

Friends Life announces with-profits bonus rates

24 February 2017

In January 2017, Friends Life revised bonus rates for its with-profits funds. You'll find a summary of each fund's performance below, and some examples of how the declared bonus rates have affected the value of policies.

2016 overview

Most of the profits of the fund come from investments in shares, property and bonds. During 2016 UK shares were boosted by the Bank of England's announcement of a package of measures including a cut in the base rate aimed at fending off a recession. Company profits also went up due to the dollar strengthening against the pound.

The FTSE 100 share index, a commonly used indicator of the performance of UK shares, showed a total return of 19.07% (Source: Lipper IM, a Thomson Reuters company. FTSE 100 Total Return Index), while UK company bonds returned 10.65%. (Source: Lipper IM, a Thomson Reuters company. Markit iBoxx Sterling Non Gilts Overall TR Index). Commercial property values remained broadly the same.

Against this backdrop, our with-profits funds earned returns ranging from 11.4% to 13.6% before tax in 2016.

Which fund is my policy I invested in?

The 'Which fund' section on our website can help you to work out which with-profits fund your policy is invested in. You can tell if your policy is 'unitised' or 'conventional' from your annual statement. If it shows units and unit prices then you have a unitised policy; otherwise you have a conventional policy.

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

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

- **Fund investment return.** The fund earned a return of 11.4% in 2016 before tax.
- **Target asset mix.** Shares and property are targeted to be 50% of the fund's investments.
- **Regular bonus rates** are increased or unchanged.
- **Final bonus.** Most rates have increased but some rates may have gone down where smoothing[†] applies.
- **No market value reductions** currently apply on any policies.

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

- **Fund investment return.** The fund earned a return of 11.8% in 2016 before tax.
- **Target asset mix.** Shares and property are targeted to be 60% of the fund's investments.
- **Regular bonus rates** are increased or unchanged.

- **Final bonus.** Most rates have increased but some rates may have gone down where smoothing† applies.
- **No market value reductions** currently apply on any policies.

† Smoothing is a process which aims to even out some of the highs and lows in investment values and to cushion our policyholders from large fluctuations in regular and final bonus rates.

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

- **Fund investment return.** The fund earned a return in 2016 of:
 - 11.9% in respect of policies written before 9 July 2001 (pre demutualisation) before tax.
 - 13.6% in respect of policies written after 8 July 2001 (post demutualisation) before tax.
- **Target asset mix.** 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** on unitised with-profits policies have generally been maintained or decreased, with decreases of up to 0.75%. Conventional regular bonus rates have been maintained.
- **Final bonus rates** on conventional policies have generally increased with a few reductions at longer terms. For unitised bonus series most final bonus rates have increased and a few have decreased.
- **No market value reductions** currently apply on any policies.

You can find further information about the assets the funds invest in on our website.

Impact of the declaration

Some examples of policy payouts reflecting the bonus rate changes are shown below.

Product - 25 Year With-Profits	Maturity value in January	Annual
Friends Life FLC (Unitised)	£34,408	6.1%
Friends Life FP (Conventional)	£29,235	5.0%

A with-profits mortgage endowment policy taken out on 1 January 1992* by a male aged 30 next birthday. Premiums to pay for the with-profits endowment benefit are assumed to be £50 a month. The value of the fund is based on a maturity date of 1 January 2017*.

*Date of investment/maturity is 9 January for the Friends Life FLC Fund example.

Product - 20 Year With-Profits	Maturity value in January	Annual Return
Friends Life FLAS	£101,982	7.0%
Friends Life FLC	£118,032	8.3%
Friends Life FP	£88,952	5.8%

A unitised with-profits personal pension plan taken out on 1 January 1997* by a male retiring at age 65, paying £200 per month gross. The value of the fund is based on a retirement date of 1 January 2017*.

**Date of investment/retirement is 9 January for the Friends Life FLC Fund example.*

Product - 15 year With-Profits Bond	Surrender value in January 2017	Annual Return
Friends Life FLC	£21,708	5.3%
Friends Life FP	£20,644	5.0%

A unitised Portfolio Level Option with-profits bond taken out on 1 January 2002* with a single premium of £10,000. The value of the fund is based on a surrender made on 1 January 2017*.

**Date of investment/surrender is 9 January for the Friends Life FLC Fund example.*

The above examples are samples only and they do not necessarily represent any individual policy. Past performance is not a reliable indicator of future performance. The bond and endowment values are after charges and tax. The pension values are after charges and before tax. The 20-year pension value assumes retirement at the selected retirement age, so it benefits from the guarantee of no market value reduction at that time.

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. Some types of with-profits policies offer guarantees that provide a cushion against falling investment markets in certain circumstances. Furthermore, except when bonus rates are changed, the pay-out from a with-profits policy does not vary greatly on a day-to-day basis, as might be the case for a unit linked policy.
- 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. Market Value Reductions (MVRs) may be applied at any time particularly following a large or sustained fall in the stock market.
- Please refer to your policy/plan literature for details of the plan/policy's aims, commitment, its charges and any risks associated with it.