

Stakeholder Pension Plan from Standard Life

keyfacts®

(Contracting-out only)

KEY FEATURES

The Financial Services Authority is the independent financial services regulator. It requires us, Standard Life, to give you this important information to help you to decide whether our Stakeholder Pension Plan is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.

Its aims

- To offer you a way to contract-out of the State Second Pension (S2P).
- To build up a sum of money in a tax efficient way, which will give you a pension for life at your State Pension Age which may be more than the pension you would have received from S2P if you had not contracted-out.

Your commitment

- To contract-out of S2P and authorise part of your National Insurance contributions to be redirected into your plan.
- To let the plan build up until you choose to start taking a pension, and then use it to provide your pension.
- To tell us if you want to stop contracting-out.
- You cannot cash in this plan at any time.

Risks

- What you get back when you retire isn't guaranteed. Your pension may be lower than illustrated. This could happen for a number of reasons, for example if:
 - you decide to stop contracting-out
 - National Insurance contributions directed into your plan are lower than expected
 - the performance of the fund(s) you have chosen is lower than illustrated
 - interest rates when you retire are lower than illustrated
 - you start taking your pension before the retirement date shown in the illustration
 - tax rules or legislation change
 - our charges increase in the future.
- In addition, for with profits investments, your pension may be lower than illustrated because of the application of any smoothing. For more information about smoothing and investing in with profits, please read the enclosed 'Understanding With Profits' booklet. Version UWP2 applies if your plan started before we demutualised on 10 July 2006. Version UWP2A applies if your plan started after we demutualised. You can find the version code at the foot of the back page on the left-hand side.
- Your plan may invest in different types of investments, including investments based on stocks and shares, which carry different levels of risk. The value of your investment can fall as well as rise and you may get back less than was paid in.



- You won't necessarily get a higher contracted-out pension than if you'd stayed in the S2P scheme.
- If a property fund becomes available in the future and you decide to invest, you should be aware that property can be difficult to sell, so you might not be able to sell your investment when you want to. In exceptional circumstances, it could take up to 6 months. The valuation of property is generally a matter of the valuer's opinion rather than fact.
- A usual feature of investing in with profits is that we apply smoothing to even out the ups and downs of investment performance. We may reduce or remove smoothing in certain circumstances which means that your benefits could be lower than they otherwise would have been. For more information about smoothing and investing in with profits, please read the enclosed 'Understanding With Profits' booklet. Version UWP2 applies if your plan started before we demutualised. Version UWP2A applies if your plan started after we demutualised.

Questions and answers

What is a Stakeholder Pension Plan (Contracting-out only)?

- It's a savings plan that lets you contract-out of S2P and save for your retirement in a tax efficient way.
- At present the state provides two different kinds of pension:
 - a basic 'old age' pension; and
 - an additional pension that you only get if you have been an employee. It is based on your average earnings during your working life and is provided by S2P.
- Both pensions are paid for out of your National Insurance contributions. You can't opt out of the basic State scheme that provides your 'old age' pension, but you can choose to replace your additional pension with your own personal pension. This is known as contracting-out of S2P.
- If you're employed and want to contract-out of S2P, you can use this Stakeholder Pension Plan to do so. This means that the S2P part of your National Insurance contributions will be paid into your own plan instead of S2P. It will grow in a separate fund to give you an additional pension from age 55 (50 until 6 April 2010).
- Contracting-out of S2P might not give you a higher pension. Whether it's a good idea for you will depend on your personal situation. Your age, sex, and earnings will all affect your decision to contract-out or stay contracted-out. Speak to a financial adviser before deciding, and review your decision regularly.
- Stakeholder pensions were introduced by the Government to encourage people to save for their retirement. They have been available since 6 April 2001.
- Your decision on whether or not to contract-out should be reviewed every year.

Am I eligible?

- You're eligible if you're not already contracted-out of S2P.

How flexible is it?

- You can decide to stop contracting-out and contract back into S2P at any time. If you tell us before the end of a tax year (a tax year runs from 6 April to 5 April of the following year), the Government will not give us any payments for that year. You will then re-join S2P from the beginning of that tax year.
- If you have built up benefits in another scheme or plan as a result of an earlier period of contracting-out, you can transfer the value of these benefits into this plan. There is no guarantee that doing so will increase your total pension. If you're considering making a transfer, please ask your adviser or nearest Standard Life office for our Stakeholder Pension Plan (Transfer Payment) Key Features Document (SPP17b).

What might I get when I want to retire?

- Your final plan value will depend on:
 - how much is paid in
 - how long the payments are invested for
 - the performance of the fund(s) you have chosen
 - our charges (see ‘What are the charges and discounts?’ on page 5)
 - in addition, for with profits investments, any discretionary adjustments, including any smoothing (please see ‘What are the discretionary adjustments?’ on page 6). We may make discretionary adjustments in determining fair payouts and this could result in a higher or lower value.

For more information about smoothing and investing in with profits, please read the enclosed ‘Understanding With Profits’ booklet. Version UWP2 applies if your plan started before we demutualised. Version UWP2A applies if your plan started after we demutualised.

- Your plan will be used to buy a pension, which is an income for the rest of your life, from us, another pension provider or registered pension scheme. The amount of pension will depend on a number of factors at the time, for example:
 - interest rates
 - your age and state of health
 - life expectancy rates
 - the type of pension you choose.

What choices will I have when I retire?

- You can use all of your plan value to buy a pension, which will be taxable. Or you can normally take up to a quarter of the plan value as a tax-free lump sum, and a smaller, taxable pension.
- You can choose a pension that stays the same each year or one that increases each year. This increase can be between 0% and 8.5%.
- If you’re married or in a civil partnership when you take your pension, the pension must continue to be paid after you die to your husband, wife or civil partner. The pension will be paid at half the rate payable when you were alive.
- If you’re not married or in a civil partnership when you take your pension, you can choose for your pension to be paid after you die to the person who is your husband, wife or civil partner at the time of your death.
- You can start taking a pension at any time between the ages of 55 (50 until 6 April 2010) and 75, including while you’re still working. You must normally start taking it by age 75.
- You can buy your taxable pension from any pension provider or registered pension scheme.

How much will be paid into my plan each year?

- While you are an employee, part of your National Insurance contributions are redirected into your plan by the Government. These payments are called ‘protected rights contributions’. The amount of these payments are related to how much you earn and are governed by legislation.

What about tax?

- Your share of the National Insurance rebates will be increased by the Government to allow for basic-rate tax relief.
- The funds you invest in will grow free of UK Capital Gains Tax.
- You can normally take up to a quarter of your fund as a tax-free lump sum when you convert the plan into a pension.
- HM Revenue & Customs has a Lifetime Allowance on the total funds in pension arrangements that can be used to provide benefits to you. This allowance is £1.65 million for the tax year 2008/09. Any funds over this allowance will be liable to a tax charge of 55% for a lump sum, or 25% if taken as a pension. There are circumstances where you can apply for a personal Lifetime Allowance that's higher, speak to your financial adviser for more details.
- Your pension will be taxed in the same way as your earned income.
- If you die before you retire and we pay out a lump sum, any part of the lump sum that exceeds your Lifetime Allowance will be taxed at 55%.
- Tax rules and legislation may change. The value of tax relief will depend on your financial circumstances and may change in the future. The information we've given is based on our understanding of law and HM Revenue & Customs practice when we published this document.

Where are the payments invested?

- We invest 100% of each payment. Each fund is made up of 'units' and we use your payments to buy units in the fund(s) you choose.
- We offer Lifestyle profiles, a range of investment-linked pension funds and a with profits fund for you to choose from.
- If you invest in a Lifestyle Profile and you wish to combine this with another investment option, you can only combine it with investment in with profits. You cannot combine it with any other investment fund or Lifestyle profile.
- Lifestyle profiles allow us to automatically switch your investments to lower-risk funds as you get closer to retirement. Your payments are initially invested in a fund that aims for growth then at a specified number of years before your retirement date the profile starts switching your pension fund into lower risk funds.
- If you are starting a Stakeholder Pension Plan and you do not specify an investment choice, we will invest all payments in the Stakeholder Balanced Managed Lifestyle Profile. The Stakeholder Balanced Managed Lifestyle profile initially invests in the Stakeholder Managed Fund. Eight years before your retirement date, the profile starts switching the value of your pension into a combination of the Stakeholder Managed Fund, the Stakeholder Cautious Managed Fund, Stakeholder Protection Fund and the Stakeholder Sterling Fund.
- For more information on how this works, please ask your adviser or nearest Standard Life office for our 'Stakeholder Pension Plan – Lifestyle profiles' leaflet (GSPP41). For information on the funds within the Lifestyle profiles, please ask for a copy of 'Your Pension Investment Choices' (SPP5)
- If you are already making payments into this Stakeholder Pension Plan and do not specify an investment choice, your contracting-out payments will be invested in line with your current investment instructions, unless:
 - you are currently invested 100% in the Stakeholder With Profits Fund, OR
 - you are currently invested in a combination of the Stakeholder Balanced Managed Lifestyle profile and the Stakeholder With Profits Fund.

If either applies, your contracting-out payment will be invested in the Stakeholder Balanced Managed Lifestyle profile.

- You can switch your payments in and out of the funds on offer to change the mix of investments. You can only invest in 12 of our funds at any one time. The maximum number of different funds you can invest in during the term of your plan is 20.
- If you choose our investment-linked funds, the price to buy or sell one unit in each fund depends on the value of the investments that make up the fund. Your plan value is based on the total number of units you have in each fund. If the unit prices rise or fall, so will your plan value.
- If you choose to invest in with profits then
 - if your plan started before we demutualised you are invested in the Stakeholder With Profits Fund
 - if your plan started after we demutualised you are invested in the Stakeholder With Profits 2006 FundYour policy schedule will tell you which fund applies to your plan.
- If you are invested in the Stakeholder With Profits 2006 Fund you will not be entitled to any distribution from assets that existed before we demutualised.
- The assets backing with profits are a mix of investments such as equities (company shares), property, bonds (which) are loans to governments or companies) and cash deposits. Quarterly information on the asset mixes for the different classes of with profits investment is published on our website, www.standardlife.co.uk
- If you choose with profits we allocate you a number of units that represents your investment in with profits. The value of your units is based on the value of the assets backing with profits, after allowing for any smoothing. The value of an investment in with profits can fall as well as rise. In certain circumstances we can reduce or remove smoothing to maintain a fair level of future payouts to remaining investors.
- For more information about our funds, please ask your financial adviser or nearest Standard Life office for a copy of our leaflet 'Your pension investment choices' (SPP5). For more information about smoothing and investing in with profits, please read the enclosed 'Understanding With Profits' booklet. Version UWP2 applies if your plan started before we demutualised. Version UWP2A applies if your plan started after we demutualised. You can find the version code at the foot of the back page on the left-hand side.

What are the charges and discounts?

- We charge for managing your plan and investments. We take the charges from the fund value.
- There is an annual charge of 1% of the value of the funds you accumulate. If your fund is valued at £500 throughout the year, this means we deduct £5 that year. If your fund is valued at £7500 throughout the year, we will deduct £75 that year.
- If your fund exceeds £25,000 we reduce the effect of the yearly charge by adding extra units in your fund each month to the value of 0.1% of your fund each year. If your fund exceeds £50,000 we add extra units each month to the value of 0.2% of your fund each year. These figures are current values and could change in the future.
- If you stop contracting-out and contract back into S2P, our charges could reduce your plan value by the time you retire.
- If you've asked for a personal illustration, it will show our charges and their effect on the value of your Stakeholder Pension Plan over the time you have the plan.

- We can increase the charges we make. We may do so in the future if our costs are higher than expected. This might happen if, for example:
 - tax rules change
 - our staff or overhead costs are more than we expected
 - our income from charges is less than we expected.

However, as the Government has set a maximum charge that can apply to Stakeholder Pensions, we will not increase the charges on your plan above this amount.

What are the discretionary adjustments? (For with profits investments only)

- We may make discretionary adjustments
 - in respect of smoothing
 - to ensure fair treatment between those who choose to leave with profits and those who remain.

For more information about smoothing and investing in with profits, please read the enclosed 'Understanding With Profits' booklet. Version UWP2 applies if your plan started before we demutualised. Version UWP2A applies if your plan started after we demutualised.

What happens to the plan if I die before I retire?

- We'll normally use the plan value at the date of your death to buy a pension for your husband, wife or civil partner.

Can I transfer my plan?

- You can transfer your plan to another pension provider or registered pension scheme at any time before you start taking a pension. We make no transfer charge. However, if you have invested in with profits, we may reduce or remove smoothing in certain circumstances. For more information about smoothing and investing in with profits, please read the enclosed 'Understanding With Profits' booklet. Version UWP2 applies if your plan started before we demutualised. Version UWP2A applies if your plan started after we demutualised.
- You cannot cash in your plan.

Can I change my mind?

- You have a legal right to cancel your contract if you change your mind. You have a 30 day period to consider if you want to change your mind. This 30 day period starts from the date you receive your plan documents. During this period, if you decide you want to cancel, you should write to us at the address shown in the 'How to contact us' section. Please make sure that you include your plan number in any correspondence with us.
- At the end of the 30 day period you will be bound by the terms and conditions of the plan and any money received by Standard Life from HM Revenue & Customs will not be refundable under the cancellation rule.

How will I know how my Stakeholder Pension Plan (Contracting-out only) is doing?

- We will register you for our online service and send you a user id and password so that you can check your plan details on our website – www.standardlife.co.uk
- We will send you a yearly statement to show how your plan is doing.
- You can also get an up-to-date valuation at any time by calling our customer helpline.

How to contact us

- Remember, your financial adviser will normally be your first point of contact.
- If you have any questions or would like to make any changes to your plan, you can phone us. We may record/monitor calls to help improve our service.
- Phone: 0845 60 60 012 (call charges may vary).
- You may prefer to contact us by fax, email or in writing.

Fax: 0131 245 3224

e-mail: individual_ppp@standardlife.com

(We can't guarantee that we'll receive any e-mail sent, or that it hasn't been tampered with or intercepted during transmission.)

Write to us at:

Standard Life Assurance Limited
1 Exchange Crescent
Edinburgh
United Kingdom
EH2 7RA

Other information

How to complain

- We have a leaflet that summarises our complaint handling procedures. If you'd like a copy, please ask us.
- If you ever need to complain, first write to us at the address above. If you aren't satisfied with our response, you may be able to complain to:

The Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London
E14 9SR

Phone: 0845 080 1800

Fax: 020 7964 1001

e-mail: complaint.info@financial-ombudsman.org.uk

Website: www.financial-ombudsman.org.uk

- Complaining to the Ombudsman won't affect your legal rights.

Terms and conditions

- This document gives a summary of Standard Life's Stakeholder Pension Plan. It doesn't include all the definitions, exclusions, terms and conditions, which are given in the Policy Provisions for protected rights booklet. For a copy of this booklet, please ask your financial adviser or contact us direct.
- We have the right to change some of the terms and conditions. We'll write to you and explain if this happens.

Law

- The law of Scotland will decide any legal dispute.
- The English language will be used in all documents and future correspondence.

Compensation

- The Financial Services Compensation Scheme (FSCS) has been set up to deal with compensation if firms are unable, or likely to be unable, to meet claims against them. For further information contact us on 0845 60 60 012 (call charges may vary).
- The amount of compensation available from the FSCS depends on the type of business and the circumstances of the claim. Further information is available from the FSCS website at www.fscs.org.uk

About Standard Life

- Standard Life Assurance Limited's product range includes pensions and investments.
- Standard Life Assurance Limited is on the Financial Services Authority Register. The registration number is 439567.

October 2007

Understanding with profits



Summary: how your with profits investment works

We aim to treat all planholders fairly. Your with profits payout takes account of the premiums you pay us, the returns on the assets we invest in, our deductions, and any discretionary adjustments (up or down) that we make. The amount of your with profits payout also depends on whether you stay in with profits to the retirement date set at the start of your plan.

We invest in a wide range of assets, including equities (company shares), and bonds (loans to governments or companies). These types of assets can rise or fall in value. When we set fair payouts we may smooth out some of the effects of short-term changes in asset values. We may hold different mixes of assets to back different classes of with profits plan. This mix of assets may change over time.

The remainder of this booklet provides further information on how your with profits investment works.



How your Standard Life with profits investment works

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Your plan documents define the terms and conditions that apply to your plan.

1. Introduction

This booklet tells you how we manage our Stakeholder with profits business that started before 10 July 2006. Other types of with profits business that Standard Life operates in the UK, including Stakeholder with profits business that started after 9 July 2006, are covered in separate Understanding With Profits booklets.

This Understanding With Profits booklet is intended only to give a simplified description of how we manage this with profits business. It does not in any way:

- vary the existing terms and conditions of your plan;
- create any new or additional obligations; or
- restrict the way we manage our with profits business.

We set out a fuller, more technical description of how we manage this Stakeholder with profits business in a separate document called Principles and Practices of Financial Management for the Heritage With Profits Fund (the Heritage PPFM). Please see the Heritage PPFM if you want more information on the topics covered in this booklet.

Our website www.standardlife.co.uk/withprofits will always have the most up-to-date version of all Understanding With Profits booklets and of the Heritage PPFM. You can also get copies by contacting us on 0845 60 60 100. (Call charges may vary.)

If we make any changes to the Heritage PPFM that materially change this booklet, we will send you a new booklet at or before the time we send you your next yearly statement. We will also send you a booklet if we propose to change any of the principles we apply in managing this with profits business.

2. What is a with profits investment?

Your with profits investment provides a share in the performance of a relevant with profits fund. The relevant with profits fund (the fund) is the mix of assets that we hold to back Stakeholder with profits plans in the Heritage With Profits Fund. Some smoothing may apply. We give more details about smoothing and which assets we invest in later in this booklet.

Understanding with profits

What is a Stakeholder plan?

A Stakeholder plan is a type of pension plan for which the Government sets maximum charges.

We hold the relevant fund separately from our other investments and can use it for Stakeholder with profits investors only.

We allocate a number of units to your plan for each premium you pay. The with profits units allocated represent your with profits investment. The value of your units reflects, amongst other things, investment performance and the gains and losses from smoothing investment returns.

The value of your units and your fair payout may go down as well as up.

What are the bonuses for Stakeholder plans?

We do not pay regular or final bonuses on Stakeholder plans. The investment performance is reflected in the value of your units. However, we may credit your plan with bonus units to refund some of our charges to you. We may do this if your Stakeholder with profits investment is relatively large, which makes it proportionately cheaper for us to run.

What are your guarantees?

We do not guarantee investment performance. The value of your units may go down as well as up. In some circumstances you could get back less than you invested.

We guarantee that we will not deduct more than the maximum charge allowed under Stakeholder regulations.

What happens if you stop paying premiums?

If you stop paying premiums early, fewer units will be allocated to your plan than if you pay premiums throughout the term of your plan.

The value of your units allocated in respect of premiums already paid, is unaffected if you stop paying premiums.

What happens when you retire or otherwise leave with profits?

You will receive at least your fair payout.

In addition to your fair payout we may pay an enhancement in respect of any distribution of inherited estate.

We recommend that you seek advice from your financial adviser if you are thinking about ending your with profits investment.

See section 3
"How do we set
payouts?"

See section 3
"How do we set
payouts?" and
section 7 "What is
the inherited
estate and how do
we use it?"

3. How do we set payouts?

You will receive at least your fair payout when your with profits investment ends. We use asset shares as a tool to help set fair payouts. The asset share represents the underlying value of a plan; the fair payout may be more or less than this. We describe below what an asset share is and how we use asset shares, with any further adjustments, to set fair payouts. In some circumstances you could get back less than you invested.

Your fair payout may depend on why your with profits investment is ending.

What is an asset share?

Briefly, the asset share of a with profits plan is the accumulation at the relevant returns of the premiums paid, less any amounts withdrawn, less the deductions we make.

See section 4
"What is
smoothing?"

The relevant returns are the investment returns on the assets that back Stakeholder with profits plans in the Heritage With Profits Fund, adjusted for the gains and losses due to smoothing investment returns. Asset values, and so asset shares, may go down as well as up. We tell you more about the assets we hold to back with profits plans in section 6.

We publish information on the asset mix for different classes of with profits plans on our website at www.standardlife.co.uk/withprofits. You can also get a copy of this information by contacting us on 0845 60 60 100. (Call charges may vary.)

The deductions we make are normally for such things as our expenses. These deductions correspond to charges under Stakeholder plans not invested in with profits.

The deductions that we make are subject to the maximum allowable under Stakeholder regulations.

How we use asset shares to set fair payouts

Your fair payout is the asset share adjusted, up or down, for any smoothing of investment returns.

Any adjustments we may make, whether up or down, may depend on why the with profits investment is ending. For example, there may be circumstances where we smooth payouts on retirement at the selected pension age but not other payouts.

In addition to the fair payout, we may pay an enhancement in respect of any distribution of inherited estate. We tell you more about the inherited estate in section 7.

Understanding with profits

4. What is smoothing?

We hold a wide range of assets to back with profits plans. The return on these assets will vary over time. One year the assets could go up in value, but the next they could go down. We may even out some of the fluctuations in investment returns to reduce the immediate impact of short-term changes in asset values on payouts under our with profits plans.

Smoothing is the name we give this process. We aim to smooth for payouts on retirement at the selected pension age and may smooth for other types of payout.

Smoothing evens out some of the effects of short-term changes in asset values. In the longer term:

- smoothing will not protect planholders from long-term falls in the value of the backing assets;
- smoothing will not stop planholders benefiting from the effects of long-term improvements in the value of the backing assets.

Sometimes we smooth up, so the fair payout of a with profits plan is higher than its asset share; and sometimes we smooth down, so the fair payout of a with profits plan is lower than its asset share. However, we aim to operate smoothing so that, over time, the total amount of the fair payouts for all with profits plans in the fund is equal to the total value of the asset shares for those plans. We also aim to make fair payouts between 80% and 125% of asset share.

We may sometimes reduce the amount of smoothing or apply no smoothing of investment returns at all. We may do this, for example, if there has been a rapid fall in the value of assets and we expect a significant amount of money to be leaving with profits.

If a fair payout is less than the asset share, the fund makes a smoothing gain. If a fair payout is more than the asset share, the fund makes a smoothing loss. At the close of each day, when we calculate asset shares, we take account of the gains and losses that the fund has made as a result of smoothing on payouts made that day.

5. How do expenses affect your plan?

Like any other business Standard Life incurs expenses. These include the salaries of our staff, the cost of maintaining our head office and branches, our investment costs, any commission paid to intermediaries and any other ongoing costs. As explained above, when we calculate asset shares we make a deduction that corresponds to the charge under Stakeholder plans not invested in with profits, regardless of the actual level of expenses incurred.

6. How we invest the money backing with profits plans

We invest in a mix of assets, including:

- equities (company shares);
- bonds (loans to governments or companies); and
- cash deposits.

Equities generally have more variable values than bonds or cash deposits, but over the longer term we expect them to provide higher returns. Bonds and cash deposits generally have more stable values, but over the longer term we expect them to provide lower returns. We may also invest in derivatives – such as investments that provide rights or obligations to buy or sell assets at a particular price and time – as an efficient way of managing our with profits business, and in property.

How we decide the asset mix

We regularly review the asset mix that backs each class of with profits business. We seek to optimise investment returns. The asset mix may not be the same for all classes of with profits plan and may change over time. Any change in the asset mix is likely to result in a change in future investment returns and with profits payouts. The investment return credited to a particular class of with profits plan will reflect the investment return on the mix of assets that backs that class of business.

How we manage the risks associated with investment

Risks associated with investment include companies performing poorly and reducing dividends, or borrowers not making promised interest and capital repayments, or our having to sell assets to meet payouts when prices are depressed. We aim to control our exposure to investment risks by investing in assets of sufficient quality and variety. For example, we set limits on the amount we invest in any one asset, in assets issued by any one company, and in assets that are not traded on a recognised stock or bond market (and so may be difficult to sell).

Subject to the above considerations the assets backing with profits plans are held solely for investment reasons.

Understanding with profits

A with profits payout will only include an inherited estate enhancement if we are making distributions from the inherited estate at the time when we make that payout.

7. What is the inherited estate and how do we use it?

On 10 July 2006 The Standard Life Assurance Company transferred all its UK with profits business into the Heritage With Profits Fund of Standard Life Assurance Limited. This Fund was set up with an inherited estate – a pool of assets that provides working capital for our with profits business.

The main role of the inherited estate is to ensure that a prudent amount is retained in the Heritage With Profits Fund for liabilities that may arise in the Fund. To the extent that we are satisfied that the inherited estate exceeds the amount needed for this we will distribute any excess, over time, as an enhancement to with profits payouts.

We aim to restrict any distribution of the inherited estate to payouts for plans that have remained continuously in with profits since 9 July 2006.

The Heritage With Profits Fund includes other business as well as the Stakeholder with profits business covered by this booklet. Some of this other with profits business will share in any distribution of the inherited estate.

The operation of other business in the Heritage With Profits Fund may affect the size of our inherited estate, and hence any amount available for distribution as an enhancement to with profits payouts.

The largest risk is that the investment return on with profits assets is not enough to meet guaranteed minimum payouts for plans that have investment performance guarantees. We manage this risk in two main ways:

- by varying the mix of assets that backs such with profits plans including investing in assets of sufficient quality and variety; and
- by making reviewable deductions from assets shares (for plans which have investment performance guarantees) for the cost of guarantees.

Writing new business could potentially be a significant risk. However, we set limits on the new business that can be written in the Heritage With Profits Fund.

New Stakeholder with profits plans will not be invested in the Heritage With Profits Fund. However, we sell other types of with profits plans that do invest in this Fund and we have no plans to stop doing so. If we do ever stop selling them, we will notify you and will write to explain how we will manage our with profits business in the future.

Other risks include higher-than-expected costs of providing life cover and higher-than-expected expenses. We may manage these risks through underwriting (for example asking health questions on proposal forms) and reinsurance (passing part of the risk to another insurance company), and through budgetary controls (monitoring expenses and taking action where appropriate).

We take on additional risks in the Heritage With Profits Fund, for example by writing new business, only if these risks are not expected to have a materially adverse effect on existing planholders

8. How we balance the interests of with profits planholders and shareholders

Standard Life Assurance Limited is a wholly owned subsidiary of Standard Life plc, which is owned by its shareholders. Shareholders are entitled to certain payments from the Heritage With Profits Fund and meet certain costs, as described below.

We explained earlier how we set fair payouts using asset shares as a tool, and the deductions we may make from asset shares. For unutilised plans (including Stakeholder plans), provided we meet obligations to planholders, the shareholders are entitled to the deductions from asset shares (except deductions for tax or costs of guarantees for plans which have investment performance guarantees or are subject to tax). In return they meet the expenses and costs of life cover and of critical illness cover on these plans. For conventional plans the deductions made from asset shares remain in the Heritage With Profits Fund, and this Fund meets the expenses and cost of life cover on these plans.

We will not take any action to increase the amount shareholders may receive if this would conflict with our duty to treat customers fairly.

The Standard Life Assurance Limited Board makes all the decisions about with profits business. The With Profits Committee independently assesses the fairness to with profits planholders of any significant proposed action or exercise of discretion.

We publish a report to UK with profits planholders each year on our website www.standardlife.co.uk/withprofits. This report sets out the Board's opinion on the fairness to planholders of its exercise of discretion during the previous calendar year. The With Profits Committee may append a report of its own to this report.

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