

### Summary for unit-linked life plans started after 8 July 2001

This summary explains the main points about investing in our With Profit Fund for unit-linked life plans started after 8 July 2001.

It is important that you read this summary to help you understand how we manage our with-profits business. Please keep it with your plan documents. If we make a material change to this summary, we'll send you an updated version with any future statement.

If, when you have read this summary, you still need further information about the With Profit Fund you should seek further advice from your financial adviser or contact us direct. Our full Principles and Practices of Financial Management (PPFM) provides more details. If you would like a copy please visit our website at [www.friendsprovident.com/withprofits](http://www.friendsprovident.com/withprofits). Alternatively you may contact us by using the telephone number on the attached letter or statement, or on 0870 607 1352.

From March 2006, our website also contains the latest annual reports to with-profits policyholders from Friends Provident and from the With Profits Actuary respectively.



## 1. What does this summary cover?

We have produced this summary to describe our current approach for managing the money invested in our With Profit Fund. We set it out in the form of questions you might ask and our answers to those questions. The questions are as follows:

Section 2 What is a With-Profits investment?

Section 3 What affects the bonuses that may be added to my plan?

Section 4 What types of bonus do you declare?

Section 5 How do you decide bonus rates?

Section 6 What risks are borne by With-Profits policyholders?

Section 7 What if I decide to move out of With-Profits?

There are various versions of this summary, covering different types of plan. So if you have more than one plan with Friends Provident, you may receive more than one version.

This summary covers unitised with-profits life plans taken out with Friends Provident after 8 July 2001.

## 2. What is a With-Profits investment?

A with-profits investment provides:

- the possibility of long-term growth.
- some protection against the ups and downs of the investment markets. We achieve this by a process known as smoothing, which spreads out investment profits and losses from year to year.
- a guarantee of the minimum amount you will receive on certain dates. For example, this could be at the end of the plan term, or on regular withdrawals within a certain limit. You should refer to your plan documentation for details. We aim to manage the With Profit Fund to ensure we can pay all guaranteed benefits as they fall due.

After taking out any initial costs, we pool your money with that of other investors in the With Profit Fund. We invest the Fund with the aim of achieving long-term investment growth.

We pass on investment profits to with-profits policyholders in the form of bonuses. Payouts at the end of the plan term are equal to the guaranteed amount plus any bonuses. This allows us to provide, over time, a more stable investment return than you would get from most other investment products linked to the investment markets.

As long as all premiums continue to be paid, some with-profits plans may also provide valuable life cover.

## 3. What affects the bonuses that may be added to my plan?

The bonuses that we are able to add to your plan depend on a number of different factors. The main ones are as follows:

- the investment return we achieve on the With Profit Fund. This is generally the most important factor and we explain more about this below under "Our investment strategy".
- the effect of smoothing.
- the cost of the guarantees we offer to you and to other investors.
- our charges and expenses.
- any tax paid on investment income and capital gains.

## Our investment strategy

We invest the Fund in a wide range of investments, such as company shares, property, government and company fixed interest bonds (a type of loan) and cash. We decide how much we invest in each type of investment. The most important factor affecting how much you might get is the amount we earn on these investments.

The values of investments can rise and fall. Investments such as shares and property can be more variable in value than fixed interest bonds and cash. Over the longer term, shares and property have, historically, produced higher returns than other investments. Because of this, we aim to invest a significant part of the Fund in shares and property, with the remainder being invested mainly in fixed interest bonds and cash.

By investing in a wide range of investments, the investment return on the With Profit Fund should be more stable than most unit-linked funds investing in only one type of investment such as shares. The mix of investment types will vary over time and may differ from that chosen by other companies.

We may alter the mix of investments to reflect our views on the relative attractiveness of each type of investment. We also need to make sure we can meet all guarantees. This means there may be times when we have to hold more secure investments, such as cash and fixed interest bonds. The latest published mix of investments is set out in the 'With-Profits Summary Supplementary Information' page on our website at [www.friendsprovident.com/withprofits](http://www.friendsprovident.com/withprofits).

## 4. What types of bonus do you declare?

We use two types of bonus, regular bonus and final bonus, to share out profits over time and amongst investors. To enable us to distribute profits fairly between different classes of investor, we have created different With Profit Fund bonus series, each of which may be eligible for different bonus rates. The series to which your plan is linked depends on your plan and when you took it out.

### Regular bonus

You can think of this as a growth rate of the price of your units. The unit price increases in line with the rate of regular bonus we declare. The rate may change up or down at any time. If you cash in units early we may reduce their value – please see Section 7 'What if I decide to move out of With-Profits?' for more information. The value of capital units (which have been used for a small number of our plans) will reduce if the capital unit charges exceed the rate of regular

bonus. We review regular bonus rates at least once a year. We don't forecast future regular bonus rates.

### Final bonus

When guaranteed benefits are payable, or if you cash in your plan, we may add a final bonus. Final bonus rates may change up or down at any time. We review final bonus rates at least twice each year. We don't forecast future final bonus rates.

- For most plans, we currently calculate final bonus as a percentage of the increase in unit value from the end of the plan year in which units were purchased. (Your plan year runs from the anniversary of the date you took out the plan.) To help achieve fairness, rates of final bonus may vary according to the plan year when each unit was purchased.
- For plans invested in Series 5 (overseas business), Series 12 (UK business) or Series 14 (UK business) we currently calculate final bonus as a percentage of the unit value (which includes regular bonus). The final bonus rate depends on when the plan started.

## 5. How do you decide bonus rates?


When deciding what bonus rates to pay we consider:

- the return earned by the Fund since we last reviewed bonus rates.
- the impact of smoothing investment returns in previous years.
- what future investment returns are likely to be.
- the accumulated regular bonus so far, compared with the accumulated investment return.

We then look at each plan's 'Asset Share'. For most plans, Asset Share is the accumulation of your plan's investments in the With Profit Fund at the rate of investment growth achieved by the Fund, allowing for factors such as our expenses, the cost of death benefits, the cost of guarantees and taxation.

We can then decide how much to pay out as bonuses. We aim to pay out only part of the investment returns through the regular bonus so we can cushion the fund against periods of poor investment returns. If, in the event, the cushion is not required, we can pay it out in the form of final bonuses.

The Board of Friends Provident Life and Pensions Limited is responsible for deciding bonus rates after considering the



advice of an actuary appointed to do this and after independent review by a sub-committee of the main Friends Provident Board known as the With Profits Committee, which includes at least one external member.

### **Deciding the rates of regular bonus**

We set the regular bonus rate after considering how investment values have moved in the past and how we expect them to move in the future. We aim to set regular bonus rates that change gradually from year to year, smoothing out variations. The future expected long-term investment return is very important. For example, we may reduce regular bonus rates if we expect future investment returns to fall.

Any regular bonus that we add increases the guarantees under the plan. The proportion of assets we hold in lower risk fixed interest assets depends on the level of these guarantees. If we did not try to limit regular bonus rates to a sustainable level then we would have to hold more fixed interest assets to ensure we could meet the guarantees we are creating. As a result we would expect the investment return on the fund and therefore total payouts to policyholders to be lower.

### **Deciding the rates of final bonus**

We may be able to increase the value of your plan when it reaches the end of the plan term or is otherwise cashed-in by giving you a final bonus.

We will decide final bonus rates for each bonus series broadly to reflect any excess of the Asset Share over the amount already guaranteed by adding regular bonuses. Final bonus is generally assessed by looking at the value of a sample plan with an Asset Share similar to your plan and adjusted to smooth out variations in investment returns over time.

### **Target Payouts**

For most classes of With Profit business, we decide payouts after considering the Asset Shares of sample representative plans. This helps us to ensure that fairness is maintained between different groups and generations of plans.

When converting Asset Shares into payouts we apply a process known as smoothing, which spreads out investment profits and losses from year to year. As an example, if our investments go down in value, we may not reduce payouts by as much in the short term.

Smoothing means that if we have earned less on our investments than expected, we will generally target more

than Asset Share in the short term. If, however, we have earned more on our investments than expected, we will generally target less than Asset Share in the short term. Smoothing is discussed further in the next section.

Over time we aim to pay 100% of Asset Share on average at the end of the plan term or, where there is no maturity date, when we make a payment in accordance with the terms of the policy, or if you cash the plan in early. We generally review final bonuses twice yearly and between reviews we aim to keep payments within plus or minus 20 percentage points of Asset Share.

We set final bonus rates to achieve overall payouts that are close to the target percentage of Asset Share over the longer term. In some circumstances the value of your plan before considering final bonus may be higher than the Asset Share. If this happens we are unlikely to add any final bonus.

Our aim is to pay all with-profits benefits out of the assets held in the With Profit Fund. Our shareholders may provide support in the unlikely eventuality that the assets in the With Profit Fund are not enough to cover payouts.

### **Smoothing**

With any investment approach we expect investment values to vary over time. There will be periods when investment values fall and others when they rise.

As mentioned above, the With Profit Fund includes an important feature, called smoothing, which reduces the immediate impact of large changes in investment values on your plan. We control the value of your plan by using bonuses to even out some of the highs and lows in investment values. When smoothing, we spread out investment profits and losses from year to year. Over the longer term we aim to pay out all investment profits to investors in the form of bonuses.

Because of smoothing, payouts on similar plans will not generally change by more than 20% from payouts a year earlier.

### **Guarantees**

For investments in the With Profit Fund, we guarantee that at certain points in time we won't reduce the value of your units, even if the underlying Asset Share has fallen. For example, we guarantee not to reduce the value of your With Profit Fund units on death, at the end of the plan term or, for some single premium investment plans, on regular withdrawals up to limits set out in your plan documentation.

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At other times there is no guarantee on the amount you might get back. Section 7 'What if I decide to move out of With-Profits?' explains when and how we may reduce the value of your units.

In unfavourable investment conditions the guaranteed amount under your plan may be more than the Asset Share. We pay the excess from the With Profit Fund. To prepare for such situations, we put aside a small percentage of each year's asset value.

Illustrations of future benefits allow for these deductions. We regularly review the amount we need to set aside and it can go up or down. If we do not need all the amount set aside, we will use it to improve payouts. The current rates of deduction are set out in the 'With-Profits Summary Supplementary Information' page on our website at [www.friendsprovident.com/withprofits](http://www.friendsprovident.com/withprofits).

## 6. What risks are borne by With-Profits policyholders?

With-profits policyholders are exposed to a number of risks, known as business risks. In particular, the With Profit Fund bears the historic cost of business risks (including the risk of paying compensation) relating to business written before July 2001.

We give examples of business risks in the table opposite, with details of some of the actions we have taken to reduce their potential impact.

Business risk	Actions to reduce potential impact
<p>Risks associated with plan guarantees:</p> <ul style="list-style-type: none"> <li>for some plans, the guaranteed minimum amount (including regular bonuses) payable on the date specified may exceed Asset Share</li> <li>some plans have a guaranteed annuity rate at the end of the plan term</li> </ul>	<p>We have reduced regular bonus rates to limit the build up of this liability.</p> <p>We are holding back distributing miscellaneous surplus and making regular deductions from Asset Share to fund the cost.</p> <p>We have set aside explicit reserves within the Fund. We use suitable investments to reduce the prospect of the value of these assets being different to the cost of the liabilities.</p> <p>We have set aside explicit reserves within the Fund, and our investment strategy should limit the exposure to changes in market conditions.</p>
The risk that policyholders will die sooner than expected	We reassure certain of our life assurance risks with other companies.
The risk of a fall in market values	We use suitable investments to help protect the Fund against market falls.
The risk that expenses will be more than assumed	Expenses have been fixed until 2009.
Risks associated with business written since Friends Provident demutualised in July 2001	Other than the investment risk, these risks are borne by shareholders and not by with-profits policyholders. The investment risk is the same as for plans sold before July 2001.

## 7. What if I decide to move out of With-Profits?

You may decide to move out of the With Profit Fund. You may carry this out by:

- cashing in your plan
- switching out of the With Profit Fund into another unit-linked fund (this may not always be possible - please refer to your plan documentation)

Before deciding whether to move out of with-profits, you should consider any guarantees that you may be losing.

These guarantees may be valuable when inflation and interest rates are low, particularly if your plan is entitled to a minimum regular bonus rate on the existing units or those units future premiums will buy.

Many plans include life assurance cover. This would normally end if you cash in the plan.

Depending on how well the fund has performed and whether any guarantees apply, we may pay out more or less than the face value of the units.

#### Situations where we may pay more than the unit value

If the value of your units is lower than the Asset Share, we may increase your payout by adding a final bonus. Our approach to calculating final bonus may vary depending on how long your plan has been continuously invested in the With Profit Fund. For some plans, there are minimum periods for eligibility. For details please refer to your plan documentation.

#### Situations where we may pay less than the unit value

If you cash in at any times other than those stated in your plan documentation, or switch money out of the With Profit Fund, guarantees will not necessarily apply. A deduction designed to recover outstanding expenses might apply to any units on the plan, particularly capital or initial units. Your plan documentation will provide details.

If, after applying any deductions, your unit value is higher than the Asset Share, we may reduce your payout by applying what is known as a Market Value Reduction (MVR). We do this to safeguard the interests of other investors who remain invested in the fund. It also ensures that you receive a value that is fair in relation to the value of the underlying assets.

We regularly value the With Profit Fund and check how much money is moving out of the Fund. We may apply an MVR if conditions show this is necessary. It is most likely we will apply an MVR when there has been a sudden fall in investment values or when there has been a sustained period of low investment returns.

#### Alternatives to cashing in your life plan

As an alternative to cashing in a life plan, it is normally possible

- either, to use a life plan as security for a loan to get short-term finance
- or, to make a regular premium plan paid up, whereby you stop premium payments but the plan remains in force with reduced benefits.

**If you need further information about the With Profit Fund you should seek further advice from your financial adviser, or contact us by using the telephone number on the attached letter or statement, or on 0870 607 1352.**

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