

Capital Distribution Q&As

Capital Distribution Q&As (IFA)

The questions and answers below provide helpful information about capital distribution.

1. How does the capital distribution work?

For each with-profits policy, we look at its value as at 31 December 2014 and, for every £1000, we allocate an extra capital distribution of £350 to that value. At the point a policyholder leaves the Society, we take the policy value plus the capital distribution, compare it with the policy's guaranteed value, where applicable, and pay out the larger amount.

2. What is meant by the policy's "guaranteed value"?

Most policies have a guaranteed value and this is clearly shown on the Annual Statement.

3. Is the 35% capital distribution guaranteed?

No. It can go up or down in the future depending on, among other things, regulatory requirements and the Society's capital needs from time to time.

4. How likely is it that capital distribution will be reduced?

When we wrote to policyholders in September, interest rates were falling sharply and the risk of reduction to the 35% was very real. We have now gained approval from our regulators for a more gradual transition to new solvency regulations. As such, there are no immediate plans to reduce capital distribution but we cannot guarantee it will never go down.

5. Why do low interest affect the level of capital distribution?

Many of our with-profits policies have a built in guarantee of 3.5% pa. We have invested our assets to be sure that we can pay these guarantees, based on when we think policyholders will retire. The Society is exposed to the risk that policyholders stay longer than we expect when we are not able to earn 3.5% pa return. Consequently, we are required to hold back capital to cover that risk.

6. What happens if a policyholder leaves and the capital distribution subsequently changes?

The prevailing capital distribution amount will be the one that applies at the point a policyholder takes their policy benefits. There would be no subsequent adjustment.

7. Why is the capital distribution only being paid to policyholders when they leave?

Because that's when we know for sure that the Society no longer needs to hold capital for that particular policyholder.

8. How can I see what the capital distribution is worth?

The Annual Statement, typically issued at the end of April each year, will clearly show the policy value and the impact of the 35% capital distribution.

9. What is capital?

It's the money a company needs to hold to protect itself against things going badly wrong that would otherwise lead to insolvency.

10. How do you calculate the amount of capital the Society needs?

We take the value of all the assets we hold and then deduct an estimate of what we are contractually required to pay out to policyholders in the future. Our regulators specify a certain minimum excess. Anything in addition to that is known as surplus capital. That is what we are determined to return to with-profits policyholders as fairly and as soon as possible.

11. How do I know that you will have enough money for policyholders who are likely to retire some years in the future?

We go to great lengths to establish an appropriate level of fairness between policyholders who leave and those who stay. To help policyholders with their planning, we thought it good and right to point out the impact current world economic markets are having on capital distribution.

12. Will policyholders receive the capital distribution if they want to switch their policy's investments from with-profits to unit-linked?

Yes. On the date we switch the policy, we take the with-profits policy value plus the 35% capital distribution and use that amount to purchase units in accordance with their instructions.

13. If the policyholder makes a partial withdrawal, will they receive the 35% increase on the element they withdraw, even if they still have a balance in their with-profits fund?

Yes.

14. Will new premiums received after 31 December 2014 get the capital distribution?

No. The 35% capital distribution is allocated to the with-profits policy value as at 31 December 2014 and therefore any premiums paid (including switches from unit-linked funds) after that date do not qualify.

15. When will policyholders receive their Annual Statement?

Annual statements are typically issued at the end of April each year.

16. Where can I find further details on the Society's performance?

On our website www.equitable.co.uk

17. Where can I get financial advice?

We recommend you speak to an Independent Financial Advisor or visit the website www.moneyadvice.service.org.uk.