

# Pension Income Plus Annuity

Your guide to how we manage our with-profits fund



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## 1 Introduction

This guide explains how we look after our with-profits fund. You'll find important information about how our Pension Income Plus Annuity works – and how we manage it. At the end of this guide there is a helpful glossary of some of the financial and insurance terms we've used.

To put this guide into context, it might help to read it with your:

- Key Features
- Policy Conditions
- Personal Illustration, showing what you might get back in the future.

Please keep this guide safe along with your other policy documents.

## 2 What's our with-profits fund?

This is an investment fund where your money is combined with other investors' money and managed on your behalf. Different with-profits plans invest in different mixes of assets within Liverpool Victoria Friendly Society Limited (LVFS). Your policy is invested in the mix of assets that we call our 'main with-profits fund' (which is referred to in this guide as 'our with-profits fund' or 'the fund'). There are also other types of policies in LVFS, together with the inherited estate.

We set the overall investment strategy of our with-profits fund, taking into account the current and projected financial strength of the fund and the expected returns available from different types of investment.

The asset management of our with-profits fund is currently undertaken on our behalf by Columbia Threadneedle Investments. They are responsible for the day-to-day management of the assets in our with-profits fund, operating in accordance with our investment strategy.

The investment performance of the fund and the outlook for different types of asset are regularly monitored. We also review our investment strategy in detail at least every three years, with less detailed reviews typically being performed annually.

Typical investments made 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
- property
- cash.

The proportions held in each type of asset can vary over time, for example the proportion held in shares can be reduced as a result of market conditions.

You can see the current and target mix of investments in our with-profits fund on our website at [LV.com/asset-allocation](http://LV.com/asset-allocation). Here you can also see investment reports showing the performance of the fund. Alternatively you can also get this information by contacting our Head Office at: LV=, County Gates, Bournemouth BH1 2NF.

## 3 What's the aim of our with-profits fund?

First and foremost, we want to give you a fair return on your investment, allowing for any guaranteed benefits. We'll also tell you about the risks before we invest your money.

As we offer many different ways of investing, we have different groups of with-profits policyholders – with different policies started at different times, and with different terms. We always try to treat our policyholders fairly when there are any conflicting interests between them.

## 4 How do we cushion you from the ups and downs of the stock market?

As explained earlier, the fund invests in a number of different types of assets, including the shares of UK and overseas companies, commercial property and fixed-interest investments. Shares are often called equities and are bought and sold on stock markets throughout the world.

We believe it's important for us to invest in shares, as over the long term they tend to give a higher return than other safer investments, such as UK government bonds and cash. We want to give you the potential for better returns in the long run, so we hold these more risky investments.

The downside to shares is that they can be more volatile than other investments. Their values can rise and drop sharply, sometimes quickly and in line with world events. We aim to smooth out the effects of some of the rises and drops in two ways.

- We hold many different types of investment and limit the amount in any one type.
- We hold back some of the good years' profits to award to our policyholders when times are tough.

## 5 How do we decide the return on your policy?

We want to make sure that every investor receives a fair return. To reflect this fair return in the value of your policy, we apply a Declared Investment Return to it each year. This may increase or decrease the value of your policy and hence the income you receive from it.

To calculate your overall return we take into account the charges we levy and the investment performance of our with-profits fund. The return may also reflect changes in our own and/or industry mortality experience (which means we look at the trends of how long people live) and how we think they may change in the future.

As described in section 4, your return will also be affected by the way we try to smooth out the investment returns that are earned between years. We may also add a mutual bonus, see section 9.

## 6 What expenses are charged to our with-profits fund?

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. The charges deducted from your policy are taken to cover these expenses. You can find out more about them in your Key Features document and Policy Conditions.

## 7 How do we decide what business risks to take?

In offering a with-profits fund, we face potential risks such as whether we have the right product design, the right selling and marketing practices, and fluctuating interest rates and investment returns.

We'll sometimes take other business risks and consider business opportunities that can provide a source of profit. For example, LVFS has a strategic holding in a general insurance company, which forms part of the inherited estate.

We're always careful about our investments, and our Board of Directors has to approve and monitor anything that poses a significant business risk. They'll only approve these if the expected benefits are at least as good as we could get from other opportunities.

Given its importance our Board of Directors review, typically annually, the benefits and risks to our policyholders of our investment in our general insurance business and any other material strategic investments.

LVFS is providing a capital support facility to the RNPFN Fund (a ring-fenced fund within LVFS for policies transferred from Royal National Pension Fund for Nurses). This means that if the assets of the RNPFN Fund were insufficient to meet its liabilities and regulatory capital requirements, LVFS would add assets from its own funds into the RNPFN Fund up to a defined level. If this were to happen, it would reduce LVFS's inherited estate.

## 8 What's the 'inherited estate' and how do we use it?

The inherited estate is the amount of money we've built up from profits in LVFS that are in excess of its liabilities. This money has been building up since we began in 1843, from generations of policies, including where we've made more profit than we anticipated. For example, if a protection policyholder lived longer than we'd expected and priced the policy for, we'd make more profit. The money is used to support the fund and its day-to-day operations.

We don't currently try to increase the size of the inherited estate on purpose. However, we aren't obliged to distribute the inherited estate to the current generation of members. We use the estate to benefit our policyholders in a number of ways, including:

- to help us give you smoothed returns
- to give us more freedom to invest in ways we believe will offer better returns
- to help fund new business opportunities or risks which we believe will be profitable.

Keeping a reasonable level of inherited estate gives us the financial strength we need to invest more in shares, and so to give our with-profits policyholders the potential for better returns in the long run. However, if the inherited estate became relatively small then we might change the way we invest the fund and smooth the returns, and we might reduce the volume of new business.

## 9 What's mutual bonus?

The mutual bonus scheme is designed to reward eligible members for their ownership of LVFS.

The Board of Directors will consider the financial performance of our trading businesses and profits and losses on smoothing from LVFS with-profits policies each year along with LVFS's current and projected financial strength to determine whether, at what level, and in what form, we should declare any mutual bonus, and which members are eligible to receive it. They will also take into account the contribution made to LVFS by each group of products within it (for example the risks taken in supporting the establishment and growth of LVFS's trading businesses in life and general insurance).

Currently any such mutual bonus allocated to your investment is paid by making an addition to the income you receive (before any guarantee is applied).

Unpaid mutual bonus allocations do not form part of the guaranteed benefits, so might be taken away in the future. However, we would do so only in exceptional circumstances, for example if it were required to protect our financial solvency. Past allocations may subsequently be reinstated if the Board of Directors consider it appropriate.

Further information about the mutual bonus scheme can be found on our website at [LV.com/members/mutual\\_bonus](http://LV.com/members/mutual_bonus).

## 10 Could we ever close LVFS to new business?

Yes we could but we'll let people invest in LVFS as long as we feel it's in the interests of both our existing and new with-profits policyholders.

## 11 What would happen if we stopped accepting new business?

If we did ever stop accepting new business and closed LVFS, we'd share out the inherited estate over the lifetime of the remaining with-profits policies held in LVFS.

Our main concern would be to make sure this was fair to all remaining policyholders – to do this, we might change the way we invest the fund and smooth the returns.

## 12 How to find out more

We hope you've found this guide useful. To find out more about the technical details of our with-profits fund, please read our Principles and Practices of Financial Management (PPFM) booklet covering the Pension Income Plus Annuity.

On our website at [LV.com/manage](http://LV.com/manage) you'll find the latest version of this guide, the more technical PPFM and annual reports on how we've managed the fund compared to our PPFM. If you would like us to send you a copy of any of these documents please let us know.

If you have any questions about what we've said in this document, please contact us or your financial adviser.

## 13 Glossary

Word/Phrase	Definition
Asset	An investment purchased with the prospect that it will increase in value and/or generate income. Examples of various types of asset are shares in companies, fixed-interest investments, commercial property and cash. Depending on the type of asset, the value can go up and down and any income produced by it may change from one year to the next.
Board of Directors	The individuals elected by LVFS members to oversee the management of LVFS on their behalf.
Commercial Property	An investment in assets such as offices, and retail and industrial premises, which generate income and whose value can go up or down.
Financial Solvency	The ability of an insurer to set aside capital to meet its future liabilities as they fall due.
Financial Strength	Financial strength is measured by how much the value of an insurer's assets exceed the value of its liabilities. It is an indicator of the insurer's ability to withstand adverse economic conditions.
Fixed-interest investments	Loans made to governments or companies for a set period, in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period.
Government Bonds	Loans made to governments for a set period, usually in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period. UK Government Bonds are also known as gilts.
Inherited Estate	This is the money that has been built up from profits from the fund that are in excess of the fund's liabilities, over the period that LVFS has been in business.
Insurer	A company or mutual organisation that provides life and/or general insurance products to the general public.
Liabilities	An insurer's debts or obligations that arise during the course of its operations. This includes the promises it makes to its policyholders to pay their claims.
Members	As a with-profits policyholder, you are also a member of LVFS. LVFS is owned by its members, who can have their say in the running of LVFS through its Annual General Meeting. Members can also receive other benefits. For full details, please see our website at <a href="http://LV.com/members">LV.com/members</a>
Shares	A share represents a part ownership of a company and carries with it the entitlement to a proportion of the company's profits, paid as dividends. The value of shares can go up or down quickly, as they are influenced by national and world events. Shares are also known as equities.
Smoothed Return	We aim to pay customers a smoothed return in order to cushion the effects of volatile movements in the investments in the fund underlying their policies. We do this by holding back some of the profits we earn in good years and use them to supplement the returns we earn when times are tough.
Trading Business	In order to secure extra returns, LVFS invests in its life insurance business selling products such as life insurance, critical illness insurance, income protection and pensions, as well as investment products. It also has a strategic holding in a general insurance business selling products which protect the policyholder from losses due to accident, damage and theft on items such as cars, homes and pets.
Underlying Value of Investments	This is the actual value of the investments in the fund which we use to determine the value of your policy. However, when we actually pay out your policy, we also take into account how we smooth payouts and any guaranteed benefits that your policy has.
Unsmoothed Return	This is the actual return on the investments in the fund underlying your policy.

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

**Liverpool Victoria Friendly Society Limited: County Gates, Bournemouth BH1 2NF.**

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