

## **Former Britannic Assurance Portfolio With-Profits Bond**

**1 April 2009**

This leaflet gives you important information to go with your Portfolio With-Profits Bond 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 Portfolio With-Profits Bond policy is invested in 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 has happened to bonus rates for Portfolio With-Profits Bond policies?**

We have indicated over the last couple of years that we are unlikely to add further annual bonuses to Portfolio With-Profits Bond policies. Instead, we will add any growth in excess of that required to meet the value of guaranteed benefits to policies as a final bonus when a policy is surrendered on a guarantee date or in the event of a death claim.

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

The investment return for 2008 was extremely poor and we have had to reduce final bonuses. Unfortunately we are no longer able to add final bonuses on with-profits units purchased in 1999. The table below shows the final bonus we paid in January over the last few years.

Year units purchased	Final bonus rates as a percentage of with-profits units purchased			
	Date final bonus paid			
	January 2009	January 2008	January 2007	January 2006
1999	0%	10%	4%	0%
2000	3%	14%	8%	2%
2001	3%	14%	8%	2%
2002	14%	26%	16%	13%

The table shows that although we have had to reduce final bonuses for January 2009, the rates are still higher than those that we were paying in January 2006.

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.

### **When do you pay these final bonuses?**

We pay final bonuses when you surrender your policy on a guarantee date (market value reduction free date) or in the event of a death claim. However, the rates of final bonus may be different to those shown in the table.

### **What are the guarantee dates (market value reduction free dates)?**

Your Portfolio With-Profits Bond policy does not have a fixed end date. This means you can surrender it at a time that suits you. Guarantee dates (market value reduction free dates) are 10 years after you started your Portfolio With-Profits Bond policy and each year after that. We show the next guarantee date in the Additional information section of your statement. On these dates, we will value all with-profits units in your Portfolio With-Profits Bond policy at 100.00p and we will not apply a market value reduction (MVR). If you surrender your policy at any other time we do not guarantee the unit price will be 100.00p and we may apply a market value reduction. You can find further details in your policy documents.

### **What happens at dates other than the guarantee dates?**

If you die, we treat your policy as if the date were a guarantee date. If you surrender your policy at any time other than a guarantee date, we may reduce the final bonus and we may apply a market value reduction. These reductions vary from policy to policy. We apply market value reductions to ensure we treat all policyholders fairly whenever they surrender their policy. On 1 January 2009, we were reducing the final bonus and applying market value reductions on most Portfolio With-Profits Bond policies. However, on 1 January 2008 we were not applying market value reductions to Portfolio With-Profits Bond policies. The increase in the final bonus reductions and market value reductions is due to the extremely poor investment return in 2008. We review the final bonus reductions and market value reductions frequently and they may change on a daily basis.

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

We use a market value reduction to make sure that any amounts paid to those policyholders who surrender their policies, reflect how the with-profits fund has performed up to that point. If we use a market value reduction, policyholders who

surrender their policies may receive less than any surrender value previously quoted. We apply market value reductions to ensure the fair treatment of all policyholders whenever they surrender their policy.

It is important to remember that we only apply market value reductions to your Portfolio With-Profits Bond policy in certain circumstances. Please note that we will not apply a market value reduction:

- on death;
- if you surrender your policy on a guarantee date (market value reduction free date); or
- if you surrender part of your policy under a regular withdrawal scheme, please see your policy documents for any regular withdrawal scheme that may apply to your policy.

You can find further details in your policy documents.

### **What about annual bonuses?**

We are currently focusing on final bonuses, as we said we would, and we are not adding any annual bonuses. We take this approach because it makes sure that all with-profits policyholders receive a fair share of any available profits.

### **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 guarantee dates) 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.

The investment return for 2008 was extremely poor. Furthermore, when we combine this with the returns over previous years and compare it to the level of guaranteed benefits already provided, it means that we are only able to add final bonuses for some policies, and that we are currently unable to reintroduce annual bonuses for Portfolio With-Profits Bond policies.

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

We do not guarantee final bonuses and we may change them at any time. We will continue to focus on final bonuses in 2009. If investments perform well, then we will pay higher final bonuses. Poor future market conditions will however, have the opposite effect on final bonuses.

Because we guarantee annual bonuses once they are added to your policy, we 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 has reduced the likelihood of our being able to restore annual bonuses in the near future.

### **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 Portfolio With-Profits Bond policies 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.

**This information is correct at 1 April 2009.**

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

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