Unitised with-profits plans

Your guide to how we manage our with-profits business

Contents

1 Introduction

This guide explains how we look after our with-profits business.

If you have one of the following unitised with-profits products this guide applies to you:

Bonds:

- Flexible Investment Bond
- Mutual Investment Bond
- With Profits Investment Bond
- With Profits Growth Bond
- With Profits Income Bond
- Bank of Ireland/Liverpool Victoria Group With Profits Bond

Other product types:

- Tax Free Savings Plan
- Regular Savings Plan
- Mortgage Savings Plan
- Flexible Savings Plan
- MAX
- Family and Legacy Fund
- With Profits Life ISA
- Top-Up Company Pension Plan
- Flexible Personal Pension Plan
- With Profits Retirement Plan

You'll find important information about how these products work and how we manage them. At the end of the guide there is a helpful glossary of some of the financial and insurance terms we've used. The terms in **bold font** are those that you'll find in the glossary.

There are separate guides available for our other with-profits policies and plans, and also for the with-profits business in the **RNPFN Fund** and **Teachers Assurance Fund**.

To put this guide into context, it might help to read it with your:

- Key Features
- Plan or Policy Conditions
- Personal Illustration showing what you might get back in the future

To make this guide easier to read we've used the word plan when referring to any of the products listed above. Where we are also referring to other with-profits products that we've sold, we've used the word 'policy'.

Please keep this guide safe along with your other plan documents.

This guide covers only the unitised with-profits plans listed above. Separate guides are available for our other unitised products. You can download a copy from our website **LV.com/manage**. If you'd like us to send you one please contact us. You can email us at **LifeServicing@LV.com**, call us on **0800 681 6294** (we will record and/or monitor your calls for training and audit purposes) or write to us at LVFS, County Gates, Bournemouth, BH1 2NF.

2 Background on LVFS

We've been looking after our customers' money since 1843.

All our with-profits business, such as the plans you invest with us, is held within Liverpool Victoria Financial Services Limited (LVFS).

We combine your money with other investors' money and manage it on your behalf. There are other types of policies in **LVFS**, together with its **inherited estate** (explained in section 11).

LVFS is a mutual company limited by guarantee which means we have no external shareholders but are owned by our **members**, such as yourself.

3 What fund am I invested in and how is it invested?

Different with-profits policies invest in different mixes of assets within **LVFS**.

Most policies in this guide are invested in the mix of assets that we call our '**main with-profits fund**'. Most of our older with-profits plans are invested in this fund.

The exception is the **With Profits Income Bond** which is invested in a separate but similar mix of assets.

References to 'the fund' in this guide relate to whichever fund your plan is invested in.

The aim of the investment strategy is to optimise the return to with-profits policyholders while preserving a level of risk to the return which is consistent with our assessment of with-profits policyholders' expectations and the ability of **LVFS** to meet its commitments to its policyholders. It will also take into account past communications to policyholders, developments in investment practice and requirements of specific product features. In determining the mix of assets between different asset classes, the investment strategy will take account of the long-term expected returns available in the asset classes, their volatility and the benefits to be obtained from diversification, the current and projected **financial strength** of **LVFS** and its ability to meet its regulatory capital requirements and the nature of its **liabilities**.

The general asset management of the fund you invest in is currently undertaken on our behalf by Columbia Threadneedle Investments. They are responsible for the day-to-day management of the **assets** in the fund, operating in accordance with our investment strategy.

The investment performance of the fund and the outlook for different types of **asset** are regularly monitored. We also review our investment strategy in detail each year.

Typical investments made by the fund include:

- the **shares** (also known as equities) of UK and overseas companies
- **fixed-interest investments** such as **government bonds** and corporate bonds
- **property**
- cash

The proportions held in each type of **asset** can vary over time, for example the proportion held in **shares** can be reduced as a result of market conditions.

You can see the current and target mix of investments in the with-profits fund you invest in on our website at **LV.com/asset-allocation**. Here you can also see investment information including the performance of the fund. Alternatively you can also get this information by contacting us – see section 1 of this guide for the different ways we can be contacted.

4 What's the aim of our with-profits business?

We want to give you a fair return on your investment allowing for any guaranteed benefits. We have different groups of with-profits policyholders – with different plans started at different times, and with different terms. We always try to treat our policyholders fairly when there are any conflicting interests between them.

5 What's a unitised with-profits plan?

A unitised with-profits plan simply means that we use units and unit prices to measure your investments and your plan's value. Every time you pay into your plan we'll add a number of units, the amount will depend on the value of your plan's units at the time. Your return will depend on the number and value of your plan's units. Depending on the type of plan you have, we might also cancel units to pay charges.

Example 1

Fred invests a one off lump-sum of £10,000.

The current unit price is £1.25.

We divide the £10,000 by £1.25, giving Fred 8,000 units.

We aim to increase your plan's value over time by increasing the price of the units. We may also add a **final bonus** or apply a **market value reduction** to the value of your plan's units. There's always a chance that we might need to reduce the amount we pay out though – please read your Plan or Policy Conditions carefully to find out when this could happen.

Example 2

Since Fred invested £10,000 into his plan, due to ongoing charges taken the number of units held has reduced from 8,000 (when he took the plan out) to 7,900 and the unit price has increased from £1.25 to £1.50.

The current value of the units in Fred's plan is 7,900 x £1.50 which is £11,850.

The actual value of Fred's plan will be £11,850 plus any **final bonus** or less any **market value reduction**.

If the **final bonus** amount (including any **mutual bonus** and **exit bonus**) was £2,150 the current value of Fred's plan would be £11,850 + £2,150 which is £14,000.

If there was no **final bonus** and there was a **market value reduction** of £1,500 the current value of Fred's plan would be £11,850 - £1,500 which is £10,350.

6 How do we cushion you from the ups and downs of the stock market?

As explained earlier, the fund invests in a number of different types of **assets**, including in the **shares** of UK and overseas companies, **property** and **fixed-interest investments**. **Shares** are often called equities and are bought and sold on stock markets throughout the world.

We believe it's important for us to invest in **shares** and **property**, as over the long term they tend to give a higher return than other safer investments, like **government bonds** and cash.

The downside to **shares** is that they can be more volatile than other investments. Their values can rise and drop sharply, sometimes quickly and in line with world events. We aim to smooth out the effects of some of the rises and drops in the following ways:

- We invest in many different types of investment and limit the amount in any one type.
- We use various techniques to help reduce volatility. For example, for overseas investments, to reduce the risk of foreign currency fluctuations we can use currency hedging.
- We try and smooth out the ups and downs of the profits and losses we make in order to treat policyholders fairly. This is what we mean by a **smoothed return**.

As an example of the latter, if your plan ends on a day when the market fell drastically, the smoothing would help protect you from the sudden drop in value. If the opposite happens and the market rises sharply, the smoothing effect would mean that you wouldn't get the full amount of the rise. So investors in a fund that doesn't smooth returns might see their investments rise and fall more quickly than that of a fund with **smoothed returns**.

For the plans covered by this guide, we smooth investment returns over a two year period, though we reserve the right to remove or reduce smoothing in exceptional circumstances in order to treat remaining with-profits policyholders fairly. It's possible that the amount we pay you at the end of your plan will be higher or lower than the **underlying value of the investments**. Please see the following example. In the long term the effect of smoothing is expected to be neutral.

LVFS does not set a period over which it expects smoothing of payouts to be neutral. Similarly, it does not set an overall limit to the accumulated profits or losses from smoothing.

If you surrender at this point, a **final bonus** will be applied to the value of units to bring your plan in line with the smoothed value of investments.

In exceptional circumstances we may have to move closer to the **underlying value of the investments** at this point if you surrender, to protect remaining investors.

If you surrender at this point, a **market value reduction** will be applied to the value of units to bring your plan in line with the smoothed value of investments.

Please note: this graph is for illustrative purposes only.

7 How do we decide the return on your plan?

We want to make sure that every investor receives a fair return. To increase the value of your plan, we add **regular bonuses** by increasing the price of the units over time. We may also add a **final bonus** or apply a **market value reduction** when your plan ends or you take money out of it. You can find out more about these in the next section.

To calculate your overall return we take into account:

- the premiums you've paid in
- withdrawals you've taken
- any charges for providing benefits such as life cover or waiver of premium cover (where applicable)
- the investment returns from the fund
- any tax paid by LV= in respect of your plan
- prior distributions of miscellaneous profits from **LVFS** business risks, including **mutual bonus** declared from 2011 (see section 12).

As we've said in section 6 we try to smooth out the ups and downs of the stock market, and this also affects your return. We may also add an **exit bonus** (see section 12).

Once your plan ends, we aim to pay out between 80% and 120% of the **underlying value of the investments**. Our long term aim is to pay out on average 100% of the **underlying value of the investments**. Where there are guaranteed benefits, we'll always pay the guaranteed amount if that is higher.

8 What bonuses do we pay?

We might add **regular bonuses** to your plan at any time during your plan's life, and a **final bonus** at the end. We may also add **mutual bonus** and **exit bonus** (see section 12). When we set bonuses, we take into account the current and projected **financial strength** of **LVFS**.

Regular bonuses

For unitised with-profits plans we aim to add **regular bonuses** by increasing the price of units at least monthly. The amount might vary depending on the type of plan you have.

When setting **regular bonus** rates the general aim is for **regular bonus** rates to be added at a modest stable level, taking into account the relationship between your plan's units and the **underlying value of the investments**. Changes in **regular bonuses** should be expected to be relatively infrequent.

Once the **regular bonus** has increased the price of units, there are only two ways the units allocated to your plan can fall below the value given by this price:

- If you take money out of your plan when a **market value reduction** applies, this is covered later in this section
- If the charges on your plan are more than the value of the **regular bonuses** being added.

We don't set a maximum amount that **regular bonus** rates can be altered by each year. **Regular bonus** rates may be reduced to zero.

We may introduce a new series of **regular bonus** rates if otherwise there could be unfair treatment between groups of policyholders.

Final bonuses

We want to make sure that you receive a fair return on your plan. If the **regular bonuses** you've had during your plan are less than a fair return, we'll add a **final bonus** to the value of your units to increase your payout. If you make a partial withdrawal or are taking income, it decreases the number of units we cancel.

The amount of any **final bonus** added is not guaranteed, will vary from time to time, and could be zero.

What is a market value reduction?

In the same way that we might add a **final bonus** if our investments are doing well, if they're not doing so well we might need to apply what's called a **market value reduction** to the value of the units. This means that we'll reduce the amount we pay to you. If you make a partial withdrawal or are taking income, it increases the number of units we cancel.

We'll only apply a **market value reduction** to make sure that:

- when you cash in your plan, your payout isn't unfairly higher than the **underlying value of the investments** within the fund
- the remaining policyholders in the fund will also get a fair share.

On some plans, we've guaranteed not to reduce the value on certain dates or events such as on death or when your plan reaches its end date. You can check your plan or policy documents to find out more about this.

9 What expenses are charged to your plan?

As with any investment, there are certain costs involved in setting up and looking after a with-profits plan – including commission payments (where relevant), administration costs and other expenses. The charges taken from your plan are taken to cover these expenses. You can find out more about them in your Key Features document and Plan or Policy Conditions.

10 What business risks can affect with-profits policies in LVFS?

The profits or losses from all business risks within **LVFS** are credited to or borne by the **inherited estate** and may, if the **LV= Board** determines to allocate such profits or losses, influence the amount payable on your plan.

Distributions of profits made since 2011 are currently added as **mutual bonus** and **exit bonus**.

In exceptional circumstances in order to treat all policyholders fairly, losses from business risks may result in deductions to payouts. We would remove **exit bonus** first, then reduce or remove expected future **mutual bonus**, before removing prior **mutual bonus**, and finally making deductions from the rest of the payout.

New business will only be accepted into **LVFS** if, in the opinion of the **LV= Board**, the terms on which the business is effected are likely to have no adverse effect on the interests of the existing with-profits policyholders in **LVFS** nor threaten the ability of **LVFS** to meet its commitments to its **members**.

The other key business risks of **LVFS** arise from:

- variations in such factors as policy longevity, annuity take-up rates and the proportion of policies in-force that are not expected to claim and expenses
- higher contributions associated with staff defined benefit pension schemes
- exceptional or unexpected expenses
- compensation to policyholders, resulting from mis-selling and maladministration
- variations in costs of guarantees, options and smoothing
- the value of the investments of the **inherited estate** of **LVFS**
- the risk that the **RNPFN Fund** and the **Teachers Assurance Fund** cannot meet their **liabilities**.

11 What's the 'inherited estate' and how do we use it?

The **inherited estate** means the excess of the **assets** of **LVFS** over all its **liabilities**. It's money that has been building up since we began in 1843, from generations of policies where we've made more profit than we anticipated.

The **inherited estate** provides capital to meet the regulatory reserving requirements of **LVFS** and supports its business risks. In doing this the capital provided by the **inherited estate** supports **LVFS's** ability to invest in **assets** delivering higher returns to policyholders while maintaining guaranteed benefits, the smoothing of benefits paid to policyholders and the ability of **LVFS** to accept new business.

Other than in future distributions of **mutual bonus** and **exit bonus** (see section 12), there are currently no constraints on the **LV= Board's** freedom to deal with the **inherited estate** of **LVFS** or any obligation on the **LV= Board** to distribute the **inherited estate** to the current generation of **members**.

The portion of the **inherited estate** used to support future **exit bonus** distributions (which come from proceeds from the sale of **LVFS's** general insurance business) is currently invested using a blended approach based on cash and the mix of assets in the main with-profits fund with the aim that it becomes fully in line with the latter during 2024.

12 What are mutual bonus and exit bonus?

Our **mutual bonus** rewards eligible **members**, like you, for their support of the development and growth of Liverpool Victoria Financial Services (LV=). It is not a guaranteed benefit and the amount can vary.

Our aim is to distribute our profits – via the **mutual bonus** – in a broadly stable and sustainable way, by maintaining our profitability and capital position. The **LV= Board** has full discretion and freedom when deciding to award a **mutual bonus**. The decision to award a **mutual bonus** is guided by the **Board's** overriding responsibility to balance the need to deliver for **members** both today and in the future, against LV's investment needs and projected **financial strength** of the fund. The **Board** could make adjustments or significant changes to the rates if circumstances require it. For example, if the current performance or capital position of the business differs materially from the business plan. Any past **mutual bonuses** could be reduced or removed, though could be reinstated at a later date.

The rate of **mutual bonus** we will award for the policies in scope of this document is six times the level that we award for new with-profits policies. This reflects communications in 2020 regarding proceeds of the sale of the LV= General Insurance business and how the business has evolved since then.

We also use some of the sale proceeds to pay you an **exit bonus**. Each year the **LV= Board** will decide what **exit bonus** rate to award, considering what funds are still available from the sale proceeds, how investment markets perform, changes in the underlying value of policies, the number of active **members** who are eligible to receive it and our current and projected **financial strength**. The rate of **exit bonus** may be varied in future, including being set to zero in extreme circumstances. We currently expect to reduce the **exit bonus** before looking at potentially reducing past awards of the **mutual bonus**.

Mutual bonus and **exit bonus** do not increase guaranteed benefits, and are paid by increasing your **final bonus** (or reducing any **market value reduction**) when your plan ends. If applicable to your plan, we'll use the **mutual bonus** and **exit bonus** to reduce the number of units we cancel when you make a withdrawal.

Further information about **mutual bonus** and **exit bonus** can be found at **LV.com/mutualbonus** and **LV.com/lvdifference**.

13 What would happen if we stopped accepting new business?

We'll let people invest in **LVFS** as long as we feel it's in the interests of both our existing and new with-profits policyholders and doesn't threaten the ability of **LVFS** to meet its commitments to its **members**.

If we did ever stop accepting new business and closed **LVFS**, we'd share out its **inherited estate** in an equitable manner over the lifetime of the remaining with-profits policies held in **LVFS**. If this happened we might change the way we manage the fund, including the investment strategy and how we smooth returns.

14 How to find out more

We hope you've found this guide useful. To find out more about the technical details of our with-profits business, please read our Principles and Practices of Financial Management (PPFM) booklet.

On our website **LV.com/manage** you'll find the latest version of this guide, the more technical PPFM and annual reports on how we've managed the fund compared to our PPFM. If you would like us to send you a copy of any of these documents please let us know.

If you have any questions about what we've said in this document, please contact us or your financial adviser.

15 Glossary

Word/Phrase	Definition
Asset	An investment purchased with the prospect that it will increase in value and/or generate income. Examples of various types of asset are **shares** in companies, **fixed-interest investments, property** and cash. Depending on the type of asset, the value can go up and down and any income produced by it may change from one year to the next.
Board	The individuals elected by **LVFS members** to oversee the management of **LVFS** on their behalf.
Exit bonus	Information on exit bonus can be found in section 12 of this guide.
Final bonus	Information on final bonus can be found in section 8 of this guide.
Financial strength	Financial strength is measured by how much the value of an **insurer's** assets exceed the value of its **liabilities**. It is an indicator of the **insurer's** ability to withstand adverse economic conditions.
Fixed-interest investments	Loans made to governments or companies for a set period, in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period.
Government bonds	Loans made to governments for a set period, usually in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period. UK government bonds are also known as gilts.
Inherited estate	Information on the inherited estate can be found in section 11 of this guide.
Insurer	A company or mutual organisation that provides insurance products to the general public.
Liabilities	An **insurer's** debts or obligations that arise during the course of its operations. This includes the promises it makes to its policyholders to pay their claims.
LVFS / LV=	Liverpool Victoria Financial Services Limited.
Market value reduction	Information on market value reduction can be found in section 8 of this guide.
Members	As a with-profits policyholder, you are also a member of **LVFS**. **LVFS** is owned by its members, who can have their say in the running of **LVFS** through its Annual General Meeting. Members can also receive other benefits. For full details, please see our website at **LV.com/members**
Mutual bonus	Information on mutual bonus can be found in section 12 of this guide.
Property	An investment in **assets** such as offices, and retail and industrial premises, which generate income and whose value can go up or down.
Regular bonus	Information on regular bonus can be found in section 8 of this guide.
RNPFN Fund	The RNPFN Fund is a ring-fenced fund within **LVFS** which includes the RNPFN with-profits policies. **LVFS** took over the RNPFN business in 2001.
Shares	A share represents a part ownership of a company and carries with it the entitlement to a proportion of the company's profits, paid as dividends. The value of shares can go up or down quickly, as they are influenced by national and world events. Shares are also known as equities.
Smoothed return	We aim to pay customers a smoothed return in order to cushion the effects of volatile movements in the investments in the fund underlying their policies. We do this by holding back some of the profits we earn in good years and use them to supplement the returns we earn when times are tough.
Teachers Assurance Fund	The Teachers Assurance Fund is a ring-fenced fund within **LVFS** which includes Teachers with-profits policies. **LVFS** took over the Teachers business in 2016.
Underlying value of the investments	This is the actual value of the investments in the fund which we use to determine the value of your plan. However, when we actually pay out your plan, we also take into account how we smooth payouts and any guaranteed benefits that your plan has.

If you'd like us to send you this document or any future correspondence in another format, such as Braille or large print, please just let us know.

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