Adviser briefing
Unitised With Profits

November 2009

STANDARD LIFE

Regular withdrawals – change in discretionary practice

The information in this briefing applies to With Profits Bond policies, all of which are invested in the With Profits Bond Fund, and Approved Retirement Fund policies invested in the Retirement With Profits Fund. Please note that Synergy Approved Retirement Fund policies invested in the Standard Life With Profits Fund (or the With Profits Fund A) are not affected by this as these policies do not have any investment guarantees.

Background

To ensure fairness and equity between with profits investors, the policy provisions for Approved Retirement Fund and With Profits Bond policies say that we can reduce the price of with profits units that are cancelled to pay regular withdrawal payments. We cannot, however, reduce the price of units for regular withdrawals up to the limit described in policy provisions (the Guaranteed Regular Withdrawal Amount), as long as when the policy was taken out the policyholder chose to take regular withdrawals starting in the first 13 months.

The price of with profits units does not directly reflect the value of the assets in the with profits fund: the price grows each day at the Bonus Growth Rate. This means that the actual value of a policy*, taking account of the investment returns on with profits fund assets, may be higher or lower than the unit price x number of units (the 'unit value') for that policy.
- When the actual value is higher, we pay a final bonus when units are cancelled to make a payment
- When the actual value is lower, there is a cost to the with profits fund if we pay the unit value when units are cancelled to make a payment

* The actual value of a policy is the amount we would pay if the policy was cashed in.

The Bonus Growth Rate is currently 3% per annum for With Profits Bonds and 2% per annum for Approved Retirement Funds.

Until now, Standard Life has paid at least the unit value in respect of all regular withdrawal amounts from Approved Retirement Fund and With Profits Bond policies. Until recently, the cost of doing this has not had a material impact on the with profits fund. But the market downturn in 2008 significantly increased this cost.

What is changing?

In the interests of fairness to all with profits policyholders we are now taking action to reduce this cost.

From 16 December 2009, whenever the actual value of a policy is lower than the unit value, Standard Life will reduce the price of units that are cancelled to pay any regular withdrawal amount in excess of the Bonus Growth Rate Withdrawal Amount.

The Bonus Growth Rate Withdrawal Amount for a policy will change over time, as described in policy provisions. It is equal to:

$$\frac{\text{the unit value for that policy x bonus growth rate}}{\text{number of regular withdrawals being taken each year}}$$

Our new practice applies to all policies where regular withdrawals are being taken, even where these were not chosen when the policy started. So we are still paying the unit value for some withdrawals in circumstances where we could reduce the unit price. However, we could change our practice in respect of these withdrawals at a later date, to maintain fairness between with profits policyholders.

What this means for policyholders

If a policyholder is taking withdrawals at or below the Bonus Growth Rate Withdrawal Amount they will not be affected by this change.

If a policyholder is taking regular withdrawals in excess of the Bonus Growth Rate Withdrawal Amount, we will reduce the price of any units cancelled to pay the excess amount whenever the cash-in value of the policy is lower than the unit value. If this happens, more units will be cancelled in respect of the regular withdrawal and so fewer units will remain in the policy.

For example, consider a With Profits Bond that has 10,000 units, a unit price of €1.00, a cash-in value of €9,000, and a yearly regular withdrawal of 5% due on 16 December.

Unit value	= €10,000	= 10,000 (number of units) x €1 (unit price)
Bonus Growth Rate Withdrawal Amount	= €300	= €10,000 x 3% (current bonus growth rate) ÷ 1 (number of withdrawals each year)
Reduced unit price, for withdrawals in excess of Bonus Growth Rate Withdrawal Amount	= €0.90	= €9,000 (cash-in value) ÷ 10,000 (number of units)

Before the change, to pay the regular withdrawal of €500 we would have cancelled 500 units at the current unit price, €1.00. This would have left 9,500 units with a unit value of €9,500 and a cash-in value of €8,550.

After the change, to pay the regular withdrawal of €500 we will cancel 300 units at the current unit price, €1.00, and 222 units at the current reduced unit price of €0.90. This will leave 9,478 units with a unit value of €9,478 and a cash-in value of €8,530.

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