listed Infrastructure exposure and introduce Private Equity and Private Infrastructure as new asset classes. There were no other material changes to the investment strategy of the LG With-Profits Fund during the period.
- 3.20 Following the transfer of the Japan Equity mandate to abrdrn from Marathon, the base fund fee reduced from 45bps to 15bps. There were no other 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 2022.
- 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 review the impact of allowing new members into these schemes in order to eliminate any expected adverse impact on the LG With-Profits Fund and its existing With-Profits policyholders.
- 3.23 All annuities arising from vesting pension policies were secured outside the LG With-Profits Fund as agreed during the Part VII transfer.
- 3.24 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*

- 3.25 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.

- 3.26 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.
- 3.27 The fees charged to the Fund in 2020 by ReAssure for administration and investment services were estimated at the end of 2020. At the beginning of 2022, calculations for the expenses to be applied for 2020 and 2021 were performed on actual data, based on policy counts and expenses as per the Schemes.
- 3.28 The majority of investment management expenses, commission and any rectification payments to policyholders are not included within the expense agreement. ReAssure have confirmed that the costs allocated to the LG With-Profits Fund in addition to the regular fees are as permitted by the Scheme.
- 3.29 There were no exceptional costs charged to the LG With-Profits Fund in 2022.
- 3.30 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 declarations announced in February 2022 and 2023. In general, decisions relating to these matters were made at the product launch date (or date of subsequent review).
- 3.31 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.
- 3.32 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*

- 3.33 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, meet part of the cost of shareholder transfers and cover capital requirements. Management of the Estate is therefore critical to the financial health of the Fund.
- 3.34 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.
- 3.35 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.
- 3.36 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 With-Profits Committee agreed in November 2022 that a distribution of 0.90% should be made.

#### *Equity amongst policyholders and with shareholders*

- 3.37 The LG With-Profits Fund is ring-fenced from the other business in ReAssure. All the surplus emerging in it is available for distribution over time. None of the policyholders in the Fund has 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.

- 3.38 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.
- 3.39 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 2022. 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.
- 3.40 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.
- 3.41 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.
- 3.42 Where bonus rates are guided by asset share calculations, a consistent approach to smoothing across product types is applied, in which a proportion of investment and other experience is 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, are used in order that a consistent approach to smoothing can be applied across different groups of policies.
- 3.43 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 are grouped together, in order that a practical and equitable approach to the sharing of experience can be achieved.
- 3.44 Surrender values are reviewed with the aim that payments to those policyholders taking benefits other than at contractual points do not adversely affect the interests of remaining With-Profits policyholders.

#### **4. Maintenance of the PPFM**

- 4.1 The PPFM was updated in March 2022 to include mention of the Phoenix Group's approach to responsible investment.
- 4.2 Any future changes to the PPFM would be reviewed by the With-Profits 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 receive information about their policies, including information regarding bonuses added, via an annual statement. Supplementary information including a summary of the investment mix is published on the website.
- 5.2 A leaflet entitled 'How with-profits works', designed to help customers understand what investing in the LGWPF means, is available on the website, together with information such as recent investment returns and benchmark asset mix.

**6. Conclusion**

6.1 In the opinion of both the Heritage CEO, on behalf of the ReAssure Board, and the With-Profits Committee, the Company complied in all material respects with the obligations set out in the LG With-Profits Fund PPFM for 2022. 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 2023





## **Annex**

### **LG With-Profits Fund Report to Policyholders from the With-Profits Actuary FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2022**

The LG With-Profits Fund Principles and Practices of Financial Management (“PPFM”) is a detailed document which sets out how ReAssure Limited (“the Company”) manages its with-profits business. The Company has discretion in several areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders.

The purpose of my report to the Company’s with-profits policyholders is to give my opinion, as required by the rules of the Financial Conduct Authority, as to whether the Company has taken the interests of the With-Profits policyholders into account in a reasonable and proportionate manner in exercising this discretion in 2022.

The report is provided for the purpose set out above and should not be used as the basis to make any decisions regarding contracts with the Company (including whether to enter into them, to continue them or to terminate them), for which decisions fuller information and qualified financial advice should be sought.

I took over the role of With-Profits Actuary from 4 May 2023 following a full professional handover from the previous With-Profits Actuary.

In my capacity as With-Profits Actuary to the Company, I advise the Board of the Company (including authorised committees, in particular the With-Profits Committee) on key aspects of the discretion exercised by it in respect of its with-profit business.

I have considered the Company’s report (“the Report”) on compliance with the PPFM for the LG With-Profits Fund to which this report is annexed, and also a report regarding compliance with the PPFM for the LG With-Profits Fund submitted to the With-Profits Committee in June 2023.

Based on the information and explanations provided to me by the Company, I am satisfied that:

- the Report fairly summarises the principle areas in which the Company exercised discretion during 2022 in the conduct of its with-profits business;
- the Company complied with the material obligations of the PPFM during 2022; and
- any significant discretion exercised by the Company in 2022 took the interests of the with-profits policyholders in the LG With-Profits Fund into account in a reasonable and proportionate manner.

In arriving at my opinion, I have taken into account where relevant the rules and guidance contained in the Financial Conduct Authority’s COBS 20 (With-profits). The Financial Reporting Council has issued standards (“TAS 100: Principles for Technical Actuarial Work” and “TAS 200: Insurance”) which apply to reports produced by actuaries. This report complies with these standards as applicable.

Brian Murray FFA

Chief With-Profits Actuary

30 June 2023