



RNPFN Interest Bearing Policy

Changes to how your policy works

2016



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We've made some changes to how your policy works which means that an additional bonus (referred to as a 'final bonus') may now be added to the value of your policy when it ends. Any final bonus currently applying to your policy is shown in your annual statement.

Following a recent review, we've decided to make your policy eligible for an additional bonus (referred to as a **final bonus**) when it ends, on top of the interest we add to your policy each year. Any final bonus increases the value of your policy and is set in line with the performance of the investments of the RNPFN with-profits fund since you took out the policy. We've done this because we think it better meets the original intention as to how your premiums would be invested when you started your policy. The change gives your policy the potential to deliver a better payout.

Going forward we'll treat your policy as a with-profits policy. In summary this means:

- We'll still add interest to your contributions in the same manner as before. We'll call the total value of your contributions and interest added to date your **interest account**. This amount is guaranteed to be paid when your policy ends. No changes are being made to the interest that's been added to your policy in the past.
- However, we'll also add a final bonus if we can. This would increase the amount payable under your policy. A final bonus is paid when the fair value of your policy, based on the investment returns earned on the RNPFN with-profits fund, is more than the value of your interest account. Please note that final bonuses are not guaranteed, so the total value of your policy can rise or fall (though your interest account won't reduce).
- The final bonus may also include an enhancement to share out any surplus amounts in the RNPFN Fund. While not guaranteed, such an enhancement could be significant.
- We need to take charges from your policy to cover our administration and investment management expenses. The current annual management charge that will apply to your policy will be 0.97% of the fund value. This charge may be varied in the future. We will apply this charge as a deduction from the investment returns we apply to your policy. We'll include the amount of this charge in your future annual statements.
- We'll smooth payouts to protect you from sudden changes in the value of our investments before your policy ends.

What do I need to do now?

You don't need to do anything. If you've any further questions about what this pension policy is, or what changes we're making and why, then please refer to the following pages of this document. If you still have questions then please contact us. You may also want to seek financial advice about this change.

Common questions regarding changes to your RNPFN interest bearing pension policy

What is an RNPFN interest bearing pension policy?

An interest-bearing policy simply means that your policy has an interest account which:

- goes up as contributions are paid
- goes up as we add interest steadily over the year

The interest account is guaranteed to be paid whenever your policy ends.

We now may also add a non-guaranteed final bonus when your policy ends.

Why have you changed the operation of my policy?

RNPFN told you your policy would be invested in a broad range of assets i.e. shares, property, government bonds and other investments. However in recent years the interest added to your policy has been based on the interest rates available on government bonds.

The RNPFN with-profits fund invests in a broad range of assets. As the fund's performance since your policy started has been better than the interest rates available on government bonds, we have decided to invest your policy in it. To allow us to vary the value of your policy so that it reflects the return earned by the fund, we're also making your policy eligible to receive a final bonus when it ends. To make sure you have not lost out, your final bonus will reflect the previous performance of the RNPFN with-profits fund as well as the return it earns in the future. A charge is taken from the returns of the fund for expenses.

When did this change happen?

The change was made on 6 April 2016.

When will I see this change in my annual statement?

Your statement for the period ending 5 April 2016 will reflect this change. Any final bonus currently applying to your policy is included in the statement.

Are there any downsides to this change?

This change means that the current value of your policy is now higher than it was before. It also gives your policy the potential to perform better in the future than it would have done had we not made the change. You should note though that if the investments of the RNPFN with-profits fund perform poorly in the future, then you could receive a lower value when your policy ends than if we had not made the change. However, we consider this to be unlikely. In addition, regardless of the performance of the with-profits fund, you are always guaranteed to receive at least the value of your interest account.

We believe this change is in the best interests of policyholders, however you may want to discuss it with your financial adviser if you are unsure about it.

How will you decide the interest rate applied to my policy?

We aim to add interest to your interest account steadily over the year. When setting interest rates, we take into account expected future investment returns, the relationship between the interest account and value of the investments underlying them, the current and projected financial strength of the fund and past policyholder communications. We review the size of the interest rates we add at least once a year.

The annual interest rate we declared on 6 April 2016 was 0.5%, which is lower than those we have previously declared. This is so that the fund has more freedom to invest in assets with a higher potential for growth and makes it more likely that you will receive a final bonus and that your final payout will be higher than it would otherwise be.

The interest rates we will declare in future are not expected to change significantly from the current level.

How will you decide the final bonus that may apply to my policy?

We want to make sure that you receive a fair return on your policy which reflects the value of the underlying investments. If the interest account is less than a fair return, we'll add a final bonus to increase your payout. We normally review final bonuses four times a year.

Rather than work out the value of each individual policy we look at a sample of policies to decide the level of final bonuses to pay. We decide what level of bonus to pay by:

- comparing the interest account of a sample of policies with the value of the underlying investments of these policies
- considering the current and projected financial strength of the fund, including any commitments to policyholders

The final bonus may also include an enhancement to share out any surplus amounts in the RNPFN Fund. While not guaranteed, such an enhancement could be significant.

Sometimes the final bonus can be a high proportion of the final value of your policy. This is because declaring lower interest rates gives our fund managers more freedom to invest in areas that are likely to offer better returns in the long term.

How do we decide the fair return on your policy?

We want to make sure that every investor receives a fair return. To calculate this we take into account:

- the contributions you've made
- a charge for our expenses
- tax (if applicable)
- the investment returns from the fund

We may add an enhancement to share out any surplus amounts in the RNPFN Fund.

We smooth payouts to protect you from sudden changes in the value of our investments before your policy ends. This also affects your return.

Once your policy reaches the end of its term, we aim to pay out between 80% and 120% of the underlying value of the investments, before smoothing.

After smoothing, our long term aim is to pay out 100% of the underlying value of the investments.

What charges does my policy have?

As with any investment, there are certain costs involved in setting up and looking after a with-profits policy – including commission payments (where relevant), administration costs and other expenses. When we calculate final bonus rates they allow for a charge to cover expenses.

The annual management charge for interest bearing policies is currently 0.80% of the fund value plus actual investment management costs. With the current annual investment management cost being 0.17%, this means the current annual management charge is 0.97%. We reserve the right to vary our charges in future.

We will take the annual management charge as a deduction from the investment returns we apply to your policy. We'll let you know the current charge in your future annual statements.

How do I benefit from smoothing?

We believe it is important for the RNPFN with-profits fund to invest in assets such as shares to increase the potential for growth. However, the downside of such assets is that their value can rise and fall sharply.

We aim to smooth out the effects of some of the rises and falls of our assets in two ways:

- we invest in many different types of assets, limiting the amount invested in any one type, and
- instead of just awarding large bonuses in good years and none at all in bad years, we hold back some of the good years' profit to award policyholders when times are tough. We do this by limiting the change in the payout that can occur at each review of final bonus rates. (We currently review final bonus rates four times a year, with the change in payouts at each review normally limited to 5%)

As an example, if your policy ends on a day when the market fell drastically, the smoothing would help protect you from the sudden drop in value. If the opposite happens and the market rises sharply, the smoothing effect would mean that you wouldn't get the full amount of the rise. So investors in a fund that doesn't use smoothing might see their investments rise and fall more quickly than that of a fund that does use smoothing.

Because we use smoothing, it's possible that when your policy ends, the amount paid out is higher or lower than the underlying value of the investments.

What is the RNPFN Fund?

The RNPFN with-profits fund is part of the RNPFN Fund. The RNPFN Fund contains the business of the Royal National Pension Fund for Nurses (RNPFN) which was transferred to LV= on 31 December 2001. There are other types of policies (unit-linked policies and non-profit policies) in the RNPFN Fund that aren't with-profits.

The aim of the with-profits fund is to give you a fair return on your investment, allowing for any guaranteed benefits. We have different groups of policyholders invested in the fund – with different policies started at different times, and with different terms. We always try to treat policyholders fairly when there are any conflicting interests between them.

There aren't any shareholders in the RNPFN Fund – which means that we use all the profits to benefit RNPFN with-profits policyholders. It is ring-fenced from LV='s other business. All profits and losses in the RNPFN Fund affect RNPFN with-profits policies. With-profits policies may also benefit from an enhancement to share out any surplus amounts in the RNPFN Fund.

LV= is providing a capital support facility to the RNPFN Fund. This means that if the assets of the RNPFN Fund were insufficient to meet its liabilities and regulatory capital requirements, LV= would add assets from its own funds into the RNPFN Fund up to a defined level. The capital support facility provides enhanced security for RNPFN policyholders and greater investment freedom for the Fund. Payouts to RNPFN policyholders are set at a level that recognises there is no intention to distribute the capital support to them. Any capital support added to the RNPFN Fund should be repaid as soon as practical. LV= receives a fee from the RNPFN Fund for providing this facility.

What investments are held by the RNPFN with-profits fund?

Typical investments (or assets) held by the fund include:

- the shares (also known as equities) of UK and overseas companies
- fixed interest securities, such as government bonds and corporate bonds
- cash

There is also a minor amount held in property.

You can find further details of the target and actual mix of investments (or asset allocation) at www.LV.com/rnpfn/asset_allocation. Here you can also find annual investment reports.

Who manages the investments held by the RNPFN with-profits fund?

We set the investment strategy taking into account the current and projected financial strength of the fund and the expected returns available from different types of

investments. We monitor the investment performance regularly and review the strategy in detail at least every three years.

Our current investment manager is Columbia Threadneedle Investments who is a leading investment manager. They are responsible for the day-to-day management of the investments, operating in accordance with our investment strategy.

How do we manage the with-profits fund your policy is invested in?

We manage the RNPFN with-profits fund in accordance with our published Principles and Practices of Financial Management (PPFM). This is a technical document and a customer friendly version is available called 'Your guide to how we manage the RNPFN fund for with-profits business'.

At www.LV.com/rnpfn you'll be able to see the current version of these documents. You'll also be able to see annual reports on how we've managed the fund compared to our PPFM together with annual reviews, investment reports showing the performance of the with-profits fund, and asset allocation information. Please let us know if you'd like us to send you a copy of any of these documents.

Where can I find further information on the RNPFN with-profits fund?

Each year we publish an Investment Report and an Annual Review that provide information on:

- how the with-profits fund and products have performed
- the types of assets the with-profits fund invests in
- investment markets – how they've performed and the economic outlook
- governance arrangements

They are available at www.LV.com/rnpfn.

What is the enhancement to share out any surplus amounts in the RNPFN Fund?

The RNPFN Fund holds surplus money built up from profits from the RNPFN Fund that are in excess of the fund's liabilities. We call this the 'inherited estate'. This money has been building up since the fund started. It's used to support the fund and its day-to-day operations.

We use the inherited estate to benefit RNPFN with-profits policyholders in a number of ways, including:

- to help us smooth with-profits policy payouts
- to give us more freedom to invest in ways we believe will offer better returns

If the inherited estate became relatively small then we might change the way we invest the fund and apply smoothing.

As part of the deal when LV= bought the RNPFN Fund, we're distributing this money over the remaining lifetime of the eligible with-profits policies in the fund, where appropriate, by increasing the final bonus paid when policies end. Only RNPFN with-profits policies taken out on or before 10 July 2001 (or where an application for a policy was made on or before 10 July which was received by 19 July 2001) are eligible to share in this distribution.

If your policy is now eligible for this enhancement, any final bonus we may add will reflect the enhancement.

Who looks after the interests of RNPFN policyholders?

The interests of the policyholders in the RNPFN Fund are looked after by a Supervisory Board set up at the time that LV= acquired the RNPFN business. The Supervisory Board monitors the management of the fund, including the investment and bonus policies, against the requirements agreed when the business was acquired. It includes three members who are independent of LV=.

The Supervisory Board also acts as the With-Profits Committee for the fund. In this capacity, it reviews the way discretion is exercised in relation to the with-profits business in the fund. In addition, it monitors compliance with the Principles and Practices of Financial Management ('PPFM').

The Supervisory Board have reviewed, and are comfortable with, this change to how your policy works.

What do I need to do now?

You don't need to do anything. If you have any further questions then please contact us. You may also want to seek financial advice regarding the change.

You can get this and other documents from us in Braille, large print or on audio by contacting us.



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