

Liverpool Victoria Financial Services Limited

# Teachers Assurance Fund

## Principles and Practices of Financial Management (PPFM)

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# 1. Introduction

## 1.1 Company Information

Liverpool Victoria Financial Services Limited ("LVFS") was formed upon the conversion of Liverpool Victoria Friendly Society Limited into a company limited by guarantee on 2 January 2020 following a vote by its members. Its predecessor was originally founded in 1843 as a burial society. As a mutual organisation LVFS has no shareholders, instead being owned by its members.

LVFS is incorporated under the provisions of the Companies Act 2006 and is bound by its Articles of Association.

It is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. In this document where LVFS is used in a context that predates conversion, the reference is to Liverpool Victoria Friendly Society Limited.

## 1.2 Teachers Assurance Fund Information

The Teachers Assurance Fund ("TA Fund") is a ring-fenced sub-fund within Liverpool Victoria Financial Services Limited.

It was established on 1 June 2016 to hold the with-profits business transferred from Teachers Provident Society Limited ("TPS", "Teachers") to Liverpool Victoria Friendly Society Limited by way of an Instrument of Transfer. The transfer was approved by the members of TPS, confirmed by the PRA and registered by the FCA.

## 1.3 Instrument of Transfer and Core Principles

The Instrument of Transfer (the "Instrument") is the legal document that governs the operation of the TA Fund. The Principles and Practices set out below are intended to be consistent with the requirements of the Instrument, but in the event of any conflict the requirements of the Instrument shall prevail.

The terms of the transfer require the TA Fund to be managed in accordance with the following principles (the "Core Principles") which were originally included in the Explanatory Booklet included with the Teachers Circular:

**1.3.1** The TA Fund, including its investment and bonus policy, shall be managed in a sound and prudent manner, having regard to the interests and reasonable expectations of the TA Fund policyholders. In determining the interests and reasonable expectations of the TA Fund policyholders, LVFS's Board shall have regard to the management of Teachers prior to 1 June 2016, to the terms of the Instrument; and to the statements made in the Teachers Circular and in the reports made by the Teachers' Actuarial Function Holder, the Teachers' With-Profits Actuary and the Independent Actuary on the Transfer;

**1.3.2** The TA Fund shall be managed without regard to the financial position, performance and experience of the rest of LVFS's insurance business or any other LVFS Group Company or any assets and liabilities thereof and shall have no exposure to profits and losses arising from experience or business activities unrelated to the TA Fund. Similarly, LVFS's insurance business other than the TA Fund shall be managed without regard to the financial position, performance and experience of the TA Fund or any assets or liabilities thereof and shall have no exposure to profits and losses arising from experience or business allocated to the TA Fund. Without prejudice to the generality of the foregoing, the inherited estate of the TA Fund shall only be used to support the business of LVFS which is not allocated to the TA Fund or of any other LVFS Group Company on terms other than arm's length terms (as reasonably determined by LVFS's Board) in circumstances where this is required by law or regulation; and

**1.3.3** The TA Fund will be managed with the objective of distributing all the assets of the TA Fund (including the inherited estate of the TA Fund) in as equitable a manner as possible over the remaining lifetime of the with-profits policies allocated to the TA Fund.

The Core Principles shall only be amended with the approval of the PRA and FCA and of LVFS's With-Profits Committee.

The Instrument includes details of when and how the TA Fund can be merged with the main fund of LVFS.

## 1.4 Purpose of this document

As required by the FCA, this document sets out how the with-profits business within the TA Fund is managed and, in particular, how discretion is to be exercised. It is known as the Principles and Practices of Financial Management (PPFM).

It excludes the main fund of LVFS (referred to in this document as "the LVFS Fund") and the RNPFN Fund (a ring-fenced sub-fund of LVFS) which are subject to their own PPFMs.

A glossary of the key terms and abbreviations used in this document is included as Appendix 1.

## 1.5 Policies covered by this document

This document covers all conventional and unitised with-profits policies invested in the TA Fund. The with-profits policies contained within the TA Fund are primarily savings products that offer guaranteed minimum payouts to policyholders on maturity or death.

A list of the types of policy covered is provided in Appendix 2.

## 1.6 The Principles

The Principles are enduring statements of the standards LVFS follows when managing the with-profits business within the TA Fund. These Principles cover duties to the with-profits policyholders in the TA Fund in both current and future business and economic environments, compliance with relevant regulation and legislation, and the need to be fair to all of LVFS's policyholders.

The Principles are not expected to change often. However, there are no restrictions on LVFS's ability to change them, where appropriate, subject to satisfying the relevant regulatory requirements (including notifying affected policyholders as stated in paragraph 1.9) and any relevant requirements of the Instrument.

## 1.7 The Practices

The Practices describe how LVFS intends to follow the Principles in the day-to-day management of the TA Fund. They are more detailed descriptions of how LVFS responds to short-term changes to the business and economic environment when managing the with-profits business within the TA Fund. The Practices may be changed from time to time and the information in this document only reflects current practice. There are no restrictions on LVFS's ability to change the Practices, beyond any requirements set out in regulations or in the Instrument.

Some Practices are shown separately for conventional with-profits policies and for unitised with-profits policies, to recognise that there are differences in how the two types of with-profits policy operate.

### **1.8 Monitoring Compliance and Governance**

The Board of Directors of LVFS ("the Board") produces an annual report to policyholders (available on the LVFS website or on request) on LVFS's compliance with the PPFM. It is the responsibility of the Board to ensure that LVFS manages the with-profits business within the TA Fund in accordance with the Principles and Practices set out in this document.

A With-Profits Actuary ("WPA") has been appointed to advise management and the Board on their exercise of discretion in managing the with-profits business within the TA Fund. A report from the With-Profits Actuary to the with-profits policyholders in the Fund is included within the Board's annual report.

LVFS also has a With-Profits Committee ("WPC") to consider the rights, interests and reasonable expectations of the with-profits policyholders in their capacity as policyholders of TA Fund, and exercise independent judgement in advising the Board on the achievement of the fair treatment of those with-profits policyholders. This includes advising on material issues in the exercise of discretion and in assessing compliance with this PPFM. The With-Profits Committee may also include a report to with-profits policyholders within the Board's annual report if it deems it appropriate. The membership currently comprises three members (including the Chair) who are independent of the LVFS Group and two non-executive directors from the Board.

The Instrument of Transfer requires that the WPC must include an individual (the "Teachers Nominee") who is independent of LVFS. The first Teachers Nominee was nominated by the Teachers Board and any subsequent appointments will be made on the recommendation of the WPA. The terms of reference of the WPC are available on the LVFS website ([LV.com](http://LV.com)).

### **1.9 Changes to the PPFM**

This PPFM is reviewed at least annually to ensure that it continues to correctly reflect the Principles and Practices that are applied to the with-profits business within the TA Fund.

Any proposed changes are reviewed by the WPC and approved by the Board, after considering advice from the WPA, before the changes are implemented.

With-profits policyholders covered by this PPFM will be notified of material changes to any Principles in this document that affect them at least three months in advance. The FCA will also be notified of the changes.

With-profits policyholders covered by this PPFM will be notified of material changes to any Practices in this document that affect them as soon as is reasonable.

### **1.10 Customer-Friendly PPFM**

A customer-friendly version of this PPFM ("CFPPFM") published as "Your Guide to how we manage the Teachers Assurance Fund for with-profits business" is available on the LVFS website or on request. This document contains key information from the PPFM. For the avoidance of doubt, in the event of a conflict, the PPFM will take precedence over the CFPPFM.

### **1.11 Disclaimers**

A Schedule of disclaimers is shown in section 12 of this document.

## 2. The methods used to guide the determination of the appropriate amount payable to individual with-profits policyholders

### Principles

**2.1** The aim is to pay out an amount due under a with-profits policy that:

- is consistent with safeguarding the solvency of the TA Fund and treating all policyholders fairly and equitably relative to their reasonable expectations;
- includes any relevant guaranteed benefits;
- represents an equitable distribution of surplus (in accordance with the Principles set out in section 9); and
- follows the approach to smoothing of payouts (in accordance with the Principles set out in section 5).

**2.2** The methods used will be applied to the extent appropriate to enable the Board to make reasonable decisions.

**2.3** The Board will not change the historical assumptions or parameters used to calculate Asset Shares, where they relate to a period prior to 1 June 2016 except where necessary to correct any errors or omissions. The Board might change the historical assumptions or parameters relevant to methods used from 1 June 2016 if it can be clearly demonstrated to the Board, having received advice from the WPA and WPC, that a significant class of policyholders has been materially disadvantaged.

### Practices – All With-Profits Policies

**2.4** The Standard Payouts under conventional with-profits policies use Asset Shares to guide the determination of the amount payable to individual with-profits policyholders (except for payouts on death for endowment policies calculated in accordance with paragraph 4.6). The Standard Payouts under unitised with-profits policies use Asset Shares directly in the calculation of the amount payable to individual with-profits policyholders hence Asset Shares are not considered to be used as a guide to determining the benefits payable. The main items used in calculating Asset Shares are:

- premiums
- less relevant charges for expenses
- less tax (where relevant)
- less any cost of life cover provided plus profits from death claims (where relevant)
- less a deduction for withdrawals in accordance with paragraph 2.23
- plus any profits or losses from policy terminations before 1 June 2016
- plus, for eligible policies, profits arising in 2014 from TPS business risks (known as Mutuality Bonus)
- plus, for eligible policies, distributions of the inherited estate of TPS made before 1 June 2016 (known as Special Mutuality Bonus)
- less a charge for the cost of guarantees and smoothing where policy conditions permit
- plus any addition as at 31 August 2018 for conventional with-profits policies in accordance with paragraphs 2.18 and 2.19 below

all accumulated with investment returns to the date of calculation in accordance with paragraph 2.6.

**2.5** The accumulated value of any distributions of the TA Fund inherited estate made from 1 June 2016 as Special Bonus (i.e. Accumulated Special Bonus, as defined in paragraphs 9.7 and 9.8) does not increase Asset Share but is added at claim to the greater of the Standard Payout and any guaranteed benefits that are payable. Accumulated Special Bonus cannot be paid out prior to the claim that terminates the policy.

**2.6** Asset Shares are credited with the actual, net of tax where applicable, investment returns earned by the pool of assets backing Asset Shares. For the purpose of setting final bonus rates on conventional with-profits policies, an estimated investment return is used for the most recent months until the actual return is available.

**2.7** In Asset Share calculations, where relevant, LVFS allows for tax on investment income and capital gains, and tax losses or tax relief on expenses, using rates of tax appropriate to the type of business.

Any difference between the total tax charge allocated to the TA Fund and the sum of the amounts within the individual Asset Share calculations is credited to or borne by the inherited estate of the TA Fund.

In accordance with the Instrument, the amount charged in respect of taxation will be calculated, so far as is practicable, on the basis that the TA Fund is a standalone friendly society carrying out no other business than that allocated to the TA Fund.

**2.8** Expenses are charged to the TA Fund in accordance with section 8. Charges in respect of expenses are deducted from Asset Shares, also in accordance with section 8.

**2.9** Where relevant, the cost of life cover is charged to Asset Shares. Where such costs can be varied, they are based on reviews of the experience of relevant TA Fund with-profits policies. Profits arising from death claims added to Asset Shares of conventional with-profits whole-of-life policies ceased on 31 August 2018, or after the life assured attained age 80 if earlier. Profits arising from death claims added to Asset Shares of conventional with-profits endowment policies ceased on 31 March 2019, or after the life assured attained age 80 if earlier.

**2.10** Where applicable, charges can be deducted from Asset Shares in respect of the cost of any relevant guarantees and options, and in respect of the use of capital, as detailed in section 8. The Board, on the advice of the WPA and the WPC, can introduce a change to these practices if it considers it is appropriate in order to reflect more accurately the impact of guarantees and options in the Asset Shares for these policies. Any differences in the costs arising from policy guarantees and options, or from smoothing of payouts (see section 5), compared to the charges deducted from Asset Shares in relation to them is credited to or borne by the TA Fund inherited estate.

**2.11** All surrender values are subject to any surrender charges specified in the policy terms and conditions. Guarantees do not apply on surrender other than for the Guaranteed ISA on certain guarantee dates.

**2.12** LVFS documents the methods, parameters, and assumptions that it uses to determine the amount payable to with-profits policyholders in the TA Fund.

**2.13** Any proposed material changes to the current methods, or to the current or historical parameters and assumptions relevant to a particular method, will be submitted to the Board for approval (after advice from the With-Profits Committee and the With-Profits Actuary), and included in the documentation referred to above.

**2.14** The liability to make payments under the LVFS Group's Subordinated Debt lies outside the ring-fenced TA Fund and LVFS therefore manages the TA Fund disregarding such liability.

## Practices – Conventional With-Profits Policies

**2.15** The following methods are used to determine the payouts for conventional with-profits policies on maturity, death and surrender.

**2.16** The Standard Payout to conventional with-profits policyholders is the total of the guaranteed benefits (appropriately reduced for surrenders) and a final bonus if appropriate. Except for payouts on death for endowment policies, the final bonus (as detailed in section 4) is set in order to pay out the Asset Share for each individual policy (calculated as described in this section) allowing for smoothing as described in section 5. In accordance with paragraphs 2.5, 4.8 and 9.12, the final bonus also includes 100% of the Accumulated Special Bonus which is added at claim to the greater of the Standard Payout and any guaranteed benefits. The final bonus payable on death for endowment policies is calculated in accordance with paragraph 4.6.

**2.17** Except for payouts on death for endowment policies, in normal circumstances the Board's aim is to make payouts of between 85% and 115% of (Asset Share plus Accumulated Special Bonus) for each individual policy. This range (known as the Target Range) is set taking into account the investment strategy and the way payouts are set (including the frequency of review and the smoothing approach). Except for payouts on death for endowment policies, over the longer term the aim is that payouts will average 100% of (Asset Share plus Accumulated Special Bonus).

**2.18** For endowment policies, in connection with a change in methodology introduced on 1 April 2019, if the individual Asset Share of the policy on 31 August 2018 was lower than the Standard Payout which applied on surrender on that date calculated using the previous methodology, then the latter amount is accumulated as the individual Asset Share from that date.

**2.19** For whole-of-life policies, in connection with a change in methodology introduced on 1 September 2018, if the individual Asset Share of the policy on 31 August 2018 was lower than the Standard Payout which applied on death on that date calculated using the previous methodology, then the latter amount is accumulated as the individual Asset Share from that date.

**2.20** For relevant claims, the payout range quoted in paragraph 2.17 as being a percentage of Asset Share plus Accumulated Special Bonus is a target range. However, it is not guaranteed that the payout on a policy will necessarily fall within the applicable range. A payout above target range may occur if a guaranteed benefit is payable. The Board may also decide to make a payout that falls outside the target range because it believes it might be fair, or fairer, to a particular policyholder and the other with-profits policyholders to do so. In order to maintain fairness and treat policyholders equitably, it may be appropriate in the future to apply different target ranges to different groups of policies.

**2.21** The Board sets the Standard Payout having regard to the advice received from the WPA and WPC and will consider the solvency of the TA Fund, the expectations of policyholders and the requirement to treat customers fairly. If necessary, in order to ensure the future solvency of the TA Fund can be adequately maintained, the Board may reduce the percentage of the Asset Share that is used to determine Standard Payouts.

## Practices – Unitised With-Profits Policies

**2.22** The following methods are used to determine Standard Payouts for all unitised with-profits policies on maturity, death and surrender.

**2.23** The Standard Payout on a Teachers Anniversary Bond will equal the accumulated value of units (calculated in accordance with paragraph 3.10) plus any final bonus (or less any Market Value Reduction). The Standard Payout represents 100% of Asset Share (or will be above 100% of Asset Share if any Market Value Reduction (MVR) that is calculated is not applied). On a withdrawal, the Asset Share is reduced by a percentage calculated as the units cancelled for that withdrawal divided by the total units previously in force. On death, the Standard Payout is subject to a minimum payout of guaranteed benefits. Further information is detailed in paragraphs 4.10 to 4.11.

**2.24** For other unitised with-profits policies, premiums purchase units which are valued at a unit price that changes in line with the investment return (net of fund charges and any tax) on the assets in the asset pool that backs Asset Shares. The units held for the policies reflect extra units added to reflect distributions of Mutuality Bonus and Special Mutuality Bonus by TPS where the policy was eligible for them.

**2.25** The Standard Payout to unitised Tax Exempt/Tax Free Savings Plan (Series 1) and Regular Savings Plan policyholders is the value of units (which represents 100% of Asset Share). On maturity, this is subject to a minimum payout of the higher of a return of premiums plus any annual bonuses or the Smoothed Value of Units, as defined in paragraph 5.8. On death, this is subject to a minimum payout of guaranteed benefits.

**2.26** The Standard Payout to unitised Tax Exempt/Tax Free Savings Plan (Series 2 and 3) and Guaranteed Savings Plan policyholders is the value of units (which represents 100% of Asset Share). On maturity this is subject to a minimum payout of the higher of a return of premiums or the Smoothed Value of Units, as defined in paragraph 5.8. On death, this is subject to a minimum payout of guaranteed benefits.

**2.27** The Standard Payout to Guaranteed ISA policyholders is the value of units (which represents 100% of Asset Share). On surrender on guarantee dates specified in the policy conditions, this is subject to a guaranteed minimum amount. On death, this is subject to a minimum payout of guaranteed benefits.

**2.28** For all unitised with-profits policies, in accordance with paragraphs 2.5 and 9.13, value of 'estate' units (which represents 100% of Accumulated Special Bonus) is added at claim to the greater of the Standard Payout and any guaranteed benefits that are payable, to give the Total Payout.

### 3. The approach to setting annual bonus rates

#### Principles

**3.1** The aim is to set an annual bonus rate for each bonus series that:

- increases the guaranteed benefits on applicable with-profits policies at a modest and stable rate;
- leaves an appropriate margin between policyholders' Asset Shares and guaranteed benefits at the date of claim; and
- ensures that the future solvency of the TA Fund can be adequately maintained.

**3.2** To allow for the different characteristics of with-profits policies, consideration is given to the maintenance, where required, of separate bonus series according to:

- the tax status of the policy;
- the type of policy - conventional or unitised; and
- the premium rate series used to calculate the guaranteed benefits.

#### Practices – Conventional With-Profits Policies

**3.3** The current practice is to set annual bonus rates for all conventional with-profits policies to be the same level. However historically, separate scales of annual bonus have been used for the conventional with-profits bonus series detailed in Appendix 2.

**3.4** The annual bonus for conventional with-profits policies increases the amount of guaranteed benefits and is declared in two parts:

- a bonus rate expressed as a percentage of the sum assured; and
- a bonus rate expressed as a percentage of the annual bonuses added to the policy to date.

The current practice is to set the same annual bonus rates for both parts.

**3.5** When considering whether it may be appropriate to change annual bonus rates, the primary consideration is whether the Asset Share Cover for a material proportion of policies falls outside a broad range set by LVFS. The range is set with the intention that there is no material cost to the level of annual bonus rates. As the range is broad, changes in annual bonuses should be expected to be relatively infrequent. Asset Share Cover refers to the current and projected relative position of Asset Shares against guaranteed benefits.

**3.6** Consideration would be given to introducing a new series of annual bonus rates for conventional with-profits policies if very material differences in Asset Share Cover arose that resulted in unfair treatment between policyholders.

**3.7** Annual bonus rates are set in respect of a particular calendar year and increase guaranteed benefits during the following calendar year. A maximum amount by which annual bonuses would alter if a change is made has not been set. Annual bonus rates could be set at minimal levels, or even zero if required.

**3.8** Interim bonus rates for conventional with-profits policies are reviewed at the same time annual bonus rates for these policies are reviewed using the same practices. The right is reserved to change interim bonus rates before the next declaration of annual bonus rates if the considerations described in paragraph 3.5 indicate that a change is appropriate.

#### Practices – Unitised With-Profits Policies

**3.9** Separate scales of annual bonus are used for the following unitised with-profits business:

- Teachers Anniversary Bond
- Tax Exempt/Tax Free Savings Plan (Series 1)
- Regular Savings Plan

**3.10** For the series of unitised with-profits business described in paragraph 3.9 the annual bonus increases the amount of guaranteed benefits. It is expressed as a percentage of the accumulated unit value and is applied by increasing the unit holding.

**3.11** When considering whether it may be appropriate to change annual bonus rates, the primary consideration is whether the Asset Share Cover for a material proportion of policies falls outside a broad range set by LVFS. The range is set with the intention that there is no material cost to the level of annual bonus rates. As the range is broad, changes in annual bonuses should be expected to be relatively infrequent. Asset Share Cover refers to the current and projected relative position of Asset Shares against guaranteed benefits (or the value of units for Teachers Anniversary Bonds).

**3.12** Annual bonus rates are reviewed at least once a year, though rates may be changed at any time if the considerations described in paragraph 3.11 indicate a change is appropriate. A maximum amount by which annual bonuses would alter if a change is made has not been set. Annual bonus rates could be set at minimal levels, or even zero if required.

**3.13** The design of the following other unitised with-profits products means that an annual bonus is not applicable to them:

- Tax Exempt/Tax Free Savings Plans (Series 2 and 3)
- Guaranteed Savings Plans
- Guaranteed ISA

## 4. The approach to setting final bonus rates

### Principles

**4.1** Final bonuses may be added to terminating policies to ensure that the Standard Payouts represent a fair return reflecting the experience of the TA Fund while the policy has been in force.

**4.2** Final bonus rates, where used, are calculated on an individual policy basis, and hence reflect the different characteristics of each policy.

**4.3** Final bonus rates can be amended at any time with the aim of maintaining fairness and treating policyholders equitably.

**4.4** The Board, on the advice of the WPA and WPC, reserves the right to change, when appropriate, the surrender bases for with-profits policies. On the Teachers Anniversary Bond, a Market Value Reduction can be applied if the change in asset values is deemed significant. This may be necessary in circumstances when investment markets show a significant decline in one or more consecutive years, or if necessary in order to ensure the future solvency of the TA Fund can be adequately maintained.

### Practices – Conventional With-Profits Policies

**4.5** Final bonus rates for individual conventional with-profits policies are revised on a monthly basis. They may be revised more frequently if necessary in order to ensure the future solvency of the TA Fund can be adequately maintained.

**4.6** For endowment with-profits policies, the final bonus rate applying to each policy is set to ensure the Standard Payout on maturity or surrender is the policy Asset Share, subject to smoothing in accordance with section 5, plus any Accumulated Special Bonus. The final bonus rate is currently expressed as a percentage of the guaranteed benefits (appropriately reduced for surrenders) under the policy. In accordance with TPS' established practice, the final bonus rate calculated for a surrender claim is also used in the event of a death claim, but is added to the full guaranteed benefits under the policy. Maturity and death claims are subject to a minimum of the guaranteed benefits.

**4.7** For whole-of-life policies, the final bonus rate applying to each policy is set to ensure the Standard Payout on death or surrender is the policy Asset Share, subject to smoothing in accordance with section 5 and subject to the guaranteed benefits payable on death, plus any Accumulated Special Bonus. The final bonus rate is currently expressed as a percentage of the guaranteed benefits under the policy.

**4.8** In accordance with paragraph 2.5, for all conventional with-profits policies any Accumulated Special Bonus payable at claim (as described in section 9) is added to the Standard Payout by increasing the final bonus that otherwise would be paid or, if only guaranteed benefits are paid, by adding a final bonus. In order to treat such policyholders fairly, when the current payout methodology was introduced:

- From 1 April 2019, for endowment policies, if the individual Accumulated Special Bonus at 31 August 2018 was lower than the Accumulated Special Bonus which applied on surrender on that date, then the latter amount is accumulated as the individual Accumulated Special Bonus from that date.
- From 1 September 2018, for whole-of-life policies, if the individual Accumulated Special Bonus at 31 August 2018 was lower than the Accumulated Special Bonus which applied on death on that date, then the latter amount is then accumulated as the individual Accumulated Special Bonus from that date.

### Practices – Unitised With-Profits Policies

**4.9** The Teachers Anniversary Bond is the only unitised with-profits policy that uses a final bonus. The final bonus on surrender or death is set as a percentage of the accumulated unit value (calculated in accordance with paragraph 3.10). The percentage is calculated daily using the excess (if any) of the Asset Share for an individual policy in accordance with section 2 over the accumulated unit value. The final bonus on a withdrawal is calculated using the same percentage.

**4.10** Except as detailed in paragraph 4.11, in exceptional circumstances (and if doing so was considered to be in the best interests of policyholders in the TA Fund generally) an MVR can be applied to the unit value of a Teachers Anniversary Bond to bring the Standard Payout down to the Asset Share. The MVR on a withdrawal is calculated using a similar method. If an MVR is applicable to the accumulated unit value, then no final bonus would be payable. The current practice is that any MVR that is calculated is not applied.

**4.11** The circumstances when the MVR on the Teachers Anniversary Bond is not applicable are on:

- the tenth policy anniversary date (though all such bonds are past this date)
- death payouts
- regular withdrawal payments up to 5% of the original single premium, unless an MVR was being applied at the time the regular withdrawals commenced.

**4.12** The design of the following unitised with-profits products means that neither a final bonus nor an MVR is applicable to them:

- Tax Exempt/Tax Free Savings Plan (Series 1)
- Tax Exempt/Tax Free Savings Plan (Series 2 and 3)
- Regular Savings Plan
- Guaranteed Savings Plan
- Guaranteed ISA.

For these products the method of determining Standard Payouts ensures Asset Share is paid, subject to the minimum of any guaranteed benefits or, for regular premium policy maturities only, the Smoothed Value of Units (as explained in paragraph 5.8).

**4.13** For all unitised policies, any Accumulated Special Bonus as described in paragraph 9.13 payable at claim is separately added to the Standard Payout.

## 5. The approach to smoothing the value of with-profits policies

### Principles

**5.1** The aim of smoothing the Standard Payout under conventional with-profits policies is that:

- the difference between Standard Payouts on individual policies in adjoining periods of time due to the effect of short term fluctuations experienced in investment returns should be reduced;
- all types of with-profits policy are treated in a fair, equitable and consistent manner, allowing for the types of claim that may arise; and
- the smoothed amounts paid out do not have a materially adverse effect on the solvency position of the TA Fund.

**5.2** For Standard Payouts on conventional with-profits policies, it is not intended for smoothing, over the longer term, to be a material source of profit or loss. For Standard Payouts on unitised with-profits policies either the smoothing approach is set out in policy conditions or smoothing is not used.

**5.3** The Board, on the advice of the WPA and WPC, reserves the right to change the smoothing policy for with-profits policies when appropriate (and where allowable under policy conditions).

### Practices – All With-Profits Policies

**5.4** The smoothing approaches for Standard Payouts may vary for each product type, though the same approach will apply to all with-profits policies of the same product type allowing for the types of claim that may arise. No smoothing is applied to the Accumulated Special Bonus. Any profits or losses from smoothing are credited to or borne by the TA Fund inherited estate.

### Practices – Conventional With-Profits Policies

**5.5** For conventional with-profits policies, LVFS does not set a period over which it intends smoothing on Standard Payouts to be neutral and it does not set an overall limit to the accumulated profits or losses from smoothing.

**5.6** For payouts from 1 October 2023 onwards, smoothing is normally applied by taking the geometric average of investment returns over the previous two years in the individual policy Asset Share used to set final bonus rates. The investment returns assumed to be earned prior to 1 October 2023 in the calculation of smoothed returns used from that date were set to ensure that the introduction of this approach resulted in minimal expected profits or losses at the time it was implemented.

**5.7** LVFS has the right to remove or reduce smoothing on all conventional with-profits policy payouts in exceptional circumstances. The decision to do this will take into account the fair treatment of conventional with-profits policyholders, the expected cost of maintaining smoothing (including profits and losses derived from any hedging of the smoothing cost) and the current and projected financial strength of the TA Fund.

### Practices – Unitised With-Profits Policies

**5.8** The calculation of the Standard Payout on maturity for regular premium unitised with-profits products (Tax Exempt Savings Plan/ Tax Free Savings Plan (Series 1, Series 2 and Series 3), Regular Savings Plan and Guaranteed Savings Plan) is described in paragraphs 2.25 and 2.26. In accordance with policy conditions the Smoothed Value of Units (also known as the Smoothed Asset Share) is used as part of the payout calculation. It is the value of units calculated by smoothing the unit price over a period of 24 months prior to a policy's maturity date. Changes in Standard Payouts to maturing policies are not constrained and will vary according to the outcome for each individual policy as described in paragraph 4.12. The Standard Payouts on death or surrender are not subject to smoothing.

**5.9** The Standard Payouts under the Teachers Anniversary Bond and the Guaranteed ISA are not subject to smoothing.

## 6. The significant aspects of the investment strategy

### Principles

**6.1** The assets of the TA Fund are split into two pools of assets: one pool for the Asset Shares of the TA with-profits policies and a separate pool for the assets held in excess of the Asset Shares (and which includes the TA Fund inherited estate and Accumulated Special Bonus).

**6.2** The investment strategies for the two pools of assets in the TA Fund take into account:

- for the pool of assets backing Asset Shares – the aim is to invest in a diversified portfolio of investments to maximise long term returns while preserving a level of risk to the return which is consistent with with-profits policyholders' expectations;
- for the pool of assets held for assets in excess of those backing Asset Shares – the aim is to have reduced volatility of returns for distributions of the inherited estate;
- what has been communicated to policyholders from time to time;
- the level and nature of liabilities in the TA Fund; and
- the aim of maintaining a level of capital in the TA Fund in line with the risk appetite set by the Board.

**6.3** The exposure to single counterparties is limited to manage the degree to which a counterparty default would affect the investment return on the TA Fund.

**6.4** The Board does not rely on any assets outside the TA Fund in setting investment strategy.

**6.5** The Fund may use derivatives and other instruments for the purpose of efficient portfolio management, risk reduction or to hedge specific liabilities and not for speculation.

**6.6** The investment strategy can change from time to time.

**6.7** Control limits will be applied for each asset class and an independent custodian will be used to hold relevant assets.

### Practices – All With-Profits Policies

**6.8** The Board has overall responsibility for the investment strategy and risk management of the TA Fund taking advice from the WPA, the WPC, the Chief Actuary and LVFS's management. The Board delegates approval of changes in investment strategy to its Investment Committee.

**6.9** LVFS currently formally reviews the long-term investment strategy for the pool of assets backing Asset Shares in the TA Fund at approximately annual intervals. The strategy may be reviewed more frequently e.g. if the external economic environment changes. The investment outlook, investment mix and performance are monitored periodically between formal reviews. The strategy allows the Asset Manager to make tactical asset decisions within agreed limits. Approval by the Investment Committee of the Board is required before tactical investment decisions outside the previously agreed long-term investment strategy can be implemented. A policy, approved by the Investment Committee, sets out controls and limits for those issuing investment instructions.

**6.10** In determining the mix of assets for the pool of assets backing Asset Shares, the investment strategy will take into account the principles in paragraphs 6.1 to 6.7, our assessment of with-profits policyholders' expectations regarding a level of risk to the return, our approach to Responsible Investment, and developments in investment practice. Account is also taken of the long-term expected returns available in the various asset classes, the volatility of those returns, and the benefits to be obtained from diversification. LVFS reserves the right to change the mix of assets in response to significant movements in market prices.

**6.11** Details of the current mix of assets for the pool of assets backing Asset Shares and actual current asset mix are available on the LVFS website ([LV.com](http://LV.com)) or can be obtained directly from LVFS.

**6.12** The overall mix of assets will vary over time. A uniform long-term target mix for the pool of assets backing Asset Shares has been used to date across all with-profits policies, but (in the future) the asset mix may vary, for instance, by level of guarantee or the duration of with-profits policies. This may occur, for example, to improve equity between different cohorts of policyholders or between policies with materially different levels of guarantees or when there is a legal requirement to do so.

**6.13** The TA Fund currently obtains investment exposure to various classes of asset in the pool of assets backing Asset Shares through the purchase of collective investment schemes operated by the current asset manager. Dealings in collective investment schemes are subject to the normal terms and conditions governing their operation. It may also invest in direct holdings of assets when appropriate.

**6.14** Before investing in new types of investments, LVFS seeks formal approval from the Investment Committee. The Investment Committee will consider any proposals, the Prudent Person Principle, and the associated risks, in the context of the overall investment strategy that has been adopted and the capability of LVFS to manage such investments. The Investment Committee will consider advice from LVFS's management, the Board's Risk Committee, the With-Profits Committee, the With-Profits Actuary and the Chief Actuary in making its decision.

**6.15** Derivatives are used for the purpose of efficient portfolio management and risk reduction. Investments in non-UK assets may be currency-hedged if this is felt appropriate to reduce the level of risk. Smoothing profits and losses from expected claims for with-profits policies in the TA Fund are hedged. Any profits or losses resulting from this are credited to or borne by the inherited estate of the TA Fund.

**6.16** The pool of assets backing Asset Shares is split into three sub-pools for different products which all have the same target asset allocation, as described in paragraph 6.12. The three sub-funds are:

- Conventional with-profits (covering all conventional with-profits policies);
- Unitised with-profits taxable (covering Teachers Anniversary Bond, Regular Savings Plan, Guaranteed Savings Plan); and
- Unitised with-profits tax exempt (covering Tax Exempt/ Tax Free Savings Plan, Guaranteed ISA).

The actual asset allocations of the sub-pools may differ from time to time for practical reasons as they are managed separately. Though investment returns are allocated to the Asset Shares of Teachers Anniversary Bonds from the unitised with-profits taxable sub-pool, for practical reasons the assets actually held for them are in the conventional with-profits sub-pool. Any profits or losses resulting from this are credited to or borne by the inherited estate of the TA Fund. Before 2018, investment returns allocated to the Asset Shares of Teachers Anniversary Bonds were those from the conventional with-profits sub-pool.

**6.17** The long-term investment strategy for the separate pool of assets held for assets in excess of those backing Asset Shares (and which includes the TA Fund inherited estate and Accumulated Special Bonus) is to invest in fixed interest investments and cash; the returns on this pool of assets are attributable to the TA Fund inherited estate and the Accumulated Special Bonus.

**6.18** None of the assets held in the TA Fund are expected to be illiquid.

**6.19** LVFS seeks to ensure there are sufficient available assets in the TA Fund to meet its obligations as they fall due. It maintains a liquidity risk policy and framework which set out the monitoring and management of liquidity risk.

## 7. The exposure of the with-profits business to business risk

### Principles

**7.1** The profits or losses from all business risks within the TA Fund are credited to or borne by the TA Fund inherited estate and hence, as the inherited estate is being distributed, will directly influence the amount payable under a with-profits policy.

**7.2** The TA Fund is not permitted to undertake any risks related to new business except in the very limited circumstances described in section 10.

**7.3** Transactions with or for the account of the TA Fund relating to contracts for material services, including investment management services, or any transfer, exchange or re-allocation of policies, property or liabilities or provision of capital support between the TA Fund and any other fund of LVFS or any other LVFS Group Company are only to be undertaken on terms which LVFS's Board reasonably considers to be arm's length terms, having taken the advice of the WPC and WPA, other than where required by law or regulation. The provision of capital support from the TA Fund to any other fund of LVFS or any other LVFS Group Company will only be undertaken where required by law or regulation.

**7.4** LVFS will use all reasonable endeavours to mitigate any liability which may arise for the TA Fund and will consult with the WPC on the mitigation of any such liability likely to be in excess of £250,000.

**7.5** The control over existing business risk is monitored at least annually by the Board which takes account of the current and projected financial strength of the TA Fund.

### Practices – All With-Profits Policies

**7.6** The business risks referred to in paragraph 7.1 include those arising from variations in the following:

- compensation to policyholders and associated costs resulting from any mis-selling and maladministration as detailed in paragraph 8.3;
- demographic experience and assumptions;
- exceptional costs charged to the TA Fund and differences between the expenses charged to the TA Fund and the expense charges made to Asset Shares;
- the value of the investments of the inherited estate of the TA Fund;
- profits and losses resulting from the difference in assets actually held for Teachers Anniversary Bonds from those assumed to be held in the sub-pool of assets used to determine the investment return allocated to their Asset Shares (detailed in paragraph 6.16);
- costs resulting from guarantees and options attaching to policies; and
- costs resulting from smoothing of policy payouts and bonuses (after allowing for any hedging).

The expected future outcome of these business risks, where relevant, is reflected in the assessment of the size of inherited estate of the TA Fund, which is being distributed as detailed in section 9.

**7.7** Reinsurance or insurance can be used, where appropriate, to manage business risks.

**7.8** The TA Fund will not have exposure to profits and losses arising from the experience or business activities of any other fund of LVFS or any other LVFS Group Company.

**7.9** Policyholders in the TA Fund are not eligible for the 'mutual bonus' or 'exit bonus' discretionary additions made by LVFS.

## 8. The application of charges for expenses and other items to with-profits policies

### Principles

**8.1** The aim in applying charges and expenses to with-profits policies is to ensure that each with-profits policy bears its fair share of each type of charge and expense, subject to any constraints imposed by policy conditions, bonus series, TPS Rulebook or the Instrument.

### Practices – All With-Profits Policies

**8.2** Expenses and charges to the TA Fund are determined in accordance with Schedule 1 to the Instrument, which includes any adjustments regarding expenses charged to the TA Fund under a waiver granted by the FCA. In summary, under the terms of the Instrument:

- The amount charged to the TA Fund in respect of administration services in the period 1 June 2016 to 31 May 2017 were the actual costs incurred, subject to a cap equal to the amount incurred by TPS for administration in 2013 increased by the increase in the Retail Prices Index plus 1% per annum since 31 December 2013.
- The amount charged to the TA Fund in respect of administration services from 1 June 2017 until 31 May 2027 is calculated by applying a per policy rate of £35 increased by the increase in the Retail Prices Index plus 1% per annum since 18 December 2014, calculated on a monthly basis.
- After this period, actual costs incurred for administration services (together with any VAT) are to be charged, subject to consultation with the WPC at the relevant time.
- The amount charged to the TA Fund in respect of investment management services will be the fees payable under the agreement with the investment manager responsible for providing asset management services for the assets in the TA Fund from time to time (allowing for any Value Added Tax).

**8.3** Subject to the terms of the Instrument, expenses that are considered by the Board to be exceptional or non-recurring are met from the TA Fund inherited estate. For example, the TA Fund is charged for compensation to policyholders and associated costs resulting from mis-selling (including deemed mis-selling) and maladministration in respect of current and historic TPS business, subject to the requirements of the Instrument. However, under the terms of the Instrument, LVFS may not pay any amount in respect of any fine or penalty or any compensation and redress from the TA Fund arising from the management and operation of the TPS business on or after 1 June 2016 except to the extent that the fine, penalty, compensation or redress arises from the appropriate use by LVFS prior to 1 June 2018 of TPS' systems and processes.

**8.4** LVFS does not outsource overall management and administration services, although some specific services are outsourced. LVFS outsources investment management services and has appointed BlackRock as the primary asset manager for LVFS from 12 April 2024 until at least 1 February 2034, with the remaining assets managed by other third parties. The performance of the asset managers is reviewed regularly against agreed performance benchmarks. LVFS is able to terminate all or part of the agreements without compensation with immediate effect if the manager persistently delivers investment returns that underperform the benchmarks, fail to meet agreed criteria or where, following a strategic change, LVFS determine termination is in the best interests of members and policyholders. Certain investment-related operational services are also outsourced such as custodian services and fund accountant services.

**8.5** LVFS uses an internal fair value framework to help assess fairness of charges for expenses deducted from Asset Shares of policies in the TA Fund. Any difference between the expenses charged to the TA Fund and the charges for expenses deducted from the Asset Shares of policies is credited to or borne by the inherited estate of the TA Fund.

### Practices – Conventional With-Profits Policies and Teachers Anniversary Bond

**8.6** For conventional with-profits policies and the Teachers Anniversary Bond, the charges taken from Asset Shares to cover on-going administration and investment expenses will reflect the lower of the amounts actually charged to the TA Fund and:

- the expenses other than investment expenses charged to individual Asset Shares being capped each year at the level charged in 2013 plus the increase in the Retail Prices Index since that time, subject to any constraints imposed by policy conditions, bonus series, or the TPS Rulebook. From 1 September 2018, for Series 2 and 2A policies the resulting expense is then proportionally reduced for policies with annual premiums of less than £300 when charged to individual Asset Shares.
- the investment expenses deducted from individual Asset Shares are capped each year at the percentage of Asset Share charged in 2013.

**8.7** No deductions to Asset Shares for the expected costs of guarantees, options and use of capital and smoothing are currently made for conventional with-profits policies. Charges for the cost of life cover are detailed in paragraph 2.9.

**8.8** For the Teachers Anniversary Bond, Asset Shares reflect a deduction that was made in the first ten years for the expected cost of guarantees. No deductions have been or are made for other guarantees and use of capital.

### Practices – Unitised With-Profits Policies except Teachers Anniversary Bond

**8.9** For unitised with-profits policies (except Teachers Anniversary Bond) the charges taken to cover administration and investment expenses, the cost of guarantees and any cost of smoothing are those which are set out in policy conditions. Where the level of a charge is not guaranteed, it may be varied by LVFS in accordance with policy conditions, subject to the requirement to treat customers fairly.

## 9. The management of the inherited estate

### Principles

**9.1** The inherited estate means the excess of the value of the assets of the TA Fund over a realistic assessment of the liabilities of the TA Fund. The Board manages the inherited estate through regular monitoring of its size in relation to the risk appetite of the TA Fund set by the Board, its ability to fulfil its role as described below and the maintenance of a plan to distribute the inherited estate in full in a sustainable, fair and equitable manner for all cohorts of with-profits policies over their lifetime, consistent with policyholders' reasonable expectations.

**9.2** The role of the inherited estate is to provide capital to meet regulatory reserving requirements in excess of a realistic assessment of the liabilities of the TA Fund, and to support the risks and associated capital requirements of the business in the Fund.

**9.3** In fulfilling this role, the capital provided by the inherited estate supports the TA Fund's ability to invest in assets delivering higher returns to policyholders, while maintaining guaranteed benefits, and the smoothing of benefits paid to policyholders.

**9.4** The Board does not set a target range for the size of the inherited estate, though its size has regard to the Principles in paragraph 9.5.

**9.5** The following principles will be used to distribute the TA Fund inherited estate:

- At all times LVFS will aim to maintain the TA Fund inherited estate at the level needed to manage the run-off of the TA Fund appropriately. When the Board judges it appropriate to do so, it will make distributions from the TA Fund inherited estate, normally as additional Special Bonus. All distributions will be made entirely to the TA Fund with-profits policies. Distributions will only apply to those TA Fund with-profits policies still in-force as at the relevant declaration date.
- The Board will not make a distribution from the TA Fund inherited estate if doing so would breach the risk appetite of the TA Fund set by the Board (i.e. if it would reduce the security of policyholder benefits to an unacceptable level). In addition, the Board may then also decide to claw back part or all of previous distributions from the TA Fund inherited estate made since 1 June 2016 that have been notionally allocated to those TA Fund with-profits policies still in-force, if in not doing so it would breach the risk appetite of the TA Fund set by the Board.
- The rate at which the TA Fund inherited estate is distributed and the method of distribution are decided by the Board having taken the advice of the WPC and WPA in respect of fairness and the Chief Actuary in respect of affordability. Whether it is appropriate to make a further distribution will typically be reviewed annually. Whether it is appropriate to claw back previous distributions will be reviewed by the LV Board at any time if conditions dictate.
- Unless the TA Fund inherited estate falls below the risk appetite for it set by the Board, it is expected that the Accumulated Special Bonus attaching to an individual policy would increase over time as the TA Fund inherited estate is gradually distributed.
- Distributions will be applied consistently across all relevant TA Fund with-profits policies with no bias towards any product or class of products, and will reflect different tax treatments.

### Practices – All With-Profits Policies

**9.6** The investment strategy for the pool of assets held in excess of those backing Asset Shares (and which includes the TA Fund inherited estate and Accumulated Special Bonus), differs from that backing the Asset Shares as described in section 6.

**9.7** An initial distribution of the TA Fund inherited estate to with-profits policyholders in-force on 1 June 2016 was declared in 2016 as Special Bonus, calculated as a percentage of their Asset Share on the 1 June 2016, with the amount being invested in the same mix of assets as the TA Fund inherited estate.

**9.8** The Accumulated Special Bonus is the accumulation of the initial distribution of Special Bonus and any additional distributions of Special Bonus made in accordance with paragraph 9.9 (less any removals made in accordance with paragraph 9.10) in line with the investment returns earned by the pool of assets backing the TA Fund inherited estate and Accumulated Special Bonus net of the actual amounts paid in respect of investment expenses. A deduction for taxes incurred would also be made where appropriate. No smoothing is applied to its value.

**9.9** Whether it is appropriate to make any additional distributions of the TA Fund inherited estate will be considered at least annually and, if one is made, it would be calculated as a percentage of the Asset Share plus the Accumulated Special Bonus and is added to the Accumulated Special Bonus. Any additional Special Bonus is normally added on a quarterly basis.

**9.10** If the TA Fund inherited estate falls below its risk appetite set by the Board, additional distributions would be reduced or would cease. Then further actions may be taken to ensure policyholders are treated fairly and equitably. These actions might include: a higher percentage of those assets backing Asset Shares being invested in fixed interest investments and/or Accumulated Special Bonus being partially or fully removed and/or Standard Payouts may be reduced below the target of 100% of Asset Share where permitted under policy conditions.

**9.11** The amount, timing and nature of the additional distributions or any actions required if the TA Fund inherited estate falls below its risk appetite set by the Board would be determined by the Board, having taken the advice of the WPC and WPA in respect of fairness and the Chief Actuary in respect of affordability.

### Practices – Conventional With-Profits Policies

**9.12** For conventional with-profits policies, Accumulated Special Bonus is added to the amount payable at claim by increasing final bonus rates in accordance with paragraph 2.5 and section 4.

### Practices – Unithised With-Profits Policies

**9.13** For unithised with-profits policies, each distribution of Special Bonus is applied as units to a separate series of 'estate' units, which is valued at a unit price that reflects the investment returns less deductions for investment management services and any taxes incurred as detailed in paragraph 9.8. The Accumulated Special Bonus is the current value of the 'estate' series of units, which is added to the amount payable at claim.

## 10. Volumes of new business and arrangements on stopping taking new business

### Principles

**10.1** The TA Fund is closed to new business other than in respect of premiums that policyholders are entitled to pay under existing policies, policies which have lapsed and are subsequently reinstated and (exceptionally) such other business which the Board decides, in accordance with the terms of the Instrument, should be written in the TA Fund. There are no existing policies that have an option to extend the maturity date or increase premiums, nor are there any existing policies with an option to commence a new policy.

### Practices

**10.2** The TA Fund is managed by reference to the Principles in paragraph 10.1. There are no Practices in addition to these Principles.

## 11. Equity between the with-profits fund and any shareholders

### Principles

**11.1** The TA Fund is operated as a mutual fund with no shareholders and therefore all distributed profit is available for its with-profits policyholders.

### Practices

**11.2** The TA Fund is managed by reference to the Principle in paragraph 11.1. There are no Practices in addition to this Principle.

## 12. Schedule of Disclaimers

None of the contents of this document forms part of, or varies, the terms or conditions of any policy under which Liverpool Victoria Financial Services Limited is the insurer. In the event of any inconsistency between the contents of this document and any policy, the terms and conditions of the policy prevail.

This document is intended to assist knowledgeable policyholders and other interested parties to understand the way in which the with-profits business of the TA Fund is conducted and the material risks and rewards involved in effecting or maintaining a with-profits policy in the TA Fund. It is not a comprehensive explanation either of the management of the with-profits business of the TA Fund or of every matter which may affect that business. In addition, no part of the document should be read as a recommendation to policyholders or potential policyholders or their advisers in relation to the effecting or maintaining of a with-profits policy.

Statements in this document in relation to the risks and rewards involved in effecting and maintaining a with-profits policy in the TA Fund are by their nature forward-looking statements that are subject to a variety of uncertainties. Readers of this document should read such forward-looking statements in that context.

The contents of this document may change as the circumstances of LVFS and the business environment changes. The document may also change to reflect changes made by LVFS to the management of the with-profits business, as detailed in section 1.

Readers of this document should read the whole document. Reading only selected sections or paragraphs in isolation may result in a misleading impression of the way in which the with-profits business of the TA Fund is conducted and the material risks and rewards involved in effecting and maintaining a with-profits policy in the TA Fund. The Principles and their associated Practices set out in this document should in particular be read together.

UK life insurance businesses are subject to a number of inherent risks that arise from a range of factors. For the TA Fund the key business risks are described in section 7. There can be no assurance that all risks that might emerge have been identified. In addition, the risks to which the with-profits businesses are exposed will inevitably change over time.

Regardless of whether Asset Shares are used as a guide for Standard Payouts on policies, policyholders have no entitlement to receive the Asset Shares on their policies. Asset Shares can also decrease as well as increase and, at any time, an Asset Share may be greater or less than the contractual guaranteed benefits due under the policy. Asset Shares are defined in detail in section 2.

## Appendix 1 – Glossary of terms and abbreviations

Term/Abbreviation	Definition	Refer to Paragraph or Section
<b>Accumulated Special Bonus</b>	The accumulation of the initial distribution of Special Bonus and any additional distributions of Special Bonus as defined in paragraph 9.5.	Section 9 and throughout
<b>Actuary</b>	An actuary is a person with a professional qualification specialising in financial risk and particularly insurance.	Throughout
<b>Annual Bonus</b>	An annual distribution of surplus which is guaranteed on death and (where relevant) at the maturity date of the policy provided certain conditions are met. It is also known as regular bonus or reversionary bonus. It is only relevant to certain products.	Section 3
<b>Articles of Association</b>	These set out how LVFS is governed, how someone becomes a member, the election of directors and the process for Annual General Meetings and Special General Meetings. They are available on the LVFS website ( <b>LV.com</b> ).	Section 1.1
<b>Asset Mix</b>	The mix of assets (investments) held.	Section 6
<b>Asset Share</b>	This is defined in paragraph 2.4.	Throughout
<b>Asset Share Cover</b>	This is defined in paragraphs 3.5 and 3.11	Section 3
<b>Board</b>	The Board of Directors of Liverpool Victoria Financial Services Limited.	Throughout
<b>Bonus Series</b>	For conventional with-profits policies, historically, separate scales of annual bonus have been used for different groups of products, as detailed in Appendix 2. These separate scales are known as bonus series.	Sections 3 and 8
<b>Business Risks</b>	LVFS takes business risks that are approved by the Board on the advice of the WPC and WPA.	Sections 7 and 12
<b>CFPPFM</b>	Customer-Friendly Principles and Practices of Financial Management.	1.10
<b>Chief Actuary</b>	The Chief Actuary is a regulated role with the holder having responsibility for advising the Board in relation to LVFS's ability to meet its liabilities to policyholders.	Throughout
<b>Conventional with-profits</b>	Conventional with-profits policies have a guaranteed sum assured payable on maturity and/or death that is set at the outset of the policy. The guaranteed sum assured may be increased over time with Annual Bonuses. A non-guaranteed Final Bonus may also be added on claim.	Throughout
<b>Counterparty</b>	Counterparty is a term to describe an entity to which an exposure to financial risk might exist.	Section 6
<b>Custodian</b>	An organisation responsible for safeguarding a firm's or individual's financial assets.	Section 6
<b>Derivative</b>	A derivative is a financial instrument whose value is based on one or more underlying assets. In practice, it is a contract between two parties that specifies conditions (especially the dates, resulting values of the underlying variables, and notional amounts) under which payments are to be made between the parties.	Section 6
<b>Final Bonus</b>	An addition that may be made to guaranteed benefits (or the value of units for the Teachers Anniversary Bond) to provide a fair value to policyholders when a claim arises. It is not guaranteed and may change at any time. It is also known as Terminal Bonus. It is only relevant to certain products.	Section 4 and throughout
<b>Financial Conduct Authority (FCA)</b>	One of the regulators of financial services.	Throughout
<b>Fixed Interest Investments</b>	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.	Sections 6.17 and 9.10
<b>Guaranteed Benefits</b>	The guaranteed amount payable on maturity and/or death. This amount may be set at the outset of the policy and may be increased over time by the addition of Annual Bonuses.	2.1/Sections 3 and 4
<b>Group Company</b>	A subsidiary company of LVFS.	1.3.2 and Section 7
<b>Independent Actuary</b>	The Actuary, independent of both TPS and LVFS, instructed to prepare a report as to his opinion on the likely effects of the transfer from TPS to LVFS.	1.3.1

<b>Term/Abbreviation</b>	<b>Definition</b>	<b>Refer to Paragraph or Section</b>
<b>Inherited Estate</b>	The excess of the value of the assets of the TA Fund over a realistic assessment of the liabilities of the TA Fund.	Section 9 and throughout
<b>Instrument</b>	An Instrument of Transfer, a legal document, governs the operation of the TA Fund. The Principles and Practices set out in this document are all subject to compliance with the requirements of the Instrument. A copy of the Instrument can be found on the LVFS website ( <a href="http://LV.com">LV.com</a> ) or can be obtained directly from LVFS.	1.2, 1.3 and throughout
<b>Investment Strategy</b>	The strategy that determines the type of assets held in respect of the liabilities of a fund.	Section 6
<b>Liabilities</b>	The assessed value of the obligations of a firm.	Throughout
<b>LVFS</b>	Liverpool Victoria Financial Services Limited (LVFS) is the company formed upon the conversion of Liverpool Victoria Friendly Society Limited into private company limited by guarantee.	Throughout
<b>LVFS Fund</b>	LVFS's main fund which holds LVFS's business that sits outside the RNPFN Fund and the Teachers Assurance Fund.	Throughout
<b>LVFS Group</b>	LVFS and its subsidiary companies.	Throughout
<b>Maturity Date</b>	Certain with-profits policies have a fixed term; the end date is referred to as the maturity date.	Throughout
<b>Member of TPS</b>	A member of TPS was any person who held an in-force TPS policy. A member of TPS who held a with-profits policy of TPS is eligible to participate in part of any established surplus that is distributed.	1.2
<b>Mutual</b>	A mutual is an organisation owned by, and run for the benefit of, its members - it has no external shareholders to pay in the form of dividends.	1.1 and Section 11
<b>Mutuality Bonus</b>	Profits arising in 2014 from TPS business risks were declared as a Mutuality Bonus.	2.4
<b>Market Value Reduction (MVR)</b>	A reduction applied to the unit value of unitised with-profits Teachers Anniversary Bonds that can be applied in the circumstances specified in policy conditions.	Throughout
<b>PPFM</b>	Principles and Practices of Financial Management.	1.4
<b>Prudential Regulation Authority (PRA)</b>	One of the regulators of financial services.	Throughout
<b>Responsible Investment</b>	The practice of incorporating Environmental, Social and Governance (ESG) factors into investment decisions. There is more information about this on our website. To view this, go to <a href="http://LV.com/about-us/lv-cares">LV.com/about-us/lv-cares</a> and click on Safeguarding our Environment and follow the link to our Responsible Investing Approach. Our Sustainability Reports which include climate performance in accordance with the Taskforce on Climate-related Financial Disclosure (TCFD) regulations can also be found on the LVFS website at <a href="http://LV.com/about-us/lv-cares/product-reporting">LV.com/about-us/lv-cares/product-reporting</a> .	6.10
<b>Rulebook</b>	Contains the premium rates and terms on which certain business was written by TPS.	Section 8
<b>Smoothed Value of Units</b>	For regular premium unitised with-profits products (Tax Exempt Savings Plan/Tax Free Savings Plan (Series 1-3), Regular Savings Plan and Guaranteed Savings Plan) the Smoothed Value of Units (or the Smoothed Asset Share) is used as part of the payout calculation on maturity. It is the value of units calculated by smoothing the unit price over a period of 24 months prior to a policy's maturity date.	5.8
<b>Smoothing</b>	Smoothing may be applied to the standard amount payable under applicable with-profits policies such that an amount other than 100% of Asset Share is paid.	Section 5
<b>Solvency</b>	Solvency is the degree to which the value of the assets of a firm exceeds the assessed value of the liabilities of that firm.	Throughout
<b>Special Bonus</b>	Distribution(s) of the TA Fund inherited estate are normally expected to be made from 1 June 2016 as Special Bonus. The Accumulated Special Bonus for a policy is added at claim to the greater of the Standard Payout and any guaranteed benefits that are payable.	Section 9 and throughout
<b>Special Mutuality Bonus</b>	Distributions of the inherited estate of TPS made before 1 June 2016.	2.4

<b>Term/Abbreviation</b>	<b>Definition</b>	<b>Refer to Paragraph or Section</b>
<b>Standard Payout</b>	The amount that would be payable on maturity, surrender or death having regard to the calculation of Asset Shares, subject to any smoothing. Any guaranteed benefits may mean a higher amount is payable. It does not include any distributions of the TA Fund inherited estate made from 1 June 2016 which are instead added to the Standard Payout as Accumulated Special Bonus.	2.4/2.5 and throughout
<b>Subordinated Debt</b>	A type of capital raised by the LVFS Group from external investors.	2.14
<b>Surrender Value</b>	The value paid on early termination of a with-profits policy.	Throughout
<b>TA Fund</b>	Teachers Assurance Fund, a ring-fenced sub-fund within LVFS.	1.2 and throughout
<b>TA Fund inherited estate</b>	The TA Fund inherited estate is the excess of the value of the assets of the TA Fund over a realistic assessment of the liabilities of the TA Fund.	Section 9
<b>Target Range</b>	The range around 100% of (Asset Share + Accumulated Special Bonus) within which the Board generally aims to make Standard Payouts for conventional with-profits policies. It is not guaranteed that each Standard Payout on a policy will necessarily fall within the applicable range.	2.17/2.20
<b>Teachers Circular</b>	The circular addressed to the Members of TPS containing the legally required information regarding the transfer which included an Explanatory Booklet and a notice convening the meeting at which the special resolution regarding the transfer was considered.	1.3
<b>TPS</b>	Teachers Provident Society Limited.	1.2 and throughout
<b>Unitised with-profits</b>	With-Profits business where premiums are used to buy units, the value of which either grows daily at a regular rate of bonus or changes in line with the value of the backing asset mix.	Throughout
<b>Whole of Life</b>	With-profits policies that do not have a fixed term.	Throughout
<b>With-profits business</b>	A contract falling within a class of long-term insurance business which is eligible to participate in part of any established surplus that is distributed.	Throughout
<b>With-profits policyholder</b>	A holder of a with-profits policy.	Throughout
<b>With-Profits Actuary (WPA)</b>	The With-Profits Actuary is a regulated role with the holder having responsibility for advising the Board in relation to its exercise of discretion as it affects with-profits policyholders.	Throughout
<b>With-Profits Committee (WPC)</b>	A committee that provides independent advice to the Board on the fair treatment of with-profits policyholders. Further details are in paragraph 1.8.	Throughout

## Appendix 2 – Policies covered by this document

This Appendix includes a list of the main types of with-profits policies in the TA Fund. Policies were originally written by TPS, or Teachers Assurance Company Limited (a subsidiary of TPS) and which formed part of a transfer to TPS on 30 June 1999.

### Conventional With-Profits Policies

Bonus Series Product Type	Tax Exempt Series 1	Taxable Series 1	Tax Exempt Series 2 and Series 2A	Taxable Series 2
Endowments	Savings Growth Plan <sup>2</sup> Retirement Savings Plan <sup>2</sup> High Yield Savings Plan The Friendly Savings Plan Tax Exempt Savings Plan <sup>1</sup> Child Tax Exempt Savings Plan <sup>1</sup>	Savings Growth Plan <sup>2</sup> Retirement Savings Plan <sup>2</sup> Retirement Extra Savings Plan Special Saver 2001 Over 60's Savings Plan Endowment Endowment - Expectations Endowment & Family Income Plan Low Cost Endowment Special Low Cost Endowment	Tax Exempt Savings Plan <sup>1</sup> Child Tax Exempt Savings Plan <sup>1</sup>	Endowment With-Profit
Whole of Life	Whole of Life	Whole of Life Whole of Life With-Profit Covercare Whole of Life Whole of Life & Family Income	Not applicable	Not applicable
Policies Issued	Up to February 1996	Up to October 1996	From October 1995 to June 2005	From April 1996 to June 2005

#### Notes

- 1 These types of policy were issued over more than one bonus series. As a guide to which bonus series applies to a policy, the date a policy was issued can be found in policy documentation. Alternatively, please contact LVFS.
- 2 These types of Plan consist of a Tax Exempt and a Taxable policy, the Tax Exempt policy number ends with D01, D02 or D03.

### Unitised With-Profits Policies

- Teachers Anniversary Bond
- Tax Exempt/Tax Free Savings Plan (Series 1) - policies issued from January 2005
- Tax Exempt/Tax Free Savings Plan (Series 2 and 3) - policies issued from January 2007
- Regular Savings Plan
- Guaranteed Savings Plan (all series)
- Guaranteed ISA (formerly Guaranteed NISA)

If you'd like us to send you this document or any future correspondence in another format, such as Braille or large print, please just let us know.

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