



# Understanding with profits

**For Stakeholder with profits plans  
(that started before 10 July 2006)**

**Standard Life** 

**This booklet tells you how we manage our Stakeholder with profits business that started before 10 July 2006.**

**There are separate Understanding With Profits booklets for other types of with profits plans, including Stakeholder with profits that started after 9 July 2006.**

A Stakeholder plan is a type of pension plan for which the Government sets maximum charges. The payout depends on the performance of one or more investment-linked or with profits funds. Your plan's with profits units represent your with profits investment.

We hold the assets used to back our Stakeholder with profits business in a sub-fund of the Heritage With Profits Fund, called the Stakeholder With Profits Fund. These assets are used for Stakeholder with profits investors only.

The value of your with profits units is based on, among other things, the return on these assets and any smoothing of these returns (see section 5).

These booklets do not in any way:

- ▶ vary the existing terms and conditions of your plan, or
- ▶ create any new or additional obligations, or
- ▶ restrict the way we manage our with profits business.

Your plan documents define the terms and conditions that apply to your plan.



We can only give a simplified explanation of with profits in this booklet.

We set out a fuller, more technical explanation of how we manage this Stakeholder with profits business in a separate document called Principles and Practices of Financial Management for the Heritage With Profits Fund (the Heritage PPFM). Please see the Heritage PPFM if you want more information on the topics covered in this booklet.

Our website [www.standardlife.co.uk/withprofits](http://www.standardlife.co.uk/withprofits) will always have the most up-to-date version of all Understanding With Profits booklets and of the Heritage PPFM. You can also get a copy of any of these documents by calling us on 0800 634 7474. (Call charges may vary.)

**If we make any changes to the Heritage PPFM that materially change this booklet, we will send you a new booklet, normally at or before the time we send you your next yearly statement. We will also send you a booklet if we propose to change any of the principles we apply in managing this with profits business.**



# How your Standard Life with profits investment works

## Contents

- 02** 1. **Introduction**  
What is a with profits investment?  
Our approach
- 03** 2. **What are the bonuses?**
- 03** 3. **What are your guarantees?**
- 03** 4. **How do we set payouts?**  
What is an asset share?  
What are the deductions?  
How do we set fair payouts?
- 04** 5. **What is smoothing?**
- 06** 6. **How we invest the money backing Stakeholder with profits plans**  
How we decide the asset mix  
Risks associated with investment
- 08** 7. **What is the inherited estate and how do we use it?**
- 08** 8. **How we manage risk**
- 10** 9. **How we manage new business**
- 11** 10. **How we balance the interests of with profits planholders and shareholders**

## 1. Introduction

### What is a with profits investment?

A with profits investment is a medium-to long-term investment that aims to offer some protection against short-term movements in investment markets.

We invest the money you pay us, and the money paid by other with profits investors, in a pool of assets. We use the return we get on these assets to set the payout for your plan. We describe how we do this in section 4.

### Our approach

Our aim when managing our with profits business is to achieve competitive returns for with profits plans while continuing to:

- ▶ meet all contractual obligations to planholders, and
- ▶ maintain an appropriate level of financial strength.

This is underpinned at all times by our commitment to treating planholders fairly.

We need to make decisions about what to do to achieve this aim. For example, we need to decide how we should invest the money backing with profits plans and whether we should apply smoothing for payouts (see sections 5 and 6). We make these decisions in good faith, and we only take actions that we believe are in the interests of our with profits planholders.

These will ensure that when your with profits investment comes to an end you will receive a fair payout. Your fair payout may be topped up, for example if we are making payments from the inherited estate (see section 7).

The With Profits Committee provides independent judgment on treating with profits planholders fairly. It also monitors how we comply with the Heritage PPFM to ensure we protect the interests of with profits planholders.

We need to make decisions when we haven't set rigid rules about what we will do. Rigid rules might force us to do something that is not in the best interests of planholders.

## 2. What are the bonuses?

We don't pay regular or final bonuses on Stakeholder plans as the investment performance is already reflected in the value of your units.

However, we can add bonus units to your plan to refund some of our charges. We may do this if your with profits investment is relatively large, which makes it proportionately cheaper for us to run.

## 3. What are your guarantees?

We guarantee that we will not deduct more than the maximum charge allowed under Stakeholder regulations.

We don't guarantee investment performance. The value of your units, and therefore your payout, may go down as well as up. You may get back less than you paid in.

## 4. How do we set payouts?

You will receive a fair payout when your with profits investment ends. We use asset shares to help us set fair payouts.

### What is an asset share?

The asset share of a Stakeholder with profits investment represents the underlying value of that investment. It allows for:

- ▶ the premiums paid to the plan, less any amounts withdrawn,
- ▶ the returns on the assets in the Stakeholder With Profits Fund,
- ▶ the profits and losses from smoothing with profits payouts for Stakeholder plans (see section 5), and
- ▶ the deductions we make.

The returns on the asset mix (see section 6) are made up of income, for example dividends and interest payments, and changes in asset values. Asset values can go down as well as up, so asset shares can also go down or up.

### **What are the deductions?**

The deductions are similar to the charges for investment-linked funds available to Stakeholder plans like yours. The deductions that we make can be no more than the maximum allowable under Stakeholder regulations.

### **How do we set fair payouts?**

Your fair payout is your plan's asset share, adjusted up or down for any smoothing.

Any adjustments we make may depend on why the with profits investment is ending. For example, we may sometimes smooth for payouts that are used to buy an annuity but not for other payouts.

We may top up the fair payout with a payment from the inherited estate (see section 7).

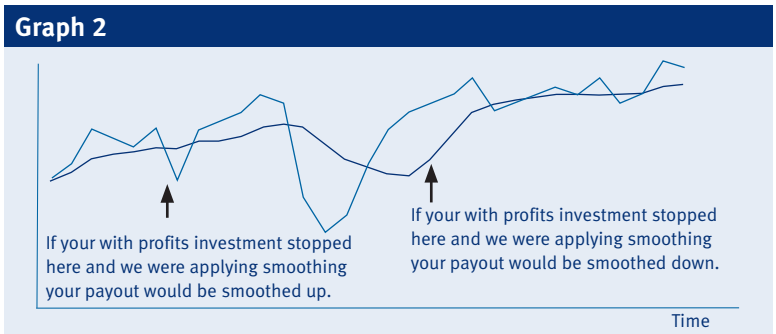
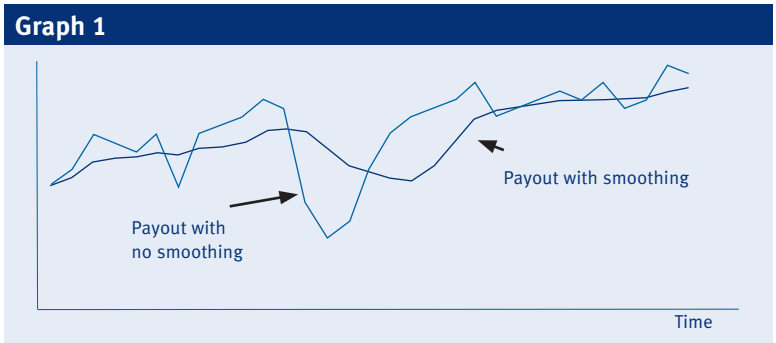
## **5. What is smoothing?**

Smoothing is the process by which we can even out some of the short-term fluctuations in investment returns to reduce the immediate impact on payouts.

We invest the Stakeholder With Profits Fund in a wide range of assets, including equities (company shares), bonds and cash deposits. The returns on these assets vary over time and asset values sometimes change sharply over a short period. To offer some protection from this, we may smooth out some of the short-term changes, up or down.

The following two graphs show how smoothing can work (Graph 1) and how smoothing may be up or down (Graph 2) when your with profits investment stops.

These graphs do not show smoothing for any actual Standard Life with profits investment. They are only to give you an idea of how smoothing works.



If there have been large movements in asset values there could be a big difference between the payout with and without smoothing. We would expect to take action if the smoothed value gets close to either 80% of asset share or 125% of asset share, unless asset values change so that the smoothed value starts moving back towards 100% of asset share. We could reduce the amount of smoothing or even stop smoothing out the effects of the change in asset values for a time. We are more likely to reduce smoothing when payouts with smoothing are higher than payouts without smoothing. We would do this to protect the interests of the with profits investors still in the Fund.

If we smooth a payout up, there is a smoothing loss for the Stakeholder With Profits Fund. If we smooth a payout down, there is a smoothing gain. At the close of each day, when we calculate asset shares, we take account of the gains and losses as a result of smoothing on payouts made that day.

Although smoothing can even out some of the effects of short-term changes in asset values, it won't protect planholders from long-term falls. If there is a big drop in asset values, and they stay low, then payout values will come down even if we are still smoothing up. On the other hand, smoothing won't stop planholders benefitting from long-term improvements in asset performance.

## 6. How we invest the money backing Stakeholder with profits plans

Bonds are sometimes called 'fixed interest assets'. Government bonds are also called 'gilts'.

The assets of the Stakeholder With Profits Fund include:

- ▶ equities (company shares),
- ▶ bonds (loans to governments or companies), and
- ▶ cash deposits.

We might also invest in derivatives. These can include investments that give us the right, or obligation, to buy or sell assets at a particular price at a particular time.

We use the returns that the fund gets on these assets to set with profits payouts for Stakeholder plans.

The asset mix will change over time as asset values change. We also regularly review the asset mix and may then make additional changes. In the next section we explain how and why we do this. We may make these changes by selling some types of asset and buying other types of assets.



**We publish up-to-date information on the asset mix for different classes of with profits plans on our website [www.standardlife.co.uk/withprofits](http://www.standardlife.co.uk/withprofits)**

**You can also get a copy of this information by contacting us on 0800 634 7474. (Call charges may vary.)**

## **How we decide the asset mix**

We decide the asset mix by considering the appropriate balance between risk and expected return. Our main aim is to optimise investment returns.

## **Risks associated with investment**

Assets such as equities tend to have more variable values. We expect them to provide higher returns over the longer term, but there is also a greater risk that they will have a low value when we come to make payouts.

On the other hand, assets like bonds and cash deposits generally have more stable values but over the longer term we expect them to give lower returns.

So any change in the asset mix is likely to result in a change in future returns and plan payouts.

Other risks associated with investment include:

- ▶ companies performing poorly. For example, they could:
  - reduce dividends
  - not make promised interest payments
  - not make capital repayments
  - go out of business
- ▶ governments not making promised interest payments or not making capital repayments.

We aim to control the exposure to risk by investing in a wide variety of good-quality assets.

We set limits on the amount we invest in any one asset, in assets issued by any one company, and in assets that may be difficult to sell (for example because they're not traded on a recognised stock or bond market).

We currently hold some assets in the Heritage With Profits Fund as long-term investments. These are some subsidiary companies and other asset holdings that were set up as long-term investments of the Standard Life Assurance Company when it was a mutual company.

When it demutualised in 2006 these assets were transferred to the Heritage With Profits Fund. There are none of these assets in the Stakeholder With Profits Fund. But the returns on these assets could affect the size of the inherited estate.

## 7. What is the inherited estate and how do we use it?

In 2006 The Standard Life Assurance Company transferred all its UK with profits business into the Heritage With Profits Fund of Standard Life Assurance Limited.

This Fund was set up with an inherited estate – a pool of assets that provides working capital for our with profits business. The main role of the inherited estate is to ensure that a suitable amount is retained in the Heritage With Profits Fund for liabilities that may arise.

If we are satisfied that the inherited estate exceeds the amount we need for this, we will distribute this excess to planholders. We will make this distribution, over time, as top-ups in with profits payouts.

We aim to restrict the distribution of any excess to payouts for plans that have remained continuously in with profits since 9 July 2006. But the Inherited Estate and other capital made available to the Heritage With Profits Fund will still be available to support new business that is written in it.

## 8. How we manage risk

As well as the Stakeholder with profits business covered by this booklet, the Heritage With Profits Fund includes other with profits business, some of which will share in any distribution of the inherited estate.

The operation of this other with profits business involves some risks, which may affect the size of our inherited estate. This in turn will affect any amount available for distribution as a top-up to with profits payouts.

A with profits payout will only include a top-up from the inherited estate enhancement if we are making distributions from the inherited estate at the time when we make that payout.

The greatest risk is that the investment return on with profits assets is not enough to meet guaranteed minimum payouts for plans that have investment performance guarantees. We manage this risk in two main ways:

- ▶ by varying the mix of assets that backs such with profits plans (including investing in assets of sufficient quality and variety), and
- ▶ by making deductions from assets shares (for plans that have investment performance guarantees) for the cost of guarantees.

Other risks include higher-than-expected costs for with profits business, including costs of providing life cover. We can manage these risks through budgetary controls and underwriting (for example asking health questions on proposal forms). We can also use reinsurance as a way of reducing risk, by passing part of the risk to another insurance company.

We carefully consider the risks of any potential business activity before we undertake it. We only take on additional risks in the Heritage With Profits Fund, for example by writing new business, if we expect them not to have a materially adverse effect on existing planholders.

We need capital to support any business activity. Before we undertake a business activity in the Heritage With Profits Fund we compare:

- ▶ the expected profitability of the activity, with
- ▶ the expected benefits to our with profits planholders if we were to use that capital in some other way.

## 9. How we manage new business

New Stakeholder with profits plans will not be invested in the Heritage With Profits Fund, but we still sell other types of with profits plans that invest in it. We aim to offer competitive terms for this new business and for increases to premiums on existing business.

We have no plans to stop selling new with profits plans, but we set low limits on the new business that can be written in the Heritage With Profits Fund. This means the Fund is expected to become smaller over time. Even so, we expect to continue to manage the Fund for many years in the way we have explained in this booklet.

However, there may eventually come a time, when the Fund is very much smaller than it is now, when we stop providing with profits benefits. The plans would then become non-with profits. The size of the non-with profits investments we will set up will be based on a fair allocation of the Fund's assets to the plans that are invested in with profits at that time. In particular, we intend to distribute any remaining inherited estate to plans that have remained continuously in with profits since 9 July 2006.

If we ever stop selling new with profits plans, we'll let you know and will write to explain how we'll manage our with profits business in the future.

## 10. How we balance the interests of with profits planholders and shareholders

Standard Life Assurance Limited is a wholly owned subsidiary of Standard Life plc, which is owned by its shareholders. Shareholders are entitled to certain payments from the Heritage With Profits Fund. In return, they meet certain costs, as explained below.

For unithised plans (including Stakeholder plans) as long as we meet our obligations to planholders, the shareholders are entitled to the deductions from asset shares (except deductions for tax or costs of guarantees for plans which have investment performance guarantees or are subject to tax). In return they meet the expenses and costs of any life cover and critical illness cover for these plans.

We won't do anything to increase the amount shareholders may receive if it would conflict with our duty to treat customers fairly.

The Board of Standard Life Assurance Limited makes all the decisions about with profits business. The With Profits Committee independently assesses the fairness to with profits planholders of any significant proposed action or exercise of discretion.



**We publish a report to UK with profits planholders each year on our website [www.standardlife.co.uk/withprofits](http://www.standardlife.co.uk/withprofits)**

This report sets out the Board's opinion on the fairness to planholders of its exercise of discretion during the previous calendar year. The With Profits Committee can add a report of its own to the Board's report.





## Find out more

If you'd like further information on this or any of our other products, or if there's anything more about Standard Life we can help you with, just call us on this number, or visit our website.

**Call us on 0800 634 7474**

(Mon-Fri, 9am to 5pm). Call charges may vary and calls may be recorded and/or monitored to help improve customer service.

**[www.standardlife.co.uk](http://www.standardlife.co.uk)**

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