

Heritage With-Profits Fund

June 2024

Report to UK With-Profits Policyholders
1 January 2023 to 31 December 2023

Contents

Introduction and Summary	1
Opinion of the Board of Phoenix Life Limited	1.1
Roles and responsibilities	2
Governance	2.1
Role of the With-Profits Actuary	2.2
Role of the With-Profits Committee	2.3
Management of UK With-Profits Business in the Heritage With-Profits Fund and the Exercise of Discretion	3
Opinion of the Board of Phoenix Life Limited	3.1
With-Profits Actuary's Statement	3.2
With-Profits Committee's opinion	3.3
Where to get more information about with-profits	3.4
With-Profits Payout Values	4
Regular bonuses	4.1
Payout bases, including final bonuses	4.2
Smoothing	4.3
Guarantees	4.4
Inherited Estate distributions	4.5
Allocation of expenses	4.6
Errors	4.7
Management of With-Profits Assets & Liabilities	5
New Business	6
Shareholder Cashflows	7
Non-UK Business in the Heritage With-Profits Fund	8
PPFM Review	9

1. Introduction and Summary

This is a report on the operation of UK with-profits business in our Heritage With-Profits Fund. This Section summarises the main conclusions.

We describe how we manage our UK with-profits business in our Principles and Practices of Financial Management, our PPFMs. Standard Life has PPFMs for the:

- Heritage With-Profits Fund, and
- UK Smoothed Managed With-Profits Fund.

This report is about UK business but, as explained in its PPFM, the Heritage With-Profits Fund also has business reinsured into the fund from Standard Life International Designated Activity Company (“SL International”). See Section 8 for more information on this Irish and German business.

We publish our PPFMs, and other documents referred to later in this report, on our website at **standardlife.co.uk/withprofits**

The transfer of Standard Life business to Phoenix Life Limited took place on 27 October 2023.

1.1 Opinion of the Board of Phoenix Life Limited

The Board has reviewed the operation of the UK with-profits business in the Heritage With-Profits Fund. The Board’s opinion is that throughout 2023 this business was managed in accordance with the PPFM for the Heritage With-Profits Fund (“Heritage PPFM”).

It is also the Board’s opinion that the exercise of discretion over the period:

- was appropriate,
- took full account of policyholders’ reasonable expectations,
- maintained fairness between different categories of policy and policyholder, and
- maintained fairness between policyholders and shareholders.

Sections 4 and 5 of this report discuss the main areas where discretion has been applied.

The Board’s opinion takes account of advice from our With-Profits Actuary and With-Profits Committee on all key aspects of the operation of our with-profits business during the period.



You can also get a copy of any of the documents on our with-profits website by calling us on 0345 606 0100. (Call charges may vary.)

2. Roles and responsibilities

2.1 Governance

Each year, the Board of Phoenix Life Limited (the “Board”) reviews whether its with-profits business has been operated in line with its PPFMs. We then report to our UK with-profits policyholders on compliance with the PPFM and on the exercise of discretion. This is the report for the Heritage With-Profits Fund.

During the year, senior managers document any proposals for discretionary actions to be taken in relation to the Heritage With-Profits Fund and those proposals are discussed with the With-Profits Actuary and the With-Profits Committee.

The Board decides on the actions to be taken, after taking into account the views expressed by the With-Profits Actuary, the With-Profits Committee and, for matters affecting non-UK with-profits business, SL International. In some cases the Board delegates this decision-making power to appropriate committees or persons.

2.2 Role of the With-Profits Actuary

The With-Profits Actuary provides advice whenever we are preparing to make key decisions that affect with-profits business. The advice takes account of relevant Principles and Practices as set out in the Heritage PPFM and of the need to ensure the fair treatment of all with-profits policyholders. The Board must have due regard to their advice.

2.3 Role of the With-Profits Committee

The With-Profits Committee exercises independent judgment in advising Phoenix on the management of the with-profits business. In particular, the Committee:

- considers the interest of all with-profits policyholders, both direct and reinsured, and
- advises the Board on achieving fair treatment for those policyholders.

There’s more information on our website about what the With-Profits Committee does and who its members are, see Section 1.

3. Management of UK With-Profits Business in the Heritage With-Profits Fund and the Exercise of Discretion

3.1 Opinion of the Board of Phoenix Life Limited

The Board has reviewed the operation of our UK with-profits business in the Heritage With-Profits Fund. The Board's opinion is that throughout 2023 this business has been managed in accordance with the Heritage PPFM.

It is also the Board's opinion that the exercise of discretion over the period:

- was appropriate,
- took full account of policyholders' reasonable expectations,
- maintained fairness between different categories of policy and policyholder, and
- maintained fairness between policyholders and shareholders.

The Board's opinion takes account of advice from our With-Profits Actuary and With-Profits Committee on all key aspects of the operation of our with-profits business during the period.

3.2 With-Profits Actuary's Statement

Each year we provide a statement from the With-Profits Actuary alongside our report on the operation of our UK with-profits business in the Heritage With-Profits Fund (this report). When producing the statement the With-Profits Actuary reviews our report as well as the discretion exercised during the period it covers. The With-Profits Actuary's statement is annexed to this report.

3.3 With-Profits Committee's opinion

The With-Profits Committee's opinion is that, during 2023:

- the PPFM has been complied with; and
- discretion was exercised in an appropriate manner.

In reaching this conclusion it has relied on the information that we have provided.

3.4 Where to get more information about with-profits

There's more information about with-profits business in our With-Profits guides. You'll find the most up-to-date versions of these on our website, see Section 1.

4. With-Profits Payout Values

The methods we used to set with-profits payouts were consistent with the Heritage PPFM throughout 2023.

Most types of with-profits policy have guarantees, usually a guaranteed amount to be paid on maturity, retirement or death. Over time we may add regular bonuses, which increase the guaranteed amount. In addition, we may pay a final bonus as part of the payout for a with-profits policy. Bonus payments are discretionary. Sometimes the bonus will be zero.

Guarantees may not apply on surrender or transfer.

4.1 Regular bonuses

For the types of with-profits policy which may have regular bonuses we declared new regular bonus rates on 1 February 2023. For unitised with-profits policies with a minimum unit price growth rate of 0% a year, the regular bonus rates were increased by 0.50% p.a. For all other policies the new rates were the same as the rates declared on 1 February 2022.

4.2 Payout bases, including final bonuses

For some types of with-profits policy which may have a final bonus we changed final bonus rates and other payout calculation factors for all types of payouts on 1 February and 1 August 2023. In doing so we took account in each case of investment performance for the relevant asset mix, deductions for costs, and any smoothing applied.

For other types of with-profits policy, whether or not a final bonus may be paid, the payout value was calculated directly for each policy taking account of investment performance for the relevant asset mix, deductions for costs, and any smoothing applied.

For most unitised plans the deductions for charges and costs, other than guarantee costs (see Section 4.4), are comparable with the charges and costs for investment-linked plans. For most other types of plans the deductions allow for a fair share of the expenses incurred (see Section 4.6) and a contribution to capital, as well as for guarantee costs.

For more information about how we set final bonus rates, payout values and declared rates of return, see the With-Profits guides referred to in section 3.4.

4.3 Smoothing

An asset share, which allows for investment performance and deductions, represents the underlying value of a with-profits investment. Smoothing is then the process by which we can even out some of the short-term fluctuations in investment returns to reduce the immediate impact on payouts. Smoothing is a discretionary adjustment and we take account of the need to protect the interests of all policyholders when we decide how much smoothing to provide.

We have stated an aim that smoothed values should be no less than 80% and no more than 125% of asset share. This range is consistent with the way that we normally smooth to try to reduce short-term fluctuations while being fair between all with-profits policies over time. Having chosen this range, we are required by regulations to ensure that at least 90% of maturity and retirement payouts lie within it. We applied smoothing in the normal way during 2023 which aims to comply with this requirement. We carry out regular monitoring to check how payouts compare to asset share.

For some minor lines of business, constituting a small proportion of the with-profits business, we do not calculate asset shares but set payouts by reference to other lines of similar business.

4.4 Guarantees

Most types of with-profits policy have guarantees. Whenever a guarantee applies to a payout we pay at least the guaranteed amount.

The terms and conditions set out in policy documents determine which payouts have guarantees.

Section 4.2 explains that we make deductions for charges and costs when we set final bonus rates, calculate payout values and determine the declared rates of return. One of these deductions is for the costs of guarantees. It varies between types of policy and fund, reflecting the nature of the guarantees provided.

Our assessment of the cost of guarantees fluctuates. For example it tends to increase if the assets backing with-profits policies fall in value. So we adjust the deductions from time to time.

On 6 January 2023 we reduced the rates of deduction to zero for most business sub-funds.

Although most types of with-profits policies contain guarantees there are some types of payouts for which no guarantees apply to the amount payable. For example there are no guarantees for many surrender and transfer claims. In particular, we may reduce the unit price for unitised policies when the fair payout is lower than the value based on the unit price without a reduction.

The policy terms and conditions describe when we can reduce unit prices.

However for certain types of payouts during the period we continued our practice of not reducing unit prices even though we could have done so under the terms of the policy. This was the case, for example, when:

- the proceeds of a pension policy were used, on a date when the guarantee does not apply, to secure retirement benefits
- the payout was from a pension policy after the retirement date chosen at the start of the policy
- the payout was at the maturity date of a life policy where premiums had stopped earlier than originally agreed.

We could change our discretionary practice in future but we'd only do this if it helped to maintain fairness between with-profits investors.

4.5 Inherited Estate distributions

The Heritage With-Profits Fund has an Inherited Estate, the primary role of which is to provide a cushion against the possibility of any unforeseen increase in liabilities. Any excess over the amount needed for this is available for distribution to eligible policies by enhancements to claim values. During 2023 there were small enhancements of up to about 5.9%.

4.6 Allocation of expenses

The only expenses charged to the Heritage With-Profits Fund are those incurred in running it. The amounts charged are reviewed by the With-Profits Actuary to ensure fair treatment of with-profits policyholders. However the effect of the expenses depends on the type of business that they relate to:

- For most unitised plans, the excess of the plan charges we have allowed for over the expenses incurred is normally paid out of the Heritage With-Profits Fund to shareholders each year, see Section 7. So the Fund is unaffected by the amount of the expenses incurred for those plans

- For most other types of plan, the deductions for costs allow for a fair share of the expenses incurred by the Fund. The deductions for costs are set against the expenses that the Heritage With-Profits Fund incurs for these plans and any difference falls to or is met by the Inherited Estate.

Certain exceptional expenses incurred in the operation of the Heritage With-Profits Fund may be met by the Inherited Estate. Such expenses have no direct impact on with-profits payout values but any Inherited Estate distribution enhancement (Section 4.5) may be less as a result.

4.7 Errors

We seek to maintain high administrative standards. However, errors occur from time to time in the operation of with-profits and other types of business. When we discover such errors we correct them. If appropriate, we make additional payments to policyholders whose payouts have been adversely affected by such errors. Also, where appropriate, we put in place extra controls to reduce the risk of future errors.

The aim of the With-Profits Actuary and the With-Profits Committee is to ensure that full consideration is given to the fair treatment of with-profits customers.

We are not aware of any errors during 2023 that would have compromised our compliance with the Heritage PPFM.

Errors can increase costs. We need to ensure that no inappropriate costs fall on policyholders. So, if an exceptionally significant error is identified, it's appropriate to give individual consideration to the proper allocation of the costs in the particular circumstances. We have a set of principles for allocating costs resulting from errors that we use as a guide to help determine when such costs should be met from shareholder funds and when they should be met from the Heritage With-Profits Fund. We also seek advice from the With-Profits Actuary and the With-Profits Committee.

To the extent that it is appropriate to allocate any error costs to the Heritage With-Profits Fund we intend that they will be borne by the Inherited Estate (Section 4.5). In accordance with the above principles no cost should fall on the Fund if it resulted from a failure of our duty of care in managing the Fund.

5. Management of With-Profits Assets and Liabilities

When deciding what asset mix to hold we consider a number of factors, including:

- the extent of guarantees for each class of with-profits policy
- the appropriate balance between risk and expected return, and
- our approach to responsible investment.

Responsible investment means considering environmental, social and governance (ESG) risks and opportunities when deciding where to invest money.

You can find out more about our approach to responsible investing in our Fund Climate Report. You can read our report at standardlife.co.uk/fund-climate-report.

Our aim is to achieve good outcomes for with-profits policyholders by optimising investment returns and providing growth over the long term.

We invest in a wide range of assets including equities, property, bonds, cash deposits and money market instruments. We expect that holding a high proportion of equities and property would produce returns that are relatively high over the long term but more variable over the short term. We expect

that holding a high proportion of bonds and cash would result in returns that are more stable but lower over the long term.

When we invest in assets that tend to have more variable values, such as equities, there's a higher risk that they will have low values when we need to make payouts to policyholders. It's then more likely that the Heritage With-Profits Fund will have to top up these payouts to the level of the guaranteed benefits. To meet the extra cost of this we might then have to increase the guarantee deductions, see section 4.4. Or we might have to make adjustments to payouts for policyholders who are leaving with-profits early to protect the interests of remaining policyholders.

Because of this, the higher the level of guarantees for a class of policy, the more we may need to back it with lower-risk assets such as bonds and cash deposits. And as economic conditions change we have to keep the overall investment in such assets under review.

The table below shows the approximate proportion of equity and property in the asset mix for different types of with-profits business at 31 December 2023. The table also shows the estimated return achieved on the asset mix during 2023:

Class of with-profits business	Equity and property proportion 31.12.2023	Estimated Return*
Stakeholder with-profits pensions	74%	10.4%
Unitised pensions with minimum unit price growth rate of 4% a year	29%	6.9%
Unitised life policies with minimum unit price growth rate of 3% a year		
With-Profits Bond	80%	9.5%
With-Profits Pension Annuities	70%	8.9%
Homeplan and other unitised life plans not included above and other unitised pensions business (excluding investments in the Pension Inflation Plus Fund)	74%	9.4%
Most other with-profits investments	59%	8.0%

* This is the estimated investment return before tax for the period 1 January to 31 December 2023.

We publish up-to-date asset and investment return information on our website, see Section 1.

6. New Business

Apart from increments to existing policies, only a small amount of new business has been written in the fund in recent years and it has no material effect on existing business.

On 27 October 2023 the Heritage With Profits Fund was designated as 'closed' to new business, for the purpose of the Financial Conduct Authority Conduct of Business rules. This did not change how we manage the fund and small amounts of additional business will still be written.

7. Shareholder Cashflows

Shareholders are entitled to certain payments from the Heritage With-Profits Fund. A Court-approved Scheme describes the payments and the conditions that apply to them. The broad effect of these arrangements is that shareholders receive the charges on unitised plans and meet the expenses incurred for these plans.

The shareholder cashflow payment for the six month period ended 31 December 2022 was approved by the Board in March 2023. A payment for the first half of 2023 was approved in August.

There's more detail about shareholder cashflows in the Heritage PPFM.

8. Non-UK Business in the Heritage With-Profits Fund

Some non-UK business is reinsured from SL International into the Fund. There's more detail about this business in the Heritage PPFM.

We manage this business separately, but there is some pooling of risk with UK with-profits business.

This means that the business in any one country can affect the whole Fund and so have some effect on policyholders in other countries. For example, the

size of the Inherited Estate depends on all of the assets of the Fund and all of its liabilities. Also, any adjustment to the level of deductions for the cost of guarantees takes into account the assessed guarantee costs for all with-profits business.

Distributions of the Inherited Estate were made for non-UK business, as for UK business, throughout 2023.

9. PPFM Review

The Heritage PPFM has been maintained in accordance with regulations throughout 2023. We made some minor changes in December 2022 to improve clarity and aid understanding.

During 2023 the Standard Life PPFMs were updated to reflect the transfer to Phoenix Life Limited.

You can find the current version of the PPFM on our website, see Section 1.

Annex

Statement to with-profits policyholders by the With-Profits Actuary

As With-Profits Actuary I advise Phoenix Life Limited (“PLL”) when it exercises its discretion in managing the Standard Life with-profits business, for example in declaring with-profits bonuses. I similarly advised Standard Life Assurance Ltd (“SLAL”) before the transfer to PLL.

Each year I have to provide a statement to UK with-profits policyholders regarding

- the annual report, and
- the discretion exercised in the management of with-profits business.

From my day-to-day involvement in the management of the funds and the information and explanations provided to me more generally by PLL and SLAL, I believe that PLL’s report adequately explains how discretion has been exercised. It is my opinion that the report and the discretion exercised by PLL and SLAL during 2023 took your interests into account in a reasonable and proportionate manner.

In making this statement I have taken account of relevant rules issued by the Financial Conduct Authority and followed applicable professional guidance and standards.

Kate Stewart Roper FFA
With-Profits Actuary

June 2024

www.standardlife.co.uk

Phoenix Life Limited, trading as Standard Life, is registered in England and Wales (1016269) at 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

Phoenix Life Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Phoenix Life Limited uses the Standard Life brand, name and logo, under licence from Phoenix Group Management Services Limited.

HWPF_POLREP 0624 WL000178 © 2024 Phoenix Group Management Services Limited. All rights reserved.