

# Reliance Mutual Insurance Society Limited

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

*With Profits Sub Fund 6*

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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 6. 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 6 (WPSF6), or you have a policy where the investment element is in WPSF6. 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. WPSF6 contains the with profits business transferred to the Society from Hearts of Oak Friendly Society in July 2007. This business includes policies originally written by other friendly societies that had previously transferred their business to Hearts of Oak.
- 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 WPSF6 for the expenses of administering the business in the fund. These charges are on a fixed basis that was established in 2007.
- 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 WPSF6 are only available for distribution to policyholders in WPSF6.
- 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. In WPSF6, some policies provide a lump sum cash benefit on death or if you survive to a certain date – the maturity date. Other policies provide the benefit in the form of a pension when you reach a certain age – perhaps 60 or 65. In most cases you can take part of the benefit from a pension policy as a lump sum in cash, tax-free.
- 2.2 There are two types of policy in WPSF6, both of which are ‘*with profits*’:
- Conventional with profits policies
  - Unitised with profits policies.
- 2.3 If you would like to know exactly what benefit your policy provides, or what type of plan it is, 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 a conventional with profits policy promises a minimum guaranteed benefit – often called the ‘sum assured’ or ‘guaranteed benefit’. The unique feature of a ‘*with profits*’ policy is that bonuses are added to this minimum guarantee as the policy progresses.
- 2.6 With a unitised with profits policy, your premiums purchase units in the fund at the unit price. Some policies guarantee that the unit price will increase at a minimum rate. Bonuses are added to unitised policies by increasing the unit price, and thus the value of your units. The next section tells more about how we calculate bonuses.

### **How we invest your premiums**

- 2.7 We invest your premiums along with those from other WPSF6 policyholders in a single fund. All policyholders share in the fortunes of the fund.
- 2.8 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.
- 2.9 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 be reasonably sure of paying the promised minimum benefits. This is one of our main aims set out in the previous section.

### **Smoothing**

- 2.10 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.
- 2.11 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.

# 3 How we decide the bonus rates

## **Types of bonus**

- 3.1 There are two types of bonus that can be added to your policy before you draw the benefits from it – annual bonus and final bonus.
- 3.2 Annual bonus is added to a conventional with profits policy by increasing the guaranteed benefit that will be paid. Annual bonus is added to a unitised with profits policy by increasing the unit price. Whichever type of policy you have, these bonus additions are guaranteed, and we cannot reduce or remove them after the rates have been declared.
- 3.3 At present we do not declare any new annual bonuses on any with profits policies except for certain types of policy where there is a guarantee that a minimum rate of bonus would be declared. This is the practice Hearts of Oak were following before we acquired the business.
- 3.4 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 basic annuity and any annual bonuses that were added in past years) 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’.
- 3.5 Final bonus is also allocated to unitised with profits policies by an increase in the unit price. As final bonuses are not guaranteed to remain unchanged, this means that part of the unit price is not guaranteed, and thus the unit price may be reduced in future.
- 3.6 At the time the business was transferred from Hearts of Oak to Reliance Mutual, with profits benefits under conventional policies were re-structured. A portion of the guaranteed benefits was replaced by a special final bonus. This special final bonus is not guaranteed. The purpose of the benefit restructure was to improve the security and financial prospects of the fund, for the benefit of all policyholders.

## **How we calculate the bonus rates**

- 3.7 As there is no new business being written in WPSF6, 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.
- 3.8 Achieving fairness is a difficult task. If we pay high rates of final bonus to policies becoming claims now, there might be some adverse change in investment markets that means we have to make large reductions in benefits for the remaining policies.

- 3.9 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.
- 3.10 When we calculate the final bonus we use actuarial calculations to estimate the current value of:
- the investments held in WPSF6;
  - plus the likely future investment returns the fund will earn;
  - plus the future premiums that we expect to receive;
  - less the future expenses that Reliance Mutual will charge to WPSF6;
  - less the cost of paying the guaranteed benefits to all our policyholders.
- 3.11 The result of this calculation is the amount that we can use to pay final bonuses. We set the final bonus rates so that the expected present value of future final bonus payments is equal to this figure.
- 3.12 Final bonus is made up of two parts:
- A proportion of the special final bonus added when benefits were restructured, as explained in paragraph 3.5. At present the special final bonuses are being paid in full. This element of final bonus does not apply to unitised with profits policies.
  - An additional amount expressed as a fixed proportion of the original minimum guaranteed benefit plus attaching annual bonuses and the special final bonus. This generates a smooth scale of policy values for policies started in one year to the next.
- 3.13 In order to implement the principles of smoothing discussed in section 2, we restrict the changes in payout on similar policies from one year to the next normally to a maximum of 10%. If there are very large movements in stock markets we may have to increase this figure.

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

- 3.14 We do not anticipate re-introducing declarations of annual bonuses in future.
- 3.15 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 are not usually necessary.

### **Early Termination Values**

- 3.16 If you are unable or do not wish to continue paying premiums to your policy, it is normally possible for a cash value to be paid on a life assurance policy. Under a pension contract, you can transfer the value of your policy to another pension company.
- 3.17 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.
- 3.18 For unitised with profits policies the early termination value is the value of units allocated to the policy. This value may be reduced by a market value adjustment factor (“MVA”).
- 3.19 MVAs vary from policy to policy, and are designed to ensure that policyholders leaving the with profits fund receive a fair share of the fund, and neither advantage nor disadvantage the remaining policyholders. At times it is not necessary to apply an MVA.

# 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 We also produce an annual commentary on each year's bonus declaration. This is sent out with annual notifications of bonus, and is also on our internet site.
- 4.3 This guide is also on our internet site [www.reliancemutual.co.uk](http://www.reliancemutual.co.uk)
- 4.4 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)