

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 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](http://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.

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### ***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](http://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.

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### 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.

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### **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](http://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.

## Understanding with profits



**Pensions**  
**Mortgages**  
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If you'd like further information on this or any of our other products, or if there's anything more about Standard Life we can help you with, just call us on this number, or visit our website. Call charges may vary and your call may be recorded or monitored to improve our service.

## 0845 6060 100

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