

# a guide to how we manage our with-profits fund – the guaranteed pension fund

july 2009

## aims of the guide

This guide tells you how we manage our with-profits fund which is called the Guaranteed Pension Fund.

## why this guide is important

Please read this guide. It gives you important information about how the Guaranteed Pension Fund works and what you can expect back from an investment in the Fund.

The letter and accompanying Update that is sent to you around January and July each year provides up-to-date information about the Fund.

If you decide not to read this guide now, please keep it in a safe place with your other pension plan documents.

1. Introduction
2. How we decide the amount you receive
3. How we decide bonuses
4. How we decide the amount you receive if you leave the Fund before the guarantee date you have selected
5. How we invest the Guaranteed Pension Fund
6. How we manage risk
7. The charges we make
8. How to find out more

## 1. introduction

Our with-profits fund is called the Guaranteed Pension Fund. We manage the Fund by following the:

- Investor's Guide
- Principles and Practices of Financial Management (PPFM).

### What is the Investor's Guide?

The Investor's Guide provides you with a detailed explanation of how the Guaranteed Pension Fund works. You were issued with an Investor's Guide when you invested in the Fund. If you would like a further copy please see our website at [www.skandia.co.uk/funds/gpf.asp](http://www.skandia.co.uk/funds/gpf.asp) or telephone us on 02380 916624.

### What is the PPFM?

The PPFM is a document which describes how we run the Guaranteed Pension Fund. It is split into Principles and Practices:

Principles are high-level statements that describe our long-term approach to managing the Fund. Practices are more specific statements which flow from the Principles. These describe how we manage the Fund.

We do not expect to change the Principles often, but will do so if we think they could lead to investors being treated unfairly or if they could stop us managing the Fund properly. We will tell you at least three months in advance if changes are to happen to the Principles. Then you will know how our long-term approach will be changing.

Practices can change more often because we need to respond to how the economy is doing, new rules and regulations, and new methods in the life insurance industry. We will publish any changes to Practices on our website and tell you about them in our next letter to you. Then you will know how our approach has changed.

The PPFM is a detailed document and so this guide sets out only the key points of the PPFM. If you would like a copy of the PPFM please see our website at [www.skandia.co.uk/funds/principles\\_practices.pdf](http://www.skandia.co.uk/funds/principles_practices.pdf) or telephone 02380 916624.

When reading this document, the Investor's Guide or the PPFM, please note:

- Although the Guaranteed Pension Fund is classified as a with-profits fund, it is materially different from a standard UK with-profits fund. The objective of the Fund is to operate primarily without discretion and much of what might otherwise constitute Principles or Practices are effectively set rules.
- The Fund was launched in April 1998 and, following the severe and prolonged setbacks in investment markets that started at the beginning of 2000, closed to further investments in October 2002.

- During the period from closure to November 2006 the Fund experienced what we considered to be abnormal or extreme conditions. In these conditions we exercised the discretion we had in the rules of the Fund to decide on the bonus rates each month. From November 2006 we decided that abnormal or extreme conditions no longer applied, however due to the credit crunch it was reapplied in April 2008.
- Other than when abnormal or extreme conditions apply, the bonus rates will be determined by set rules as explained in Section 3 below.

## 2. how we decide the amount you receive

- The amount you receive depends on the number of units you have.
- You received units each time you invested in the Fund and you can receive further units by way of bonus additions.
- Units may be deducted to pay for charges as explained in the pension plan documents you received when you first invested in the Fund. If you have lost these documents please telephone 02380 916624. Units may also be deducted if you change the guarantee date you have selected and investment markets are depressed at the time.
- At the guarantee date you have selected, we guarantee to pay you £1 for each unit you have, regardless of any setbacks in investment markets at that time.
- We also guarantee to pay £1 per unit should you die before your selected guarantee date.
- We may be able to pay more than £1 per unit if payment is due ahead of a bonus declaration date.
- If you leave the Fund before the guarantee date you have selected, then depending on market conditions at the time, we may need to pay you less than £1 per unit, as explained in Section 4.

## 3. how we decide bonuses

- We announce bonuses monthly.
- Other than in abnormal or extreme conditions (see below for more details), the bonus rates are determined by set rules. The main principles of these set rules are as follows.
  - Distribute all the available investment growth each month as described in detail on page 3 of the Investor's Guide. This means that after a bonus addition has been made, the total value of the investments held in the Fund cannot be more than the number of £1 units allocated to policyholders.
  - Aim to reward investors who select a longer term to their guarantee date with higher returns than those who select a shorter term. This reflects the fact that longer-term investors give the Fund greater freedom to invest in riskier investments offering potentially higher returns.

- We decide whether we believe that conditions are abnormal or extreme. For example, there may have been unusual or prolonged setbacks in investment markets. If there are, then we decide whether we need to take any action to protect the solvency of the Fund.
- When abnormal or extreme conditions apply we use our discretion to decide whether a bonus should be added and, if so, on the level of the bonus rates. We take into account what the Fund can afford to pay now and in the future. This approach enables us to make sure we can meet all guaranteed amounts when they have to be paid.
- The same set of bonus rates apply to all investors in the Fund. The number of units you receive by way of bonuses will depend on your individual circumstances. These include the amounts you have invested in the Fund, the date(s) you invested, the bonuses we have already added and the guarantee date you have selected.
- Once added, bonuses increase the amount we guarantee to pay you and they cannot be taken away other than to pay for plan charges, which take place by unit deduction, or if you change the Selected Guarantee Date.

#### 4. how we decide the amount you receive if you leave the fund before the guarantee date you have selected

- This section describes how we decide how much you receive if you decide you do not want to remain invested in the Guaranteed Pension Fund. You can do this by:
  - switching your investment into one or more of the wide range of other funds available to you under your Skandia pension plan
  - closing your pension plan and transferring the proceeds to a different pension provider
  - retiring before the guarantee date you have selected
  - surrendering your pension plan (applies to Trustee Investment Plans only).

In each case you should take advice from your financial adviser before you take such action. In this way you will be informed of the impact leaving the Fund will have, taking into account your individual circumstances.

- The amount you receive depends on the number of units you have and the value of those units.
- The value of your units depends on the financial position of the Fund at the time you leave and the amount of time to go to the guarantee date you have selected.

- We will pay you £1 per unit if there is sufficient money in the Fund to pay every investor £1 per unit. We can only do this if the total value of the investments in the Fund is equal to the number of units allocated to policyholders.
- We will pay you more than £1 per unit if, during a month between the dates when bonuses are added, the value of the assets in the Fund is greater than the number of units allocated to policyholders.
- If the value of the assets in the Fund is less than the number of units allocated to policyholders then there is insufficient money to pay you £1 or more per unit. In such a situation we will pay you less than £1 per unit and the closer you are to your selected guarantee date the closer the value of your units will be to £1 each. The total of these values for all the policyholders will be equal to the value of the assets in the Fund.
- If you would like to see the latest bonus, discount and asset split of the fund, please see our website at [www.skandia.co.uk/funds/gpf.asp](http://www.skandia.co.uk/funds/gpf.asp)

#### 5. how we invest the guaranteed pension fund

- We decide what to invest in and how much to invest by looking at:
  - the Fund's current and likely future financial position and the need to make sure there is enough money in it
  - the level of guarantees in the Fund
  - investors' investment expectations.
- The Fund invests in a mixture of equities (shares) and gilts (UK Government bonds). Equity investments are held via collective investment schemes (sometimes known as unit trusts or Open-Ended Investment Companies (OEICs)) within which assets are managed by a range of specialist investment managers.
- We believe that equities provide the best opportunities for growth in the long term. As a result we hold as much of the Fund as possible in such investments after making sure that we can meet the guarantees which the Fund provides. To help us ensure that we can meet the guarantees, we have to hold a certain proportion of the Fund in fixed interest investments, which we do by purchasing the appropriate number of gilts.
- We review our investments on a regular basis and review our investment strategies monthly for the gilts and annually for the equities. The strategies may need to be reviewed more often if market conditions change quickly.
- The proportion of the Fund that we can invest in equities depends on a number of factors, particularly the current level and history of changes in investment markets. For up-to-date information about the proportion of the Fund invested in equities please see our website at [www.skandia.co.uk/funds/assetallocation.asp](http://www.skandia.co.uk/funds/assetallocation.asp)

## 6. how we manage risk

- The Fund is exposed to a number of risks. The biggest risks come from the need to pay all guarantees when they are due, possibly at a time of very low equity (share) values.
- We aim to manage risks to the Fund by, when necessary, reducing exposure to equity investments and increasing exposure to gilts. Equities are riskier investments than gilts because the income you get from them is unknown and the price you can sell them for might vary a lot in a short time.
- We manage the risks that come with investing by:
  - the careful selection and monitoring of the investment managers, spreading investments across a range of managers and geographical areas, and setting limits on the amount we invest in any one geographical area
  - the use of gilts which are backed by the UK Government.
- If the process of adjusting the exposure to equities is not sufficient to ensure the Fund can pay all the guarantees when they are due, then we will support the Fund to meet its obligations.

## 7. the charges we make

- We deduct from the Fund on a daily basis:
  - a charge to pay for some of our administration costs, expenses and the commission we pay to financial advisers
  - the fees charged by the equity fund managers together with their investment costs (such as the costs of buying, holding and selling investments).

In addition, units may be deducted to pay for charges as explained in the pension plan documents you received when you first invested in the Fund.

## 8. how to find out more

- This guide sets out only the key points about how we manage the Guaranteed Pension Fund. You can get a more detailed technical description in the PPFM and the Investor's Guide. If you would like copies of either of these documents please see our website at [www.skandia.co.uk/funds/gpf.asp](http://www.skandia.co.uk/funds/gpf.asp) or telephone 02380 916624.
- If you would like a projection of your future benefits please telephone the helpline on 02380 916624.
- If you require up-to-date information on the progress of the Fund including bonus rates, the discounted value of units or the proportion of the Fund invested in equities, please see our website at [www.skandia.co.uk/funds/gpf.asp](http://www.skandia.co.uk/funds/gpf.asp)
- Please read the letter and Update that is sent to you around January and July each year.

[www.skandia.co.uk](http://www.skandia.co.uk)

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