

Stakeholder Pension Plan from Standard Life

keyfacts®

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 of saving for your retirement.
- To build up a sum of money in a tax efficient way, which will buy you a pension when you retire.
- To give you an opportunity to contract-out of the State Second Pension (S2P).

Your commitment

- To make at least one payment into your plan.
- To let the plan build up until you choose to take a pension, and then to use it to buy your pension.
- You cannot cash in this plan at any time.
- To tell us if you stop being eligible to receive tax relief on your payments.

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 stop paying into this pension plan, or take a payment break
 - 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 your chosen retirement date
 - tax law or tax reliefs 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 you pay in.



- 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.
- If you start the plan with a single payment and cancel during the 30 day cancellation period, you may get back less than you've paid in. This is because we may make a deduction to reflect any market loss we have experienced between the date we received your payment and the date we received your instruction to cancel.
- 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?

- It's a savings plan that lets you save for your retirement in a tax efficient way.
- Stakeholder pensions were introduced by the Government to encourage people to save for their retirement. They have been available since 6 April 2001.

Am I eligible?

- If you're under 75 and a UK resident, you can normally join this plan.

How flexible is it?

- You can make single and regular payments, or a combination of both, at any time.
- You can change the amount of your regular payments at any time, subject to the minimum payment amount.
- Regular payments are usually weekly or monthly, but you can choose any frequency that suits you.
- Payments are usually payable by direct debit, debit card such as Switch/Delta etc, telegraphic transfer, cheque or standing order.
- You can stop paying or take a payment break, and restart later if your circumstances change. This will reduce your future pension.

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 6)
 - 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.

Can I use the plan to contract-out of the State Second Pension (S2P)?

- Yes, if you are employed.
- S2P is based on your National Insurance contributions and will give you an additional pension on top of the basic 'old age' pension.
- 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 (known as your Protected Rights fund) to give you an additional pension. You can take this pension at any time between the ages of 55 (50 up to 6 April 2010) and 75.
- 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. If you're considering contracting-out, please ask your financial adviser or nearest Standard Life office for our separate Key Features Document (SPP17a).

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%.
- You can choose a smaller pension for yourself so that you also provide a pension for your husband, wife, civil partner or other dependant(s) after you die.
- You can start taking a pension at any time between the ages of 55 (50 up to 6 April 2010) and 75, including while you're still working.
 - You must normally start taking it by age 75.
 - You can take the pension in stages if you want to.
 - You can normally start taking a pension before age 55 (50 up to 6 April 2010) only if you're in severe ill health.
- You can buy your taxable pension from any pension provider or registered pension scheme.

How much can be paid into my plan each year?

- If you're employed, both you and your employer can pay into your plan.
- The minimum payment is £20. Regular payments are usually payable by direct debit. You can also choose to make one-off payments, which are usually by cheque.
- In each tax year, if you are a 'relevant UK individual' you can pay:
 - up to £3,600 (including tax relief) regardless of your earnings, or
 - up to 100% of your relevant UK earnings for that year (including tax relief). Relevant earnings are your taxable annual income and any bonuses, commission or benefits in kind that you receive from employment or self employment.

These limits are set by HM Revenue & Customs and apply to the total payments made by you and any third party to all your pension arrangements. These limits do not apply to payments made by your employer. A tax year runs from 6 April in one year to 5 April in the next year.

You are a 'relevant UK individual' if:

- you are resident in the UK for tax purposes, or
 - you have relevant UK earnings, or
 - you were a UK resident sometime in the previous five tax years and when you joined, or
 - you have, or your husband, wife or civil partner has, earnings from overseas Crown employment subject to UK tax.
- If you've contracted-out of the State Second Pension (S2P), the Government will refund part of your National Insurance contributions. We'll invest these contributions into your Stakeholder Pension Plan. If you're considering contracting-out, please ask your financial adviser or nearest Standard Life office for our separate Key Features Document (SPP17a).
 - If you already have a pension plan, you can transfer its value into this plan. There's no guarantee that doing so will increase your total pension. Transfer payments have different rules. If you're considering making a transfer, please ask your financial adviser or nearest Standard Life office for our separate Key Features Document (SPP17b).

What about tax?

- You'll get tax relief on payments normally at your highest Income Tax rate.
- We'll claim the tax relief for you at the basic-rate from HM Revenue & Customs and invest it in your plan. This means, under current Income Tax rates, for every £100 you invest in your plan, you'll pay only £80. If you're a higher-rate taxpayer, you'll need to claim the extra tax relief through your tax return.
- HM Revenue & Customs has an Annual Allowance for the total payments that you, your employer and any third party can make to all your pension arrangements. This allowance is £235,000 for the 2008/09 tax year. You will pay a tax charge of 40% on any payments that exceed this limit. If you think you will be affected by the Annual Allowance, you may wish to seek financial advice.
- The funds you invest in will grow free of UK Capital Gains Tax.
- You can normally take some 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.
- Your dependants won't normally have to pay tax on any lump sum they get if you die before you retire. However, if any part of the lump sum exceeds your Lifetime Allowance, that part will be taxed at 55%.
- Tax 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 regular payments into this Stakeholder Pension Plan and you do not specify an investment choice, payments will be invested in line with your current investment instructions.
- You can switch your investments 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 Fund
 Your 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.

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 to 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.
- We'll continue to take charges each year even if you stop making payments. This could mean that if you stop making payments and don't restart them, 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 originally 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 other benefits can I choose?

- You can choose to protect your payments against sickness and disability in the future. To do this you'll need to buy a separate Pension Contribution Insurance plan. If you're considering this cover, please ask your financial adviser or nearest Standard Life office for details.

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

- We'll pay the plan value at the date of your death.
- If you have a separate fund because you've contracted-out of S2P, we'll provide a pension for your husband, wife or civil partner. We'll normally pay the rest of the fund as a lump sum. However, if any of the lump sum exceeds the Lifetime Allowance described in 'What about tax?' on page 4, that part will be taxed at 55%.
- If you've set up your plan under trust, we'll pay the lump sum to the people you've named as trustees. If you haven't set your plan up under trust, we'll decide who to pay the lump sum to. We'll take into account your circumstances when you die and anyone you've said you want to receive the money.

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.

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 the 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, instructing us to cancel the contract. Please make sure that you include your plan number in any correspondence with us.
- If you start the plan with a single payment and cancel during the 30 day period, you may get back less than you paid in. This is because we may make a deduction to reflect any market loss we have experienced between the date we received your payment and the date we received your instruction to cancel.
- If you decide to cancel, and we have already received payment, we will refund the payment to the person who made it.
- Please note, for regular payments, it is only the initial payment that you choose to make that will have cancellation rights. If you decide to increase the level of payment in the future you will not have the right to cancel that increase.
- 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 will not be refundable under the cancellation rule.

How will I know how my Stakeholder Pension Plan 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 on the previous page. 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, switchboard: 020 7964 1000

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 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 disputes.
- 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 more 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.

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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 after 9 July 2006. Other types of with profits business that Standard Life operates in the UK, including Stakeholder business that started before 10 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 UK Smoothed Managed With Profits Fund (the UK Smoothed Managed PPFM). Please see the UK Smoothed Managed 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 UK Smoothed Managed 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 UK Smoothed Managed PPFM that materially change this booklet, we will send you a new booklet at or before the time we send you your 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 is the mix of assets that we hold to back the Stakeholder with profits plans in the Stakeholder With Profits 2006 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.

See section 3
"How do we set
payouts?"

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.

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 had continued paying 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.

See section 3
"How do we set
payouts?"

What happens when you retire or otherwise leave with profits?

You will receive at least your fair payout.

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

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 the Stakeholder With Profits 2006 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 will be no more than the 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.

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. In normal circumstances, we aim to smooth all types of payouts.

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 Stakeholder With Profits 2006 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 Stakeholder With Profits 2006 Fund makes a smoothing gain. If a fair payout is more than the asset share, the Stakeholder With Profits 2006 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 is no more than 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.

7. How we manage risk

The UK Smoothed Managed With Profits Fund does not bear any risks, other than those associated with the assets backing asset shares.

Understanding with profits

8. How we manage new business

We aim to offer competitive terms for new business and increases to premiums on existing business. We do not set any limits on the new business that can be written in the UK Smoothed Managed With Profits Fund.

We have no plans to stop selling new with profits plans. If we do ever stop selling them, we would not expect this to change the way existing business is managed.

9. 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 UK Smoothed Managed With Profits Fund and meet certain costs, as described below.

Planholders are only entitled to their asset share, after any further adjustments for smoothing. Shareholders are entitled to all other assets in the UK Smoothed Managed With Profits Fund, including charges deducted from asset shares. In return they meet the expenses on the plans in this Fund.

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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