

# With profits changes explained

A leaflet for with profits policyholders  
in the Special Fund of Scottish  
Provident Limited

**Phoenix**

Scottish   
Provident

We have sent you this leaflet because you have a with profits policy which is currently in the Special Fund of Scottish Provident Limited (Scottish Provident).

In this leaflet we explain how our proposals will affect your policy in particular. We recommend that you read the other material that we have sent you before reading this leaflet. The terms defined in the brochure have the same meanings in this leaflet.

## **Introduction**

As part of our proposals the with profits policies held within the Special Fund of Scottish Provident are going to be converted into non profit policies with guaranteed benefits and transferred to the SPI With-Profits Fund (SPI WPF) within Phoenix Life Limited (Phoenix).

The Special Fund closed to new business some time ago and most of the remaining business in it is close to maturity. Converting the policies to non profit will allow the surplus assets to be distributed equitably in the form of guaranteed bonuses and mean that policyholders' benefits will not be subject to market and other risks as they near maturity.

The ability to close the Special Fund and convert policies to non profit with guaranteed bonuses in this way is allowed for in the 2001 Scheme from when Scottish Provident Institution demutualised. This requires the Scottish Provident board, on advice of the With Profits Actuary and having consulted with the SPI Fund Supervisory Committee to be satisfied that the closure and conversion would not adversely affect the reasonable expectations of the holders of Special Fund policies. The conclusions of the With Profits Actuary are set out below.

## **Your policy benefits**

Your benefits will therefore change as a result of the transfer. At present, non-guaranteed annual and final bonuses are added to your policy, the amount of which can vary and can be zero. Instead, we will add guaranteed annual bonuses and a guaranteed one-off bonus payable on the maturity date of your policy (or on a claim, if earlier).

The amount of the guaranteed one-off special bonus will vary depending on the year in which your policy started and the year in which it matures or a claim is made. Following implementation

of our proposals, if you surrender your policy before maturity, you will receive the discounted value of the special bonus that would have been payable on the maturity date. The rate of guaranteed annual bonus will vary between endowment and whole life policies.

The levels of these guaranteed bonuses will be calculated based on the policies in force and economic and other factors as at the Effective Date of the Phoenix Scheme. Therefore, they are not known now. The report of the With Profits Actuary of Scottish Provident outlines the methodology and assumptions that will be used to calculate the guaranteed bonuses. A copy of that report is available on the website at [scotprov.co.uk/simplify2008.html](http://scotprov.co.uk/simplify2008.html). If the Scheme goes ahead, you will be advised in 2009 of the guaranteed bonus rates to be added to your policy.

### **Statement by the With Profits Actuary of Scottish Provident**

“I believe that the proposals are fair to policyholders in the Special Fund as currently part of the realistic surplus must be held back due to the equities backing the fund. The proposals also

remove the risk of a downturn in the equity market adversely affecting those endowment policies that are close to maturity. The guaranteed bonus proposals are designed to ensure a fair distribution of the surplus assets for different generations of policyholders. Policyholders should not lose their qualifying status as a result of the changes and an indemnity is included in the Scheme such that policyholders will not suffer should they become liable to additional tax as a result of these proposals.”

### **Conclusion of Independent Expert**

The Independent Expert has concluded that the proposals do not have a material adverse effect on either the security of the affected policyholders' benefits or on their benefit expectations.

### **Conclusion of Independent Actuary under 2001 Demutualisation Scheme**

As well as acting as Independent Expert for the Phoenix Scheme, Mr Tim Sheldon of Deloitte & Touche LLP has been asked, in his capacity as an independent actuary, to give an opinion on how the proposals affect the holders of policies transferred under the 2001 Demutualisation

Scheme. A summary of his opinion is as follows:

“The 2001 Demutualisation Scheme states that any amendment to that scheme must be approved by the Court and must not, in the opinion of an independent actuary, adversely affect the reasonable expectations of or reduce the protection conferred by the scheme on the holders of transferred policies. I have been asked to provide this opinion as the 2001 Demutualisation Scheme is being discontinued and replaced by the Phoenix Scheme.

I have interpreted the replacement of the 2001 Demutualisation Scheme as an amendment for the purpose of this opinion. I do not regard any of the changes as having either a significant adverse effect or a significant beneficial effect for Scottish Provident policyholders. Overall, I am therefore satisfied that the amendments being made to the 2001 Demutualisation Scheme as a result of it being replaced by the Phoenix Scheme do not adversely affect the reasonable expectations of or reduce the protection conferred by the 2001 Demutualisation Scheme on the holders of transferred policies.”

## **Principles and Practices of Financial Management**

Following the conversion to non profit policies with guaranteed bonuses, the Principles and Practices of Financial Management (PPFM) which detail how Scottish Provident currently manages the Special Fund will no longer apply to your policy and will not be replaced.

## **Further information**

If you have any questions or require further information please call our helpline or visit our website. You will find the details on the letter enclosed with this leaflet.

