

# HOW OUR WITH PROFITS FUND WORKS

For policies where premiums  
are used to buy units

**WESLEYAN**  
*we are all about you*



# HOW OUR WITH PROFITS FUND WORKS

Please take the time to read this document and keep it safe with your product literature. It explains how our With Profit Fund works and how it affects the value of your investment.

This document does not cover Medical Sickness Society policies taken out before our merger took place in July 1997.

If you have an older version of one of our With Profits policies, you may require another related document instead of, or in addition to, this one. These documents are:

- ▶ How our With Profits Fund works – for policies where premiums are not used to buy units, and
- ▶ How our With Profits Fund works – for policies purchased from Medical Sickness Society before our merger in July 1997.

You can ask us for a copy of either of these documents at any time or you can find them on our website at: [www.wesleyan.co.uk](http://www.wesleyan.co.uk)

In this document, 'we', 'us' and 'our' refer to Wesleyan Assurance Society.

When we refer to 'policy document' or 'policyholder' throughout this document, this can also mean 'plan document' and 'plan holder' as your particular product may refer to 'plan' rather than 'policy'.

Financial advice can be provided by Wesleyan Financial Services through its team of Financial Consultants. Wesleyan Financial Services is the advice and distribution company of the Wesleyan Group of companies and is wholly owned by Wesleyan Assurance Society.

## Important

This document provides brief details of how our With Profit Fund works. It does not provide all the details about the product you have with us. That information is in the policy document (the terms and conditions of your policy). You can also download a copy of the Principles & Practices of Financial Management (Wesleyan Open Fund), which explains the detailed standards we apply to the management of our with profits business. This document is available on our website [www.wesleyan.co.uk](http://www.wesleyan.co.uk)

## YOUR QUESTIONS ANSWERED

### 1. What is a With Profits Fund?

A With Profits Fund is a type of investment fund offered by insurance companies, such as Wesleyan Assurance Society. The fund aims to provide growth over the long term whilst giving some protection against short term market fluctuations, through mechanisms such as 'smoothing' and 'bonuses' (these are explained in more detail later in this document). Having these mechanisms in place means that policy values are not expected to be as volatile as other managed funds that invest in similar assets.

A further feature of a With Profits Fund is that the fund also receives profits and losses from other areas of the business including our subsidiary companies.

Some With Profits policies offer guarantees that can be valuable if you have to cash in your policy when markets have fallen. These are known as guaranteed events and are covered in more detail in Question 10.

### 2. How does our With Profits Fund work?

A proportion of your premium is used to buy units in the With Profits Fund. This amount depends on how you have chosen to invest your money and on the terms of your policy. These units represent your investment in the Fund. We aim to increase the value of your units based on the returns we make from our investments and other profits and losses from other areas of the business, including our subsidiary companies.

The profits and losses from other areas of the business can arise from other policies sold by us or from other aspects of our business and we would generally expect them to be a relatively small part of our overall returns. We regularly review the returns on our With Profits Fund and if our review shows that the returns are sufficient, we will increase the value of your units by adding bonuses.

### 3. How do bonuses affect my investment?

We usually add regular bonuses throughout the period of your investment. We decide on a regular bonus rate that will apply to your type of policy. We add this bonus gradually by increasing the unit price each day.

You can keep track of what regular bonuses have already been added. We send you an annual statement which shows how many units you hold and their value at the statement date. When you cash in your units, you may also receive a final bonus. We will decide how much final bonus we are able to add at that time.

### 4. What affects regular bonus rates?

Regular bonus rates depend on past and forecast future investment returns. As we cannot be certain of the level of returns that will be achieved over the period of your investment, we use forecasts of the expected future level of returns in order to set regular bonus rates.

Once we've added regular bonuses they increase the value of units paid out on a guaranteed event. (For details of guaranteed events see Question 10). Because of this, we set regular bonuses prudently. We aim to keep adding regular bonuses fairly steadily over the term of the investment.

If we are able to forecast higher returns, we may increase the level of regular bonuses, even if the value of our investments has been falling. Similarly, if our forecasts worsen, we may start reducing the level of regular bonuses, even if the value of our investments has been rising. In certain circumstances, we might even stop adding regular bonuses altogether if poor future investment returns are forecast, particularly if past returns have also been poor.

### 5. What affects the final bonus amount?

A final bonus will usually be included when a payout is made from a policy but it is not guaranteed and may not be paid if the level of investment returns and other profits and losses does not justify it. To calculate your final bonus, we use the following method.

- ▶ First we look at the investment returns we've had over the period of your investment, and consider our profits or losses from other areas of the business, including subsidiaries.
- ▶ We then calculate your fair share of the Fund (see later in this section) and compare it with the current value of your units.
- ▶ If your fair share is higher than the value of your units, then we will add a final bonus to your policy.
- ▶ If it is not higher, you will not receive a final bonus.
- ▶ If you are cashing in your units at a time other than a guaranteed event, we may make a deduction to your payout called a Market Value Reduction (MVR) – see Question 11 for an explanation of MVRs.

One of the most important aims of our With Profits Fund is to help to shelter you from short-term fluctuations in returns by a process called 'smoothing' (the 'smoothing' process is explained later in this section). If we did not apply smoothing, and instead calculated the value of the fund solely by using the actual investment returns and profits and losses from other areas of the business over the time you invest in the Fund, then these fluctuations would directly affect the value of your investment.

For example, it would be unfortunate if you paid money into the Fund when investment values were temporarily high, only for them to fall later. Similarly, you could lose out if you cashed in your units when our investment values were temporarily low.

We calculate your fair share by smoothing in the total returns on the With Profits Fund (for what we mean by this see 'How smoothing works' below).

Unlike many other insurers, we don't have any shareholders, so none of our With Profits return is deducted in order to provide dividends for shareholders.

### How we work out your fair share of the Fund

We do a calculation which brings together the amounts you have invested in the Fund with your share of investment returns and other profits and losses.

For most policies,

- ▶ we take the amounts you've invested in the Fund, then
- ▶ deduct any money you've previously taken out of the Fund, then
- ▶ deduct charges, and finally
- ▶ we make adjustments for investment returns and other profits and losses attributable to the Fund, allowing for smoothing.

We deduct charges in line with your policy terms and conditions. As with all our investment funds, investments into the With Profits Fund are subject to the Annual Management Charge (AMC), which contributes to the costs of running the Fund. For those policies that have protection cover included, we may also apply charges to meet the cost of any death or illness benefits you may receive.

Your AMC may include the cost of the Ongoing Advice Service (OAS) provided by Wesleyan Financial Services, if you have chosen to take this service.

The adjustments we make for investment returns and other profits and losses are, for most policies, made throughout the period that you hold units in the Fund. We work this out based on regular reviews of the performance of our investments, and profits and losses from other areas of the business (including subsidiary companies).

### How smoothing works

As mentioned earlier, one of the main aims of the With Profits Fund is to reduce the effect of short-term fluctuations on the value of your policy. In order to achieve this, we don't pass on the full amount of the investment returns, and other profits and losses, as they arise. Instead, we apply any changes to the value of your investment over time, cushioning the impact in a process known as smoothing.

In periods of good investment returns, therefore, we may keep back some of the return. What we have kept back would then be gradually applied to your policy and can be used to cushion the fall in your share of the Fund if there is a subsequent period of poorer investment returns.

In the long term, on average, we aim to pass on to customers all of the investment returns and profits and losses from other areas of the business attributable to the With Profits Fund.

We don't specify a range for smoothing for policies where premiums are used to buy units.

### 6. What do my charges pay for?

The charges we deduct from your policy pay for costs such as the following.

- ▶ Those we incur in selling new policies and top ups to existing policies.
- ▶ Those we incur in administering policies.
- ▶ A share of the overheads of running our business.

Any profits or losses we make from these charges are included in the business profits and losses mentioned earlier and are included in the returns to With Profits policyholders.

### 7. Where is my money invested?

As the With Profits Fund is designed as a long-term home for your money, it is invested in a range of higher and lower risk assets.

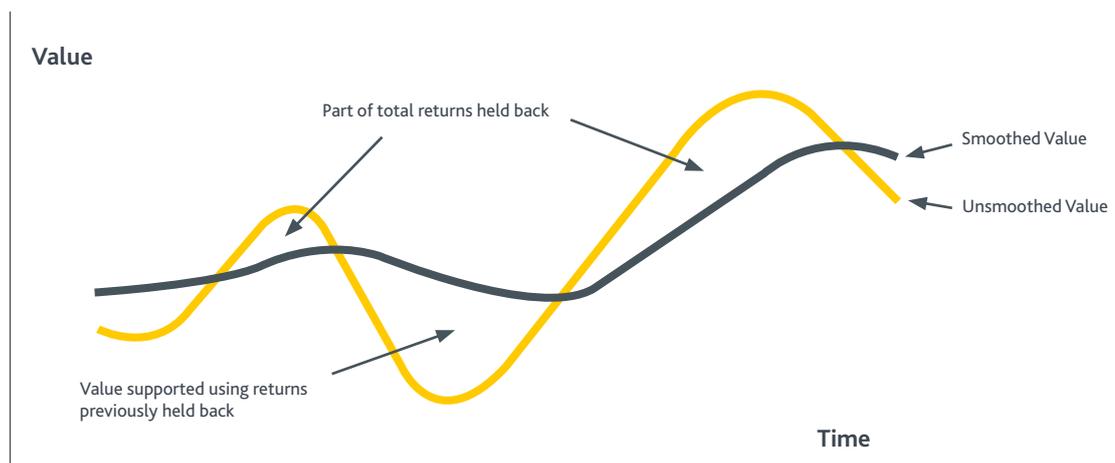
- ▶ We place an emphasis on assets which we expect, over time, to provide a return above the rate of inflation, including higher risk investments such as quoted company shares and commercial property. Historically, these assets have had the best long-term growth prospects, but also carry a higher risk of fluctuations in value.
- ▶ However, we also have to ensure that we can meet the guarantees in the Fund. Therefore, we also invest in lower risk investments such as interest-paying bonds and cash deposits. We expect these assets to provide more stable, albeit lower investment returns.
- ▶ The With Profits Fund also invests in the subsidiary companies of the Wesleyan Group of companies.

We rate our With Profits Fund as a moderate risk fund and therefore our mix of higher risk investments is carefully monitored. However, due to the financial strength of the With Profits Fund and Wesleyan Assurance Society, we are able to hold a significant amount of these higher risk investments to improve long-term returns (please see Question 9 for more on Wesleyan Assurance Society's financial strength).

As an actively managed fund we keep the mix between the higher and lower risk investments under review. The mix mainly depends on the overall strength of the Fund and the level of guarantees made to policyholders.

You can find current information on how the Fund is invested by visiting our website or by contacting us. (See Question 13 for details of how to do this).

Figure 1. Smoothing illustration – the diagram below shows how smoothing is applied to your investment



The smoothed value shows the total payout including any final bonus.

## 8. What could happen to put Wesleyan Assurance Society's overall profits at risk, and how would this affect payouts on policies?

The main risk to profits arises from how our investments perform, as explained in Question 5.

Other things that might put profits at risk include:

- ▶ the risks taken by the subsidiary companies of the Wesleyan Group of companies in which the Fund invests
- ▶ the risk of paying more protection claims than we'd estimated when setting our premiums
- ▶ the risk of paying pensions for longer than we currently estimate.

We seek to manage these risks so that, in the normal course of events, we make a profit rather than a loss.

To manage the risks of investing in subsidiary companies:

- ▶ the Board has to approve the amount that will be invested in each subsidiary company. This will be based on the risks involved compared with our expected return on investments;
- ▶ approval will not be given unless the expected benefits are higher than those that are available from other, more readily traded investments;
- ▶ limits are placed on investments in new ventures and the total value of assets held in subsidiaries will not normally be more than 6% of the invested assets of the With Profits Fund, and
- ▶ the performance of each subsidiary company is regularly monitored to check that performance is satisfactory.

To manage the risk of protection claims being higher than we'd estimated when setting our premiums:

- ▶ we regularly review our charges, and
- ▶ we may pass on some of the risk under very large policies, or large groups of policies, to what is called a 'reinsurer'.

To manage the risk of paying pensions for longer than we currently estimate:

- ▶ we regularly review the premium rates we set, and
- ▶ we allow for expected future improvements in life expectancy.

We have a separate fund for policies sold by Medical Sickness Society before our merger, which took place in 1997. If we need to support that fund then our profits would reduce. We have taken steps to ensure that we would only need to do this in very extreme circumstances.

### How payouts are affected

In the normal course of events, we aim to make sufficient profits to be able to add bonuses to your payout. However, in periods of reduced Society profits (or expected profits) or

in periods in which we might make losses, we would have to consider reducing future bonuses, or even possibly stopping them altogether. This is because we would give priority to using the Fund to honour guaranteed payouts under the terms of each policy.

## 9. How do I benefit from Wesleyan Assurance Society's financial strength?

We aim to ensure that we have more money than we expect will be needed to pay out on all of our current With Profits policies. This margin represents our financial strength and is not owned by any particular policyholders, but is used to give day to day benefits to current and future policyholders.

We do this so we can:

- ▶ meet the guarantees even if our investments fall in value
- ▶ keep an above average percentage of the Fund in higher risk investments that we hope will allow us to pay higher bonuses over time
- ▶ smooth out larger rises and falls in our returns when we determine payouts, and
- ▶ select investments which we believe will grow in the long term, even if they are currently out of favour with other investors.

We see these benefits as the key components of what our With Profits Fund is about – growth prospects over the long term with the added protection of smoothed payouts.

Our financial strength enables us to meet some costs directly from time to time, rather than pass them on to policyholders. However, we would only do this if we could guarantee that our financial strength would remain strong enough afterwards.

These costs might include:

- ▶ some guarantee costs, such as a guarantee that the maturity payout from certain endowment policies will pay off a policyholder's mortgage
- ▶ large projects we undertake to develop our business strategy or modernise our infrastructure
- ▶ compensation paid to our policyholders, and
- ▶ the cost associated with the Mutual Benefits Scheme, which provides incentives to our policyholders for the purchase of insurance products.

We are a financially strong company and our aim is to remain financially strong in the future. We monitor this strength to ensure it doesn't fall below an acceptable level. If it were to fall, we would look at how to rebuild it. For example:

- ▶ we might start to keep back some of the profits we make, so as to re-build our strength, and
- ▶ we may have to limit our pace of growth to ensure that our overall guarantees don't build up too quickly.

**10. What are the guaranteed events on my policy and how would the guaranteed amount be calculated?**

If your policy pays out on a guaranteed event, then we will pay the full value of the units in your fund and any final bonus that applies at that time. We will also not apply any Market Value Reductions (MVR) (see Question 11) that are in place at the time. This is a valuable benefit if a guaranteed event occurs when asset values are low.

The guaranteed events on your policy depend on the type of policy that you have.

Figure 2: With profits value payable on a guaranteed event:

- ▶ The number of With Profits units you wish to cash in multiplied by the unit price at the date you cash them in
- plus
- ▶ any final bonus amount, worked out at the same date

Product	Guaranteed Events <sup>1</sup>
With Profits ISA	Death <sup>2</sup>
Capital Investment Bond	Death <sup>2</sup> , Regular Income Payments <sup>3</sup>
Flexible Savings Plan	Death <sup>2</sup>
Personal Pension Plan	Death <sup>2</sup> , Selected Retirement Date <sup>4</sup>

<sup>1</sup> There are some restrictions. Please see your policy document for full details of the guaranteed events on your plan.  
<sup>2</sup> For plans opened before 4 March 2021.  
<sup>3</sup> For plans opened before 1st July 2018.  
<sup>4</sup> For plans opened before 4 March 2021.

The table shows the guaranteed events for the products that we currently sell. If your product is not listed here then please refer to your policy document, or contact us, for details of the guaranteed events on your policy.

**11. What is a Market Value Reduction (MVR)?**

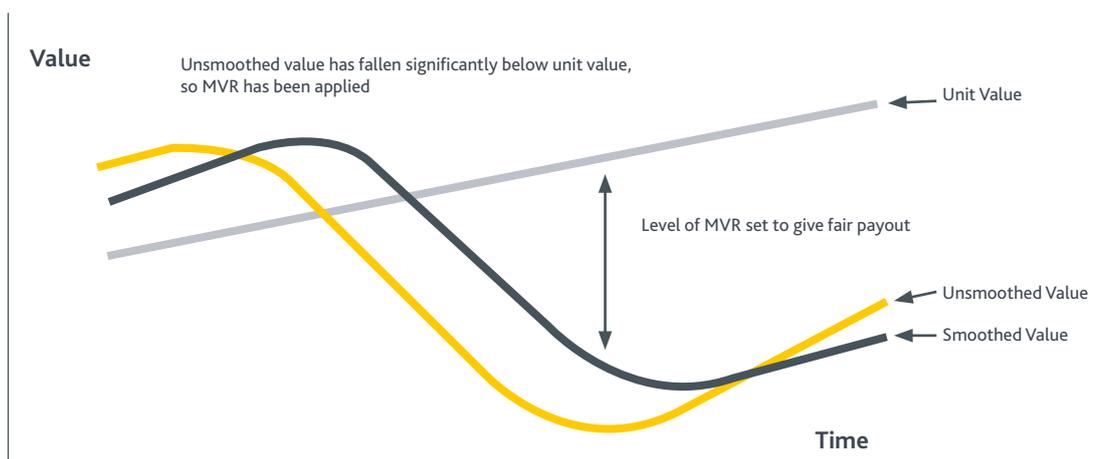
Normally, if you cash in your units any time other than a guaranteed event, we will pay you a sum based on your fair share in order to ensure we are fair to all our policyholders. We may reduce your final bonus or apply an MVR. If an MVR is applied, you will not receive any final bonus or the full value of regular bonuses we may have already added to your fund and you may get back less than you paid in.

In some extreme circumstances, if the unsmoothed value fell to a value significantly below the smoothed value, it would be necessary to set an MVR such that the fair payout was less than the smoothed value.

The last time MVRs were applied was in 2008 to 2009, after markets fell heavily in late 2008 and early 2009. The result of the MVR was that the impact of the market fall was brought through gradually to the With Profits Fund, which is consistent with the smoothing process. During this time we needed to ensure that the amounts paid out to policyholders who decided to cash in or switch out of the Fund, weren't too high compared to the underlying value of investments. If we had taken no action, the cost would have fallen to other policyholders who remained in the Fund, which would have been unfair to them.

As mentioned in the previous section, the MVR was not applied for policies that had payments relating to guaranteed events during that period e.g. personal pension plans that had a selected retirement date within that period.

Figure 3. Market Value Reduction illustration – the diagram below shows how an MVR may be applied



## 12. What if I cash in my With Profits investment?

With Profits policies are designed for long-term investment. You may get back less than you paid in if you decide to cash in your policy, particularly when underlying asset values are low.

You may choose to cash in part or all of your With Profits investment. For example, you may want to take money out of your policy, or you might want to transfer the funds to another investment company.

You may simply want to switch to a different investment fund with us.

As well as Market Value Reductions (MVRs) (see Question 11), which are specific to a With Profits investment, there may be general policy charges which apply when you cash in your units. For example, we may charge for switches between funds. You can find more details of the charges and penalties that apply to your policy in your policy document (the terms and conditions).

Here is a summary of what happens if you cash in part or all of your investment early other than on a guaranteed event (see Question 10 for an explanation of Guaranteed Events):

Figure 4: With profits value payable on a non-guaranteed event:

▶ The number of With Profits units you wish to cash in multiplied by the unit price at the date you cash them in

plus

▶ any final bonus amount, worked out at the same date less

▶ any MVR that applies at that date

less

▶ any general policy charges that apply.

## 13. Where can I find out more?

If you have any further questions about the information we have covered in this document, or if you would like further information about our With Profits Fund, please contact your Wesleyan Financial Services Consultant. To book an appointment, please call 0800 058 2965. Lines are open 9am to 5pm, Monday to Friday.

Each year we publish an annual report which explains how we have acted to manage our With Profits Fund during the year. We also produce a more detailed guide about how we run the Fund. This is called 'Principles and Practices of Financial Management (Wesleyan Open Fund)'. You can get a copy of either of these by calling 0800 058 2965, or you can visit our website [www.wesleyan.co.uk](http://www.wesleyan.co.uk)

## We are all about you.

Since we were founded over 175 years ago, we have cherished our mutual status. It's an integral part of who we are and with no shareholders, our focus is on members and customers. We work to benefit those who invest in our business. Not only today, but also in the future.

It's why 'we are all about you'.

A guide to the many ways in which the Wesleyan Group of companies can help you to plan, prioritise and secure your financial future.

### For you



Savings & Investments



Mortgages



Retirement Planning



Insurance



Life & Income Protection

### For your business



Finance & Funding



Personal Protection



Equipment Insurance



Premises Insurance

For more information about the Wesleyan Group of companies, visit [wesleyan.co.uk/ourcompanies](https://www.wesleyan.co.uk/ourcompanies)

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