

Please note that the following explanation is only relevant to MEP Top-Up Planholders, as defined in the Customer Information Notice from which this website has been accessed.

Glossary of Key Terms

Shortfall Amount	The amount by which the actual proceeds paid on maturity of the plan fall short of the original target amount.				
Maximum Top-Up	This is a fixed amount that was calculated shortly after the MEP was first introduced. It is the excess of the original target amount over the projected maturity value calculated at that time assuming a 6% a year future investment return (after tax) on the assets in which the MEP policy was invested from then until maturity of the policy.				
Basic Amount	The basic amount of top-up which is calculated as a proportion of the Maximum Top-Up (or a proportion of the Shortfall Amount if the 6% a year test is satisfied – see Step 2 below). The proportions vary according to the year in which the plan matures: <table border="0" style="margin-left: 20px;"> <tr> <td style="padding-right: 20px;">2007</td> <td>60%</td> </tr> <tr> <td>2008 and after*</td> <td>Currently estimated between 40% and 60%</td> </tr> </table> <p>*The proportion from 2008 onwards will be influenced by a number of factors and could be outside the range shown.</p>	2007	60%	2008 and after*	Currently estimated between 40% and 60%
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How Top-Ups will be calculated

Step 1 – The Investment Return Test

The actual annualised investment return (the ‘Actual Rate’) on the substantial majority of assets backing most of our UK with profits insurance business for the relevant calculation period is compared against a range of pre-determined investment thresholds as shown in Table 1. The demutualisation scheme envisages that the calculation periods will run from 1st October 2005 to 30 September in each of the years from 2006 up to and including 2020, but allows for calculation periods to run to the end of March, June or December, as well as September, if the Board considers this appropriate to maintain fairness. An example where such action might be taken is where there are large movements in investment markets.

The Actual Rate for an applicable calculation period will be worked out within three months of the end of that period and will take effect no later than the start of the fourth month after the end of that period. The applicable calculation period for your plan is that in respect of which the Actual Rate is effective on the maturity of your plan.

The investment thresholds cover four bands and are referred to as the Cessation Rate, the Reduction Rate, the Accelerated Rate and the Target Rate. Table 2 (see below) describes how the actual return relative to these threshold rates is used in the calculation of top-up amounts.

Table 1

Annual rate of return applicable to calculation periods ending on 30 September															
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Target Rate	20.4%	12.7%	10.1%	8.8%	7.9%	7.4%	7.1%	6.8%	6.5%	6.3%	6.1%	5.9%	5.8%	5.7%	5.6%
Accelerated Rate	8.8%	7.9%	7.4%	7.1%	6.8%	6.5%	6.3%	6.1%	5.9%	5.8%	5.7%	5.6%	5.6%	5.6%	5.5%
Reduction Rate	-12.6%	-4.5%	-1.9%	-0.6%	-0.1%	0.3%	0.6%	0.8%	1.0%	1.2%	1.4%	1.6%	1.7%	1.8%	1.9%
Cessation Rate	-13.7%	-5.1%	-2.3%	-1.0%	-0.3%	0.1%	0.4%	0.7%	0.8%	1.1%	1.3%	1.4%	1.6%	1.7%	1.8%

Note: These rates will be modified slightly if the calculation period ends on any date other than 30 September. For these, the threshold will be a rate which is proportionately between the two rates for the years ending on 30 September either side of this date.

MEP Top-Up Planholders

Step 2 – The 6% a year test

The next step is to carry out the “6% a year test”. This is in accordance with how the MEP was originally defined in 2000.

Is the return on the assets in which the MEP policy is invested greater than or equal to 6% a year, after tax, over the period from 28 September 2000 to the maturity date?

If No The MEP amount cannot exceed the Maximum Top-Up or, if less, the Shortfall Amount.

If Yes The MEP amount could be up to the full Shortfall Amount, even if this is higher than the Maximum Top-Up.

This calculation will be made at maturity of each policy.

The result of the 6% a year test, in combination with the relevant rate of return taken from Table 1, is used to determine the payment as shown in Step 3.

Step 3 – Determine Payment

Table 2

Actual Rate	MEP amount	
	6% a year test satisfied	6% a year test not satisfied
Equals or exceeds Target Rate	Shortfall Amount	Maximum Top-Up or Shortfall Amount, if less
Is greater than the Accelerated Rate but less than or equal to the Target Rate	An amount more than the Basic Amount (See Note 1)	An amount more than the Basic Amount (See Note 1)
Is greater than or equal to the Reduction Rate but less than or equal to the Accelerated Rate	Basic Amount (See Note 1)	Basic Amount (See Note 1)
Is greater than the Cessation Rate but less than the Reduction Rate	An amount more than nil but less than the Basic Amount (See Note 1)	An amount more than nil but less than the Basic Amount (See Note 1)
Is less than or equal to the Cessation Rate	Nil	Nil

Notes

1. The Basic Amount in Table 2 is based on the percentages shown in the Glossary of Key Terms. If the 6% a year test is satisfied, the appropriate percentage is applied to the Shortfall Amount to determine the Basic Amount. If the 6% a year test is not satisfied, the appropriate percentage is applied to the Maximum Top-Up to determine the Basic Amount. The example overleaf illustrates how this will work in practice.
2. Where the MEP amount payable is higher or lower than the Basic Amount, it will be calculated on a pro-rata basis according to how the Actual Rate for the relevant calculation period compares to the investment returns set out in Table 1.
3. The MEP amount payable will never be more than the actual shortfall on the plan.
4. This approach will apply to maturing policies up to 2020. For the relatively small number of policies that mature after 2020 (less than 10% of plans currently eligible for a payment under the MEP), MEP amounts will be broadly similar to those amounts being paid in the period just before 2020. Full details are available on request.
5. Table 2 has been colour-coded to correspond with the threshold rates in Table 1.

Worked example of a calculation of the amount payable in respect of a Top Up MEP Policy under the Mortgage Endowment Promise (where the Actual Rate lies between the Accelerated Rate and the Target Rate)

IMPORTANT NOTE: This example is purely for illustrative purposes. Accordingly, no comparisons should be drawn with this example to predict what, if any, actual payments will be made under the MEP.

Consider a Mortgage Endowment Promise policy maturing in June 2019

The applicable Calculation Period is the period ending 30 September 2018 (assuming this to be the most recent completed Calculation Period prior to the maturity date)

Therefore the Target Rate = 5.8% and the Accelerated Rate = 5.6% (from Table 1)

At the first review after the introduction of the MEP, let us assume that:

- Target amount = £50,000
- Projected maturity value = £46,000
- Therefore the Maximum Top-Up = £4,000 (i.e. £50,000 - £46,000)

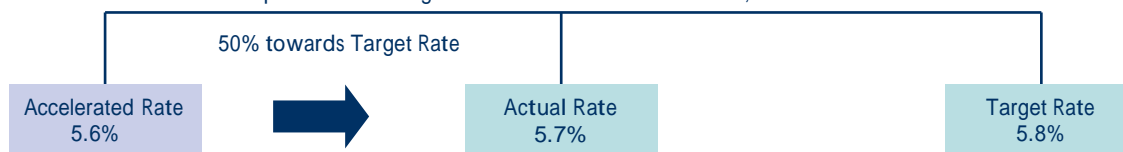
Let us assume further that as at the maturity date:

- Actual maturity proceeds = £42,000
- Therefore the Shortfall Amount = £8,000 (i.e. £50,000 - £42,000)
- The relevant proportion being used to determine the Basic Amount = 50% (i.e. the mid-point of the estimated range 40% to 60%)

The amount payable under the MEP will depend on the Actual Rate

This is the rate of investment return earned on the substantial majority of assets backing most of our UK with profits insurance business from 30 September 2005 to the end of the applicable Calculation Period (30 September 2018). Let us suppose the Actual Rate = 5.7%.

The Actual Rate can be compared to the Target Rate and the Accelerated Rate, as follows:

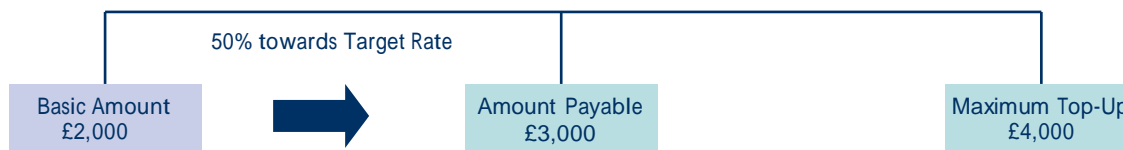


The amount payable will also depend on whether or not the 6% a year test is satisfied

For the 6% a year test to be satisfied the assets in which the policy is invested must have earned, on average, a return of 6% a year from the date the MEP was introduced to the maturity date.

- If the 6% a year test is not satisfied, the Basic Amount is £2,000 (i.e. 50% of £4,000, the Maximum Top-Up)
- If the 6% a year test is satisfied, the Basic Amount is £4,000 (i.e. 50% of £8,000, the Shortfall Amount)

If the 6% a year test is not satisfied, the amount payable will lie between the Basic Amount (£2,000) and the Maximum Top-Up (£4,000), depending on where the Actual Rate lies between the Accelerated Rate and the Target Rate. In this example, the MEP amount payable would be £3,000



If the 6% a year test is satisfied, the amount payable will lie between the Basic Amount (£4,000) and the Shortfall Amount (£8,000), depending on where the Actual Rate lies between the Accelerated Rate and the Target Rate. In this example, the MEP amount payable would be £6,000

