

Equitable Life

**A guide to how we manage
the with-profits fund**

Introduction

The Society's aim is to distribute all of its assets amongst with-profits policyholders as fairly as possible over time.

What we want to do here is explain as simply as we can how the with-profits fund works, how it affects your with-profits policy and how we go about distributing it to you fairly.

You may find this guide useful:

- when you receive your yearly statements; or
- if you receive an illustration about what you might get back from your policy.

The Society also publishes 'A guide to how we manage our unit-linked funds'. This guide is available on the Society's website at www.equitable.co.uk.

What is the with-profits fund?

We receive premiums from you and other with-profits policyholders and create a large fund, known as the with-profits fund. Such a large fund allows the Society to invest the money in the best interests of policyholders, with the assistance of expert investment managers.

With-profits policies have a guaranteed benefit which is the minimum amount payable on maturity, death or at a time specified in the policy. If you take the benefits when the guarantee applies, the with-profits fund will pay at least that amount.

The costs of running the Society's business - such as administration fees and staff costs - are paid by the with-profits fund.

A new strategy for the with-profits fund

A new strategy for the with-profits fund was announced in June 2018. The announcement itself can be found on the Society's website.

If approved and implemented, the new strategy will:

- Increase the value of with-profits policies
- Close the with-profits fund, which means the guaranteed value of policies would end and with it any guaranteed annual increases
- Convert with-profits policies to unit-linked
- Transfer all policies to Utmost Life and Pensions

With-profits policyholders will be asked to vote on this proposal before it can go ahead, and full details will be provided prior to this. We believe that this new strategy will get capital back into policyholders' hands as fairly and as soon as possible.

The remainder of this document describes how the fund is run until the new strategy is implemented.

How we manage the fund

We need to be confident we can pay at least the guaranteed benefit under each policy, so we are cautious in our management of the with-profits fund and invest mostly in things which give a fixed return such as Government bonds.

For additional protection, we set aside a further amount of money from the fund and this is known as 'solvency capital'. Solvency capital provides a shield against changing circumstances, so the more capital we hold, the better the shield it provides.

The regulators take a very close interest in the level of solvency capital and prescribe a certain minimum amount. The excess over this minimum is known as surplus capital.

The amount of solvency capital that we need to hold depends on the level of risks faced by the Society. As risks are reduced, in line with our strategy, capital is freed up which can be returned to with-profits policyholders. The Society is determined to return surplus capital to with-profits policyholders as fairly and as soon as possible.

How we work out the amount you will receive

At the time the policy benefits are paid, the Society needs to ensure that the amount you receive includes a fair share of capital, while also leaving sufficient capital for those policies that remain.

We work out the amount we pay by looking at:

- your Policy Value, which depends on the type of policy you have, the amount of the premiums you have paid and when you paid them, the investment returns on the fund, the costs and charges and any other profits and losses from the Society's business; and
- your Capital Distribution Amount, which aims to pay you a fair share of capital. Unlike Policy Values which, all other things being equal, tend to reflect underlying investment performance, the Society's need for capital is determined by the level of risks we face from time to time.

If you take your benefits at a time when the guarantee applies and the total of the Policy Value and the Capital Distribution Amount works out at less than the guaranteed benefit, then we will pay the larger figure.

We have described our proposal to increase your with-profits savings. You should think very carefully before taking your savings. If you take your savings now, you will not benefit from this potential increase.

Smoothing

Policy Values and capital distributions are not guaranteed and can go down as well as up as the financial position of the Society changes. Having said that, we aim to avoid the need for Policy Values and capital distributions to change frequently. This is known as ‘smoothing’.

In consequence, Policy Values may not go up as quickly when the value of our investments rises, but also payments may not fall as quickly when the value of our investments falls. Similarly, Capital Distribution Amounts may not change immediately if the risks of the Society change.

In normal circumstances, we expect to review Policy Values and capital distributions once a year, but they can be changed at any time.

Cashing in your with-profits investment early or transferring it

If you cash in the with-profits part of your policy and the minimum guaranteed benefit does not apply, then, depending on the type of policy, you may:

- take a cash sum, known as a surrender value;
- instruct us to transfer a lump sum direct to another insurance company, known as a transfer value; or
- instruct us to transfer an amount to unit-linked funds within your policy if it allows this. That is known as a switch. A unit-linked fund is where the premiums you pay buy units in that fund and the value of the policy is based on the day-to-day price of the units you have bought.

When policyholders cash in their with-profits benefits early, all the Society’s future costs will then be shared by a smaller group of policyholders. We need to protect the financial position of those remaining policyholders. Consequently, depending on the Society’s financial circumstances from time to time, we reserve the right to reduce your Policy Value and Capital Distribution Amount by a financial adjustment if you switch from with-profits, transfer or cash in your policy early.

We have described our proposal to increase your with-profits savings. You should think very carefully before taking your savings. If you take your savings now, you will not benefit from this potential increase.

The total of the Policy Value and the Capital Distribution Amount may be significantly less than the minimum guaranteed benefit under your policy even before any reduction by a financial adjustment. That is because minimum guaranteed benefits under the Society's policies can be high. You and your advisers should always take account of the guarantee you will be giving up when deciding whether to cash in your policy early.

Types of with-profits policy

We manage a range of with-profits policies and the two main types are:

1 Recurrent single premium

With this type of policy, each premium secures its own guaranteed benefit. All of these guaranteed benefits added together make up the guaranteed amount we must pay you at times given in the policy.

If you have a pension policy with us, it is probably a recurrent single premium policy even if you pay premiums regularly.

Many of our policies have a provision where we promise to increase the guaranteed benefits at a minimum rate of return which is typically 3.5% each year. You will need to look at your own policy to see if this applies to you.

2 Conventional with-profits

This sort of policy starts with a guaranteed amount, known as the 'sum assured', that you will get if you pay all the premiums due. Examples of this type of policy are:

- whole life plans, which pay out when you die; and
- endowments, which pay a lump sum at the end of the policy, or when you die, if this is earlier.

Reversionary bonus

In the past, we have increased the guaranteed benefits of some policies by adding a bonus, known as a 'reversionary bonus'. We do not expect to add any more reversionary bonuses to policies in the future.

Paying new premiums

Equitable Life is closed to new business. You can only pay premiums into with-profits where this is allowed under your policy conditions. We may deduct a charge on new contributions paid and the level of any charge can be found on our website at www.equitable.co.uk.

Fund switching

If your policy conditions allow, you may switch out of or into the with-profits fund. Currently, there is no switch charge, but we reserve the right to apply a charge in the future without notice.

We have described our proposal to increase your with-profits savings. You should think very carefully before switching your savings out of the with-profits fund. If you do switch your savings out now, you will not benefit from this potential increase.

If you switch out of and then back into the with-profits fund, we may adjust how the benefits are then allocated to protect the interests of other policyholders. This means the amount of fund switched back into with-profits may be reduced, and some of the benefits secured may not be guaranteed.

What are the main things that may affect the value of the with-profits fund?

a) Investment performance

We mostly hold investments which give a fixed return so that we can meet the guaranteed benefits under the policies when they fall due.

These investments give us some stability in the value of the fund and reduce the risk that Policy Values may fall. This type of investment also reduces the amount of solvency capital we need to hold.

While fixed return investments protect you when investment prices fall, they limit the money the fund earns when investment prices rise. So, by investing to meet the guarantees under the policies, the long-term benefits may be lower than if there were no guarantees.

b) The costs of running Equitable Life

All our expenses are paid out of the with-profits fund. We aim to provide the best value for money cost base and to spread the cost fairly across all policies. To give effect to this, an expense charge is made when calculating the return allocated to policies each year. This charge is currently 1% pa. Our costs include:

- fees paid to third parties, such as for IT and investment services;
- administration and management, including staff and salaries;
- tax.

c) The cost of guarantees

If the value we work out when we pay the benefits under a policy is less than the guaranteed benefit, then there is a cost to the fund in paying the higher guaranteed amount. We hold back some of the with-profits fund each year so that we can meet the extra costs of paying guaranteed benefits in the future. The charge is currently 0.5% pa.

d) Other profits and losses

The with-profits fund bears losses and benefits from profits that may arise from any other source.

How we manage risks

We have to be able to respond to a number of things that may go wrong which could affect the amount you receive. For example:

- The returns on our investments may not be what we expect.
- Our costs of administration in future may not be what we expect.

The way we deal with this is by setting aside solvency capital. That capital acts as a shield so that we can pay the guaranteed benefits under policies even if things go wrong.

The change in strategy seeks to address some of these risks, which will allow us to distribute more capital to you through an enhancement to your fund value.

Following the change in strategy, your unit-linked policy can be invested in a fund of your choice. This will allow you to select a level of investment risk that suits you.

Information and advice

We update this guide from time to time and the latest version is always available on the Society's website www.equitable.co.uk or on request.

To keep this guide as simple as possible, we have only included the key points about how the with-profits fund is managed. We also publish a much more detailed description of the management of our with-profits fund in the Principles and Practices of Financial Management on our website at www.equitable.co.uk. Your financial adviser may want to read this document.

Your policy may contain other valuable options and these will be described within your policy document. If there are any differences between this guide and your policy documents, the terms and conditions set down in your policy will apply.

If you have any questions about your policy, please call our helpline on 0330 159 1530. Calls are charged at local rates.

You should not use this guide as a replacement for professional advice. We do not give advice but, where appropriate, we may give you wider information that may be relevant to your enquiry. Before you make any decision about your policy, we recommend that you seek independent financial advice. A financial adviser will inform you of the fee they charge for this service. You can find a financial adviser in your area by visiting the website www.unbiased.co.uk.

We would also draw your attention to Pension Wise, the Government sponsored service which offers free impartial guidance to policyholders about what to do with their savings at retirement. You can find more information at www.pensionwise.gov.uk or you can call them on 0800 138 3944.

About us

Your policy is issued by Equitable Life which is an independent mutual life assurance company, with its own Board of Directors.

Under the direction of our Board, BlackRock Investment Management (UK) Ltd manage our investments.