

# With-Profits bonus review Adviser briefing

30 July 2020

## For financial advisers only

On 30 July 2020, we announced that we had reviewed our Irish with-profits bonus rates.

- Most customers will have seen their policy values reduce overnight due to the challenging investment market conditions caused by the Coronavirus (COVID-19) pandemic
- Regular bonus rates were not part of this review and are therefore unchanged from the rates we announced in January this year, see section 1 below
- Many customers will continue to benefit from smoothing and the guarantees that apply under their policies

### 1. Regular bonus rates and guarantees

Regular bonus rates increase With-Profits guarantees.

Pension With Profits Fund/Pension With Profits 2 Fund	Guaranteed benefits continue to grow at a rate of	
Unitised With-Profits pensions that have a 4% pa unit price growth guarantee	4% pa	

  

Other unitised funds with guarantees	From 1 February 2020 (until further notice) guaranteed benefits will grow at a rate of	
With Profits Bond	2.50% pa	
MoneyWorks Plan (net)	0.50% pa	
MoneyWorks Plan (gross) and SSIA	0.50% pa	
Retirement With Profits Fund	0.75% pa	

  

Conventional plans	Bonus added to guaranteed benefits on 1 February 2020	
Life plans	0.25% on sum assured	0.35% on attaching bonuses
Pension plans	0.25% on sum assured	0.25% on attaching bonuses

### 2. How With-Profits policies will be affected by this review

Standard Life reviews bonus rates and payouts on With-Profits policies on a regular basis. This is to ensure that With-Profits customers continue to receive a fair return on their policies.

At this review we have reset final bonus rates and calculation factors that we use to calculate payout values for many types of With-Profits policies.

Most policy values will have decreased overnight following this review.

The impacts that an individual customer will see from their annual statements will depend on the individual policy (premium frequency, premium size, etc) and the timing of the annual statements each year.

Many customers continue to benefit from smoothing and guarantees that apply to their retirement and maturity payout values.

### 3. Final bonuses and Market Value Adjustments (MVAs)

A policy's With-Profits payout value determines the amount of final bonus, if any, as follows:

- For conventional policies, such as savings endowments, the final bonus at maturity is the difference between the sum assured plus regular bonuses and the payout value
- For unitised policies, the final bonus is the difference between the unit value and the payout value

Sometimes there will be no final bonus.

Market Value Adjustment (MVA) is a term often used when the payout for any policy is lower than its unit value.

The unit value of a With-Profits investment takes account of the bonuses that have been added to the guaranteed amount since that investment started but its fair payout takes account of actual investment returns on the assets in the with-profits fund. There is an MVA because the unit value has grown by more than the fair payout since the With-Profits investment started. (The unit value is the number of units multiplied by the unreduced unit price.)

Note: the payout for a claim will be no lower than any guaranteed amount payable in accordance with the terms and conditions of the policy for that type of claim. In these circumstances there would be no MVA.

At any time, depending on the history of payments into and out of With-Profits, an MVA may apply to some policies but we may be paying final bonuses on other policies.

Currently many With-Profits policies still have MVAs. However, final bonuses are being paid for other policies.

### 4. Sample payout values

#### Pensions

The figures in the table below are based on an individual unitised With-Profits pension policy taken out by a man retiring at age 65, who has paid €125 per month since 1 August 1995. Past performance is not a reliable guide to future performance.

Policy term	Retirement value at 1 February 2020	Retirement value at 30 July 2020	Increase	Annualised return since inception
25 year	€57,740	€58,799	1.83%	3.41%

#### Savings endowments

The figures in the table below are based on an individual conventional With-Profits endowment assurance policy taken out by a man aged 29 who has paid €60 per month since since 1 August 1995. Past performance is not a reliable guide to future performance.

Policy term	Surrender value at 1 February 2020	Maturity value at 30 July 2020	Increase	Annualised return since inception
25 year	€22,583	€22,152	-1.91%	1.61%

## 5. Standard Life's With-Profits investment strategy

Standard Life's investment strategy for our With-Profits business aims to provide good potential for growth, while maintaining an appropriate level of financial strength and meeting all contractual obligations to policyholders.

With-Profits business with the most valuable guarantees has a lower equity backing ratio and the majority of the asset mix is fixed interest holdings. With-Profits business that has no investment guarantees has a much higher equity backing ratio.

There are currently three different asset mixes for Irish With-Profits business in Standard Life's Heritage With Profits Fund, reflecting the extent of any guarantees.

Asset mixes for different categories of With-Profits business at 30 June 2020			
Category	Fund	Equity	Fixed Interest and Cash**
1	Pension With Profits Fund* Pension With Profits 2 Fund*	25.1%	74.9%
2	Life With Profits Fund MoneyWorks With Profits Fund Retirement With Profits Fund Conventional With Profits	60.0%	40.0%
3	Standard Life With Profits Fund (Also known as the Pension With Profits Fund A) With Profits Bond Fund Pension With Profits Fund D	72.0%	28.0%

\* 4% per annum minimum unit price growth rate; guarantees only apply in certain circumstances, for example on annuity purchase at the pension age selected when the policy started or on death

\*\* Fixed interest and money market instruments (including cash)

## 6. Investment markets performance to 30 June 2020

Equity markets rallied in the second quarter of 2020 as central banks and governments announced massive stimulus packages to combat the economic effects of coronavirus which significantly impacted first quarter returns. In April, stock markets around the world surged from their March lows.

European equities recorded strong gains in line with stock markets around the world, despite data suggesting a collapse in economic activity across the Eurozone. After weeks of political infighting, the European Central Bank announced a programme of massive government and corporate bond purchases to provide liquidity to bond markets.

Core government bond yields were largely flat over the quarter. Substantial fiscal stimulus and central-bank intervention has propped up markets.

Global corporate bonds recovered sharply over the period, spurred on by supportive fiscal and central-bank policy, and growing optimism that global economies would bounce back quicker than expected.

All fund information, market commentary and performance data in this report is sourced from Standard Life Investments unless otherwise stated.

**Past performance is not a reliable guide to future performance. The value of With-Profits investments may go down as well as up and may also be affected by changes in currency exchange rates.**

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