

## Friends Life announces with-profits bonus rates following its mid-year review

**9 July 2014**

During July we reviewed the final bonus rates across all our with-profits funds (except for the WL Fund which was reviewed in March).

Since our last review of final bonus rates in December 2013, investment markets have generally performed in line with our expectations and we have only made relatively minor adjustments to rates in most cases. Payouts on longer term policies in particular those with terms of 20 years or more are generally a little lower than in the previous declaration. This is largely because the total return earned whilst they have been in force is lower than was the case for similar policies maturing before this review.

### Key information about Friends Life's main with-profits funds

Please refer to the 'Which fund' section on our website to help you work out which with-profits fund your policy is invested in. If you are not sure whether you have a unitised or a conventional policy, please look at our PPFM summaries.

### Friends Life FLAS With-Profits Fund (ex Sun Life Assurance Society policies)

- For the first five months of 2014 the fund earned a return of 4.0% before tax. Return boosted by a good return from property.
- Shares and property are targeted to be 50% of the Fund's investments.
- No change to regular bonuses
- No Market Value Reductions apply on any policies.
- Very little change to final bonus rates overall with some slight increases or decreases to bring payouts into line with underlying asset values.

### Friends Life FLC With-Profits Funds (ex AXA Sun Life policies)

- For the first five months of 2014 the funds earned a return of 3.1% before tax.
- Shares and property are targeted to be 60% of the Funds' investments.
- No change to regular bonuses.
- No Market Value Reductions apply on any policies.
- An increase to the final bonus rates for direct marketing conventional life business. Very little change to other final bonus rates with some slight increases or decreases to bring payouts into line with underlying asset values.

## Friends Life FP With-Profits Fund (ex Friends Provident policies)

- For the first five months of 2014 the fund earned a return of:
  - 3.1% in respect of policies written before 9 July 2001 (pre demutualisation) before tax.
  - 3.2% in respect of policies written after 8 July 2001 (post demutualisation) before tax.
- Shares and property are targeted to be:
  - 45% of the Fund's investments for pre demutualisation policies.
  - 55% of the Fund's investments for post demutualisation policies.
- Regular bonus rates have been maintained.
- No Market Value Reductions apply on any policies.
- Final bonus rates for conventional policies have generally decreased.
- Some final bonus rates for unitised policies have increased and some decreased.

### Impact of the declaration

Some examples of the impact on payouts of this declaration are shown below. Note that when comparing a policy maturing now with one taken out 5 months earlier, the comparison does not only reflect the effect of the current changes to final bonus rates, but also any difference in the amount of regular bonus added whilst each policy was in force and in the original guaranteed benefits. This can result in payouts being lower even when final bonus rates have been maintained or increased.

### 25-year with-profits endowment policies

The table below shows a with-profits mortgage endowment policy taken out in August 1989 by a male aged 30 years next birthday, compared to an equivalent policy taken out 5 months earlier. Premiums to pay for the with-profits endowment benefit are assumed to be £50 a month.

Fund	Maturity Value in March 2014 (£)	Maturity Value in August 2014 (£)
Friends Life FLC (Unitised) <sup>1</sup>	34,603	34,195
Friends Life FP (Conventional)	30,259	30,189

<sup>1</sup> This series benefits from a guaranteed regular bonus of 3%.

## 20-year with-profits pension plans

Unitised with-profits personal pension plan taken out in August 1994 by a male retiring at age 65, paying £200 per month gross, compared to an equivalent plan taken out 5 months earlier. The value of the fund is returned on death before retirement.

Fund	Transfer Value in March 2014 (£)	Maturity Value in August 2014 (£)
Friends Life FLAS	99,760	98,343
Friends Life FLC	100,942	98,900
Friends Life FP <sup>2</sup>	82,593	81,649

<sup>2</sup> This series benefits from a guaranteed regular bonus of 4%.

## With-profits bonds

Unitised with-profits bond taken out in August 1999 with a single premium of £10,000 compared to an equivalent bond taken out 5 months earlier.

Fund	15yr Surrender Value in March 2014 (£)	15yr Surrender Value in August 2014 (£)
Friends Life FLC	19,016	19,367
Friends Life FP	17,818	17,327

## With-profits bonds

Unitised with-profits bond taken out in August 1999 with a single premium of £10,000

Fund	14yr Surrender Value in August 2014 (£)	15yr Surrender Value in August 2014 (£)	Change over last 12 Months
Friends Life FLC	16,901	19,367	14.6
Friends Life FP	16,535	17,327	4.8

## Notes

### With-profits governance

The With-Profits Committee has considered these bonus rates and has assessed them against the Principles and Practices of Financial Management published by Friends Life. The Committee is satisfied that the rates represent reasonable and appropriate application of the company's discretion.

### How with-profits policies work

- A with-profits policy differs from a unit linked policy in that it is not totally reliant on the current value of the underlying assets. This cushion against uncertainty takes the form of the guaranteed benefits and additional regular bonuses, which are guaranteed in certain circumstances even if the market subsequently falls.
- Some with-profits policies give further protection by providing an element of life assurance cover.
- We have a range of bonus series to cater for different product structures and premium rates. These are designed to achieve fairness between policyholders.
- Please note, that as bonus rates are regularly reviewed they may change at any time.
- Future bonuses cannot be guaranteed as they come from profits that have not yet been earned.
- Further details as to how bonus rates are applied can be found in the PPFM summaries on our website.
- Please refer to your policy/plan literature for details of the plan/policy's aims, commitment, its charges and any risks associated with it.