For customers

About our traditional with-profits plans

How we manage the money invested in our traditional with-profits plans and what it means for you if you invest in them.

AEGON

About this guide

You should read this guide if you're invested in one or more traditional with-profits plans from Aegon (a brand name of Scottish Equitable plc). We have the following plans:

Life plans

- Endowment
- Semplan
- Mortgage Matcher
- Flexplan
- 75 Plus
- Whole of Life
- Low-Start Semplan
- ChequePlan
- Semflex
- 10% Plan

Investors in these plans can only pay in regular contributions.

Pension plans

- SEL
- EXSEL
- Retirement Annuity (RAW)
- 10% Plan
- Deferred Annuity

Investors in these plans can pay in both regular and single contributions.

You'll find the name of the plan you've invested in on your yearly statement and/or bonus announcement or you can contact us for details.

Where can I find out more?

We've also produced a detailed technical guide on our with-profits management strategy: Principles and practices of financial management of with-profits business. This is available on our website at aegon.co.uk/with-profits. If you don't have access to the internet, you can get it from us at the address below. If we change our with-profits principles or practices, we'll let you know.

We explain any investment terms as we go through the guide, but there's also a glossary of the terms at the end for easy reference.

If, when you've read this guide to investing in our traditional with-profits plans, you still have questions, you should speak to your financial adviser. If you don't have an adviser, visit moneyhelper.org.uk/choosing-a-financial-adviser to find the right one for you.

We can't give you any advice, but if you'd like more information on the plans or how we run them, please contact us:

Aegon and Scottish Equitable Pensions and Bonds
Sunderland
SR43 4DS

03456 10 00 10

Call charges will vary.

If your personal circumstances mean you need any additional support, or if you'd like a large print, Braille or audio version of this document please visit aegon.co.uk/additionalsupport or call 03456 10 00 10 (call charges will vary).

With-profits

What's a traditional with-profits investment?

In a traditional with-profits investment you share, with the other plan investors, in the profits and losses of all the traditional with-profits plans combined. Profits and losses are generated both from the plans' investments and from investors leaving the plans.

Another key element of a traditional with-profits investment is smoothing. The way this works is that in years when investment returns are good, some return is effectively held back to provide support for years when investment returns aren't so good. This means you have the potential for less variable returns year on year than if you'd invested direct in, for example, the stock market.

Although smoothing means that we spread investment profits from one year to the next, our aim is to pay out all of the investment profits earned by the plans over the long term.

If you leave your plan early, we'll make sure you receive your fair share of your plan's total growth by making an early surrender adjustment and possibly adding a final bonus.

How does it work?

If you invest in a traditional with-profits plan, your money is put with that of other investors in traditional with-profits plans. This 'pooling' of investments generally means you have access to a better spread of assets than if you'd invested on your own. It can also help spread the risk and the costs.

We invest the plans in a mix of company shares (equities), property, fixed interest securities (for example loans to the Government or large corporations) and cash. These different types of investment are known as classes of assets. You can find more details on this in the section 'Where are these with-profits plans invested?'. The return on these investments is paid back into the plans.

Our traditional with-profits plans

What are traditional with-profits plans?

These with-profits plans share out their profits and losses to investors through a system of yearly and final bonuses, including early surrender adjustments if you leave the plan early. Under these plans there are some guarantees of what you'll get back.

Our traditional with-profits plans have different guaranteed rates of return. These guaranteed rates of return only apply if you keep your plan to your chosen maturity or retirement date and vary depending on the type of plan you have. When the plans started the guaranteed rates of return were typically in the range 2% to 5.5% return each year.

Traditional with-profits plans generally account for all our with-profits pensions business taken out before 1984 and our with-profits life business taken out before 1992.

Most of these plans are now closed to new business (in other words they won't accept new investors), but they may still accept contributions from existing investors.

Where are these with-profits plans invested?

Traditional with-profits plans have an investment strategy designed to meet their guarantees. They invest in a mix of different asset types, with the main ones being UK and overseas equities, UK fixed interest securities, property and cash.

These plans have a target range for the percentage they invest in a combination of equities and property (with the equity part also incorporating a small amount of cash). The current target range is 10% to 20%.

Within this target range, we hold a mix of assets to reduce risk. We may vary this range in future if we think it necessary, for example reducing it when the cost of meeting the guarantees is high in comparison with the value of the assets held. You can find details of the current asset mixes by reading our **Traditional With-Profits (TWP) quarterly fund factsheet.** You can find this at aegon.co.uk/funds and select 'Other fund ranges' We update them every three months.

What type of bonuses may be added?

Bonuses are how we pay you your share of the investment profits of your with-profits plan. There are two types of bonus: yearly (also known as annual or regular) and final (also known as terminal).

Yearly bonuses

We set the same yearly bonus for each traditional with-profits life plan and the same yearly bonus for each traditional with-profits pensions plan. The life and pensions yearly bonus rates are likely to be different. We add this bonus to your with-profits investment – it's not paid out to you as a lump sum. Once it's added to your investment it can't be taken back, unless you leave your plan early and then we'll make an adjustment.

We set the yearly bonus rates in arrears (in other words at the end of the year for that year), usually once a year on 31 December. We then add the yearly bonus as a stand-alone payment. If you leave your plan midway through the year, before we've set the bonus rate, we may add an interim yearly bonus to your payout.

It's not always the case that yearly bonuses will be granted and, in certain circumstances, they could equal zero. This is most likely to happen when market conditions are poor or when guarantees become too high compared to smoothed asset shares (see 'Glossary of terms' for definition).

Final bonuses

We may pay out a final bonus when you leave the plan, for example when you cash in your investment or your investment reaches maturity. You're not guaranteed to get a final bonus – it depends on market conditions at that time. You can find more information on this in the section 'How do you decide the bonuses and early surrender adjustments?'.

Early surrender adjustments

If you cash in your plan early, we need to make an adjustment, which will reduce your payout compared with what you'd get if you stayed. This is because guaranteed benefits and yearly bonus additions are based on the assumption that you'll stay until the plan's maturity date or your chosen retirement date and, if applicable, that you'll pay all future contributions.

You can find more information on this in the section 'How do you decide the bonuses and early surrender adjustments?'.

What affects the bonuses that might be added?

Various factors affect how much you'll get in bonuses. These include:

- the performance of the investments – this is the biggest factor affecting how much you'll get;
- the effect of taxation – for example pension plans have to pay less tax than life plans;
- the guaranteed rate of return under your plan and the cost of meeting it (the bonus will be worked out as how much we can afford to give you on top of the guaranteed return);
- the smoothing of investment returns (you can find details on this in the section 'How do you decide the bonuses and early surrender adjustments?');
- early surrender adjustments (you can find details on this in the section 'How do you decide the bonuses and early surrender adjustments?');
- the cost of meeting some other guarantees. For example, we offered minimum pension guarantees (including guaranteed annuity options) under a number of contracts written mainly in the 1970s and 1980s. As people are now on average living longer and interest rates have fallen over time, the cost of meeting these minimum guarantees has increased. This may affect the bonuses paid out to investors, and
- any enhancements from our excess assets, known as the estate (you can find details on this in the section 'What's the estate?').

How do you decide the bonuses and early surrender adjustments?

Smoothed asset share

When deciding our bonuses and early surrender adjustments we use what's known as the smoothed asset share. This is a calculation we do for each policy and is basically a calculation of the income less outgoings. The income includes:

- the value of your contributions paid in;
- the earned investment return – this includes an allowance for smoothing (we currently do this by averaging the actual returns in the one to two years before our calculation and the expected returns in the one to two years after), and
- any enhancements paid in from our excess assets, known as the estate (you can find more details on this in the section 'What's the estate?').

The outgoings include:

- expenses;
- deductions for the cost of future investment guarantees, and
- deduction for contract charges.

We expect that, over the long term, enhancements from the estate will exceed deductions for the cost of future investment guarantees, although we can't guarantee this.

Yearly bonus rates

When we calculate the yearly bonus rates for traditional with-profits plans, we look ahead to the end of the investment term and how we expect the smoothed asset shares to compare with the benefits we've guaranteed to pay you. If we expect the guaranteed benefits to be high in comparison with the smoothed asset shares, we'll set the yearly bonus rate low. If we expect the guaranteed benefits to be low in comparison with the smoothed asset shares, we'll set the yearly bonus rate higher.

This approach to setting yearly bonus rates aims to make sure that we can meet your guaranteed benefit. However, if it turns out that we've been too cautious and the smoothed asset shares end up higher than the guaranteed benefits, you'll get a final bonus to take account of this (see the following section 'Final bonus rates and early surrender adjustments' for more detail on this).

Our traditional with-profits plans – continued

We also need to make sure that yearly bonus rates aren't set at levels that could jeopardise the overall financial position of the company.

Final bonus rates and early surrender adjustments

We apply different rates of final bonus to:

- life plans;
- pensions regular contribution plans, and
- pensions single contribution plans.

We usually review these rates every three months.

We apply different early surrender adjustments to each of the individual plan types within these categories (you'll find a list of our plans in the earlier 'About this guide' section). We usually review these early surrender adjustments every year.

In calculating final bonus rates and early surrender adjustments, we again look at the relationship between smoothed asset shares and guaranteed benefits. For this we group together plans with similar characteristics. For example, we'd normally group together plans that had been in force for the same number of years.

If, when you leave the plan, the smoothed asset shares exceed guaranteed benefits (reduced by any early surrender adjustment if you're leaving early) then you'll get a final bonus. If the guaranteed benefits exceed the smoothed asset shares then you won't get a final bonus.

What if I decide to cash in my investment?

You may decide to cash in your with-profits investment before your planned maturity date, perhaps because you want to take early retirement or transfer your investment to another company.

If you withdraw early from your plan, we'll need to make an early surrender adjustment, which will reduce your payout compared with what you'd get if you stayed. We may also pay you a final bonus.

Given the long-term nature of most insurance contracts, it may not be in your best interests to cash in your investment early.

If you're unclear on this, you can get further advice from your financial adviser.

What are the guarantees?

The guaranteed rates of return were typically in the range 2% to 5.5% each year at the start and will depend on the type of traditional with-profits plan that you have.

Any guarantees are based on the ability of the issuing insurance company – in this case Scottish Equitable plc – to pay them. If, for example, that company no longer existed, then the guarantees it provides would be affected.

Are there any expense risks associated with investing in the funds?

There are no expense risks for you.

When we calculate smoothed asset shares, we deduct an agreed expense that's designed to cover our running costs. If our running costs are higher than expected, we'll pay the shortfall. You won't pay extra so there's no risk to you.

What's the estate?

The estate is the excess of the total assets of all our with-profits business over and above the expected amount needed to settle the cost of all future claims, including the cost of any associated guarantees. As a company, we've no financial interest in the estate. We hold it for the benefit of our with-profits investors and it'll ultimately all be paid out to them through enhancements to the smoothed asset shares, which then impact on final bonuses.

The estate covers the risk of unforeseen circumstances affecting our ability to meet the guarantees to our with-profits investors. If there are no unforeseen events, and the size of the estate is as we predict, then we'll be able to give investors their fair share of the estate through enhancements to smoothed asset shares and in their final payouts.

The estate is also needed to meet part of the expected cost of guarantees, with the balance coming from a monthly deduction taken into account in the smoothed asset share calculations (for more on this see the section 'How do you decide the bonuses and early surrender adjustments?').

As we no longer write new with-profits business with guarantees, such business will decrease in size over time, as will the estate.

Our traditional with-profits plans – continued

What discretion does the company have?

The directors of Scottish Equitable plc have discretion over the key aspects of the operation of traditional with-profits plans, in particular the investment policy, bonuses and early surrender adjustments. However, the Principles and Practices of Financial Management of With-Profits Business (PPFM) tell you how the directors expect to exercise this discretion. If we make any changes to the PPFM, we'll let you know.

Glossary of terms

Contract charges

Charges as defined in your policy conditions booklet (for example, the yearly charge we take from your fund).

Early surrender adjustment

An adjustment we'll apply to your payout if you leave the plan early. This will reduce your payout compared with what you'd have got if you stayed.

Estate

The estate is the excess of the total assets of all our with-profits business over and above the expected amount needed to settle the cost of all future claims, including the cost of any associated guarantees. It's held back to cover the risk of unforeseen circumstances affecting our ability to meet the guarantees to our with-profits investors and it also pays part of the cost of with-profits investment guarantees. It will ultimately all be paid out to with-profits investors.

Final bonus

An additional amount we may add to your payout when you leave.

Guaranteed annuity option

An option under certain pension contracts to convert the fund available at retirement to an annuity on guaranteed terms, as set out in the policy conditions booklet.

Guaranteed benefit

The amount guaranteed to be paid to you at a specific time, such as a sum assured on maturity, or added to your traditional with-profits plan as a yearly bonus. You can find details in your policy conditions booklet as to what these benefits are and when they're to be paid.

Smoothed asset share

This is a calculation we use when setting bonus rates and early surrender adjustments. It's done for each policy and is basically the income, including contributions, investment returns (with an allowance for smoothing) and distributions from the estate, less outgoings, including expenses and deductions for guarantee costs and contract charges.

Yearly bonus

Also known as annual or regular bonus. This is an amount we may add to your with-profits investment. It's a regular addition, normally every year, but as we set the bonus rate every year, the amount will vary from year to year.