

## AN OPEN LETTER TO POLICYHOLDERS

### REDUCTION IN FINAL BONUS

Dear Policyholder

At the Annual General Meeting in May the new Board promised to put the Society on a more stable footing. As part of this task we have concluded a detailed financial review including an assessment of cash flows, premiums, the rates of policies maturing and surrendering, the value of investments underlying the fund, our obligations to all policyholders and the fundamental uncertainties already made clear in the Annual Report.

The outcome of this review and the need to ensure fairness between all policyholders have led to hard but necessary decisions.

Consequently the Board has reduced final bonuses on with profits pensions policies by 16% (14% for life assurance policies) of the policy value as at 31 December 2000. In addition, there will be no growth for the period from 1 January 2001 to 30 June 2001. The growth rate accruing to your policy during the current year will now be 6% (5% for life assurance policies) per annum from 1 July 2001. Guarantees under policy contracts will, of course, be met.

For example, a pension contract with a total policy value as at 31 December 2000 of £50,000 will be reduced to £42,000. From this base growth starts to accrue to the policy, at the rate of 6% per annum, from 1 July 2001. If the guaranteed value of the policy is above £42,000 on maturity in accordance with policy terms, the higher figure will be paid.

For with profits annuitants we are able to spread the impact of this change. Last year the impact of withholding growth on with profits annuities was spread so that 1% of the return would be withheld each year for 5 years. That measure taken together with this decision will mean that a total of 1.5% of the return (currently 6% per annum) will now be withheld each year until further notice.

This action is, we know, an unwelcome shock, particularly for those about to take their benefits. But it is vital for the long-term interests of the Society and its policyholders. It had to be done and could not be delayed because:

- Stockmarkets have fallen heavily over the last 18 months;
- Maturity values now significantly exceed the value of the investments underlying maturing policies;
- As a mature fund, a large number of policyholders are currently retiring and taking their benefits.

The FTSE 100 has fallen almost 20% since January 2000 and more than half that fall has been this year. In the same 18 month period policy values grew by over 7%. We cannot keep adding growth to policies whilst the underlying investments have been falling.

The Society remains solvent. However because we are closed to new business we must take greater account of the value of maturing policies compared to the value of investments underlying these policies. We must be fair to all policyholders. If the value of maturing policies is too far above the value of investments, policyholders taking benefits now will gain excessively at the expense of all other policyholders.

The financial adjustment, which is applied to policies which are surrendered early, is reduced from 15% to 7.5% because policy values will now be closer to the value of underlying investments.

The whole Board much regrets the need to reduce bonuses, especially after the disappointments of the past year. We will reconsider bonuses regularly to take account of changes in the value of the with profits fund and will seek to improve bonuses as soon as asset values permit.

We will be writing to each of you within a fortnight giving more information and examples of how this change affects different policies.

The legal reviews into past events are being pursued vigorously. But we must now look forward. Much work is underway on developing the compromise scheme between those of us with guaranteed annuity rate policies and those without. A compromise will make the Society financially stronger, will allow greater investment freedom and will help us weather future stockmarket fluctuations. You will soon be receiving a consultative compromise proposal upon which we look forward to hearing your views.

Vanni Treves  
Chairman

Charles Thomson  
Chief Executive