

## Liverpool Victoria Friendly Society Limited – PPFM

### Summary of Changes

The LVFS PPFM was first published on 30 April 2004.

#### Changes in Version 16.2 – 1 June 2019

The following material changes have been made:

<b>Paragraph</b>	<b>Change</b>
Practice 2.2.3	An amendment has been made to reflect a change to how final bonus rates are calculated for conventional with-profits whole-of-life policies. They are now calculated by grouping policies using their calendar year of entry.
Practice 5.2.2	An amendment has been made to reflect that a change to how smoothing is performed for conventional with-profits whole-of-life policies. For these policies smoothing is now normally applied by limiting the change in final bonus rates at a single review so that the immediate change in payout does not change by more than 5% (excluding new amounts added in respect of Mutual Bonus).

## Changes in Version 16.1 – 1 March 2019

The following material changes have been made:

<b>Paragraph</b>	<b>Change</b>
Practice 2.2.3	An amendment has been made in respect of a change to how final bonus rates are calculated for Ordinary Branch conventional whole-of-life policies. They are now calculated as the ratio of the aggregate projected Asset Share to the aggregate guaranteed benefits for those policies expected to claim during the period in question.
Practice 4.2.2	An amendment has been made to reflect that final bonus rates for conventional life policies will be reviewed quarterly from 1 March 2019, rather than annually. Conventional pension policies will continue to be reviewed annually.
Practice 6.2.5	The practice where, following the declaration of a new scale of final bonus rates for conventional life with-profits policies and top-up bonus rates for With Profits Pension Annuity policies, projected claim amounts were transferred out of the relevant Asset Pool and invested in cash or similar assets, has ceased. Therefore the content of 6.2.5 (which detailed this practice) has been removed with subsequent Practices renumbered.

## Changes in Version 15.1 – 1 August 2018

The contents of the separate PPFM that was used for Flexible Guarantee Bond, Flexible Guarantee Funds, Flexi Guarantee Plan, All-in-1 Investment Bond and Guaranteed Capital Bond from 1 November 2011 have been incorporated into this PPFM. Changes resulting from this, and also from various reorganisations of practices, from introducing signposting of the different policy types, minor rewording of practices and cosmetic changes are not shown in the list of changes below.

The following material changes have been made:

Paragraph	Change
2.2.13	A new practice has been added to clarify that some conventional with-profits policies were treated as non-profit from the time premiums ceased and that from 2001 the Board decided to fully treat them as with-profits.
2.2.16	The practice regarding the fact that the LVFS Fund is managed with the long term aim of making total aggregate maturity payouts of 100% of asset share (where that is used) has been amended to reflect the aim is on all types of payouts.
2.2.17	The practices regarding the target range of Asset Share have been amended to reflect the actual current practice that the target range generally applies to all maturity, transfer, surrender and death payouts. The following other changes were made: <ul style="list-style-type: none"> <li>• A rationale for the target range has been added.</li> <li>• The circumstances when payouts outside target range can occur have been clarified.</li> <li>• The wording regarding how payouts on conventional policies are assessed against target range has been simplified.</li> </ul>
2.2.18	A new practice has been added to clarify the circumstances when target ranges are not deemed to apply though asset shares are used as a guide to payouts.
3.2.2/3.2.3/ 3.2.4	The methods used to check whether annual bonus rates for unitised products need to be changed more frequently than annually, whether interim bonus rates need to be changed and the amount by which annual bonus rates can change over a twelve month period have been simplified.
3.2.5	This paragraph has been added to clarify that annual bonus rates for Flexible Whole Life Policies are set with the aim of paying out the Asset Share given no final bonus applies to these policies.
5.2.1	A change has been made to reflect the new practice of monitoring the accumulated cost of smoothing under Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2 policies with the intention of removing smoothing subject to the fair treatment of the policyholders concerned should the accumulated cost reach an amount that is agreed by the Board.
7.2.4	An addition has been made to the practice to reflect that smoothing profits and losses on policies may contribute to any Mutual Bonus. A change has been made for Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2 policies to clarify that while Mutual Bonus is expected to be zero at shorter policy durations, consideration would then be given to paying a Mutual Bonus.

The following other changes have been made:

Paragraph	Change
1.1	The fact that the Society is bound by its Memorandum of Association and its Rules has been added.
1.1 & throughout	The structure of the Society has been clarified. There is a main fund (the

Paragraph	Change
	subject of this PPFM which is now called the “LVFS Fund” throughout it), the ring-fenced RNPFN Fund and the ring-fenced Teachers Assurance Fund. Various amendments (including to Principles) have been made to clarify the scope of the document is for policies in the LVFS Fund.
1.2	The “Purpose of this document” section has been rewritten for clarity.
1.3 & Appendix 2	The “Scope of this document” (previously “Policies covered”) has been rewritten to detail the different groups of policy types covered by the document, with full detail of all the policy types being added as Appendix 2.
1.4-1.7 & Schedule	Minor changes have been made to clarify how changes to the PPFM are communicated and that the WPC provides “independent advice” to the Board (rather than “independent judgement”).
2.2.3	A description of how final bonus rates are added to conventional with-profits policies has been added, with superfluous wording on how sample policies are set removed.
2.2.4	The list of policy types where Asset Share is not used to set payouts has been expanded. The reference to conventional pension policies has been removed given the reference to them added to 2.2.17.
2.2.7	Duplicate information regarding where asset mixes can be found on LV.com (also included in section 6) has been removed.
2.2.8	The practice on how expenses are proportioned across all policies in the Society has been updated to reflect current practice. For consistency, minor updates to how expenses are referred to have also been made in 2.2.6 and 8.2.3.
2.2.11	A minor amendment has been made to the practice to clarify that some policies have charges for morbidity benefits, and that with-profits annuity policy asset shares (and hence payouts) reflect the Society’s own and industry mortality experience.
2.2.12	The fact that there are explicit charges for the cost of term-related guarantees for second generation unitised with-profits policies has been clarified.
2.2.15	Detail of how guarantees and switching operate for FGB-style policies has been added for clarity.
2.2.19/ 2.2.20	The practice regarding how the Society documents the methods, parameters and assumptions used to determine payouts and the practice regarding how changes to them can be made have been updated to reflect current practice.
3.2.7	A practice has been added to clarify that second generation unitised policies do not receive an annual bonus.
4.1.1	This Principle has been amended to clarify that top-up bonus rates are paid on certain policies.
4.2.1	This practice has been amended to clarify the types of policies that final bonus may be applied to. In addition, the text regarding the degree to which total payouts on transfer and surrender can reflect the methods stated in section 2 of the PPFM has been removed.
4.2.3/ 5.2.6	The current practice of updating the surrender basis for conventional endowments every time a new set of final bonus rates are declared has been added to 4.2.3. In conjunction with this, the practice regarding applying surrender and transfer bases on a reasonably broad basis so as to avoid continual adjustments (previously in 5.2.6) has been removed.
4.2.5	A minor amendment has been made to the practice to clarify that final bonus rates for old-style unitised policies and APP policies are calculated mechanically as often as required.
4.2.7	A new practice has been added to clarify that final bonus rates are not applied to Flexible Whole Life policies and FGB-style policies, and that top-

Paragraph	Change
	up bonuses are not applied to Pension Income Plus Annuity policies.
5.2.2	<p>The following amendments have been made</p> <ul style="list-style-type: none"> <li>• The practice of ensuring that changes in payouts do not change by more than 20% for conventional life policies has been moved to this practice from what was practice 5.2.3.</li> <li>• The practice of introducing new pricing series for new first generation unitised products has been updated to reflect this now only applies to top-ups (given no new first generation products are envisaged).</li> <li>• For second generation unitised policies, the wording that the payments are subject to any guaranteed minimum amount have been removed as this is now reflected in 2.2.17.</li> <li>• It is clarified that, for second generation unitised policies, smoothing is not removed for death and terminal illness claims after 26 weeks.</li> <li>• Wording noting other aspects of experience are not smoothed for various policies types has been removed.</li> </ul>
5.2.3	It has been clarified that Flexible Whole Life policies and all first generation unitised policies can have a Market Value Reduction (MVR) applied, but current practice is only to apply MVRs on first generation unitised bonds.
5.2.4	It has been clarified that that the Society applies the same approach to smoothing for each type of claim (subject to the distinctions in 5.2.2 and 5.2.3).
6.1.6, 7.2.1	This Principle has been updated to reflect that the Society does not own office buildings, to remove a reference to “other companies with the Liverpool Victoria group” (given subsidiaries are mentioned in the practice) and to remove detail on why the Society holds office buildings or subsidiaries. Wording in paragraph 7.2.1 regarding “related group companies” has also been removed.
6.2.1/6.2.9	Minor amendment to reflect the current governance structure of the Society for approving investment decisions.
6.2.2	This paragraph has been updated to reflect the current practice that the Society seeks to maintain a reasonable level of liquidity in either cash or short term credit to meet policy payouts as they arise.
6.2.4	Minor amendment to clarify that while there is a formal management action to reduce the proportion invested in equities for the main asset share pool and for the asset pool backing With Profit Income Bonds, that the Society also reserves the right to do so for the asset pools for second generation unitised policies.
6.2.10	An update has been made to reflect that the Society does not wholly own the General Insurance business.
7.2.2	Minor amendments have been made to remove the wording that the RNPFN Fund is a ring-fenced fund (now mentioned in paragraph 1.1) and that a charge is levied by the Society on the RNPFN Fund for its capital support facility.
8.2.2/8.2.3	Additional wording has been included to clarify that charges on unitised, accumulating and with-profit annuity policies are deducted from Asset Shares in accordance with paragraphs 2.2.6 and 8.1.1. It is clarified that VAT may be charged on investment management expenses. The wording regarding how charges to conventional pension policies are applied has been made clearer.
8.2.4	The content of this practice now just refers to paragraph 2.2.8, rather than duplicating it.
8.2.6	This practice has been amended to clarify that only the more material out-sourced services are either for fixed terms or contain termination provisions or are able to be exited immediately.

<b>Paragraph</b>	<b>Change</b>
8.2.7	This practice has been updated to clarify that certain specialised assets are out-sourced to an asset manager other than CTI and that these are not used for the asset pools backing with-profits policies.
8.2.8	A minor amendment has been made to clarify that the Society exercises judgement in apportioning expenses between the LVFS Fund, the RNPFN Fund and the Teachers Assurance Fund.
9.1.4	Minor amendment to a Principle to clarify that the size of the inherited estate will influence smoothing and the level of discretionary benefits. This was already implicit in the wording of the rest of the Principle.
9.2.3	Minor amendment to clarify that it is the Life Chief Actuary (as well as the With-Profits Actuary) who advises the Board regarding excess surplus.
10.2.1	Minor amendment to clarify that the Board monitors the current and projected financial strength of the LVFS Fund to determine the "volume" (rather than "maximum volume") of new business accepted into the fund.
Schedule	A minor amendment to reflect the current composition of the With-Profits Committee.
Appendix 1 Glossary	Various definitions have been expanded to provide more detail. Definitions of "non-profit policy" and "Life Chief Actuary" have been added and the definition of "with-profits annuities" has been removed (as it is now in Appendix 2).

The changes to Principles mentioned above are not material, being minor amendments to them to bring them up to date or for clarification purposes.

## Changes in Version 14.2 – 1 April 2018

The following material changes have been made:

<b>Paragraph</b>	<b>Change</b>
Practice 2.2.1	An amendment has been made to reflect that asset shares used for the lump sum benefits for conventional with-profits pension policies are calculated using an individual policy approach.
Practice 2.2.2	An amendment has been made to reflect that lump sum payments on conventional with-profits pension policies are subject to a minimum amount in accordance with the Practice 2.2.13.
Practices 2.2.3 & 8.2.1	Amendments have been made to reflect a change to how expenses incurred from 1 April 2018 are applied to conventional with-profits pension policy asset shares.
Practice 2.2.13	Practice 2.2.13 has been replaced with detail of the lump sum basis for conventional with-profits pension policies to apply from 1 April 2018. It also includes a requirement for an annual review of the basis used to calculate the minimum amount paid and whether it should be removed. The previous Practice 2.2.13 is renumbered 2.2.14.
Practice 5.2.2	An amendment has been made to reflect the smoothing approach to be used for conventional with-profits pension policies from 1 April 2018.

The following other changes have been made:

<b>Paragraph</b>	<b>Change</b>
Practice 2.2.12	An amendment has been made to clarify that mortality rebates are applied to the asset shares of conventional with-profits pension policies as this was not explicitly mentioned before.
Practice 4.2.3	An amendment has been made to clarify that now only conventional endowment policies have a formulaic surrender basis.
Practice 4.2.5	This Practice has been added to clarify that for conventional with-profits pension policies, final bonus only applies if an annuity is taken, to clarify that such final bonus is expected to be zero and to state that the minimum of the transfer value described in paragraph 2.2.13 does not apply in the asset share used to assess any such final bonus.
Practice 5.2.3	An amendment has been made to clarify that the 20% limit on payouts does not apply to conventional with-profits pension policies.
Practice 6.2.5	An amendment has been made to clarify that this Practice does not apply to conventional with-profits pension policies.

## Changes in Version 14.1 – 1 March 2018

The following material changes have been made:

<b>Paragraph</b>	<b>Change</b>
Practice 2.2.1	An amendment has been made in respect of a change to how final bonus rates are calculated for conventional IB whole-of-life policies. They are now calculated as the ratio of the aggregate projected Asset Share to the aggregate guaranteed benefits for those policies expected to claim during the period in question. The wording in respect of how final bonus rates are calculated for other conventional policies has been amended for clarity.

## Changes in Version 13.2 – 1 December 2017

The following material changes have been made:

Paragraph	Change
Practice 7.2.4	An amendment has been made to state that the level and form of the Mutual Bonus declaration can take into account the contribution made by the policies concerned to the Society. An example of such a contribution has been added, namely the risks taken in supporting the establishment and growth of the trading business.

The following other changes have been made:

Paragraph	Change
Introduction	The requirement to certify each year to the FCA that the Society's with-profits business has been managed in accordance with its PPFM has been removed. This is no longer required under the current Solvency regime.
Practice 2.2.2	It has been clarified that no past allocations of Miscellaneous Surpluses have been removed.
Practice 2.2.3 & Practice 2.2.4	For clarity these practices have been reorganised. Also for clarity the reference to different expense assumptions and use of average premiums for conventional whole-of-life and endowments has been removed as they are not relevant.
Practice 2.2.7	An amendment has been made to make it clear that the With Profits Income Bond has a different asset pool to the other policies covered by this PPFM.
Practice 6.2.1	An amendment has been made to clarify that it is the investment strategy of Asset Pools that are reviewed at least every three years.
Practice 6.2.2	An amendment has been made to clarify that different asset mixes are held in respect of the liabilities of the Society's policies not covered by this PPFM. An amendment has been made to clarify that the assets actually held for conventional with-profit pensions and the With Profits Income Bonds differ from those underlying the Asset Pool that these policies are held in.
Practice 7.2.4	An amendment has been made to clarify that Miscellaneous Surplus is now allocated as Mutual Bonus.
Glossary	An amendment has been made to the definition of Asset Pool.

The above list excludes a few minor amendments of a largely cosmetic nature.

### Changes in Version 13.1 – 1 May 2017

The following material changes have been made:

<b>Paragraph</b>	<b>Change</b>
Principle 8.1.1 & Practice 2.2.3	An amendment has been made to clarify that a fund-based charge can be applied to accumulating with-profits Appropriate Personal Pension Plans.
Practice 8.2.1	An amendment has been made to reflect that from 1 May 2017 a fund-based charge is applied to accumulating with-profits Appropriate Personal Pension Plans, and that it is equal to the actual investment costs and any performance fee paid to the asset manager.

The following other changes have been made:

<b>Paragraph</b>	<b>Change</b>
Practice 8.2.1	An amendment has been made to clarify that any performance fee paid to the asset manager is included in the expenses applied to conventional with-profits policies.

## Changes in Version 12.0 – 1 December 2016

The following material changes have been made:

Paragraph	Change
Practice 6.2.6	An amendment has been made to reflect a new regulation that, from the introduction of Solvency II, requires strategic investments (such as the Society's investment in its general insurance business) to be made in the best interests of all the Society's with-profits and non-profit policyholders.
Practice 7.2.2	An amendment has been made to reflect the change following the introduction of Solvency II that the RNPFN capital support facility will now be called on if the RNPFN Fund fails to cover its own Solvency Capital Requirement.

The following other changes have been made:

Paragraph	Change
Introduction 1.2	An amendment has been made to confirm that with-profits policies in the Teachers Assurance Fund are excluded from the products covered by this PPFM.
Practice 2.2.2	An amendment has been made to clarify that past allocations of miscellaneous surplus, if removed, may subsequently be reinstated if the Board considers it appropriate.
Practice 2.2.2	The examples of the types of policy where payouts are not set with reference to asset share have been clarified.
Practice 2.2.3	An amendment has been made to clarify that for unitised and accumulating policies, although the charges are those set out in the policy documentation, the investment return is based on actual experience.
Practice 2.2.7	An amendment has been made to clarify that target ranges do not apply when asset shares are not used to set final bonus rates.
Practice 3.2.1	An amendment has been made to clarify that regard is had to current gilt yields when setting annual bonus rates for With Profits Pension Annuity policies.
Principle 4.1.1 & Practice 4.2.1	The text referring to guaranteed benefits plus final bonus has been removed as it is not relevant to surrenders and transfers.
Practice 4.2.3	An amendment has been made to clarify that formulaic surrender or transfer bases only apply to conventional policies.
Practice 7.2.2	An amendment has been made to clarify that the RNPFN contingent loan can increase as well as decrease and that a £100 million cap applies.
Schedule	The composition of the With-Profits Committee has been updated.
Glossary	A minor amendment has been made to the definition of annual bonus. Definitions of Accumulating With-Profits Policy, Policyholder and Solvency Capital Requirement have been added.
Throughout	For the avoidance of doubt, where necessary, amendments have been made to clarify whether policies referred to in the PPFM are those with-profits policies covered by the PPFM or are other policies insured by the Society.

The above list excludes a few minor amendments of a largely cosmetic nature.

## Changes in Version 11.0 – 1 December 2015

The following material changes have been made:

(a) PRACTICE 2.2.2

- The wording has been amended to indicate that Mutual Bonus is likely to be removed from Asset Shares ahead of other forms of Miscellaneous Surplus.

(b) PRACTICE 3.2.1

- The wording has been amended to reflect the removal of the formal link with gilt yields and expected future investment returns when setting annual bonus rates. Expected future investment returns however are still included as one of the factors taken into account when rates are set (along with the relationship between asset shares and guaranteed policy benefits, current and projected financial strength and past communications made to policyholders).

(c) PRACTICE 6.2.1

- The wording has been amended to reflect a change in frequency of reviews of the long-term investment strategy for with-profit business. Detailed reviews are now expected to be performed at least every three years, with less detailed reviews at approximately annual intervals.

(d) PRACTICE 6.2.3

- The wording has been amended to make it clear that the Society anticipates reducing the proportion of Asset Shares invested in equities on a sharp fall in equity markets.

The following other changes have been made:

(e) PRACTICE 2.2.1

- A minor improvement has been made to the wording.

(f) PRACTICE 2.2.2

- The description of those methods of setting payouts that are not based on asset shares has been made more comprehensive.

(g) PRACTICE 2.2.3

- The description of the expense deductions made to the asset shares under unitised and accumulating with-profit policies has been amended so as to clarify its meaning.

(h) PRACTICE 3.2.1

- The wording regarding how the relationship between asset share and smoothed asset share affects the With Profits Pension Annuity policies (Series 3 onward) has been clarified.

(i) PRACTICE 4.2.3

- The description of final bonus in formulaic surrender and transfer bases has been clarified.
- (j) PRACTICE 5.2.3
- The wording has been amended to clarify how the 20% limit on the change in payouts from one year to the next operates.
- (k) PRACTICE 6.2.3
- The wording has been amended to reflect that benchmark asset mixes for with-profit asset shares are now available on the Society's web-site.
- (l) PRACTICE 6.2.5
- The wording has clarified that surrenders are not included in the projected claim payments transferred out of the relevant Asset Pool.
- (m) PRACTICE 6.2.6
- A new practice has been added to explain that the Board reviews that its investment in the General Insurance business is likely to have no adverse effects on the interest of the Society's with-profits policyholders at approximately annual intervals.
- (n) PRACTICE 7.2.2
- The description of the capital support facility that the Society makes available to the RNPFN Fund has been expanded.
- (o) PRACTICE 8.2.5
- The wording has been amended to reflect a change in name of the company to which the Society currently outsources the investment management of its assets. Threadneedle Asset Management is now known as Columbia Threadneedle Investments.
- (p) GLOSSARY
- Improvements have been made to the definitions of Miscellaneous Surplus and Mutual Bonus. A definition has been added for Trading Business.

The above list excludes a few minor improvements.

## **Changes in Version 10.0 – 1 October 2014**

No material changes have been made. The following other changes have been made:

(a) INTRODUCTION 1.2

- The range of products outside the scope of the PPFM has been widened to include the new Flexible Guarantee Funds product.

(b) PRACTICE 2.2.2

- The wording has been modified to make it clear that the ability to reduce or remove past miscellaneous surplus additions includes any investment return added to them.

(c) PRACTICE 3.2.2

- A minor amendment has been made to clarify that only regular bonus rates under unitised with-profit policies can be reset between annual reviews. The description of the trigger for the reset has also been clarified. Similar changes have been made to Practices 3.2.3 and 3.2.4.

(d) PRACTICES 5.2.2 and 7.2.1

- Minor improvements have been made to the wording.

(e) GLOSSARY

- A definition of "Interim Bonus" has been added.

## Changes in Version 9.0 – 1 October 2013

The following material changes have been made:

(a) PRACTICE 2.2.12

- A new paragraph has been added to make it clear that payments under the subordinated debt raised by the Society in May 2013 rank behind discretionary as well as guaranteed benefits under with-profit policies.

(b) PRINCIPLE 10.1.1

- The wording has been brought into line with new requirements introduced in 2012 regarding the circumstances in which new business can be accepted into the with-profits fund.

The following other changes have been made:

(c) INTRODUCTION 1.1

- An amendment has been made to reflect the replacement of the Financial Services Authority with the Prudential Regulation Authority and the Financial Conduct Authority. Similar changes have been made to paragraphs 1.3 and 1.7 of the same section.

(d) INTRODUCTION 1.5

- The sentence "There are no restrictions on the Society's ability to change the Practices" has been deleted as it duplicated the previous sentence.

(e) PRACTICE 2.2.2

- An improvement has been made to the wording which explains that miscellaneous surpluses are not permanent additions to Asset Shares.

(f) PRACTICE 2.2.7

- Additional text has been added to highlight that payouts under unitised with-profit policies might at times fall outside the target range, due to the process used to smooth the payouts for these policies.

(g) PRINCIPLES 5.1.1 and 5.1.2

- Improvements to the wording have been made (and order of these paragraphs reversed) to make it clearer what is meant by the term "smoothing".

(h) PRACTICE 5.2.3

- Additional text has been inserted to make it clear that the maximum change in payouts of 20% over a one-year period is before allowing for the impact of mutual bonus.

(i) SCHEDULE

- Minor improvements have been made to the wording. The description of the With-Profits Committee has also been updated.

(j) GLOSSARY

- The definition of "Conventional With-Profits Policy" has been improved and a high-level definition of "Subordinated Debt" added.

The above list excludes a few minor clarifications and improvements.

## Changes in Version 8.0 – 1 October 2012

The design of the document has been enhanced so that each set of Principles is accompanied by the corresponding set of Practices, rather than listing all the Principles followed by all the Practices as in previous versions. As a consequence, the numbering of the paragraphs in the document has changed. The following other changes have been made (using the new numbering):

(a) PRACTICE 2.2.3

- The wording has been amended to reflect the launch of another with-profits annuity product, the Pension Income Plus Annuity. A similar change has been made to Practices 2.2.11 and 5.2.2.
- The wording has been clarified to reflect that information on product charges can appear in documents other than policy conditions and key features. A similar change has been made to Principle 8.1.1. The wording has also been clarified to cover changes to charges that are made in accordance with these documents.

(b) PRACTICE 2.2.7

- The statement that payouts target between 95% and 105% of the smoothed asset share has been deleted, as a target of 100% applies in practice.

(c) PRACTICE 2.2.8

- The paragraph has been clarified to reflect the fact that product charges rather than actual costs are allocated to asset shares under with-profit annuities. A similar change has been made to Principles 8.1.1 and 8.1.2, and to Practice 8.2.2.

(d) PRACTICE 3.2.1

- The statement that the annual bonus rate under the Flexible Whole Life Plan is set to 80% of the expected future investment return has been deleted as the current practice is to target payouts at the underlying asset share.

(e) PRACTICE 3.2.5

- A new Practice has been added to reflect that Pension Income Plus Annuity policies do not receive annual or final bonuses, but instead their level of income is varied through the use of a "declared investment return". A similar change has been made to Practice 4.2.1.

(f) PRACTICE 4.2.4

- The restriction on changing final bonus rates at a mid-year review only if the payout moves by at least 5% has been deleted as it was difficult to interpret in practice.

(g) PRACTICE 5.2.2

- A new paragraph has been added to describe the smoothing approach used for Pension Income Plus Annuity policies.

(h) PRACTICE 6.2.5

- A new Practice has been added to reflect that following the declaration of a new scale of final bonus rates for conventional with-profits policies, the claim payments projected to be made on that scale are now invested in cash or similar assets.

(i) PRACTICE 8.2.4

- The sentence saying that fixed term outsourcing contracts contain a clause allowing them to be terminated with the payment of compensation to the outsourcer has been deleted as it no longer applicable.

(j) PRINCIPLE 9.1.3

- The statement that the Society does not set a target range for the inherited estate has been amended to be consistent with the current practice of monitoring the ratio of the Society's capital resources to the level of capital it is required to hold against an agreed range.

(k) SCHEDULE

- The wording has been amended to reflect a change in the membership of the With-Profits Committee.

(l) GLOSSARY

- Three new definitions have been added: "Declared Investment Return", "Top-up Bonus" and "With-profits annuities".

## **Changes in Version 7.4 – 1 March 2012**

The following material changes have been made.

(a) PRACTICES paragraph 3.1.1

- This section now details that bonus rates for Industrial Branch whole-of-life policies with entry dates prior to 1980 are set to the rate for a taxable whole-of-life policy with an entry date in 1980.

(b) PRACTICES paragraph 3.1.6

- The section has been updated to reflect that the Society aims to make payouts on maturing, surrendering and transferring policies that are between 80% and 120% of Asset Share.

## **Changes in Version 7.3 – 1 November 2011**

References to the Flexible Guarantee Bond, Flexi Guarantee Plan, All-in-1 Investment Bond and the Guaranteed Capital Bond have been removed from this PPFM. These products now have their own PPFM. Details of a few minor amendments of a largely cosmetic nature have been omitted.

The PPFM has been updated to take into account the outsourcing of the investment management of the With-Profits Fund to Threadneedle Asset Management.

The following material changes have been made.

(a) PRACTICES paragraph 3.1.1

- From 2011 the distribution of miscellaneous surpluses is by way of mutual bonus.

(b) PRACTICES paragraph 3.4.3

- Changes in payouts on conventional whole-of-life policies are now smoothed. This differs from the past practice of smoothing investment returns used to determine the payouts.
- Clarification that the amount payable under UWP bonds may be reduced if actual investment returns fall sufficiently below smoothed investment returns.

(c) PRACTICES paragraph 3.4.6

- A new section has been added clarifying when a Market Value Reduction may arise.

(d) PRACTICES paragraph 3.6.3

- A new section has been added reflecting the introduction of mutual bonus, replacing the previous sections on distributing profits and losses.

(e) PRACTICES paragraph 3.7.1

- The examples of types of charges that may be applied to policies have been removed.

(f) GLOSSARY

- The definition of regular bonus has been replaced with one of annual bonus. A definition of mutual bonus has also been added.

## **Changes in Version 7.2 – 1 June 2011**

### (a) PRACTICES paragraph 3.1.1

- The Society's ability to allocate surpluses from business risks has been clarified. These are subject to the discretion of the Board and may be removed if the Society's solvency is threatened.

### (b) PRACTICES paragraph 3.4.3 (formerly PRACTICES paragraph 1.4.3)

- Investment returns for whole-of-life policies are not smoothed. Previously investment returns were smoothed over a five year period. Payouts continue to be smoothed.
- The smoothing period for an accumulating with-profits policy is two years rather than five years.

## Changes in Version 7.1 – 15 December 2010

The design of the document has been enhanced and now includes an introductory section and a glossary. Other changes reflect the introduction of final bonuses for Appropriate Personal Pension (“APPs”) policies and general changes to add clarity. Specifically:

- (a) PRACTICES paragraph 3.1.1 (formerly PRACTICES paragraph 1.1.1)
  - Clarification regarding the past allocations of miscellaneous surplus and the use of approximations when asset shares are not appropriate.
- (b) PRACTICES paragraph 3.1.2 (formerly PRACTICES paragraph 1.1.2)
  - Clarification regarding charges for unitised and accumulating with-profits policies and With Profits Pension Annuity policies.
- (c) PRACTICES paragraph 3.1.6 (formerly PRACTICES paragraph 1.1.6)
  - Amended regarding the effects of using sample policies. The wording of the paragraph has also been amended so as to improve its clarity.
- (d) PRACTICES paragraph 3.2.1 (formerly PRACTICES paragraph 1.2.1)
  - Updated to include the introduction of a final bonus on APPs policies and clarification regarding the determination of annual bonus rates of unitised with-profits policies.
- (e) PRACTICES paragraph 3.5.3 (formerly PRACTICES paragraph 1.5.3)
  - Amended to reflect that the Society may seek to match assets and liabilities in the with-profits fund. Additional wording to emphasize that a different asset mix is currently held for the inherited estate.
- (f) PRACTICES paragraph 3.5.4 (formerly PRACTICES paragraph 1.5.4)
  - References to the credit exposure limits for the fixed-interest portfolio have been removed following the decision to invest part of the portfolio in OEICs managed by LVAM rather than directly in the underlying assets.
- (g) PRACTICES paragraph 3.6.1 (formerly PRACTICES paragraph 1.6.1)
  - Additional wording highlighting the presence of the capital support facility made available to the RNPFN fund.
- (h) PRACTICES paragraph 3.6.2 (formerly PRACTICES paragraph 1.6.2)
  - Amended to clarify treatment in relation to asset shares of losses from business risks.
- (i) PRACTICES paragraph 3.7.5 (formerly PRACTICES paragraph 1.7.5)
  - References to the RNPFN Fund have been removed.

The above list excludes a few minor amendments of a largely cosmetic nature.

## Changes in Version 2009a – 1 October 2009

The PPFM was amended in October 2009 for various reasons of clarity, new Flexible Guarantee Bond/Flexi Guarantee Plan product launch and minor expansion of Practices. Specifically:

- (a) PRINCIPLES paragraph 1.5(1)
  - There was a minor amendment to the wording in this paragraph to clarify the statement made. This amendment did not change the underlying Principle.
- (b) PRINCIPLES paragraph 1.8(2)
  - The statements were reordered to group similar areas together. No changes were made to the content of the Principle.
- (c) PRINCIPLES paragraph 1.10(1)
  - This paragraph was amended to clarify that the Rules of the Society govern membership criteria.
- (d) PRACTICES paragraph 1.1(1) & (3)
  - This paragraph was amended in anticipation of changes to how bonuses are determined for APPS pension plans and whole of life policies (neither of which currently use a direct asset share approach).
- (e) PRACTICES paragraph 1.1(6)
  - This paragraph was amended to clarify the statement on the use of sample policies to determine asset share.
- (f) PRACTICES paragraph 1.1(10)(b)
  - This paragraph was updated to include the new UWP products similar to the All-in-1 bond. Also 1.3(1), 1.4(3), 1.4(4), 1.4(5), 1.7(1)
- (g) PRACTICES paragraph 1.2(1)
  - This paragraph was amended to clarify factors that will be taken into account when setting annual bonus rates.
- (h) PRACTICES paragraph 1.5(3)
  - This paragraph was amended to mirror the change to the corresponding Principle, and to explain the close matching of liabilities on with profits pensions policies.
- (i) PRACTICES paragraph 1.5(4)
  - This paragraph was amended to reflect revised maximum credit exposure on fixed interest assets.

(j) PRACTICES paragraph 1.7(5)

- This paragraph has been updated as a result of the Part VII transfer of the RNPFN Fund into LVFS last year.

(k) PRACTICES paragraph 1.8(1)

- This paragraph has been reordered to mirror the reordering of the Principles.

(l) PRACTICES paragraph 1.8(4)

- This paragraph was added to explain the process around determining any excess surplus.

(m) PRACTICES paragraph 1.10(5)

- This paragraph was updated to mirror the clarification of the corresponding Principle.

(n) Governance Arrangements

- This paragraph was added to explain the process around changes to the PPFM and the make up of the With Profits Committee.

## **Changes in Version 5.0 – 11 October 2007**

The PPFM was amended in October 2007 mainly to reflect the introduction of Series 3 of the With Profits Pension Annuity. Changes were made to the following paragraphs:

(a) PRACTICES paragraph 1.1(2)

- This paragraph was amended to clarify how Asset Share calculations are carried out for the With Profit Pension Annuity

(b) PRACTICES paragraphs 1.1(6) and 1.5(4)

- These paragraphs were amended to reflect the change in the web-site address

(c) PRACTICES paragraph 1.1(10)

- This paragraph was amended to allow for the explicit guarantee and smoothing charges on the new series of With Profit Pension Annuity.

(d) PRACTICES paragraph 1.2(1)

- This paragraph was amended to explain the approach to setting annual bonuses for the new series of With Profit Pension Annuity. Other changes were made to the order of paragraphs for clarity.

(e) PRACTICES paragraph 1.3(1)

- This paragraph was amended to explain the approach to setting the top-up bonus for the With Profit Pension Annuity.

(f) PRACTICES paragraph 1.4(3)

- This paragraph was amended to explain that 2 year smoothing applies for the new series of With Profit Pension Annuity.

## Changes in Version 4.0 – 31 December 2006

The PPFM was amended in December 2006 for a variety of reasons. Changes were made to the following paragraphs:

(a) PRINCIPLES paragraph 1.6

- This paragraph was amended to clarify the criteria the Board could use in considering the suitability of new and existing business risks. This amendment did not change the underlying Principle.

(b) PRINCIPLES paragraph 1.8(e)

- This paragraph was amended to clarify the statement made. This amendment did not change the underlying Principle.

(c) PRINCIPLES paragraph 1.8(4)

- This paragraph was amended to note the Board could consider other actions than those listed in order to improve policy values if there was a high level of estate. This amendment did not change the underlying Principle.

(d) PRINCIPLES paragraph 1.8(6)

- This paragraph was amended to note the Principle reflected the current position. This amendment did not change the underlying Principle.

(e) PRACTICES paragraph 1.1(1)

- This paragraph was amended to
  - (i) clarify how sample policies relate to the with-profits policies they represent,
  - (ii) explain how bonus rates for Appropriate Personal Pension Plans are determined.

(f) PRACTICES - paragraphs 1.1(2), 1.1(7), 1.1(10), 1.3(1), 1.4(5), 1.7(1), 1.7(2)

- These paragraphs were amended to clarify the position for accumulating with-profits policies.

(g) PRACTICE paragraph 1.1(6)

- This paragraph was amended to clarify that different product types may have different asset mixes ("asset pools") underlying their Asset Shares.

(h) PRACTICE paragraph 1.2(1)

- This paragraph was amended to explain how annual bonus rates for accumulating with-profits policies are determined.

## Changes in Version 3.0 – 31 December 2005

The PPFM was amended in December 2005 mainly to reflect the introduction of “target ranges”. Changes were made to the following paragraphs:

(a) PRACTICES paragraph 1.1(1)

- This paragraph was amended to
  - (i) note the frequency of Asset Share calculations,
  - (ii) clarify that business risks are covered in Section 1.6,
  - (iii) note the factors the Board takes into consideration in determining whether to allocate miscellaneous surplus,
  - (iv) note that bonus rates for non-premium paying policies are determined from premium paying ones and for tax-exempt policies from taxable ones.

(b) PRACTICES paragraph 1.1(6)

- This paragraph was amended to
  - (i) incorporate the “target ranges” used to determine payouts,
  - (ii) clarify that investment returns for with-profits policies excludes those assets matching non-profit policies,
  - (iii) note that investment returns are calculated as often as required to calculate Asset Shares.

(c) PRACTICES paragraph 1.4(2)

- This paragraph was amended to note that any costs or excesses are charged to the inherited estate.

(d) PRACTICES paragraph 1.4(3)

- This paragraph was amended to note that other than investment returns other aspects of experience are not smoothed.

(e) PRACTICES paragraph 1.4(4)

- This paragraph was amended to clarify the smoothing of the All-In-1 Investment Bond.

(f) PRACTICES paragraph 1.5(4)

- This paragraph was amended to note the availability of the investment mix on the Society's website or direct from the Society.

## Changes in Version 2.0 – October 2005

The PPFM was amended in October 2005 mainly to reflect the introduction of the All-In-1 Investment Bond. Changes were made to the following paragraphs:

(a) PRACTICES paragraph 1.1(1)

- A new paragraph was added to note how the amount payable is determined for the All-In-1 Investment Bond.

(b) PRACTICES paragraph 1.1(6)

- This paragraph was amended to note how the investment return for the All-In-1 Investment Bond is determined.

(c) PRACTICES paragraph 1.1(10)

- This paragraph was amended to note that an explicit charge for the cost of any guarantees selected applies to the All-In-1 Investment Bond.

(d) PRACTICES paragraph 1.2(1)

- This paragraph was amended to note that annual bonuses are not added to All-In-1 Investment Bonds.

(e) PRACTICES paragraph 1.3(1)

- This paragraph was amended to note that final bonuses are not added to All-In-1 Investment Bonds.

(f) PRACTICES paragraph 1.4(3)

- This paragraph was amended to note that
  - (i) smoothing for conventional with-profits policies applies to “the previous” five years,
  - (ii) smoothing for unitised with-profits policies applies to “the previous” two years,
  - (iii) to note the method of smoothing for the All-In-1 Investment Bond.

(g) PRACTICES paragraph 1.4(4)

- This paragraph was clarified to make it clear it only applied to conventional with-profits policies.

(h) PRACTICES paragraph 1.4(5)

- This paragraph was amended to note that smoothing does not apply in the first 6 months for the All-In-1 Investment Bond.

(i) PRACTICES paragraph 1.5(4)

- This paragraph was amended to note the investment strategy takes into account the Society's "ability to meet its commitments to its members".

(j) PRACTICES paragraph 1.7(1)

- This paragraph was amended to note a monthly charge applies to any guarantee selected for the All-In-1 Investment Bond.

A separate PPFM was used for Flexible Guarantee Bond, Flexible Guarantee Funds, Flexi Guarantee Plan, All-in-1 Investment Bond and Guaranteed Capital Bond policies in the LVFS Fund from 1 November 2011 to 31 July 2018. From 1 August 2018 these content of this PPFM was incorporated into the PPFM for other with-profits policies in the LVFS Fund.

The changes below are those made to this separate PPFM.

### Changes in Version 7.2 – 1 December 2017

The following material changes have been made:

Paragraph	Change
Practice 4.2.4	An amendment has been made to state that now fewer assets are invested than those underlying the Asset Pools for Flexible Guarantee policies as a hedge to remove the Society's asset-based market exposures relating to charges.
Practice 7.2.4	An amendment has been made to add an example of the contribution made by the policies to the Society in determining the level and form of the Mutual Bonus declaration, namely the risks taken in supporting the establishment and growth of the trading business.

The following other changes have been made:

Paragraph	Change
Introduction	The requirement to certify each year to the FCA that the Society's with-profits business has been managed in accordance with its PPFM has been removed. This is no longer required under the current Solvency regime.
Practice 2.2.2	It has been clarified that no past allocations of Miscellaneous Surpluses have been removed.
Practice 2.2.3	An amendment has been made to clarify that tax on investment returns is allowed for, where appropriate.
Practice 2.2.9	An amendment has been made to clarify that policyholders may switch the Asset Pool their product is invested in.
Practice 4.2.3	An amendment has been made to clarify that it is the investment strategy of Asset Pools that are reviewed at least every three years.
Practice 4.2.4	An amendment has been made to clarify that different asset mixes are held in respect of the liabilities of the Society's policies not covered by this PPFM. An amendment has been made to clarify that the assets actually held for All-in-1 Investment Bonds and Guaranteed Capital Bonds differ from those underlying the Asset Pool that these policies are held in.
Practice 7.2.4	An amendment has been made to clarify that Miscellaneous Surplus is now allocated as Mutual Bonus.
Glossary	An amendment has been made to the definition of Asset Pool.

The above list excludes a few minor amendments of a largely cosmetic nature.

## Changes in Version 7.1 – 12 June 2017

The following material changes have been made to reflect the introduction of the Flexible Guarantee Bond Series 3 and Flexible Guarantee Fund Series 2:

<b>Paragraph</b>	<b>Change</b>
Practice 2.2.11	A new Practice has been added which allows the Society discretion to delay buying, selling or switching units for Flexible Guarantee Bond Series 3 and Flexible Guarantee Fund Series 2 in accordance with their policy conditions.
Practice 3.2.2	For all products covered by this PPFM, when Asset Share calculated using actual investment returns ("UAS") is 80% or less of the Asset Share calculated using smoothed investment returns ("SAS"), the Society will set payouts to the UAS. An amendment has been made to the Practice to allow the Society the right to set the payout to UAS in other exceptional circumstances for Flexible Guarantee Bond Series 3 and Flexible Guarantee Fund Series 2. Examples of when the Society might do this are included.
Practice 5.2.4	An amendment has been made to allow mutual bonus to also be determined by contribution made by the policies to the Society. A further amendment has been made to state that for Flexible Guarantee Bond Series 3 and Flexible Guarantee Fund Series 2 the Mutual Bonus declared would be expected to be zero. It is also stated that this does not preclude these products from ever receiving a Mutual Bonus.

The following other changes have been made:

<b>Paragraph</b>	<b>Change</b>
Introduction	For the avoidance of doubt, where necessary, amendments have been made to clarify whether policies referred to in the PPFM are for all series of the Flexible Guarantee Bond and the Flexible Guarantee Funds, or specific series.

The above list excludes a few minor amendments of a largely cosmetic nature.

## Changes in Version 6.0 – 1 December 2016

The following material changes have been made:

Paragraph	Change
Practice 4.2.6	An amendment has been made to reflect a new regulation that, from the introduction of Solvency II, requires strategic investments (such as the Society's investment in its general insurance business) to be made in the best interests of all the Society's with-profits and non-profit policyholders.
Practice 5.2.2	An amendment has been made to reflect the change following the introduction of Solvency II that the RNPFN capital support facility will now be called on if the RNPFN Fund fails to cover its own Solvency Capital Requirement.

The following other changes have been made:

Paragraph	Change
Practice 2.2.2	An amendment has been made to clarify that past allocations of miscellaneous surplus, if removed, may subsequently be reinstated if the Board considers it appropriate.
Practice 7.2.2	An amendment has been made to clarify that the RNPFN contingent loan can increase as well as decrease and that a £100 million cap applies.
Schedule	The composition of the With-Profits Committee has been updated.
Glossary	Definitions of Policyholder and Solvency Capital Requirement have been added.
Throughout	For the avoidance of doubt, where necessary, amendments have been made to clarify whether policies referred to in the PPFM are those with-profits policies covered by the PPFM or are other policies insured by the Society.

The above list excludes a few minor amendments of a largely cosmetic nature.

## Changes in Version 11.0 – 1 December 2015

The following material changes have been made:

(a) PRACTICE 4.2.3

- The wording has been amended to reflect a change in frequency of reviews of the long-term investment strategy for with-profit business. Detailed reviews are now expected to be performed at least every three years, with less detailed reviews at approximately annual intervals.

The following other changes have been made:

(b) PRACTICE 4.2.2

- The wording has been amended to reflect that benchmark asset mixes for with-profit asset shares are now available on the Society's web-site.

(c) PRACTICE 4.2.6

- A new practice has been added to explain that the Board reviews that its investment in the General Insurance business is likely to have no adverse effects on the interest of the Society's with-profits policyholders at approximately annual intervals.

(d) PRACTICE 5.2.2

- The description of the capital support facility that the Society makes available to the RNPFN Fund has been expanded.

(e) PRACTICE 6.2.5

- The wording has been amended to reflect a change in name of the company to which the Society currently outsources the investment management of its assets. Threadneedle Asset Management is now known as Columbia Threadneedle Investments.

(f) GLOSSARY

- Improvements have been made to the definitions of Miscellaneous Surplus and Mutual Bonus. A definition has been added for Trading Business.

## **Changes in Version 4.0 – 1 October 2014**

No material changes have been made. The following other changes have been made:

(a) INTRODUCTION 1.2

- a. The new Flexible Guarantee Funds product has been added to the list of products covered by the FGB version of the PPFM, with a similar change to the front cover.

(b) PRACTICE 2.2.2

- b. The wording has been modified to make it clear that the ability to reduce or remove past miscellaneous surplus additions includes any investment return added to them.

(c) PRACTICE 2.2.9

- c. The wording has been amended to make it clear that the full return under the policy is allocated through the unit price, using the approach to smoothing outlined in section 3.

(d) PRACTICE 3.2.2

- The description of the smoothing approach has been amended to reflect that the unit prices are averaged, rather than the investment returns.

(e) PRACTICE 5.2.1

- A minor improvement has been made to the wording.

## Changes in Version 3.0 – 1 October 2013

The following material changes have been made:

(a) PRACTICE 2.2.10

- d. A new paragraph has been added to make it clear that payments under the subordinated debt raised by the Society in May 2013 rank behind discretionary as well as guaranteed benefits under with-profit policies.

(b) PRINCIPLE 8.1.1

- e. The wording has been brought into line with new requirements introduced in 2012 regarding the circumstances in which new business can be accepted into the with-profits fund.

The following other changes have been made:

(c) INTRODUCTION 1.1

- f. An amendment has been made to reflect the replacement of the Financial Services Authority with the Prudential Regulation Authority and the Financial Conduct Authority. Similar changes have been made to paragraphs 1.3 and 1.7 of the same section.

(d) INTRODUCTION 1.5

- g. The sentence "There are no restrictions on the Society's ability to change the Practices" has been deleted as it duplicated the previous sentence.

(e) PRACTICE 2.2.2

- h. An improvement has been made to the wording which explains that miscellaneous surpluses are not permanent additions to Asset Shares.

(f) PRINCIPLES 3.1.1 and 3.1.2

- i. Improvements to the wording have been made (and order of these paragraphs reversed) to make it clearer what is meant by the term "smoothing".

(g) SCHEDULE

- j. Minor improvements have been made to the wording. The description of the With-Profits Committee has also been updated.

(h) GLOSSARY

- k. A high-level definition of "Subordinated Debt" added.

The above list excludes a few minor clarifications and improvements.

## Changes in Version 2.0 – 1 October 2012

### (a) INTRODUCTION 1.5

- A sentence has been added to clarify that the Practices may change and that they only reflect current practice. A sentence has also been added to clarify that there are no restrictions on the Society's ability to change the Practices.

### (b) PRACTICE 2.2.4

- i. The wording has been clarified to reflect that information on product charges can appear in documents other than policy conditions and key features. A similar change has been made to Principle 8.1.1. The wording has also been clarified to cover changes to charges that are made in accordance with these documents.

### (c) PRACTICE 6.2.4

- m. The sentence saying that fixed term outsourcing contracts contain a clause allowing them to be terminated with the payment of compensation to the outsourcer has been deleted as it no longer applicable.

### (d) PRINCIPLE 7.1.3

- n. The statement that the Society does not set a target range for the inherited estate has been amended to be consistent with the current practice of monitoring the ratio of the Society's capital resources to the level of capital it is required to hold against an agreed range.

### (e) SCHEDULE

- o. The wording has been amended to reflect a change in the membership of the With-Profits Committee.

## **Changes in Version 1.1 – 1 March 2012**

### (a) PRACTICES Paragraph 2.2.3

- This section has been removed as it was originally included due to an oversight. Subsequent paragraphs in section 2 have been renumbered appropriately.

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