

## **Former Britannic Assurance Free Standing AVC Plan**

**1 April 2009**

This leaflet gives you important information to go with your Free Standing Additional Voluntary Contribution (AVC) Plan statement. You should read this document carefully together with your statement and then keep it safe for future reference.

### **Your investment with Phoenix Life**

Your former Britannic Assurance Free Standing AVC Plan may be split between the Phoenix Life Limited unit-linked funds and the Phoenix Life Limited Britannic With-Profits Fund ('the with-profits fund').

### **Questions and answers about the with-profits fund**

#### **How do you manage the with-profits fund?**

We included a copy of our guide, 'How we manage the Phoenix Life Limited Britannic With-Profits Fund' ('the guide') with your statement in 2007. The guide is available on our website [www.phoenixlifegroup.co.uk](http://www.phoenixlifegroup.co.uk) or you can ask us for a copy.

#### **What is the annual bonus rate for Free Standing AVC Plans?**

The 2008 with-profits annual bonus rate is 1% for Free Standing AVC Plans. The actual number of bonus units we have added to your plan is shown in the additional information section of your statement.

The with-profits annual bonus rates for the last 5 years are:

<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>1.0%</b>	3.0%	3.0%	3.0%	3.0%

#### **Has the annual bonus rate changed?**

Yes, we have changed the annual bonus rate. Although the investment return for 2008 was extremely poor, we have still been able to add an annual bonus for 2008. However, we have had to reduce the annual bonus rate to 1%. As well as the investment return for 2008 being extremely poor, the investment return for 2007 was poor. When we combine these with the returns over previous years and compare it to the level of guaranteed benefits already provided, it means that we have had to reduce the annual bonuses for Free Standing AVC Plans.

The guaranteed benefits are the with-profits units and bonus units we have added to date. We guarantee to pay these on retirement at the selected retirement date or in the event of a death claim.

We have indicated over the last couple of years that we are unlikely to increase annual bonus rates. Instead, we will add any growth in excess of that required to meet the value of guaranteed benefits to policies as a final bonus at the selected retirement date or in the event of a death claim. We take this approach because it makes sure that all with-profits policyholders receive a fair share of any available profits.

### **Are you adding a final bonus now?**

We are currently (as at 1 April 2009) adding a final bonus for Free Standing AVC Plans where with-profits units were purchased either before 1998 or between 2002 and 2004. The investment return for 2008 was extremely poor and we have had to reduce final bonuses compared to those we were paying in early 2008. We do not guarantee final bonuses. We normally review final bonus rates towards the end of June and December each year. However we may change final bonus rates at any time.

If you transfer your policy or retire at any time which is not the selected retirement date, we may reduce the final bonus and we may apply a market value reduction (MVR). On 1 January 2009, we were reducing the final bonus and applying market value reductions on most Free Standing AVC Plans. However, on 1 January 2008 we were only applying market value reductions to a small proportion of Free Standing AVC Plans. The increase in the final bonus reductions and market value reductions is due to the extremely poor investment returns in 2008. We review the final bonus reductions and market value reductions frequently and they may change on a daily basis.

### **What about with-profits guarantees?**

The with-profits guarantee is that we will value with-profits and bonus units at 100.00p on retirement at your selected retirement date or on earlier death, and we will not apply a market value reduction. If you transfer your plan, switch units or retire at any other time, we do not guarantee the with-profits unit price will be 100.00p and we may apply a market value reduction. You can find further details in your policy documents.

### **What is a market value reduction (MVR)?**

We use a market value reduction to make sure that any amounts paid to those policyholders who transfer their plans, retire at a date other than their selected retirement date or switch their funds, reflect how the with-profits fund has performed up to that point. If we use a market value reduction, policyholders who transfer their plans may receive less than any transfer value previously quoted. We apply market value reductions to ensure the fair treatment of all policyholders whenever they transfer their plan, retire at a date other than their selected retirement date or switch their funds.

It is important to remember that we only apply market value reductions to your Free Standing AVC Plan in certain circumstances. Please note that we will not apply a market value reduction:

- on death; or
- on retirement at your selected retirement date.

You can find further details in your policy documents.

### **How are bonus rates calculated?**

When deciding whether we should add an annual bonus, we look at the current financial position of the with-profits fund and estimate how we expect this to change in the future. We also compare the guaranteed benefits with the underlying value of policies. We will add an annual bonus only if we are confident that the underlying value of policies will be enough to enable us to pay these bonuses when they become due, even if future investment returns or other factors become unfavourable.

The underlying value of policies reflects the premiums paid and the investment performance of the with-profits fund over the lifetime of the policies, after allowing for factors, such as expenses and charges. This is explained in more detail in the guide.

If the underlying value of the policies is more than the value of their guaranteed benefits, we will add a final bonus. However, if the value of the guaranteed benefits is more than the underlying value of the policies, we will not add a final bonus. The amounts of final bonus are affected by 'smoothing' as described below.

We aim to avoid very large differences in with-profits maturity payments (payments at selected retirement date) over relatively short periods of time. We consider the maturity payments that we have made for similar policies in the past and limit, where possible, changes to final bonuses to avoid very big differences in maturity payments from one review to the next. This practice is known as smoothing. Smoothing means that we may pay more or less than the underlying value of policies. Maturity payments are the total of the with-profits units, bonus units and final bonus.

In the guide, we mentioned that we work out bonuses by considering the underlying value of policies. We also mentioned that we expected to include a fair share of any distribution of the estate in the underlying value of with-profits policies once the estate is large enough to cover the risks in the with-profits fund.

Based on the estate at the end of December 2008, all of the estate is currently being used to cover the risks in the with-profits fund and it is not appropriate to include any distribution at the current time.

### **So what about the future?**

We guarantee annual bonuses once they are added to your plan. We would therefore need to see the financial markets enter a period of prolonged stable growth before we can be confident about future levels of annual bonuses. Investment returns were extremely poor in 2008 and this means we are unlikely to be able to increase annual bonuses back to the 2007 level in the near future.

If investments perform well, we will pay higher final bonuses. Poor future market conditions will lead to lower final bonuses.

### **How is the with-profits fund invested?**

The with-profits fund consists of a wide range of assets with the aim of providing good growth potential over the medium to long term. On 31 December 2008 the split of assets supporting with-profits Free Standing AVC Plans was:

Company shares (equities)	41%
Fixed interest stocks - issued by the UK government (gilts)	16%
Fixed interest stocks - other	34%
Property	7%
Cash	2%
Other	0%

How much we hold in each type of investment will change over time. We aim to make sure that the with-profits fund can always meet the guarantees it has given to policyholders. Subject to this, we aim to get a good investment return while balancing this with the degree of risk being taken. We currently hold some higher risk investments which we expect to provide a higher return in the longer term, such as company shares (equities) and property. The rest are lower risk investments such as fixed interest stocks (bonds, types of loan usually issued by the UK government or companies) and cash.

The return on the investments in the with-profits fund for 2008 was -11.9%. The return was affected by falls in the value of company shares (equities) and property and also the falls in the value of non-government fixed interest stocks.

By keeping around 50% of the with-profits fund invested in company shares (equities) and property, the with-profits fund is well placed to benefit from any recovery in stock market or property prices, whilst still protecting the long-term security of the guaranteed benefits.

## Questions and answers about the unit-linked funds

### How can I get up to date unit-linked prices?

You can follow the performance of the funds your policy invests in by looking at the unit prices we publish regularly on our website. To obtain the latest prices go to [www.phoenixlifegroup.co.uk](http://www.phoenixlifegroup.co.uk) and then:

- under '[Fund prices](#)';
- select '[Follow this link to look at our latest fund prices, which are regularly updated](#)'; and
- then select '[ex-Britannic Unit Linked Assurance \(BULA\) originally sold through Britannic Assurance](#)'.

The table below shows:

- the unit price (in pence) of the pension unit-linked funds for the last Wednesday of March 2009 and at the equivalent date for each of the previous five years; and
- the percentage change in the prices to 25 March 2009, over one year and over five years.

Date	Units price (in pence)		
	Pensions Managed	Pensions Property	Pensions Deposit
25 March 2009	421.5	317.6	333.5
26 March 2008	534.0	626.2	321.8
28 March 2007	559.6	991.1	307.4
29 March 2006	528.2	772.1	296.5
30 March 2005	434.6	525.7	286.6
31 March 2004	393.5	418.0	277.2
Change over 1 year	-21.1%	-49.3%	3.6%
Change over 5 years	7.1%	-24.0%	20.3%

The unit price shown is the price we pay for each unit when you surrender them at retirement; if you transfer or switch your fund; or if you die before retirement. This is also called the bid price.

Past performance is not necessarily a guide to future performance. Unit prices can go down as well as up.

Your statement shows the value of your plan as at the statement date. You can obtain an up to date valuation at any time by contacting us or going online.

### **How do you work out unit-linked fund prices?**

We have produced a guide to how we work out our unit prices. This is available in the Fund prices section on the website or you can ask us for a copy.

### **How can I get information about the unit-linked funds?**

We have produced fund summary leaflets which give more information about the unit-linked funds. These are available by clicking on the appropriate fund name in the Fund prices section on the website or you can ask us for a copy.

## **Other questions and answers**

### **What charges do you make on my plan?**

If you invest in the with-profits fund, we take into account an annual management charge of approximately 1% of the value of policies when we set bonus rates.

If you hold units in the Pensions Managed, Deposit or Property Fund, we make an annual management charge of 1% of the value of the funds.

If you are making payments into your plan, we also make a charge of up to 5% of each payment. In addition we may deduct a plan fee from each payment. We vary the plan fee according to the amount and frequency of payment. The current maximum plan fee we deduct is £18 each year.

The Government have simplified the rules governing Free Standing AVC Plans and Personal Pensions Plans. This means that if you are making payments into your Free Standing AVC Plan and also have a Personal Pension Plan, then you can combine both future payments into a single payment to your Personal Pension Plan

instead. Your Free Standing AVC Plan may have slightly higher charges on future payments than your Personal Pension Plan.

### **Can I surrender my plan and if not what can I do with it?**

No. Free Standing AVC arrangements are subject to legislation which prevents you from surrendering your plan. Proceeds from Free Standing AVC Plans can only be used to provide an income at retirement and other associated benefits. Prior to 6 April 2006, you would have had to take the benefits at the same time as your company scheme benefits unless you left that employment and the link with that scheme was broken. However, this is no longer the case – see ‘When can I take my pension?’ below. You can transfer your Free Standing AVC Plan to another provider, who in turn can only provide pension benefits.

### **When can I take my pension?**

As from 6 April 2006, the earliest date benefits can be received is at age 50. However, this minimum age will rise to age 55 from 6 April 2010. You can alter your retirement age, subject to these limits, at any time. However, the latest age that you can retire is 75. If you have units in the with-profits fund, we recommend that you give us 12 months notice to ensure that you will continue to benefit from the with-profits guarantee, otherwise we may apply a market value reduction.

### **Will I get a Basic State Pension from the Government?**

Yes, if you have an adequate National Insurance record. More information is available from the Department for Work and Pensions on [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk) or telephone 08456 06 02 65.

### **Why has the income shown in my Statutory Money Purchase illustration gone down compared with last year even though my pension fund value has gone up?**

This illustration is based on certain assumptions which have changed since last year, however a reason that could explain the reduction is:

- If you have told us to reduce your retirement age since 30 April 2008, your plan will not be invested for as long, therefore your income would be lower.

**This information is correct at 1 April 2009 and is based on Phoenix Life’s understanding of current legislation at 1 April 2009.**

**If you have any questions or would like more information about your statement or your plan, please contact us using the details shown in the letter we sent with your statement.**

## **II\_PLL\_BWP\_fsavc\_04/2009**

Phoenix Life Limited is authorised and regulated by the Financial Services Authority.

Phoenix Life Limited is registered in England No. 1016269

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