KINGSTON UNITY
THE FRIENDLY SOCIETY
TRADITIONAL VALUES - MUTUAL BENEFITS

A Guide to how we manage our with profits fund

A customer friendly version of the Principles and Practices of Financial Management (PPFM)

The PPFM sets out how the Society manages it's with profit fund and can be obtained on request from head office or by download from our web site. It covers two areas; the principles which are high level statements regarding the long term management of the fund, and the practices which are statements about how we implement the principles. Over time we may amend the principles but if we do this we will write to members to advise them of the changes. If we amend the practices we will write to members at the earliest opportunity to inform them.

This customer friendly guide aims to provide a simplified version of the main items contained in the PPFM.

What are our guiding principles

- **We manage our with profit fund in a lawful, sound and prudent manner.**
- **We aim to treat all our customers fairly.**
- **We will operate in a manner to enable us to pay all guaranteed benefits when they become due.**

What is the with profit fund

This is an investment fund where your money is combined with that of other customers and then invested in a range of different assets (see section: **How is the With Profit Fund invested**). The objective is to ensure that on death or maturity you will receive the guaranteed benefit under the policy along with any annual bonus that has been added. Annual bonus is not guaranteed to be paid and may vary, including the possibility of none being paid in a particular year or years, depending upon the investment performance of the fund, our expenses and other factors such as the number of policyholders dying and cashing in their policy. Some of our policies may also have a terminal bonus added but again this depends on the funds' performance.

- **Annual bonus** - The rate of bonus is set by the Society's Board after consultation with the With Profits Actuary, usually once every year. It is set by taking into account what the fund can afford both now and in the future to make sure that we can meet all the guaranteed amounts when they need to be paid. Once an annual bonus has been added it cannot be taken away providing the policy runs to maturity.
- **Interim bonus** - This type of bonus may be added if your policy matures during a period for which an annual bonus has not been declared. It is also the type of bonus that is added to your policy on death, (except conventional adult and Child Tax Exempt Savings Plans) and on surrender of NISA's/ISA's and Bonds.
- **Terminal bonus** - Any terminal bonus is again agreed by the Board following consultation with the With Profits Actuary. This type of bonus is designed to ensure that the amount that you get back fairly represents the performance of the fund during the period of your investment.

What is an Asset Share

An asset share is calculated by taking into account the premiums you have paid, the investment performance of the fund whilst you have been investing minus the charges that we make to cover expenses and the cost of death or sickness benefits (where applicable). The investment returns credited reflect the level of guarantees on an individual policy. If the guaranteed benefits on a policy are high we have to adopt a safer investment approach in order to meet the guarantee (for example by investing in deposits or fixed interest assets). However where guarantees are low it allows us to invest in assets that may have a higher level of risk attached but over time could be expected to outperform the safer assets to provide a better return.

On average we aim to pay out the full asset share to policyholders but we also use smoothing (see section on smoothing) to make sure that payouts, wherever possible, do not alter significantly from year to year. The Society's Board sets the target range for payouts and these are detailed in the PPFM.

What is smoothing

Smoothing helps to protect policyholders from short term fluctuations in the value of assets within the fund but will not protect from long term and sustained falls in value. We do this by retaining some of the surplus during a good year and distributing a similar amount during a poorer year. It can be used to:

- **Reduce the variation in maturity values between policies maturing at the same time with different contribution levels and type.**
- **Reduce the variation in maturity values at different maturity dates.**
- **Reduce the differences in payouts over time.**

What are charges

Charges are there to cover the expense of selling and setting up the policy, investment and ongoing administration. We assess what these are likely to be over the period of the policy but they can vary. If actual expenses are higher than those shown in the illustration any excess will be charged against the asset share and therefore any future bonus credited.

What happens if you end the policy before it matures

If you want to stop paying the premiums on your policy (another name for this would be surrender) we have to calculate how much to pay you to be fair both to you and the other members remaining in the fund. We do this by using an asset share approach with a target range of 100% though this may vary slightly. Unlike on maturity there is no guarantee that you will receive a certain amount and particularly during the early years you may not get back as much as you have paid in.

What happens if you die before the end of the policy term

You will receive the guaranteed sum assured or fund value depending on the type of policy along with all regular bonus that has been added up to the date of death. For conventional Tax Exempt Savings Plans (both adult and child) you will receive a return of premiums paid to date of death, plus interest at 3% per annum.

What is a Market Value Reduction (MVR)

At certain times we may apply an MVR to reduce the surrender value of with profit investment bonds and NISA's/ISA's. We do this to bring the overall payout closer to the asset share when the underlying value of the assets in our fund is lower to ensure that:

- **The surrender value is not unfairly higher than the market value of the assets in the fund.**
- **To protect the remaining members by making sure that a fair share remains.**

We will advise you if we are applying an MVR when you ask for a surrender value but this can change at any time if there is a sudden drop in the value of assets in the fund.

Our with-profit bond has guaranteed MVR free dates at every tenth anniversary and the NISA/ISA on the tenth anniversary and each subsequent five years. In addition we do not apply an MVR on death.

How is the With Profit fund invested

The With profit fund is invested in a range of different assets such as shares, property, fixed interest type investments (for example Government and corporate bonds) and cash. We vary the proportions held in each particular asset class depending upon:

- **The level of guarantees on the fund.**
- **The current and future financial position to ensure that we meet the reasonable expectations of our customers. We aim to maximise the investment return whilst providing a safe route to meeting commitments.**

We currently operate the fund within an investment matrix agreed by the Actuary and review the percentage of assets held in a particular class formally each year and more frequently when there is volatility in the market. You can find out the split of where the assets are held at a specific time by contacting head office.

This method may change in the future to another method deemed appropriate by the Society's governing body, subject to actuarial approval.

Do we have more assets than the total asset shares.

We always hold more assets than we need to pay policyholders to meet the benefits promised to them. These extra assets are sometimes referred to as the 'estate' and this provides the Society with working capital and extra security to cover unforeseen risks. They may also be used to smooth out policy payouts and absorb losses and profits. Over the long term the Society Board will credit or debit any difference in the estate back to or from the asset shares of policyholders.

What risks are there to the With Profit Fund

As the Society does not have shareholders the With Profit members receive the benefits but also bear the risk of running the fund. The main risks to which the fund is exposed are:

- **New business:** The cost of acquiring new business may be higher than the immediate charges that flow from the policy. We manage this by ensuring that the cost of selling and maintaining new business can be supported by the fund without damaging the interests of existing policyholders. This may result in restrictions being made on the amount of new business that we accept during a particular period.
- Any other business ventures that the Society undertakes such as new products or establishing new ways to market our products may be supported by the with profit fund with any profits or losses accruing to the fund. The Board will take advice before approving any activity from the With Profit Actuary who has to report whether such ventures are consistent with our Principles and Practice of Financial Management.

  Any profits or losses are normally added to the individual asset share by a smoothed addition or subtraction from the asset share.
- The general risks of carrying out insurance business such as operational or compliance failures.

The full version of our PPFM is available either on request by calling our number or by visiting the website shown below.

For more information call 01924 240164 or visit www.kingstonunity.co.uk

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