



Understanding with profits

**For Stakeholder with profits plans
(that started after 9 July 2006)**

Standard Life 

This booklet tells you how we manage our Stakeholder with profits business that started after 9 July 2006. There are separate Understanding With Profits booklets for other types of with profits plans, including Stakeholder with profits that started before 10 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 UK Smoothed Managed With Profits Fund called the Stakeholder With Profits 2006 Fund. These assets are used for Stakeholder with profits investors only.

The value of your with profits units is based on, amongst 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 UK Smoothed Managed With Profits Fund (the UK Smoothed Managed PPFM). Please see the UK Smoothed Managed PPFM if you want more information on the topics covered in this booklet.

Our website www.standardlife.co.uk/withprofits will always have the most up-to-date version of all Understanding With Profits booklets and of the UK Smoothed Managed 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 UK Smoothed Managed 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?**
- 07 6. How we invest the money backing Stakeholder with profits plans**
 - How we decide the asset mix
 - Risks associated with investment
- 08 7. How we manage risk**
- 09 8. How we manage new business**
- 09 9. 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 explain 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 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.

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.

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

3. What are your guarantees?

We guarantee that we will not deduct more than the maximum charges 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 asset mix in the Stakeholder With Profits 2006 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 the size of the investment or why the with profits investment is ending. For example, we may sometimes smooth for payouts that are used to buy an annuity but not other payouts.

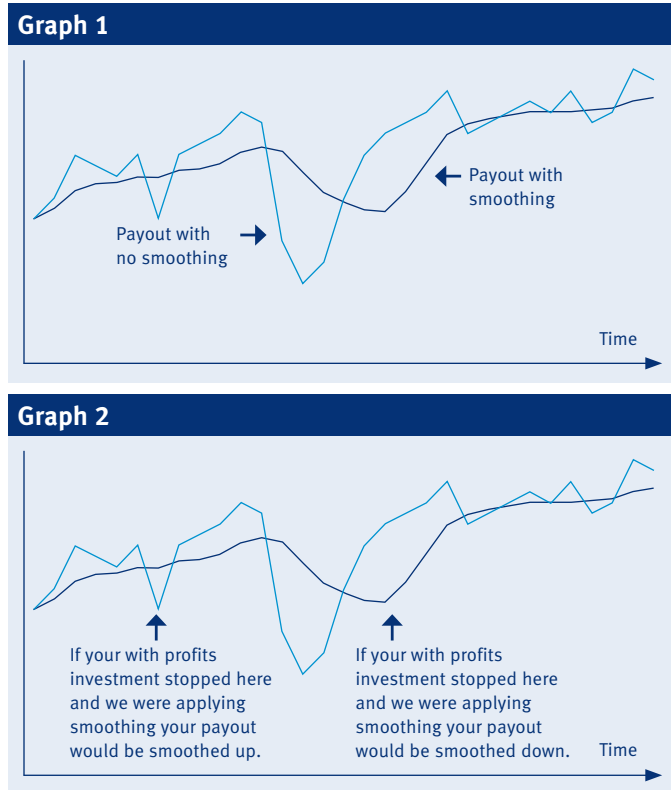
5. What is smoothing?

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 2006 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 some 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 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 that the Fund has made 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 2006 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 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 asset.



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

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 the assets 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 might be difficult to sell (for example because they're not traded on a recognised stock or bond market).

7. How we manage risk

The UK Smoothed Managed With Profits Fund does not bear any risks, other than those normally associated with investment.

8. How we manage new business

We aim to offer competitive terms for new business and for increases to premiums on existing business. We do not set any limits on the new business that can be written in the UK Smoothed Managed With Profits Fund.

We have no plans to stop selling new with profits plans. If we do stop selling them, we would not expect this to change the way we manage existing business.

9. 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 UK Smoothed Managed With Profits Fund. In return, they meet certain costs, as explained below.

Planholders are entitled to their asset share only, after any further adjustments for smoothing. Shareholders are entitled to all other assets in the UK Smoothed Managed With Profits Fund, including charges deducted from asset shares. In return they meet the expenses on the plans in this Fund.

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

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

Products provided by subsidiaries of Standard Life plc or other specified providers.

Standard Life Assurance Limited is registered in Scotland (SC286833) at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

Standard Life Assurance Limited is authorised and regulated by the Financial Services Authority. *Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.*

www.standardlife.co.uk