

22 July 2019

Capital Distribution Q&As

The questions and answers below provide helpful information about the current 35% capital distribution.

Kindly refer to our website homepage for information on the Proposal which if approved, would uplift the With-Profit Policy Value of your Scheme Policy, remove any Investment Guarantees, along with any future guaranteed increases, and convert it to Unit-Linked. You will no longer receive Capital Distribution.

1. How does the capital distribution work?

For the vast majority of with-profits policies, we take the underlying value and allocate an extra capital distribution of £350 to every £1,000 of that underlying value. At the point a policyholder leaves, 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 which is the minimum amount payable on retirement, maturity, death or at a time specified in the policy. Your policy document sets down exactly when the guarantee applies. The guaranteed value will increase by up to 3.5% per annum.

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. Why do low interest rates 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 the 3.5% pa return. Consequently, we are required to hold back capital to cover that risk.

5. What happens if I leave and the capital distribution subsequently changes?

The prevailing capital distribution amount will be the one that applies at the point you take your policy benefits. There would be no subsequent adjustment. You should think carefully before taking your savings. If you take your with-profits savings before we implement the Proposal, you would lose the opportunity of having your fund value enhanced.

6. 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.

7. How does capital distribution get added to my policy value?

Policy value @ 31 December 2014	£10,000	
2% non-guaranteed bonus added for 2015	£10,000 x 1.02	=£10,200.00
2% non-guaranteed bonus added for 2016	£10,200 x 1.02	=£10,404.00
2% non-guaranteed bonus added for 2017	£10,404 x 1.02	=£10,612.08
2% non-guaranteed bonus added for 2018	£10,612 x 1.02	=£10,824.32
2% non-guaranteed bonus added for 91 days up to 01.04.19	£10,824.32 x (1+ (0.02 x (91/365)))	=£10,878.29
Value of Capital Distribution @ 31 December 2014 (35% of £10,000)		= £3,500
2% pa growth is added for 4 years and 91 days		=£3,807.40
Total Value @ 1 April 2019 (£10,878.29 + £3,807.40)		=£14,685.69

This assumes no withdrawals have been made since 31 December 2014. Contributions paid after 31 December 2014 will not receive 35% Capital Distribution.

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

For most policies, the Annual Statement clearly shows your 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. Will I receive the capital distribution if I want to switch my 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 your instructions. You should think carefully before switching out of with-profits. If you switch before we implement the Proposal, you would lose the opportunity of having your fund value enhanced. Switches back into the with-profits fund after 31 December 2017 will not be eligible for any capital distribution.

12. If I make a partial withdrawal, will I receive the 35% increase on the element I withdraw, even if I still have a balance in my with-profits fund?

Yes, but only the with-profits fund remaining will benefit from the proposed enhancement. Any partial payment is made proportionally across the different elements of the fund.

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

On our website www.equitable.co.uk/unit-linked-funds

14. Where can I get financial advice?

We recommend you speak to an Independent Financial Advisor. A financial adviser will inform you of the fee they charge for their service. To find Independent Financial Advisers in your area, the website www.unbiased.co.uk is very helpful.