

THE ODDFELLOWS

Summary of the cessation terms of the Ideal Sub-Fund and of the opinion of the With-Profits Actuary and Chief Actuary

1. Background

The Ideal Benefit Society was transferred to The Independent Order of Odd Fellows Manchester Unity Friendly Society Limited (“the Society”) on 31 July 2007 via a legal process under an Instrument of Transfer and overseen by the UK financial services regulator. This Instrument of Transfer established the Ideal Sub-Fund and the clauses and provisions for the Society to manage the Ideal business.

Within the Instrument of Transfer, a clause was incorporated to allow for the cessation of the Ideal Sub-Fund. This clause, 20.2 states:

“At any time after the elapse of one year from the date of the cessation of the separate Ideal Insurance Company Sub-Fund (but not before), the Oddfellows Board, acting on the advice of the Oddfellows’ Actuary, may determine a basis for the cessation of the Ideal Sub-Fund as a separate fund within the Long Term Fund which is fair to all affected policyholders whereupon the other provisions of this Instrument shall cease to apply.”

The Ideal Insurance Company Sub-Fund, which held business from an earlier transfer into the Ideal Benefit Society, was closed by the Society on 31 October 2013, meaning that under clause 20.2 the Society was able to close the Ideal Sub-Fund from November 2014.

In order to close the Ideal Sub-Fund the Society, in conjunction with the Society’s Chief Actuary and With-Profits Actuary, has considered a number of options for the treatment of the Ideal Sub-Fund policies and, in particular, the with-profits business. It has been decided by the Society that an appropriate method of closing the Ideal Sub-Fund would be to distribute the surplus in the fund to with-profits policyholders via a one-off enhancement to the benefits of the with-profit policies, and to convert the with-profits policies to non-profit policies such that no bonuses will be payable in the future.

After the closure of the Ideal Fund all Ideal policies will be managed and administered within the Society’s wider pool of insurance business and will be governed appropriately, and in a similar manner to other policies within the Society, such as following appropriate practices and procedures.

2. Change to the Instrument of Transfer

The original Instrument of Transfer (dated July 2007) did not specify how the Ideal Sub-Fund surplus should be applied on the closure of the fund, and did not contain explicit provisions for the Society to distribute surplus and convert with-profit policies to non-profit policies.

Therefore, following discussions with the financial services regulators, the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), and after taking legal advice, the Society applied to the PRA and the FCA to make changes to the Instrument of Transfer. This process

required a certificate from the Society's With-Profits Actuary and Chief Actuary to support the change.

3. Surplus distribution to with-profits policies

The Society has assessed the financial position of the Ideal Sub-Fund at 31 December 2016 in order to determine what surplus was available for distribution to the with-profits policyholders. The Ideal Sub-Fund showed a surplus of £4m (at 31 December 2016).

The regulatory position of the Ideal Sub-Fund after allowing for a one-off distribution of surplus has been considered, in particular, the on-going capital support required from the Society to manage the Ideal business within its wider pool of insurance business. The Board of the Society has decided to distribute £3.4m to with-profits policies, with the remaining £0.6m being retained to cover regulatory capital requirements.

4. How is the surplus to be distributed to with-profits policyholders

The Society has also considered how the surplus distribution of £3.4m will be applied across individual with-profits policies.

To do this, the Society has considered the "asset share" that each with-profits policy has of the existing Ideal Sub-Fund. This reflects each policy's "fair share" of the fund that has been built up over time from premiums paid, less expenses, plus investment returns.

The starting point has been to uplift the guaranteed benefits of each with-profits policy to equal 110% of its asset share. Any remaining surplus is then applied to each policy using a weighted approach that reflects the with-profits policy's proportion of asset share (to the total asset share for all with-profits policies) and its outstanding duration to maturity (or life expectancy).

5. Changes since 31 December 2016

The Society has utilised the financial position of the Ideal Sub-Fund at 31 December 2016 as this makes use of the information used for its regulatory submission, and of audited accounts. Consideration has been given to changes in the Ideal Sub-Fund since 31 December 2016 and movements since this date, when considered alongside the risks of managing the conversion exercise, are not considered material to affect the terms of the conversion.

Steve Code
Insurance Director
November 2017

Summary of the Opinion of the With-Profits Actuary and the Chief Actuary

I (Karen Miller) have been appointed by the Independent Order of Oddfellows Manchester Unity Friendly Society Limited (“the Society”) to act as With-Profits Actuary since July 2016. I am a Fellow of the Institute and Faculty of Actuaries and an employee of Willis Towers Watson, a leading global advisory, broking and solutions company. I am not a policyholder of the Society.

I (Michael Green) have served as the Chief Actuary to the Society since July 2016. I am a Fellow of the Institute and Faculty of Actuaries, and an employee of Willis Towers Watson. I am not a policyholder of the Society.

We have considered and reviewed the terms of the cessation of the Ideal Sub-Fund, in particular the amount of surplus to be distributed to with-profits policies and the application of the distribution across individual policyholders. In summary, based on the information and explanations provided to us by the Society, it is our opinion that:

- It is reasonable for the Society to close the Ideal Sub-Fund, and to convert the with-profits policies to non-profit.
- It is appropriate for the Society to apply a charge for the cost of capital in managing the risks of the Ideal business post conversion and to, therefore, apply a distribution of surplus of £3.4m (out of the available £4m surplus).
- The approach determined by the Society in allocating surplus across individual with-profits policies is reasonable across product types and across generations of policyholders.

The report is provided as a summary for the cessation of the Ideal Sub-Fund and should not be used as the basis to make any decisions regarding contracts with the Society, whether to enter into them, to continue them or terminate them, for which decisions fuller information and qualified financial advice should be sought.

We have relied upon the information, explanations and reports provided to us by the Society without independent verification although we have undertaken a number of reasonableness checks on the data provided and discussed and challenged the information and reports provided to us with the Society’s management.

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