

# Reliance Mutual Insurance Society Limited

How we manage our with profits business  
– a guide for policyholders

## ***With Profits Sub Fund 5***

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# 1 Introduction

- 1.1 This document provides a guide as to how we manage our with profit funds, in particular With Profits Sub Fund 5. It is designed to help policyholders understand how a with profits policy works. This is an important document and you should keep it with your other insurance papers.
- 1.2 If we have sent you this guide it is because your policy is in With Profits Sub Fund 5 (WPSF5). If you have obtained this guide from the internet, there is a section “How Reliance Mutual's With Profits Business has built up” that you can use to check that you have the correct guide for your policy, or you can contact us using one of the methods at the end of this guide.
- 1.3 The Society's business is divided into six sub funds, which were created following the transfer of various other companies' business to the Society in 2004 and 2007. WPSF5 contains all the business originally written by University Life Assurance Society. WPSF5 contains policies that are both 'with profits' and 'without profits'.
- 1.4 Our approach to managing the fund may change and we will give you a new copy of this guide if any changes are made to it. At the end of this guide there is a section that tells you how you can get further information at any time.
- 1.5 This fund is not open to new business.
- 1.6 Reliance Mutual deducts amounts from WPSF5 for the expenses of administering the business in the fund. These charges are on a fixed basis that was established in 1919 when University Life was first acquired by its former parent company, Equitable Life Assurance Society.
- 1.7 Reliance Mutual is a mutual insurance company. There are no shareholders and all profits available for distribution are shared among the with profit policyholders.
- 1.8 The profits that emerge from the business in WPSF5 are only available for distribution to policyholders in WPSF5.
- 1.9 We have some main aims that influence the way we manage our business. These are:
  - To give policyholders the promised minimum benefits in all reasonably foreseeable circumstances;
  - To treat policyholders fairly;
  - To meet the tests of solvency and capital adequacy required by regulatory bodies.

# 2 What is a With Profits policy?

- 2.1 A with profits policy is designed to provide a benefit at some future time. For most of the policies in WPSF5, the policy would normally provide the benefit in the form of a lump sum when you reach a certain age – perhaps 60 or 65. In most cases you can take part of the benefit from your policy as a lump sum in cash, tax-free, but have to convert part of the benefit into a pension.
- 2.2 Many of the pension policies in WPSF5 are written through the Federated Superannuation Scheme for Universities, and in this case you can obtain more information from the academic institution for which you work. WPSF5 also has a range of other life assurance contracts.
- 2.3 If you would like to know exactly what benefit your policy provides, use one of the methods at the end of this guide to contact us.
- 2.4 In order to pay for the benefit, you pay us premiums. Many policies have regular premiums paid every month, but some have other ways of paying premiums. For some policies a single premium was paid when the policy started, which purchased all the benefits.
- 2.5 In exchange for paying the premiums the policy promises a minimum guaranteed benefit – often called the ‘sum assured’ or ‘basic guaranteed annuity’. The unique feature of a *‘with profits’* policy is that bonuses are added to this minimum guarantee. The next section tells more about how we calculate bonuses.

## **How we invest your premiums**

- 2.6 We invest your premiums along with those from other WPSF5 policyholders in a single fund. All policyholders share in the fortunes of the fund.
- 2.7 We invest the fund in shares in UK and overseas companies, property, fixed interest investments (such as government bonds) and cash deposits. Investing in a mix of investments helps spread risk as it means that the whole fund is not dependent on the performance of a single investment or type of investment.
- 2.8 Some types of investment are more risky than others. Shares in companies go up and down in value much more than government stocks. When we decide how much of the fund to place in different types of investment, we take into account the guaranteed benefits we have already promised. We ensure that there is enough money invested in less risky investments – such as fixed interest investments – so that we can pay the promised minimum benefits with a high degree of certainty. This is one of our main aims set out in the previous section.

## **Smoothing**

- 2.9 Smoothing is an important feature of with profits policies. We aim to reduce the effect of short term ups and downs in the stock market by setting bonuses that smooth out the peaks and troughs. This means that we pay out more than the unsmoothed result when markets are low, but less than the unsmoothed results when markets are high.
- 2.10 Smoothing reduces the risk of you receiving a low payout if stock markets are low when your benefit is due to be paid. In exchange you won't receive the full benefit if markets are high.

## **Profits from other business**

- 2.11 In section 1, we mentioned that the fund also contains other policies that are not 'with profits'. This other business is designed to make profits, which are added to the returns earned on the investment of your premiums. This means that additional profits from these other policies are paid out to with profits policyholders, such as yourself.
- 2.12 Policies that are not 'with profits' might give rise to losses. Any losses would be deducted when we determine how much can be paid as bonuses on our with profits policies. It is the performance of the fund as a whole that determines the amounts that can be paid.

# 3 How we decide the bonus rates

## Types of bonus

- 3.1 In the past two types of bonus were added to your policy before the benefits started to be paid – reversionary bonus and final bonus.
- 3.2 In 2005 University Life announced that it had decided to cease the previous practice of regular declarations of reversionary bonus every three years. Existing reversionary bonuses remain attaching to your policy, but no further bonuses will be declared.
- 3.3 Final bonuses are an additional sum that we add to the guaranteed benefits when they are paid out. Final bonuses 'top-up' the existing guaranteed benefits (these are the original sum assured or basic annuity and the annual bonuses that have been added from year to year) to a fair level. Final bonuses are not guaranteed, and the rates may change at any time. Final bonuses are sometimes also called 'terminal bonuses'

## How we calculate the bonus rates

- 3.4 As there is no new business being written in WPSF5, all the assets in the fund need to be paid out to the existing policyholders. We set our final bonuses to achieve this as fairly as we can between different policyholders.
- 3.5 Achieving fairness is a difficult task. If we pay high rates of final bonus to policies terminating now, and it turns out that, for example, all the pensioners in the fund live longer than we expected, the fund will run out of cash. The only thing we will be able to do is to make large reductions in the final bonus for the remaining policies. At the end of 2006, there were fewer than 2,000 policies still in force, which makes the task particularly difficult.
- 3.6 If we pay out too little now the fund will be in a large surplus as it runs down, and the last remaining policyholders will get very large benefits. Neither of these approaches is fair to everyone.
- 3.7 When we calculate the final bonus we use actuarial calculations to estimate the current value of:
  - the investments held in WPSF5;
  - plus the likely future investment returns the fund will earn;
  - plus the future premiums that we expect to receive;
  - plus future surpluses that might emerge from 'without profits' policies;
  - less the future expenses that Reliance Mutual will charge to WPSF5;
  - less the cost of paying the guaranteed benefits to all our policyholders.
- 3.8 The result of this calculation is the amount that we can use to pay final bonuses.

- 3.9 Final bonus rates are expressed as a proportion of the guaranteed benefits. This generates a smooth scale of policy values based on duration.
- 3.10 In order to implement the principles of smoothing discussed in section 2, final bonus rates are normally reviewed annually. There are mid-year reviews if there are significant movements in stock markets. As the number of policies in the sub fund declines, it becomes more difficult to have highly smoothed results while still achieving the objective of distributing all the assets in the sub fund by the natural expiry of the policies.

#### **How often do we change bonus rates?**

- 3.11 We usually review final bonus rates each year, normally in March. The method used generally leads to stable rates unless there are large movements in stock markets, so reviews at other times should not be necessary.

#### **Early Termination Values**

- 3.12 If you are unable or do not wish to continue paying premiums to your policy, it may be possible for a cash value to be paid, or for the value of a pension policy to be transferred to another pension company.
- 3.13 When we calculate early termination values, we try to treat policyholders terminating on a basis that is consistent with and fair to those policyholders who remain in the fund.

# 4 Further Information

## Principles and Practices of Financial Management

- 4.1 This guide is a brief summary of Reliance Mutual's Principles and Practices of Financial Management (the PPFM). The PPFM is a fuller description of how we manage our with profits business. You can obtain the PPFM by contacting us through one of the methods below. The PPFM is also on our internet site [www.reliancemutual.co.uk](http://www.reliancemutual.co.uk) (click on the "With profits Information" section).

## Other Information

- 4.2 This guide is also on our internet site [www.reliancemutual.co.uk](http://www.reliancemutual.co.uk)
- 4.3 If you would like any information about the benefits provided by your policy, or the way in which we manage with profits business generally, please contact us:
- You can write to our Actuarial Department at:  
Reliance Mutual Insurance Society Limited  
The Great Hall  
Mount Pleasant Road  
Tunbridge Wells  
Kent TN1 1RG
  - You can telephone us on 01892 773389
  - You can e-mail us at [actuarial@reliancemutual.co.uk](mailto:actuarial@reliancemutual.co.uk)