



# Understanding with profits

For Group Risk with profits plans

Standard Life 

## This booklet tells you how we manage our UK with profits business for Group Death in Service (GDIS) and Group Permanent Health Insurance (GPHI) plans.

We refer to both these types of plans together as Group Risk plans.

There are separate Understanding With Profits booklets for other types of with profits plans.

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 our UK 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 **0131 245 9279**. (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. 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 plan works

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## 1. Introduction

### What is a Group Risk with profits plan?

Under a Group Risk (GDIS or GPHI) plan we guarantee to pay the risk benefits described in your plan documents, as long as the agreed premiums are paid. We may also pay bonuses from time to time.

### Our approach

Our aim when managing our with profits business for Group Risk plans is to provide planholders with a share in any favourable experience for these types of plans while continuing to:

- ▶ meet all our 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 the size of any surplus we can distribute for Group Risk plans from time to time. We make these decisions in good faith, and we only take actions that we believe are in the best interest of our with profits planholders.

This booklet is a summary of the most important parts of the Heritage PPFM for planholders who have Group Risk with profits plans.

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 for Group Risk with profits plans?

We use bonuses to provide your share of any surplus we distribute in connection with our with profits Group Risk business. We call these bonuses triennial bonuses since each bonus declaration relates to the experience over a period of three years.

We calculate and declare triennial bonuses separately for GDIS and GPHI business.

Triennial bonus may be paid directly to the planholder or offset against future premiums.

For each plan, the triennial bonus is made up of:

- ▶ a percentage of the premiums paid in the three-year period; and
- ▶ a percentage of the excess of premiums over claims for the plan.

These percentages may be 0%.

### How we decide triennial bonus

We carry out investigations of our Group Risk business after the end of each relevant three-year period. We do this separately for GDIS and for GPHI business. We compare the premiums paid over the three years with the value of the claims made over the same period. When we do this we allow for:

- ▶ any investment return earned on the mix of assets for these types of plans (see section 3)
- ▶ our deductions for expenses
- ▶ a contribution to the capital of the Heritage With Profits Fund.

We then work out how much of the surplus (if any) we can distribute, after making any discretionary adjustments that may apply and after allowing for any payment from the inherited estate (see section 5).

There may be no distributable surplus and so no triennial bonus.

## What are the deductions?

There are deductions for business costs, for example staff salaries, head office and branch costs, investment costs and commission paid to intermediaries. The deductions we make when we decide triennial bonus allow for a fair share of these costs and for a contribution to the capital of the Heritage With Profits Fund. The deductions remain in the Heritage With Profits Fund, and the Fund meets the costs for our Group Risk business.

## 3. How we invest the money backing with profits plans

The assets of the Heritage With Profits Fund include:

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

We may 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.

The asset mix will change over time as asset values change. We also regularly review the asset mix that backs each class of with profits business 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.

### How we decide the asset mix

We decide the asset mix by considering the extent of guarantees for each class of with profits plan, and the appropriate balance between risk and expected return. The main restriction on the way we invest is maintaining the strength of the Heritage With Profits Fund, while also meeting obligations to our planholders.

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

## 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. In particular, the assets backing a class of with profits business could be worth less than the guaranteed benefits. In this case the Fund has to meet the shortfall.

Because of this, the higher the level of guarantees for a class of with profits business, the more we may need to invest in lower-risk assets like bonds and cash deposits. They generally have more stable values, but over the longer term we expect them to give lower returns.

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
- ▶ having to sell assets to meet payouts when prices are depressed.

We aim to control our 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 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. These are separate from the assets that back Group Risk plans.

## 4. How we manage risk

Running our business inevitably involves some risks. The greatest risk is that the investment return on with profits assets is not enough to:

- ▶ meet plan guarantees; and
- ▶ maintain the financial strength of the Heritage With Profits Fund.

We manage this risk by varying the mix of assets that backs with profits plans and, for some types of plans, by making deductions for the cost of investment guarantees. These deductions remain in the Heritage With Profits Fund, and the Fund meets the guarantee top-up costs. Deductions of this type do not apply for Group Risk plans.

Other risks include higher-than-expected costs for with profits business, including costs of providing life cover. We may 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 undertaking 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.

## 5. 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 the excess to with profits planholders over time as top-ups to payouts. For Group Risk plans we will allow for any payment from the inherited estate when we calculate any surplus we can distribute at a bonus declaration.

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 the Fund.

## 6. How we manage new business

We aim to offer competitive terms for 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 much smaller over time. Even so, we expect to continue to manage the Fund for many years in the way we explain 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. We intend at that time 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.

## 7. 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 unitised plans, as long as we meet our obligations to planholders, the shareholders are entitled to the deductions that we make for costs when we set payout levels (other than deductions for tax and investment guarantee costs). In return, the shareholders meet the expenses and costs of any life cover and critical illness cover for these plans.

For conventional plans, including Group Risk Plans, the shareholders are not entitled to any deductions. The deductions that we make when we calculate triennial bonuses for Group Risk plans remain in the Heritage With Profits Fund. The Fund meets the expenses for these plans as well as the claims made.

We won't do anything to increase the amount shareholders may receive if this 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 this report.

## Find out more

If you'd like further information on the topics covered by this booklet or on any of our 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 0845 60 60 100**

(Mon-Fri, 9am to 5pm). 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](http://www.standardlife.co.uk)**

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