

**2024 Annual Report from the Board of
Liverpool Victoria Financial Services Limited
to the With-Profits Policyholders in the Teachers Assurance Fund**

You're about to read a summary of how we made decisions affecting the with-profits policyholders in the Teachers Assurance Fund in 2024.

We've gone into a lot of detail here to provide you with reassurance that we're managing your money as we should. We've done our best to keep it easy to read, but you can always get in touch if you have questions. You can find out how by clicking on 'contact us' at [LV.com/teachers](https://www.lv.com/teachers).

1. Summary

This report examines the management of the with-profits business within the Teachers Assurance Fund (the 'Fund') during 2024. It covers the governance arrangements, how we have made decisions (we call this exercising discretion), and how any competing interests between different classes of policyholders were addressed.

We describe the way in which we manage the with-profits business within the Teachers Assurance Fund in a formal document known as the 'Principles and Practices of Financial Management' (or 'PPFM'). Each year we review our compliance with the PPFM. We provide a summary of the results of the review for 2024 in this report.

The Board of Directors ('the Board') of Liverpool Victoria Financial Services Limited¹ ('LVFS') confirms that, in its opinion, its exercise of discretion and its management of the potentially competing or conflicting rights, interests, or expectations of policyholders in the Teachers Assurance Fund were in accordance with its PPFM during 2024, thereby treating with-profits policyholders fairly. The Board can also confirm that, in its opinion, LVFS complied with the obligations set out in the PPFM during 2024 except in respect of the issue identified in 4.12, relating to compliance with the tax aspects of the Instrument of Transfer.

The reasons for this opinion are outlined in this report. **The With-Profits Committee agrees with the opinion of the Board.**

2. Governance Arrangements

The Board is ultimately responsible for the operation of the Teachers Assurance Fund and for the management of the with-profits business within it. The With-Profits Committee is a sub-committee of the Board, set up to provide independent advice relating to the exercise of discretion in respect of this business. It also monitors compliance with the PPFM. At the end of 2024, it comprised a Chair who

¹ Prior to its conversion to a mutual company limited by guarantee on 2 January 2020, the company was known as Liverpool Victoria Friendly Society Limited.

is independent of LVFS, two independent non-Executive Directors, and two independent members. The current Chair is the Teachers nominee².

LVFS also has a With-Profits Actuary, approved by the Prudential Regulation Authority, who provides advice to the Board, the With-Profits Committee, and management on the exercise of discretion relating to matters affecting the with-profits business within the Teachers Assurance Fund. The current With-Profits Actuary is Catherine Gavin and her report is annexed to this report. Catherine Gavin replaced Trevor Fannin who was With-Profits Actuary during 2024 and up to 5 February 2025.

The operation of the Teachers Assurance Fund is governed by a legal document – the Instrument of Transfer (the ‘Instrument’). Compliance with the PPFM is subject to compliance with the requirements of the Instrument.

3. Overview of the Teachers Assurance Fund

Before we cover each area where we exercised discretion in 2024 in section 4, we thought it would be useful to give you an overview of the Teachers Assurance Fund.

You can find the PPFM for the Teachers Assurance Fund at [LV.com/teachers/life-policies/with-profits](https://www.lv.com/teachers/life-policies/with-profits). But if you would like a shorter overview, ‘Your guide to how we manage the Teachers Assurance Fund for with-profits business’ can be found at the same link.

And if you’d like more information about where we invest your funds, you can also find details at the same link.

3.1 Here’s a reminder of what’s included in the Teachers Assurance Fund

The with-profits business of Teachers Provident Society Limited (‘TPS’) and its ‘inherited estate’ (described below) were transferred to the Teachers Assurance Fund on 1 June 2016. The policies, assets, and liabilities in the Teachers Assurance Fund are held separately from the rest of LVFS. All profits and losses from the Fund affect the with-profits policies within it.

The assets of the Teachers Assurance Fund are split into two main pools of assets as follows:

- The with-profits fund, which is used to help determine the main policy benefits. It is split into three sub-funds for different products which all have the same target asset mix; and
- 1. A separate fund which includes the ‘inherited estate’ i.e. the assets that are in excess of the Teachers Assurance Fund’s liabilities. This fund also includes previously distributed ‘Special Bonus’ (which is explained in section 3.5).

First and foremost, we want to give you a fair return on your investment in the with-profits fund, allowing for any guaranteed benefits and (if applicable) the

² An independent member of the Committee nominated by the Board of Teachers Provident Society Limited, as required under the Instrument of Transfer of Engagements (the legal document governing the operation of the Teachers Assurance Fund).

smoothing process. We have different groups of policyholders invested in the Teachers Assurance 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's more about this in section 5 below.

3.2 Annual bonuses

Annual bonuses may be added from time to time to increase the current guaranteed benefits under a policy.

3.3 Final bonuses may be added or market value reductions may be made to ensure you get a fair return for the main policy benefits

To provide you with a fair return for the main policy benefits we use the individual 'asset share' of these benefits. The 'asset share' is the accumulation of the premiums that have been paid, less charges taken (including for expenses and death benefits) and tax (where applicable), at the investment returns earned on the with-profits fund. For certain products and benefits we may also use smoothing, as detailed in section 3.4. We also add the current value of any Special Bonus (see section 3.5).

For conventional with-profits policies a final bonus may be added to your payout when the policy ends. The aim of a final bonus is to ensure that the value of your policy is approximately equal to the individual asset share of the policy (subject to any smoothing), plus the current value of any Special Bonus (except for death benefits on endowment policies where a higher amount is normally paid). We look at the sum assured plus annual bonuses previously declared on your policy (appropriately reduced for surrenders), and if this amount is less than the corresponding asset share plus the current Special Bonus, we may top up the payout with a final bonus. However, if this is not the case, we may decide that no final bonus is payable.

For Teachers Anniversary Bonds, a final bonus may be added or a market value reduction applied to the value of units. This is to ensure that your total payout is approximately equal to the individual asset share of the policy, with no smoothing applied. Special bonus is added as a separate amount on claim.

For unitised with-profits products (other than Teachers Anniversary Bond) we use the individual asset share of the policy (subject to any smoothing) to set main policy benefits directly without using final bonuses or market value reductions. Special Bonus is added as a separate amount on claim.

3.4 We use a process called smoothing for some products to help protect with-profits policyholders

Where applied, smoothing helps protect policyholders from sudden changes in the value of the investments in the with-profits fund. Because we use smoothing, it's possible that when you cash in your policy or your policy ends, the amount paid out is higher or lower than the underlying value of the investments of your policy.

For conventional with-profits policies smoothing is not intended, over the longer term, to be a source of profit or loss to the Teachers Assurance Fund.

For unitised with-profits policies either the smoothing approach is set out in policy conditions (as detailed in section 4.6) or smoothing is not used.

No smoothing is applied to the current value of Special Bonus.

3.5 We are distributing the inherited estate of the Teachers Assurance Fund as 'Special Bonus'

The inherited estate of the Teachers Assurance Fund is being distributed over the remaining lifetime of the Teachers Assurance Fund with-profits policies as 'Special Bonus'. The current value of Special Bonus is paid on claim in addition to the main policy benefits. It is not guaranteed; future distributions may vary from past levels, and existing Special Bonus may be removed in extreme circumstances.

For conventional with-profits policies the current value of Special Bonus is included at claim by increasing the final bonus that otherwise would be paid or, if only guaranteed benefits would otherwise be payable, by adding a final bonus.

For unitised with-profits policies distributed Special Bonus is allocated to a separate series of units for each policy and the current value of these units is added at claim.

4. How we used discretion to manage the Teachers Assurance Fund in 2024

The areas where we exercised our discretion in relation to the with-profits business in the Teachers Assurance Fund during 2024 are covered in detail below, together with how our decisions comply with the PPFM of the Fund. We've also included information on other areas of interest e.g. PPFM changes.

4.1 The claim amounts we paid were fair

During the year, conventional whole of life and endowment with-profits policy claim payouts were based on the results of monthly final bonus calculations that used individual policy asset shares (defined in section 3.3) and the current value of Special Bonus as a means of assessing a fair payout value, subject to a minimum payout of any guaranteed policy benefits.

For these policies during the year 100% of maturity claims, 100% of surrender claims and 100% of death claim³ payouts were within the target payout range stated in the current PPFM of 85% to 115% of asset share plus the current value of Special Bonus.

Financial Conduct Authority regulation states that we may make payouts outside the target range if we have a good reason to believe 90% of payouts fall within the target range. However, no payouts were outside the target range during the year.

³ For whole of life policies only. Endowment death claim payouts are designed to pay above asset share and hence are not subject to the target range.

The main policy benefits on all claims on unitised with-profits policies pay out 100% of asset share (or a higher amount if a guarantee is applied, or where a contractual smoothing method applies) less any deductions on early surrender described in policy literature, plus the current value of Special Bonus.

4.2 Our annual bonus rates were reviewed during the year

Annual (or regular) bonus rates were reviewed during 2024 in accordance with the PPFM.

Annual bonus rates for calendar year 2023 for conventional with-profits policies were declared on 1 April 2024, with bonus rates being maintained at the rates declared the previous year (0.75% p.a.). Interim bonus⁴ rates for 2024 were set to the same levels as the rates declared for 2023.

For the unitised with-profits policies where annual bonus rates are applied, the rates declared on 1 January 2024 which applied throughout 2024 (together with those applying in 2023) were:

Product	Annual Bonus Rates p.a. 2024	Annual Bonus Rates p.a. 2023
Tax Exempt Savings Plan	1.0%	1.0%
Regular Savings Plan	0.8%	0.8%
Teachers Anniversary Bond	2.0%	2.0%

Annual bonus rates are not applied to other unitised policies by design.

4.3 We added final bonuses to most claim payments, with no market value reductions

The final bonus rates for conventional whole of life and endowment with-profits policies were updated monthly throughout 2024. Final bonus rates declared include the current value of Special Bonus for these policies. The declarations were made in accordance with the PPFM. Discretion was exercised with regards to smoothing, the investment return used to project asset shares in the final months up to the point of claim, tax (where applicable), and the enhancement due to Special Bonus (described further below).

Final bonus rates for unitised Teachers Anniversary Bond payouts are set on an individual policy basis to target 100% of asset share in accordance with the PPFM. No market value reductions were applied or were necessary during this period. Final bonus rates are not applied to other unitised policies by design. For Teachers Anniversary Bond and all other unitised policies, the current value of Special Bonus is added separately at claim.

⁴ The interim bonus rate is a further regular bonus made in respect of claims in the current calendar year.

4.4 We also reviewed and continued to add Special Bonus to all eligible policies

Under the terms of the transfer of the business to LVFS, the first distribution of the inherited estate of the Teachers Assurance Fund was made by an initial Special Bonus on 1 June 2016. Subsequent distributions are expected to be reviewed at least annually, and were reviewed quarterly in 2024.

The distribution of the inherited estate was reviewed, in accordance with the PPFM, and the following rates declared:

Quarterly bonus declared on	Special Bonus Rate
1 January 2024	0.4%
1 April 2024	0.4%
1 July 2024	0.4%
1 October 2024	0.4%

These rates were applied as additional Special Bonus as a percentage of the total of the asset share and the current value of previously declared Special Bonus.

4.5 Our surrender payouts for conventional with-profits policies were fair

The same individual asset share method was used to set surrender payouts for conventional policies as was used for maturity claims on endowments and death claims for whole-of-life policies.

4.6 We continued smoothing pay-outs to give policyholders a fair outcome

For conventional with-profits policies, the normal smoothing approach uses investment returns in the individual policy asset shares which are averaged over the previous 24 months.

This approach gives an appropriate level of smoothing to those with-profits policyholders leaving the Teachers Assurance Fund given the mix of the assets backing asset shares. Smoothing profits and losses from expected claims are hedged. This is an investment strategy which aims to reduce the effect of these profit and losses on the inherited estate and hence help protect those remaining in the Fund. This practice does not affect current customer payouts.

The target range of 85% to 115% of the asset share plus the current value of Special Bonus used for maturities, surrenders, and (for whole-of-life policies) death claims for conventional policies is considered to be appropriate, taking into account the investment strategy, the smoothing method, and the frequency of reviews of final bonuses.

For regular premium unitised with-profits products, smoothed asset share (as defined in policy conditions) is paid on maturity⁵. No smoothing is applied on other unitised products by design.

No smoothing is applied to the current value of Special Bonus.

⁵ Subject to a minimum of the asset share calculated using unsmoothed investment returns and the amount guaranteed.

4.7 We monitored and reviewed the investment strategy during 2024

In accordance with the PPFM, the investment strategy was monitored during 2024 to ensure that it remained appropriate. A full review of the investment strategy was performed in late 2023 in light of the transition to a new asset manager, with the resulting changes being implemented in the first half of 2024. A further review was carried out later in 2024 with no changes being recommended. The current target mix of assets is shown at [LV.com/teachers/life-policies/with-profits](https://www.lv.com/teachers/life-policies/with-profits).

Discretion was exercised with respect to the types of investment held and the proportions invested in different types of assets. Different investment strategies are used for the pools of assets backing asset shares and for the inherited estate.

Columbia Threadneedle Investments carried out the majority of investment management of the Teachers Assurance Fund during early 2024. From April 2024 BlackRock became LVFS' primary asset manager.

4.8 Charges and expenses taken were in accordance with the PPFM

The level of administration expenses that can be charged to the Teachers Assurance Fund by LVFS until 31 May 2027 is set in accordance with the Instrument.

Actual investment management fees (inclusive of Value Added Tax) are charged to the Fund. However, during the first months of 2024, if the active investment management strategy introduced on 1 February 2019 did not outperform agreed benchmarks on a rolling three year (annualised) basis, the inherited estate of LVFS rebated the Teachers Assurance Fund inherited estate with the investment expenses actually incurred in excess of those estimated to have been incurred if the previous passive investment management strategy had continued. This practice was only relevant while the previous asset manager was in place so was removed when BlackRock took over as LVFS' primary asset manager.

In accordance with the PPFM, the charges taken from asset shares for conventional with-profits policies and the Teachers Anniversary Bond to cover administration and investment expenses are the amounts actually charged to the Teachers Assurance Fund, subject to specified limits. Tax relief was deducted from expenses charged to asset shares where appropriate.

For unitised with-profits policies (except the Teachers Anniversary Bond), the charges taken to cover expenses are those which are set out in the key features documents and policy conditions. The charges include any deductions from premiums paid as well as fund-based charges, which may also include the cost of providing the guarantees and any smoothing under these policies. LVFS has the right to change some of these charges but did not do so in the period under review.

Any difference between the charges applied to asset shares and the actual expenses charged to the Teachers Assurance Fund is borne by the Fund's inherited estate.

The expenses charged to the Fund, and the charges applied to asset shares, were in accordance with the PPFM during 2024.

4.9 How the Teachers Assurance Fund is exposed to business risk

The Teachers Assurance Fund is exposed to business risks in the normal course of events. The key business risks are those arising from variations in the following:

- compensation to policyholders and associated costs resulting from any historical mis-selling and maladministration;
- demographic experience and assumptions;
- exceptional costs charged to the Fund and differences between the expenses charged to the Fund and the expense charges made to asset shares;
- the value of the investments of the inherited estate of the Fund;
- costs resulting from guarantees and options attaching to policies; and
- costs resulting from smoothing of policy payouts and bonuses (after allowing for any hedging).

In early 2024, the Teachers Assurance Fund purchased insurance protection of a portion of the risk resulting from customers who make claims for compensation for historical mis-selling by TPS.

Profits or losses from all business risks within the Teachers Assurance Fund are credited to or borne by the Fund inherited estate and hence, as the inherited estate is being distributed, will directly influence the amount payable to with-profits policies.

The Teachers Assurance Fund is not permitted to write any new business, other than in extremely limited circumstances, and did not do so in 2024.

4.11 Rectification

Where issues are found that affect customers' payouts they are remediated in line with our Risk Management Framework. There were no issues in 2024 that affected compliance with the PPFM, other than in respect of the issue related to the taxation of the Teachers Assurance Fund detailed in section 4.12.

4.12 Compliance with the Instrument of Transfer

Compliance with the PPFM is subject to the requirements of the Instrument, hence any non-compliance with the Instrument in 2024 should be declared. Following advice from the With-Profits Committee and the With-Profits Actuary, the Board confirmed that LVFS was compliant with the Instrument in 2024 except in respect of an issue related to the taxation of the Teachers Assurance Fund which was addressed in May 2025, and which did not affect payouts.

4.13 A summary of changes to the PPFM are on our website

Changes were made to the PPFM on 12 April 2024 (Version 11) and 16 July 2024 (Version 12). The more material changes were to only to Practices to reflect:

- the appointment of BlackRock as the primary asset manager for LVFS from April 2024
- the removal of the rebate from the inherited estate of LVFS to the Teachers inherited estate in certain circumstances, as detailed in section 4.8.

The current PPFM and a full list of changes are on our website at [LV.com/teachers/life-policies/with-profits](https://www.lv.com/teachers/life-policies/with-profits).

5. When competing or conflicting rights, interests or expectations of policyholders occur

The Teachers Assurance Fund is run as a mutual fund, which therefore avoids having any competing or conflicting interests with shareholders.

Potential conflicts can occur between the Teachers Assurance Fund and the main LVFS Fund (for example in respect of charges made to the Teachers Assurance Fund). Where these occur, the With-Profits Committee and With-Profits Actuary provide advice to the Board to ensure that with-profits policyholders in both funds are fairly treated. If a material potential conflict were to arise, consideration would be given to the need for independent external advice.

Potentially competing or conflicting rights, interests or expectations of with-profits policyholders within the Fund may come about, for example, between:

- different types of policy;
- policies with varying benefits and policy conditions;
- policies with different terms or of different sizes;
- policies with different entry or maturity dates; and/or
- different types of claim on a policy (for example, on maturity, death or surrender).

To ensure that the Teachers Assurance Fund with-profits policyholders are treated fairly in balancing their respective interests, throughout 2024 LVFS exercised discretion between these groups of policyholders through:

- the choice as to how policy benefits are smoothed;
- maintaining different series of annual and final bonus rates for different policy types;
- the method used to group policies when allocating investment returns, tax (where applicable) and charges to asset shares; and
- the method used to set Special Bonus.

6. Conclusion

The Board can confirm that, in its opinion, the exercise of discretion (as detailed in section 4), and its management of the potentially competing or conflicting rights, interests, or expectations of policyholders in the Teachers Assurance Fund (detailed in section 5) were in accordance with its PPFM during 2024, thereby treating with-profits policyholders fairly.

The Board can also confirm that, in its opinion, LVFS complied with the obligations set out in the PPFM of the Teachers Assurance Fund during 2024 except in respect of the issue identified in section 4.12 related to compliance with the tax aspects of the Instrument of Transfer (which was addressed in May 2025). The reasons for this opinion are detailed in section 4.

The With-Profits Committee and the With-Profits Actuary agree with these opinions.

The Board of Directors
Liverpool Victoria Financial Services Limited
29 May 2025

Annex

Report from the With-Profits Actuary to the With-Profits Policyholders of the Teachers Assurance Fund of Liverpool Victoria Financial Services Limited

It is my responsibility as With-Profits Actuary ('WPA') of Liverpool Victoria Financial Services Limited ('LVFS') to advise the Board of Directors on the management of its with-profits business, and to report annually to with-profits policyholders on the exercise of discretion in relation to that business.

This report covers the period from 1 January 2024 to 31 December 2024 inclusive. I was formally engaged by LVFS as WPA on 6 February 2025 following confirmation by the Prudential Regulation Authority and the Financial Conduct Authority. My predecessor Trevor Fannin was involved in consideration of the matters referred to in the attached report on LVFS's compliance with its Principles and Practices of Financial Management during 2024 and up to 5 February 2025.

In my opinion the discretion exercised by the LVFS Board of Directors in relation to the Teachers Assurance Fund in 2024 may be regarded as having taken the interests of with-profits policyholders into account in a reasonable and proportionate manner. It was also consistent with disclosures to customers and the PPFM other than the paragraph in the PPFM related to the taxation of the Teachers Assurance Fund.

I note the issue related to compliance with the tax aspects of the Instrument of Transfer has already been addressed.

In reaching this opinion I have relied on reports and information provided to me by the company and my predecessor, and I have taken into account the relevant rules and guidance issued by the Prudential Regulation Authority and the Financial Conduct Authority and applicable standards and guidance issued by the Financial Reporting Council⁶.

Catherine Gavin
With-Profits Actuary for LVFS
29 May 2025

⁶ TAS 100 and TAS 200

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