

**Standard Life Assurance Limited**  
June 2021

# Heritage With-Profits Fund

**Report to UK With-Profits Policyholders**  
1 January 2020 to 31 December 2020

**Standard Life**  
There's a lot to look forward to

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## 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. We have 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.

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.)

We publish our PPFMs, and other documents referred to later in this report, on our website at [www.standardlife.co.uk/withprofits](http://www.standardlife.co.uk/withprofits)

### 1.1 Opinion of the Board of Standard Life Assurance 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 2020 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.

## 2. Roles and responsibilities

### 2.1 Governance

Each year, the Board of SLAL (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 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 Standard Life is 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. Standard Life must have due regard to their advice.

### 2.3 Role of the With-Profits Committee

The With-Profits Committee exercises independent judgment in advising Standard Life on the management of its 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.

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

### 3.1 Opinion of the Board of Standard Life Assurance 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 2020 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.

### **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 2020

- 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 2020.

Guarantees may not apply on surrender or transfer.

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.

### **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 2020. For all policies the new rates were the same as the rates declared on 1 February 2019.

## **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 30 January and 30 July 2020. 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 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.

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.

## **4.3 Smoothing**

Our With-Profits guides explain that an asset share, which allows for investment performance and deductions, represents the underlying value of a with-profits investment. It also explains that 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. Smoothing was considered carefully during the market volatility associated with the Coronavirus pandemic.

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. By applying smoothing in the normal way during 2020 we ensured that we complied with this requirement.

For some minor lines of business, constituting a very small proportion of the with-profits business, we do not calculate asset shares but set payouts by reference to other, larger 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. However, we made no change to the rates of deduction in 2020.

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

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.

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 on or 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 2020 there were small enhancements of up to about 3.7%.

#### **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.

We are not aware of any errors during 2020 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.

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.



## 5. Management of With-Profits Assets and Liabilities

When deciding what asset mix to hold we consider

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

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 and cash. 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.

Any change in the asset mix is likely to result in a change in future returns and plan payouts. Over 2020, for all UK business classes other than Stakeholder with-profits pensions, the allocation to equities was increased by 5.0%. This was implemented in two tranches of 2.5%: the first was approved in December 2019 and completed in the first half of 2020 and the second was approved in June 2020 and completed in the second half of the year. This, despite the investment market volatility over 2020, resulted in the value of equities and property as a proportion of total assets being generally higher at the end of 2020 than at the end of 2019.

For Stakeholder business the investment market volatility over 2020, particularly over the first quarter, saw the proportion of equities fall slightly over 2020.

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 2020. The table also shows the estimated return achieved on the asset mix during 2020:

Class of with-profits business	Equity and property proportion 31.12.2020	Estimated Return*
- Stakeholder with-profits pensions	65%	0.3%
- Unitised pensions with minimum unit price growth rate of 4% a year - Unitised life policies with minimum unit price growth rate of 3% a year	30%	2.9%
- With-Profits Bond	81%	-2.9%
- With-Profits Pension Annuities	69%	-1.6%
- Homeplan and other unitised life plans not included above and other unitised pensions business (excluding investments in the Pension Inflation Plus Fund)	75%	-2.7%
- Most other with-profits investments	60%	-1.5%

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

\* This is the estimated investment return before tax for the period 1 January to 31 December 2020.

Over 2020, markets were volatile with UK equities and property both losing value. Bonds and global equities provided positive returns but not sufficient to overcome the losses on UK equities and property for many of the funds. Where a fund had positive performance this was driven by having a lower exposure to equities and in the case of the Stakeholder fund having no property exposure.

## 6. New Business

Apart from increments to existing policies, only a small amount of new business is written in the fund and it has no material effect on existing business. If we stopped selling new with-profits business, we would not expect this to change the way we manage the fund.

## 7. Shareholder Cashflows

Shareholders are entitled to certain payments from the Heritage With-Profits Fund. The Scheme of Demutualisation 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.

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

The shareholder cashflow payment for the six month period ended 31 December 2019 was approved by the Board in February 2020. A payment for the first half of 2020 was approved in August.

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

On 29 March 2019, in preparation for Brexit, the non-UK business of the Heritage With-Profits Fund was transferred from SLAL to SL International and simultaneously reinsured back into the Fund. The terms of the reinsurance arrangement ensure that the non-UK business continues to participate in the Heritage With-Profits Fund.

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 2020.

## **9. PPFM Review**

The Heritage PPFM has been maintained in accordance with regulations throughout 2020. We made some minor changes in December 2020 to improve clarity and aid understanding.

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 Standard Life Assurance Ltd (“SLAL”) when it exercises its discretion in managing its with-profits business, for example in declaring with-profits bonuses.

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

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

From the information and explanations provided to me by SLAL, I believe that SLAL’s report adequately explains how it has fairly exercised its discretion. It is my opinion that the report and the discretion exercised by SLAL during 2020 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 2021

Standard Life Assurance Limited is registered in Scotland (SC286833) at Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.  
Standard Life Assurance Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. [www.standardlife.co.uk](http://www.standardlife.co.uk)

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