How we manage our **With-profits funds**

the Oddfellows
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making friends, helping people

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About this guide

This guide should be read by anyone with a with-profits policy with the Independent Order of Oddfellows Manchester Unity Friendly Society Limited ("the Society") which includes policyholders with former Schoolteachers Friendly Society, Druids Sheffield Friendly Society and Kingston unity Friendly Society.

The guide explains the main points of our Principles and Practices of Financial Management (PPFM), it covers:

- how our with-profits funds are managed
- how our with-profits policies work
- what benefits with-profits policyholders might receive

It covers the key points from the Principles and Practices of Financial Management (PPFM), which gives a fuller description of how the funds are managed.

Contents

1 What is the PPFM?

The PPFM sets out the Principles and Practices of Financial Management adopted by the Society in managing the with-profits business within its Long Term Business ("LTB") Fund.

It aims to promote an understanding of how the Society conducts its with-profits business, particularly in relation the governance of the with-profits business and where discretion is applied, ensuring with-profits policyholders are treated fairly.

It covers:

- principles: high-level statements of the standards the Society adopts in managing its' with-profits funds; and
- practices: the current approach taken in applying the Principles to the day-to-day management of the with-profits funds.

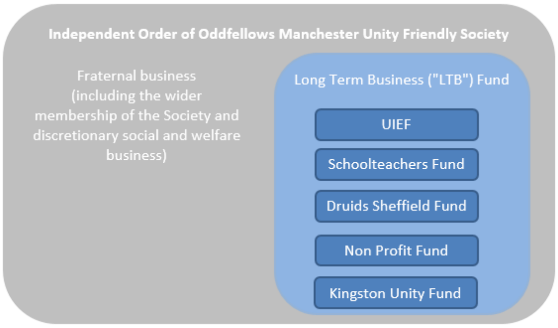
It may be necessary to change our approach in the future. Any material changes to the Principles within the PPFM will be notified to any affected with-profits policyholders at least three months in advance of the effective date. Any material changes to the Practices will be notified to affected with-profits policyholders within 12 months of the change taking effect.

If you require a copy of the PPFM, you can contact us using the details in section 13.

2 What is the Long Term Business Fund?

The Society provides discretionary social, care and welfare benefits administered centrally and by its local branches and also writes and administers long term insurance business through its Long Term Business ("LTB") Fund.

The LTB Fund consists of a number of funds which are managed under the Unity Mutual brand as shown in the diagram below:



This guide explains how we manage each of the following with-profits funds within the LTB:

- **Unity Insurance and Endowment and Retirement Annuity Fund (UIEF)**: this relates to the Manchester Unity Insurance and Endowment and Retirement Fund which closed to new business in 2000. The Fund includes contracts from other funds which subsequently merged with the UIEF Fund.
- **The Schoolteachers Fund**: encompassing the business of the Schoolteachers Friendly Society (SFS) which transferred into the Society on 31 March 2011.
- **The Druids Fund**: encompassing the business of the Druids Sheffield Friendly Society (DSFS) which transferred into the Society on 30 April 2015.
- **The Kingston Unity Fund:** encompassing the business of the Kingston Unity Friendly Society (KUFS) which transferred into the Society on 1 February 2021, and contains with-profit, non-profit and Child Trust Fund business.

In addition, there is one Non-profit Fund into which non-profit business is being written.

The Non-profit Fund includes policies from the Ideal Fund which converted to non-profit following the closure of the Ideal Fund in December 2017 and policies from the Nottingham Fund which converted to non-profit following the closure of the Fund in December 2019.

The Schoolteachers, Druids and Kingston Unity funds, are each subject to certain terms (which may include restrictions in the way the business is managed or operated) that were specified when the business transferred to the Society. Further details of these provisions can be found in the PPFM.

The Board is responsible for the overall governance of the LTB, and it has appointed the Society's Commercial Board as its With-Profits Advisory arrangement.

3 Overriding principles

The overriding principles in regard to the management of the overall LTB, and for each LTB fund, are:

- to fulfil contractual obligations to policyholders;
- to manage the business in a sound and prudent manner having regard to the requirement to treat policyholders fairly; and
- to meet the regulatory capital requirements associated with the Society's LTB.

4 What are free assets?

Each LTB fund is managed independently in line with any terms of transfer (in relation to the acquired funds) and allowing for the Society's approach to surplus distribution and its risk appetite for each fund.

The free assets (or surplus) are the amount over and above what is needed to cover the funds liabilities and regulatory capital requirements. They are used:

- to support the smoothing of benefit payouts, as described in section 7 below;
- to provide a buffer against adverse experience; and
- to allow for a degree of freedom in the investment strategy.

Where appropriate to do so, the overall aim of each fund is to distribute any free assets within the fund to with-profits policyholders over their remaining lifetime. This is subject to the funds retaining sufficient capital to meet their capital requirements.

5 The amount payable under a with-profits policy

The overall aim is to deliver to with-profits policyholders payments that reflect a policy's fair share of the relevant LTB fund.

The approach taken depends on the type of policy:

Conventional with-profits policies

A conventional with-profits policy has a guaranteed amount which is payable on a specified event or date. Bonuses may be added to the policy in the form of regular or final bonuses.

Regular bonuses are declared annually as a percentage of the guaranteed amount, and in some cases as a percentage of previously declared bonuses with some of the Druid's products having guaranteed bonuses.

Final bonus rates are declared annually as a percentage of the guaranteed amount and/or of previously declared bonuses based on the duration in force to be added at the date of claim.

On maturity or death (subject to policy conditions), and providing all premiums due have been paid, the amount guaranteed to be paid out is the sum assured plus any bonuses which have already been declared. Additional bonuses may also be added through interim regular or final bonuses.

If a policy is surrendered then the payment is generally calculated by assessing the present value of benefits that would be paid plus expected future expenses less future premiums. A surrender penalty may also be applied, depending on the policy conditions, to ensure that the surrender payment only reflects what is considered to be the policy's fair share of the fund.

Unitised and Accumulating with-profits policies

Unitised with-profits policies invest in a with-profits fund by receiving "units" which are attached to their policy as premiums are received.

The units allocated to a policy depend on the specific terms of the policy, and the unit price at the time premiums are paid.

Accumulating with-profits policies have a guaranteed amount which is payable on a specified event or date.

Depending on the policy type, annual bonuses may be added to the policy in different ways, such as via additional units being allocated or by increasing the unit price. Final (or terminal) bonuses may also be allocated to a policy on a claim.

On death, or maturity, the amount paid under the contract reflects either the initial investment less any withdrawals or the number of units multiplied by the unit price, plus (where appropriate) a final bonus.

On surrender a similar process applies, however it may be appropriate to apply a Market Value Adjustment ("MVA") to reduce the policy value below the amount guaranteed on maturity or death. This ensures that the surrender payment only reflects what is considered to be a fair share of the fund.

The terms of some policies may entitle them to what is known as MVA free dates when no MVA would be applied on surrender. These tend to be policy anniversaries e.g. a 5th or 10th anniversary.

With-profits Sickness policies

The Schoolteachers Fund contain some with-profits Holloway style sickness policies which grant the policyholder certain sickness benefits. In addition, policyholders share in surplus distributions of the fund by being allocated a bonus which accrues to an "account", which can be taken on cessation of the policy. The terminology applying to bonus additions may differ between the funds e.g. it may be termed a "bonus" or "interest". In addition, for some product types the bonus may also reflect a percentage of the premiums paid under the policy over a calendar year.

On withdrawal of the fund, or death, the amount paid out under the contract will reflect the accrued bonus or account. If a policy surrenders prior to maturity the policy benefits are assessed in a similar manner to conventional with-profits policies, although there maybe a deduction of up to four years of contributions from the Members Fund.

Kingston Unity

Health, Life and Income Protection Schemes are governed by rules that restrict the amount of benefits payable. No surrender value is payable on the insurance itself and the Medical Account is only payable after age 65 or later depending on the Society rules.

Maturity and death benefits are set to be the balances within any Long Term Savings Account, Interest Bearing Account and the Medical Account after allowing for distributions determined by the Commercial Board triennially and interest additions determined by the Commercial Board annually following the valuation of the Society's assets and liabilities. There may also be a final bonus addition to the account balance reflecting any excess of the asset share over the account balance.

6 How are bonuses set?

Bonus rates are usually reviewed annually, although this may be done more frequently if economic conditions make it necessary.

In general, the approach used in setting bonuses is to consider the financial solvency of each fund and what bonus rates may be appropriate to maintain a suitable level of solvency, whilst aiming to distribute an appropriate amount of surplus.

There is no guarantee that future bonuses will be declared, as the decision relating to their use is at the discretion of the Board. Bonus rates may fall to zero depending on market conditions, and the financial circumstances of the LTB and the Society as a whole.

Different bonus may be added to your policy:

Annual bonuses

Annual bonus rates are declared annually in arrears and represent an addition to the benefits guaranteed under a with-profits policy.

These guarantees apply to the policy on death or maturity but not on early surrender.

Final bonuses

Final bonuses may be paid when a policy ends. The levels of final bonus rates are reviewed at regular intervals, not less frequently than annually, but more frequently when significant changes in the market require.

Many of the Druids Fund's products contain a guaranteed bonus rate, and additional bonuses will only be paid if this is deemed sustainable.

Kingston Unity

Health, Life and Income Protection Schemes receive distributions in the form of shares credited to their Medical Account, and in the form of interest to any Interest Account or Long Term Savings Account held. The distribution of shares is determined by the shares per scheme times the number of complete years membership in the scheme up to a maximum of 10 years.

Members' Medical Accounts do not attract interest. The Members may use the Medical Account balance to provide medical benefits (dental and optical benefits) and may also transfer over a proportion of their balance to their Interest-Bearing Account after each distribution. The proportion of the distribution that can be transferred is determined by the Society but cannot be more than 50%.

A proportion of the Medical Accounts may become encashable by Members at their 65th birthday. The proportion will be set by the Society. Interest Bearing Accounts can be drawn down at any time.

7 What is smoothing?

'Smoothing' is the mechanism by which the Society aims to share the experience achieved in a fund, such as investment returns, between with-profits policyholders. Its purpose is to provide a fair payout to with-profits policyholders over the longer term for policies of the same class, and similar size and term.

This is done, where possible, by reducing the extent to which bonus rates change from one period to another. The current smoothing approach does not differentiate between different types of with-profits policies or between generations of policyholders.

Before bonus rates are set, in order to decide how much smoothing to apply, the extent of any surplus within the relevant fund and how this may be impacted by further bonus additions is considered.

In circumstances that have an adverse impact on the solvency of any of the LTB funds it may be necessary to adjust payments under a with-profits policy rapidly (e.g. by reducing or removing discretionary bonus additions).

Whilst smoothing will involve use of the estate, it is intended that the effects of smoothing in any one LTB fund will cancel out over time.

Some smoothing is also allowed for in with-profits policy surrenders, the smoothing applied within the surrender calculation method depends on the type of policy and the relevant with-profits fund. These methods tend to be reviewed fairly infrequently and therefore, from time to time, may contain a level of smoothing.

8 How are the with-profits funds invested?

Each LTB fund has an investment strategy which is reviewed periodically to ensure it remains appropriate. It aims to:

- safeguard the financial security and maintain the solvency of the fund;
- ensure the fund is able to meet all payments to members when due; and
- maximise the investment return earned on the assets of the fund whilst considering policyholders' reasonable expectations and previous policyholder communications.

The types of assets used by LTB funds tend to be fairly standard investments in government bonds, corporate bonds, equity, property, collective vehicles and cash. However, the Society does not impose any restrictions on the types of assets that the LTB Fund may invest in or on the amounts that can be invested in any one asset or group of similar assets.

The Society controls investment risks by setting out target asset allocations and limits in the investment mandate for each fund; these are reviewed and formally approved periodically by the Commercial Board on behalf of the Board.

The management of the investments of most of the LTB funds is handled by external investment managers, who are provided with the investment mandates.

9 How are charges and expenses determined?

Each LTB fund is responsible for the costs of administering its own business and so all expenses which can be identified as belonging to a specific fund are charged directly to that fund. Other LTB expenses which cannot be attributed to one fund, such as those expenses that relate to the running of LTB, are allocated across the LTB funds in a way that is fair and appropriate.

In addition, a proportion of the Society's other expenditure which includes items that are relevant to the running of the Society as a whole, and its infrastructure, are also charged to each LTB fund.

10 What can affect my payout?

As a with-profits policyholder of one of our funds, any payout which is not guaranteed could be impacted by the risks the fund is or could be exposed to.

These risks include:

- the experience within the LTB Fund, such as investment, expense and insurance risks; and
- any business activities the fund(s) undertake

11 How do we manage the exposure to risk?

The Society has risk assessment procedures and controls in place in order to manage and mitigate risks. This covers investment, insurance, expense and operational/ business risk.

A change in the risk profile of the business would prompt consideration of what actions may need to be taken by the Commercial Board. Any significant risk a fund intends to undertake will require formal Board approval, which would include seeking advice from the Commercial Board and the With-Profits Actuary.

Further, if a risk results in miscellaneous profits or losses, these will be allocated in a discretionary manner by the Board, taking into account the different classes and generations of policies, the source of the miscellaneous profits or losses and the advice of the With-Profits Actuary.

12 What about new business?

If the Society was to consider a new business opportunity for any particular LTB fund this would require an appropriate business case to be produced and to be approved by the Board, after taking advice from the Commercial Board and With-Profits Actuary. This would consider whether or not it would be in the interests of with-profits policyholders and the Society in general, and if so whether any limits should be set for the amounts and mix of new business which can be written.

Whilst the UIEF, Schoolteachers and Druids funds are open to new business, this is primarily for unit-linked Junior ISAs (JISAs) and unit-linked Child Trust Funds (CTF) and tax-exempt policies, for which there is no maximum volume of business that can be accepted.

13 How can I find out more?

If you want a more detailed description of how we manage our with-profits business you can contact us using the details below to request a full copy of the PPFM.

Address:

Unity Mutual,
Oddfellows House,
184-186 Deansgate,
Manchester
M3 3WB

Phone:

0161 214 4650 (9am to 5pm Monday to Thursday and 9am to 4pm Friday)

Fax:

0161 214 4646

Email:

iinsure@unitymutual.co.uk

For specific details regarding your with-profits plan you should refer to your plan documentation.