

# With-profits

## an impending crisis?



## Preface: Important Note on this Booklet

This booklet is intended to help readers understand more about their with-profits investments, whether they be a Bond, Pension, Endowment or Annuity.

The subject matter is an extremely difficult one to simplify.

However in the interests of making the booklet easy to read we have taken the view that simplification is best and in some cases this may be at the expense of some of the finer detail.

At the end of the booklet we include a regulatory statement and throughout the booklet we emphasise again and again the need for any reader to take independent advice from a regulated person or firm.

We have attempted to summarise our research in each section and to provide an overview of the current factors influencing the with-profits market. We have summarised our research on companies, their performance and standings.

The overall aim of the booklet is to bring to readers' attention the fact that we may be entering a critical period for with-profits and to urge the reader to become aware of some of these factors so that they may have the best information to judge what they should do with their plans in the future.

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# 1. Introduction

Dear Reader

In 2002 I wrote a paper on with-profits entitled “With-Profit Bonds: an impending crisis?”

In 1999 I wrote several articles about Equitable Life pointing out that the guarantees applying to their plans were unsustainable.

In both cases I believe that good, solid, research was able to identify an impending problem and I wanted to bring this to investors’ attention.

With Equitable Life, I was proven right very quickly, with the with-profit bonds I was proven right on some of the market, wrong on the rest. I did not anticipate how big a divergence would occur between companies and their prospects from 2002 to the present day. Some companies have proven to fail: for example those that have not paid a single positive bonus for many a year. Others like Wesleyan, Prudential and Aviva have continued to produce good results, in my view, against the odds. But they have served investors well.

**With-profits have become a description for a whole range of different plans, funds and investments offered by many different companies in a variety of forms. What is clear is that there is a wide range of positions applying and two people both in “with-profits” can have very different situations: one can be enjoying a safe, steady return, the other could be about to see their money wiped out.**

Today, in February 2009, I revisit some of the concerns that I had then and bring them into the present day. Given the dramatic performance of markets in 2008, I wish to suggest that maybe the concerns I had earlier this decade will now come to fruition, as the markets could be the catalyst which brings some of the fundamental problems of with-profits to the fore. I have therefore slightly renamed this present day report to “With-Profits: an impending crisis?” and widened it to include any with-profit plan, not just with-profit bonds.

Investors with Equitable Life policies had a chance to act before the real problems surfaced. I believe the same is true of with-profit plan holders.

Equitable Life’s problems started with unsustainable guarantees being applied to policies. The guarantees were put in place at a time when it was almost inconceivable that market conditions could change so much that they would become too great to meet.

Likewise, some with-profit plans have guarantees attached to them that were put in place many years ago. These guarantees are beginning to lock in. For example on with-profit bonds many companies instigated 10 year spot guarantees. These allow investors to exit their bond with no penalty applying even though the notional value of the bond may be significantly higher than the real value. Put another way, **many investors can get out of their Bonds with more money than the bond is really worth.**

This must pose a problem, even if the fund can sustain such a guarantee (which must be in doubt) the remaining investors in the fund will be seriously affected as the pot of money representing *their* asset share will be severely dented, reducing their payout prospects ever further.


Only one of a few things can happen. One is that the Insurers will have to renege on the guarantees. However as a contractual guarantee this will surely lead to a flood of claims through the courts or Ombudsman. Another is that the guarantees will be met, which will be great for those investors with the guarantee applying to their bond, disaster for those left in the fund without guarantees. The other is that the Insurers keep their heads down and hope that investors do not take up the guarantee and it all goes away. The final one is that the fund will effectively go bust.

This is forward looking report. I acknowledge on the surface that some with-profits recent past performance will look quite good relative to a stock market investment. But then Equitable Life's performance looked quite good just before it went down its slippery slope. Many Zero Dividend Preference Shares ("Zeros") looked great just before they went belly up.

It is the toxic mix of very poor performing markets coupled with potentially uneconomical guarantees that worry me when it comes to with-profits. This report is intended to highlight the threat to investors. This is a market with at least 10 million investors holding such plans, with £400 billion in total assets, so we are not looking at some peripheral area.

Finally, I need to point out that I am not suggesting investors get out of their with-profits investment at any cost or that all investors should sell or transfer their plans. My suggestion is that investors should get professional advice, in the form of an audit on their investment or plan, and then make an informed decision. One of the biggest, if not *the* biggest, problem about with-profits is that investors simply do not fully understand what they have. Previously sold as "safe" investments for "cautious" investors, I believe that many with-profit plan holders will believe they have a safety net of an investment when they are actually holding something potentially very unsafe.

Yours sincerely



Matthew Morris

## 2.2008: The end for with-profits?

2008 was the most dramatic year for investment markets for a generation.

Shares and property values collapsed, commodities, after an early year boom, plummeted and economies went into serious decline all around the world.

With-profit funds were and will continue to be seriously affected by this downturn.

However unlike a share-based fund or a property fund the value of a with-profits fund remains difficult to “see”. This is because with this type of investment what you see is not always what you get.

With-profits aim to do something that is fundamentally very difficult. They try to smooth investment returns on behalf of the investor. It is no co-incidence they are offered and managed by Insurance Companies, because in effect they attempt to “insure” investors from the normal ups and downs of the markets and smooth out returns.

But this doesn't work and it doesn't work for a very important reason. Investors are far savvier than the Insurers realise. Investors do not hold investments for unlimited periods of time. They want their money back at some point. And the problem is that most investors only want their money back when it has gone up. An insurer therefore, running a with-profit fund, is faced with a problem, from time to time the smoothing will work *against* the insurer.

If an insurer suffers a bad year (e.g. 2008) many of the investors in the fund will be entitled to profits or bonuses that are at a higher level than the fund has earned. At this point investors looking to take their money out will reap an unfair advantage if they can take the money without penalty. Quite simply, the insurers **have** to impose a penalty in these situations. This creates an anomaly, because the investor is, in many ways, now in a fund that has NOT smoothed their return.

With-profit bonds were sold by the banks and insurers in the many billions of pounds in the late 1990s. And many of these sales were on the basis that with-profits were “SAFE”. Many people did not grasp that bonuses could be taken away and that arbitrary penalties could be placed upon withdrawals from the fund at the Insurers discretion. Although there was a nasty downturn after the bursting of the “tech” bubble and then 9/11, markets recovered fairly quickly and the funds repaired themselves (not all by any means – see the section “the companies that have consistently failed”), giving investors a period of grace.

With-profit funds are fine when markets are fine: but then so are most other investments.

What kills them off are disastrous periods like 2008, because not only is the fund value decimated (and at a time when many Insurers have little in the way of surpluses to fall back on) but their solvency margins are tested which means they probably have to shift money away from shares and property and into gilts and cash. This means they have limited recovery potential.

With-profits (often under a different name) were popular all around the world for many years but slowly they have fallen out of favour. It is only the UK that continues to maintain an allegiance to with-profits, but they simply don't do what they set out to do for investors and although a year like 2008 is highly unusual it has demonstrated that the fundamental principles of with-profits might fail.

Now is the time for investors to take stock and to look at their with-profit fund and ask if they have any value left to them in their portfolio in the future.

### 3. The current with-profit conundrum

2008 is now recognised as the worst year in a generation for investments. During this year the following asset returns were recorded in the major asset classes:

US Shares	DOWN 34%
UK Shares	DOWN 34%
Euro Shares	DOWN 44%
Japan Shares	DOWN 42%
UK Property	DOWN 16%
UK Gilts/Bonds	UP 2%
UK Cash	UP 3%
Commodities	DOWN 36%

(All figures are rounded to the nearest whole number: source Trustnet)

This snapshot shows that virtually no investment area was immune. The conundrum this creates in the with-profits market is this

***Strong with-profit companies were heavily invested in real assets such as shares and property, weak with-profit companies were mostly, and in many cases wholly, invested in cash and gilts.***

This means that the strong companies have been hit hard, the weak companies have had (relatively speaking) a good year. Those investors who held with-profit investments in the strongest companies have now seen their relative strength levelled off. This will not be true in every case and the relative merits of this argument will vary from company to company.

Here's a simple comparison between a strong and weak company:

### **Company A (Strong)**

A typical investment mix might look something like this:

- UK Equities 35%
- Overseas Equity 15%
- Property 10%
- UK Gilts 15%
- Corporate Bonds 10%
- Overseas Bonds 10%
- Cash 5%

With the market performance in 2008 the fund may well have suffered an overall loss of 15-20%.

### **Company B (Weak)**

A typical investment mix might look something like this:

- UK Equities 25%
- UK Gilts 35%
- Corporate Bonds 15%
- Overseas Bonds 10%
- Cash 15%

In this case the fund will probably have decreased by 5% or so.

The comparison highlights the odd situation that occurred in 2008. Those companies forced by their perilous situation to keep their share and property exposure LOW, benefitted against their stronger rivals who were exposed to HIGH levels of equity and property content.

What does this mean for investors in with-profits? It confuses an already confused picture even further. As we argue endlessly, the with-profits market contains a wide variety of different investment practices from companies with very different levels of reserves, financial strength and performance history.

The fact that we use the term "with-profits" to describe this class of investment plan masks an underlying problem: two with-profits plans might share the same name but they can, in effect, be very different investments.

Because the weaker companies have had a good year relative to the stronger companies we firmly believe that the whole market will have become even more confused and the traditional lines between the good, strong companies and the bad, weak companies will have been blurred.

If there is one conclusion from all of this it is that 2008 was a year when the with-profits industry suffered and very possibly to an extent that will not see it recover.

## 4. The problems for policyholders

With an estimated £400 billion invested by the UK public into with-profits plans, one would have thought that there would be an easy way of understanding the individual plans held by plan holders.

It is the opposite that is true. It is virtually impossible to get any EASY information about with-profits.

Although there are a multitude of problems in analysing the with-profit market here are just a few:

1. A lack of transparency
2. Confused reporting
3. Multi fund approaches
4. MVRs and penalties
5. Open and closed funds
6. Free Assets?
7. Conventional and unit linked.
8. Who owns the fund?

There are many other reasons why with-profits are complex, murky, misleading and confusing but the ones listed are the main ones.

But before moving on let us make one further point:

**With-profits are very lucrative for the Insurance Industry. Many companies have funds measured in many billions of pounds. Assume a company has a £5 billion fund, how much money does this produce in revenue for the insurance company? At a 1% p.a. “management” fee the company pockets £50 million.**

Does anyone know what fees insurers take from their funds?

In analysing this we looked at a number of companies and tried to find out the level of percentage fee income taken by the company from some or all of their with-profits funds. This was difficult because as usual the information is not readily available or is difficult to interpret.

However it appears that the industry average is around 1%, but this does not tell the full story because on top of this companies often use derivatives to protect the funds from major downturns in investment markets, often at a further cost of another 1-2%, they pay tax on any income or profits and then they may have charges for guarantees. All in all some funds may have a variety of charges and expenses they apply to a fund of around 3%.

At a time when interest rates are below this figure and yields from gilts, bonds and shares are not much higher it is possible to see that the costs imposed on a fund may be the same as or more than the income the fund earns. This creates a situation where many with-profit funds have no earnings apart from what they can achieve in capital growth.

As far as this is concerned, the current economic climate may be such that the fund gets no capital growth or, alternatively, registers a loss.

Returning to the specific problems for policyholders we have identified eight separate areas which may create an issue, although in many cases more than one of these may be relevant at any one time:

## 1. A lack of transparency

The FSA have tried to force companies' hands with respect to transparency. Companies have historically been very poor in communicating with their plan holders about the detail of the individual's plan or plans.

Often information is sent to the plan holder with very limited detail attached. For example a plan holder with £65,000 in a pension plan may have received an annual statement telling them that the bonus being added to their plan amounts to 2.5% reversionary and 5% terminal. This is then shown in some form as a combined fund, part made up of reversionary bonuses, part made up of terminal bonuses.

What does this all mean? Even to the trained eye this may be confusing but to the plan holder it can be completely meaningless. Even if they follow the detail a little bit, it can be highly misleading. For example, terminal bonuses are often only properly added if the policy is maintained to its full term, in other words the terminal bonus has not been fully earned at the point of the statement. Terminal bonuses are sometimes retrospectively reduced or removed.

Penalties, known as Market Value Reducers (MVRs) may be deducted should a plan holder want to surrender or transfer their plan: this may be unclear or hidden in the small print; worse still it might not be mentioned at all.

The FSA has tried making companies produce their information in a more transparent fashion and this has certainly had some positive effect, with some companies to the extent that they really are producing much simpler and more valuable information, but in the main, plan holders are often confused and misled by much of the information sent. Transparency remains an issue for the Industry.

## 2. Confused reporting

Companies produce mixed messages in their reporting. It is often difficult to interpret the information as the way the information is produced is designed to satisfy a number of requirements, most notably to meet the FSA's accounting standards and solvency requirements.

This means the annual figures are often produced in a form which is not friendly to the casual reader. Some companies help by producing a summary and background report which aims to translate the information into a form that the plan holder can understand. However it is often the case that interpreting this into future prospects for a fund or a company is difficult, if not impossible.

### 3. Multi fund approaches

Many companies run more than one fund, with different investment approaches and investment mixes within each fund. This means that one fund might be doing well and another not so well. Just imagine a company that has two funds, one investing predominately in shares and property, the other in gilts and cash. Their positions after the devastation of 2008 would be completely different, bonuses and MVRs would be apportioned differently, their prospects completely different and their solvency positions would have been affected in different ways. In this scenario it would be possible to say “XYZ Company’s with-profit performance was good last year” just as easily as “it was bad” because it depends which fund one is looking at/talking about, even though the company is the same in both cases.

### 4. MVRs and penalties

Performance summaries of with-profit funds can be highly misleading as the returns quoted in various tables make no allowance for Market Value Reducers (MVRs), the unknown and arbitrary penalties imposed from time to time by Insurance Companies, and often don’t take into account other nasty contractual penalties.

If a Company is shown as having produced an annualised return over the past 5 years of 6% per year but has a 20% MVR applying (Company A), we would suggest that this is a worse position for a plan holder than a comparable company that has produced 4.5% per year for the past 5 years but is not applying a penalty (Company B). However because MVRs come and go, and may vary from plan holder to plan holder they are often not accounted for. In a survey Company A may be ahead of Company B in the performance table even though the reality is that at that moment in time any plan holder wanting their money back would be better off with Company B. Fair? You decide. Confusing? Definitely.

### 5. Open and closed funds

Not all with-profit funds are open for Business, some have been closed. A lot has been written about closed (sometimes called “Zombie”) funds. The difference is that an open fund still takes in new business, a closed fund doesn’t. The argument is that a closed fund has an ever decreasing asset base as more and more money leaves the fund, without new money coming in, and the managers of the fund have no incentive to perform.

Actually we think this argument, often touted, open “good”, closed “bad”, is over simplistic and there are some very solid closed funds and some very poor open funds. What is clear however is that if you stopped the average policyholder in the street and asked if their with-profits funds were open or closed, they would quite understandably, in many cases, have no idea. The fact is that it is yet another complication and factor for a plan holder considering future options to weigh up.

### 6. Free Assets?

We can go a step further with free assets, because it is not only the average plan holder, who would struggle to define free assets but the average financial adviser might do so as well.

As stated earlier this is not a document to go into the detail of such areas, but to bring your attention to the most important points suggesting that once you get to grips with the “issues” you can seek detailed independent advice.

However it is sufficient to say that free asset ratios (FAR) which are often used as a definition of a company's financial strength, can be seriously misleading. The point about Free Asset Ratios is they are an attempt to identify how much of the overall with-profit fund is attributed to future liabilities and how much is "free". A large FAR therefore implies a strong fund because there is scope for things to move against a fund and for the Free Assets to pick up the slack. However as with all these points, the reality sometimes moves a long way from the theory.

For example is the quoted/published Free Asset Ratio including or excluding the effect of financial engineering (don't ask!) and have they deducted the cost of the With Profits Insurance Capital Component (WPICC)?

What is important is that Free Asset Ratios can often be touted as being good or bad when the reality is that they are neither or the opposite.

## 7. Conventional and unit linked.

Some with-profits are conventional plans, some are unit linked (or "unitised"). Most plans up to the mid 1980s were conventional, most since are unit linked. The accounting methodology, the bonus policy, the management of the fund will be totally different depending on the type. The plan holder's view and consideration will be totally different as well.

Just to confuse everyone further some companies run their conventional and unit linked plans under the same umbrella and do not always clearly segment them in their reporting.

## 8. Who owns the fund?

Finally just to make matters worse, many plan holders don't even know who they have their money with! Pearl bought Resolution, which was one of the biggest with-profit companies in the UK, but didn't exist when many of the plans now with them, were first taken out. Many companies have been through a number of takeovers, name changes, mergers and amalgamations. Provident Mutual was bought by Commercial Union, which merged with General Accident, which became CGU, which merged with Norwich Union and became CGNU, and now is Norwich Union, which will soon be Aviva.

Working out where your money has gone or to who is often as difficult as working out what to do with it.

### In conclusion

None of the above is intended to do anything other than demonstrate that with-profits are a minefield. We believe passionately that many plan holders believe they have one thing, when in fact, they have another. We believe that the risks for plan holders are far greater than often imagined, especially as with-profits was regularly sold by the industry as a "safe" option for cautious investors.

The only way for any individual to get a proper understanding of what they have is to get an individual tailored report or audit of their plan or plans, produced by an independent professional adviser. Only then can decisions about future viability be taken.

## 5. The top 10 with-profit companies

We list below the ten companies that we consider to be the ten most significant companies in the with-profit market and have provided a brief summary for readers to consider of our view of the companies, what they provide within the with-profit market and how easy they are to deal with and how easy it is to obtain information.

We have chosen these ten based on a combination of the money they “manage” in the with-profit arena, the number of plan holders they have and their overall position historically in the market. They are not listed in any particular order:

1	Company	Prudential
	Our views and comments	<p>The with-profits portfolio managed by Prudential includes five different funds and includes the old Scottish Amicable with-profits fund which Prudential acquired when it bought Scottish Amicable.</p> <p>Prudential is considered to have one of the most consistent performance records of all with-profit companies. With total funds in with-profits of around £75 billion, Prudential is the most dominant company in the market.</p> <p>Their reporting is exceptionally good: they produce quarterly statements and reports which are very user friendly and contain lots of information and commentary.</p> <p>Prudential’s financial strength means that they are better placed than virtually any other company to withstand the markets problems, however on the flip side they have held nearly 75% of their assets in shares and property, which means they will have been hit harder than some in the past year. Can they maintain such holdings in the medium term to benefit from any bounce or recovery? The answer is we don’t know and this will be one of things investors in this fund will need to watch with great care. We also wonder what will happen if there is NO recovery for some years, something we think is a very real possibility.</p>

2 Company

Pearl/Resolution

Our views and comments

The Pearl group of companies was formed from the purchase of Resolution by Pearl. This takeover completed the effective grouping of the following companies: Britannic, Alba, Phoenix, Scottish Provident, Scottish Mutual, National Provident, London Life, NPI and Pearl. This is consolidation taken to its ultimate position!!

Where the money has gone within this grouping is very difficult to say. In some cases the money has been subsumed from one pot to another and in others it has been retained in a separate pot.

In nearly every case the funds are closed and in some cases are run as 90/10 funds.

Pearl, the original Pearl company, itself has over 1 million plan holders, with about £10 billion in with-profits. It operates a 90/10 fund which means 10% of any profits go to shareholders not to plan holders. Its fund is CLOSED.

We have found the Company very difficult to deal with and to obtain helpful and accurate information. Their web site and online information is all very poor.

**Our view is that most of these companies' with-profits funds should be urgently reviewed. In most surveys they do not show up well in terms of performance and there is considerable concern about their long term positions. We strongly recommend any reader to get an audit of their plan from any of these companies.**

### 3 Company

#### Scottish Widows

##### Our views and comments

Scottish Widows is owned by Lloyds TSB. It has around £17 billion in with-profits and 650,000 with-profit plan holders.

Bonuses last year before the markets turned down were around 2.5% to 4.5% depending on the fund and plan type. This suggests the funds were not very strong or able to offer any sort of decent return even in the best of times.

Their past performance record has been nothing short of shocking. Owned by a bank we believe that their performance has not had to be good as most of their new business is filtered through the bank's sales channels, rather than independent sources, making them less reliant on their record to support new business.

With the problems the bank is suffering in other areas we believe it is highly unlikely that there will be any support for the with-profits business from this source.

We are nervous of the position of the funds within this group and as with our recommendation above for the Pearl companies we suggest every Scottish Widows plan are looked at in detail with urgency.

Once again they are not very good at providing useful, easy to find information.

**4** Company

**Aviva**

Our views and comments

Aviva has grown out of a long series of amalgamations, mergers and takeovers. Companies such as Commercial Union, General Accident, Provident Mutual and Norwich Union are now all embraced into the Aviva Group.

Most of these companies were strong in the with-profits market, writing considerable volumes of with-profits business. Aviva has a significant with-profits portfolio, with over 2 million plan holders and about £55 billion overall in their various with-profit pots.

We like Aviva. Their commitment to with-profits is strong and their performance has been excellent. Their reporting and communications with their investors is very good.

However they have also offered valuable guarantees to many plan holders and where these guarantees come to fruition we believe many plan holders will be best suited by exiting the with-profits fund. The opportunity to get out with a valuable guarantee from the fund will probably be too good to resist, although this must be judged on a case by case basis.

In all they have about 3 million with-profits plans in force, for over 2 million people totalling about £55 billion pounds.

**5** Company

**Legal and General**

Our views and comments

The company has about 1 million with-profit plan holders and around £20 billion of with-profits under management.

They are considered to be one of the strongest with-profits providers. Their performance has been mixed but we note they had a more cautious investment strategy than many of their peers, which up to last year kept them lagging behind the best, but will surely see them in good stead in the near future.

We particularly draw readers' attention to the fact that L+G have a range of guarantees applying to all sorts of different plans, these needs to be considered urgently for any L+G plan holder.

Their literature and reporting is better than most.

**6** Company **Friends Provident**

Our views and comments Friends Provident has 1.2 million plan holders, with about £24 billion invested within it. They run two main funds, one open, one closed: with quite mixed positions on each. The larger of the two, the open fund, has a mixed performance record, although similar to L+G above, it has not had the higher exposure to equities of some other companies.

We believe that the Friends Provident position is vulnerable and with a generally disappointing performance record and not the greatest financial strength we are not great fans of this company.

Their information provision is good and they are one of the easiest companies to deal with.

**7** Company **Clerical Medical**

Our views and comments Clerical Medical is owned by HBOS. With the recent banking crisis changing the perspective on bank owned insurance companies we wonder where the ownership of the funds might end up. It seems that Clerical Medical will end up in the same stable as Scottish Widows, under the Lloyds TSB banner, which begs the question will they end up merging?

What Clerical Medical does have in common with Scottish Widows though is a very sketchy performance record and a with-profit fund that looks exposed moving forward. In particular Clerical Medical has traditionally held a very high part of their fund, compared to others, in property.

With a relatively poor past performance record, a high exposure to property (which unlike shares you can't simply dump) and the confusion over the ownership and future direction of the group, this is not a company we could feel happy applauding.

## Our views and comments

The problems with Equitable Life have been well covered and publicised. Put simply they ran into problems about 10 years ago due to unsustainable guarantees offered on annuities.

Since the problems surfaced and Equitable went into a downward spiral there have been numerous legal cases, enquiries and other investigations, much of which held out some hopes that those policyholders who lost out might get some form of redress. At the time of writing this seems as far away as ever.

In the interim Equitable has continued to run its with-profits fund albeit the Company was effectively sold to HBOS a few years ago and the management of the fund (which has long been closed to new business) has been on the most benign basis possible i.e. nearly all the fund is in gilts and cash, and has been for years.

The performance of the with-profits fund has been correspondingly very poor and those investors who have remained in the fund have seen an appalling return. Despite this a substantial figure remains invested within the fund, something in excess of £10 billion. With its prospects of recovery or improvement virtually nil this seems very odd. We can only surmise that many investors must be holding out hoping for some form of redress from the government.

## Our views and comments

Standard Life is an odd case, simply because they have been through the most dramatic ups and downs in the past seven years or so. This started in the earlier part of this decade when Standard Life, belatedly, launched into the with-profits bond market. Unfortunately their timing couldn't have been worse because shortly after taking all their initial money into the fund, markets took a serious nose dive. The fund had very substantial problems and Standard Life took the view (correctly as it turned out) that they needed to maintain their high Equity content and ride out the storm. However this position coincided with new rules pertaining to capital and solvency which effectively forced Standard Life to take the opposite route. They were forced to sell out of the Equities (to a large extent) at a very significant loss for the with-profits fund and buy gilts and cash. They then missed out on the upturn that occurred in equity markets, producing a situation where losses were taken without the recovery making up for it.

For some time rumours abounded about Standard Life's solvency and viability. This led to Standard Life demutualising in 2006, to effectively raise the money needed to stop the rot as well as giving it the backing of the stock market. Although they had been unlucky in the earlier part of the decade, they were lucky at this juncture because if they had been 18 months later it is very unlikely they would have got the demutualisation away.

Where does this leave the with-profit fund? At the current time not looking very good: long gone are the days when Standard Life was the star performer in with-profits surveys and slowly their performance (and it seems commitment) to with-profits has fallen by the wayside. It seems no coincidence that their future projects seem to be so dominated by Wraps, Platforms and the Self Invested Pension. However they still have a with-profits fund which across the board has not been great.

Against this it has to be stated that they are probably the best company in the market for provision of information and detail. They are extremely helpful with any enquiry into with-profits and produce some of the most transparent reports.

**10** Company

**Zurich**

Our views and comments

Zurich operates a series of funds including conventional and unitised with-profits, 90:10 funds and 100:0 funds. The fact is that it doesn't matter which fund one looks at, the overall performance of the Zurich funds are poor. Due to the fact that they have closed their funds they are managing their funds on the basis of a safety first approach, with a very high proportion of the fund in fixed interest and cash.

They are a prime example of a company that has all but given up on with-profits. The fund management is designed to make sure the fund meets its minimum obligations and solvency requirements but the prospects of anything positive from the fund in the future is very low. It appears from their latest figures that Zurich still looks after around £3 billion in with-profits. Those investors in with-profit bonds should note that the Company had many series of the bonds which included 10 year spot guarantees.

Information provision, if not their reporting, is very good.

## 6. Analysing past performance

The first question to answer is this: is there any easy reference to see how well various with-profit companies are performing against each other or against other benchmarks?

The answer is a resounding no. **There is no recognisable performance table for with-profits.** Various publications and web sites do produce information about performance and some of these rank the companies and their funds. These are useful in some respects but misleading in another.

They are useful because it is possible to see how well each company's funds are doing in respect of bonuses that are attributed to the funds. However with all the points made in earlier sections some of this performance record/summary becomes obsolete.

For example MVRs are rarely taken into account, bonuses (particularly terminal or final bonuses) can be withdrawn or reduced and companies often have more than one fund type, often within the same plan structure making the whole thing guesswork.

We do believe however that there is a pattern from one company to another and a generalised summary of good or bad performance can be made by looking at a range of factors and seeing how they add up in a generalised form.

### Our performance assessment

We have looked at a variety of reports from different sources and from these we have assessed the following:

1. Which companies across the board produce consistent results on their underlying fund? Those that consistently struggle to produce results on their underlying funds are ranked as poor; those that consistently produce results above average are ranked as good. Those that fall in the middle come out as median.
2. Which companies pay out the best returns? It is likely that there will be a correlation between those in category 1 above and this category although surprisingly a few companies produce good fund returns but their payouts are poor and vice-versa.
3. We then look at several other factors including financial strength of the companies, their MVR positions and their charges.

Please remember that the summary below is (a) based on the past (b) highly subjective and (c) if our overall view turns out correct that the whole with-profit industry starts to experience problems even the "good" performers could run into future problems. Past performance is no guide to future returns and whatever the position below nothing beats getting an individualised and independent assessment.

Having stated all of this here are our good, median and poor performers from the research we have undertaken and seen:

Good	Median	Poor
<ul style="list-style-type: none"><li>• Aviva</li><li>• Liverpool Victoria</li><li>• Legal + General</li><li>• MGM</li><li>• NFU Mutual</li><li>• Prudential</li><li>• Wesleyan</li></ul>	<ul style="list-style-type: none"><li>• CIS</li><li>• Clerical Medical</li><li>• Ecclesiastical</li><li>• Friends Provident</li><li>• Guardian</li><li>• Royal Liver</li><li>• Royal London</li><li>• Scottish Equitable</li><li>• Scottish Provident</li><li>• Teachers Provident</li></ul>	<ul style="list-style-type: none"><li>• AXA Sun Life</li><li>• Equitable Life</li><li>• Lincoln National</li><li>• National Provident</li><li>• Old Mutual</li><li>• Pearl</li><li>• Pheonix</li><li>• Reliance Mutual</li><li>• Save + Prosper</li><li>• Sun Life of Canada</li><li>• Zurich Life</li></ul>

# 7. What about guarantees on with-profit bonds?

It is not just with-profit **bonds** that have guarantees but in this section we examine the guarantees on bonds and the extraordinary opportunity they present to certain investors.

## What is the guarantee?

It depends. Firstly, different companies offered different guarantees, so there is no standard answer; anything we state in this section is therefore a general overview, which may vary from company to company, bond to bond.

Guarantees however are generally a way of exiting, surrendering a bond with no penalty.

As a result of the recent significant downturns in investment markets most bonds have penalties applying to them should an investor want to get out of their investment. These penalties can often be very severe, in the current climate (early 2009) penalties can be 20% or more of the face value of the investor's bond.

### 1. Death guarantee

The most universal guarantee offered by companies is on death. That is, the investor will have no penalty applied should they die and the bond pay out, which most do, automatically. Beware however that most bonds in joint names only payout on the second death of the joint holders.

### 2. NO MVR guarantee dates

The second and most significant guarantee applies on an anniversary, often known as a "no MVR date". Typically this will be at 10 years. What this means is that on the 10<sup>th</sup> anniversary after a bond was taken out by an investor, there is a date (10 years later) when the investor can take their money out, **in full**, with no penalty applying.

This presents an extraordinary opportunity. With MVRs (Market Value Reducers or as we like to call them "penalties") being applied so widely at present this means investors can get out without penalty, freeing their money up.

**If the no MVR date is missed the investor loses their free of penalty terms and return to a situation where a penalty may apply.**

#### **Example:**

Mr and Mrs Investor place £50,000 into a Bond with XYZ Company in 1999 on June 22<sup>nd</sup>. It has grown (with bonuses) to £77,000 today. XYZ company is applying a 20% MVR, which means in normal terms that the Bond, if Mr and Mrs Investor take their money out, would pay out £15,400 less than the face value i.e. £61,600. However their bond has a 10 year guarantee. On 22<sup>nd</sup> June 2009 they can withdraw £77,000.

Guarantees were normally for 10 years although some companies offered 8 years, some 5 and some none at all.

What is significant about the 10 year guarantee?

It is now roughly 10 years since with-profit bonds were sold in their hundreds of thousands. This was the beginning of the great boom years for with-profit bonds. This means hundreds of thousands of bonds and investors will have such guarantees applying in 2009.

Aviva (Norwich Union) recently announced in their 2009 bonus announcement the following:

**“Valuable guarantees”**

“Around 86% of our with-profits bond policyholders have valuable guarantees within their policies - e.g. MVR-free anniversaries. In 2009, around 50,000 bond policies will be eligible for a policy guarantee. Of these 50,000 policies, over 33,000 will reach their 10-year anniversary and will be eligible to take advantage of an MVR-free guarantee which we will actively draw to our customers' attention.”

**(Source: Aviva, UK: With-profits update 16 January, 2009)**

**We believe** that the total number of with-profit bond holders who have such guarantees coming to fruition in 2009 alone is in the region of 300,000 according to our research.

This represents the most outstanding opportunity for investors to exit their bonds where penalties may be applying, effectively “in front” of the investment curve. They can get their money out without penalty when the performance of their bond warrants a penalty.

Whilst Aviva may be generous in their communications with their investors we do not believe all companies will be so helpful.

And we need to point out that just because a bond enjoys such a guarantee does not mean an investor should rush to the exit, but we do suggest that an investor should be aware of their options and know all the pros and cons of staying or going.

### 3. Penalty free income

The final guarantee free date may be an “income free withdrawal” guarantee. This may mean that an investor is able to get a level of income from their bond every year, without penalty. A typical amount might be 7.5% per year and this is a figure that an investor can withdraw each year with no penalty. Some companies may have 5% “free of penalty” withdrawals, some none.

## Conclusion

An opportunity exists for certain investors to get some or all of their money out of their with-profit bond without a penalty being applied. To understand the current penalty position being applied by a range of companies please refer to page 29 and the section “Current MVR Positions”. Investors (which will be many millions of people) who are subject to penalties should not expect things to get better, as we outline in the section “Future Prospects for With-Profits” (see page 33), implying that the facility to withdraw money from their Bond penalty free puts them ahead of the game.

Investors in this position are one of the few groups of winners coming out of the current market difficulties, as they can release their funds above the current market value, giving them a return above that their money has earned.

## **Getting an audit**

To find out if a guarantee applies, what it is worth, when it is relevant and how to exercise it, any investor in this position should use our audit service to get a full and detailed appraisal of their Bond.

## 8. 'Without Profits!' – The companies that have consistently failed

Whatever one thinks about with-profits investments on a general level, there are some companies that have simply failed to produce results whatever the measure or benchmark used.

The past ten years have been exceptional for investment markets. They include possibly the biggest boom and bust in stock market history, the technology crash, 9/11, a rise and fall in oil prices, high interest rates, low interest rates, property price increases and decreases. The opportunity has been there for companies to have produced good with-profit results at some stage in the past ten years.

**Our view is that any company that has failed to produce a return in any of the last ten years comparable to a deposit account must be declared to have failed.**

This section features companies that have consistently failed to produce results whatever the general climate or investment back drop.

In analysing this we need to point out that some companies have failed to meet our minimum measures on some of their with-profit funds, but not necessarily all. We have pointed out where this is the case. We have also decided to take the plunge and rank the companies in the order that we believe they have failed their plan holders. This means that our number one ranked company, The Pearl Group, is deemed to have failed more spectacularly than any other and so on!

The summary of this failure list is that we estimate that around £120 billion is held in total in funds that qualify as consistently having failed. This is a staggering reflection of the failure of a substantial part of the industry.

### Number One: Pearl/NPI/National Provident/Phoenix/Scottish Mutual

Ok so the number one offender isn't actually one company but a whole series of companies that have been lumped together to form the Pearl Group. It is virtually impossible to find any with-profits performance that isn't absolutely dire from any of the above named companies on bonds, pensions and endowment plans. Within the group, Scottish Provident and London Life do stand out as exceptions with some of their funds, but if you have a plan from one of the above you will not have enjoyed any return which could not have been achieved risk-free elsewhere and your future prospects must be poor. The reason we selected them rather than Equitable as the number one company is to do with the fact the Pearl performance is consistent across a whole series of funds and associated companies, over many years, whereas Equitable is just the one offender: Pearl is more like a criminal gang.

We estimate that over 90% of all the plans and investment with these companies has failed to perform up to the level of a cash account at any point in the past 10 years.

## Number Two: Equitable Life

There are very few surveys and tables where Equitable don't sit firmly on the bottom. Whatever plan type one looks at, across virtually any time period, Equitable will be amongst the worst performers. We could not find one fund or fund type that had out performed cash from this Company in the past ten years. We did look long and hard but nothing came to the fore!

## Number Three: Zurich

Zurich were a little more difficult to analyse than most but in the end we found enough endowment, bond and pension performances to see that they were not producing anything of value to plan holders. Take for example a survey showing their 10 year performance to 31 March 2007 for a personal pension plan contribution of £10,000 into with-profits: This shows their best relative performance of any that we could track back over the years. £10,000 would have grown to £14,100 after the ten year period on this date. That is growth of 41% in 10 years or an annual rate of just over 3% per year: lower than a high earning interest account through the same period.

Overall once we looked at both their 90:10 and 100:0 funds we found that once long term results were discounted (i.e. 15 years +) 90% of their funds were below the benchmark.

Taking into consideration their better long term performers in some categories, the figure is around 80%. So 80% of the money they look after for policyholders has not produced a return that one could get from a safe, risk free high interest account.

## Number Four: AXA

This came as somewhat of a surprise to us, particularly as AXA originally came to the UK with the purchase of Equity and Law, who had previously had a strong with-profits track record. However many of the old Equity and Law plans, Sun Life and Winterthur Life plans (which make up the AXA stable) were qualifying. Again, we arrived at the figure of 80%. This means 80% of all their plans across the board failed to produce the benchmark return.

## Number Five: Scottish Widows

As with the two companies above they came in at around 80% of all plans surveyed having failed at anytime in the past ten years to produce a return above a cash account.

## Others

Aegon (Scottish Equitable and Guardian) deserve a special mention. They nearly came into the list with around 60% of all funds and types of plans having fallen short but in other areas their fund returns are amongst the best. We believe this is because they have typically taken a very positive position on holding shares in their funds at a higher than average level, which means that at times they have been excellent; at others very poor. It will be interesting to view their forthcoming 2009 report for the year 2008.

Other companies that would have got virtually all of their plans into our list, if they had joined in the surveys and/or were big enough include the following names, some of which may now be under different ownership:

Save and Prosper, Old Mutual, Lincoln, Scottish Life and Sun Life Financial of Canada.

## Conclusion:

About £120 Billion is invested into with-profits funds that have consistently failed to produce a return: in some cases they have produced NO return at all, in others less than could have been achieved in the bank. Please remember this includes the good years of 2004-2007, so we are judging this through all periods, not just the down periods. This means about one third of all money in with-profits has produced less than a decent bank account.

## 9. Current Market Value Reduction (MVR) positions

An MVR is a Market Value Adjuster, a penalty that many companies can impose on with-profit funds to stop investors from withdrawing or transferring money at a time when the fund is unable to support all its commitments.

This means that an investor, who has, for example, a with-profit bond, may receive an update that states the bond is worth £58,000. However this may not be the “cash in” value because if the investor wanted their money back in full (or maybe in part) a penalty (the MVR) would be imposed, so if the company was imposing a 20% MVR the cash in value would be reduced £11,600 (£58,000 x 20%).

What you see is not what you get.

The MVR is a unilateral device that companies can introduce at will, at anytime and at any level. It also represents a truer picture of the value of an investment in with-profits than the face value, because the value less the MVR is probably in line with the correct value of the plan at any one time.

However it is very important to remember that there may well be circumstances where MVRs DO NOT APPLY:

1. Death
2. Retirement
3. on some withdrawals
4. on guarantee dates

### Current MVR Positions

Our research indicates universal MVR applications by all the major companies. This is hardly surprising after the market turmoil of 2008. What is important is to understand what each companies MVR policy is and how likely it is that the MVR is a temporary device to protect all investors from exceptional levels of withdrawals or if it is a longer term device to offset positive bonuses.

All companies are now required to produce PPFM (normally found on their web sites) which basically state what the financial management practices of the fund are. This will give clues (if not the answers) to the various companies MVR practices.

A quick survey of the market reveals some indicative idea of the current MVR levels applying. This is by no means anything other than a snapshot; we have not included all companies, just a selection to give the overall “temperature” of the market.

MVRs can come and go, can move up and down and vary from plan to plan even with the same company and day by day: this puts a premium on getting an exact figure (penalty position) from a company on a specific plan.

On 1<sup>st</sup> January 2009 Aviva reduced their MVRs and are now applying them from 5% to 20% depending when a plan was taken out. Interestingly plans taken out in 1999 have a 16% MVR, which can be avoided if an individual has a 10 year “no MVR” guarantee.

Standard Life has a variety of penalties and they only apply to certain plans. Currently pensions have around a 6% MVR on average, endowments 0.7% and with-profit bonds 10.7% although it should be noted that the MVRs on the bonds vary very significantly.

Prudential work on a case by case basis although for lump sums held for five years or more they do not currently impose an MVR on withdrawals up to £25,000. On average their MVRs are around 4%.

Friends Provident are applying MVRs on the majority of their plans ranging from 5% to 15%.

Co-operative is applying a wide range of MVRs that vary from when the plan was taken out. On their lump sum plans MVRs are generally around 10%, with the top rate at 13%. Their regular premium plans have MVRs in some cases much higher: up to 24% for plans taken out around 10 years ago.

Legal and General's MVR position was very difficult to ascertain although we understand that the average MVR across all their plans is 11.5%.

## Conclusions

There is no doubt that the MVR is now back across the board and, in our view, is here to stay for some time.

There is a wide range of MVRs with certain plan holders suffering MVRs of 20% or more and some having no MVR. The industry average in our estimation is 10.5%.

It is quite clear that different companies have different MVR views: certain companies use the MVR as a device to level out the fund performance, others use it to penalise "early leavers" from the funds. Some companies maintain seemingly "high" bonuses but impose higher than average MVRs, others reduce bonuses but keep MVRs relatively low.

We believe that presently there is very little evidence that plan holders are switching out of with-profits in any number, which means MVR levels are not under pressure. Should investors start to maximise their guarantees and/or realise that the future of with-profits is bleak and start moving their funds in any great number we think MVRs will increase.

## 10. When companies will report in 2009

If you have a plan with one of the companies covered by this report you may wish to know when the companies will be reporting their results.

Companies announce their results in many different ways and at different times. Some are more helpful than others with their communications.

What is most important however, especially given the turbulent markets at the current time, is that when a company reports you are aware that they are reporting and that you look at for the details of the bonus announcements and any other relevant information.

Such information may be a statement from the actuaries about future bonus prospects, about any changes to the fund or about any change in solvency or free assets. A company's bonus announcement is like a company report; it will contain facts and figures, but also may contain softer information in the form of a statement or a press release that may be just as relevant to the future position.

## Company reporting dates:

Company	Date
Aegon	April
Aviva	16 January
AXA	Late Feb'/March
CIS	April
Clerical Medical	Early February
Ecclesiastical	March
Equitable	April/May
Friends Provident	March
Legal and General	Third week of February
Liverpool Victoria	February
MGM Advantage	March
NFU Mutual	April
NPI	March
Pearl	2 <sup>nd</sup> week in May
Prudential	3 <sup>rd</sup> or 4 <sup>th</sup> week of February
Reliance Mutual	February
Resolution	See Pearl
Royal London (including Scottish Life)	Early March
Scottish Friendly	Early March
Scottish Mutual	See Pearl
Scottish Provident	See Pearl
Scottish Widows	Mid February
Standard Life	23 <sup>rd</sup> January
Wesleyan	2 <sup>nd</sup> Week February
Zurich	16 January

# 11. Future prospects for with-profits

The year 2008 was, in some ways, quite a good one for with-profits, because the investment funds they are normally compared to, in many cases, had their worst year on record.

With-profits companies and funds had a relatively good year in comparison.

However we should not be fooled: inherently with-profits remains an exposed area where individual plan holders face serious risks. When considering this position, it is important that we should always remember that with-profits funds are just another form of managed fund. They have no magical properties to them, which immunises them from the wider problems and losses in asset types. They are just as vulnerable to downturns as any other type of investment.

However in some respects they are *more* vulnerable.

This is because the funds have to charge significant expenses onto a fund which other fund-types don't. They have their ordinary expenses (i.e. management charges for running the funds), tax to pay, charges to cover guarantees and other provisions. It is estimated that these charges can easily amount to 4% of a fund per year.

With interest rates at record low levels and corresponding income rates in bond and gilt markets also low the pressure on the funds become intolerable, they cannot always cover their costs from fund income. This puts extra pressure on the funds to get capital growth to at least generate some return for the investor.

But can they freely allocate money to growth areas (i.e. shares – both UK and foreign, property and other such riskier assets) when markets are in such perilous states? Yes, in some cases they can, but then they run the risk of further downfalls causing even more problems for the fund in the future. Of course, if they do keep or raise their level of riskier assets and everything goes well then they are likely to turn around and produce some sort of positive return for investors.

However if you re-read the above paragraph and consider the implications you will see the great irony: in order to get any sort of decent return for investors with-profit funds have to get positive returns from riskier assets, if they don't there will be trouble. Isn't this just what a "normal" Managed fund does? The so called smoothing effect has broken down. Companies do not universally have large surpluses to fall back on (some do, most don't) which means their only way of managing a with-profits fund safely is not to invest in riskier assets and if they don't they will have to invest in Bonds, Gilts and Cash, all of which are struggling to pay enough return even to meet the expenses! It's almost a case of "heads I win, tails you lose."

If we now add in the dramatic imbalances that the guarantees, on certain plans, throw into the mix (again it will vary from company to company) then a real problem may surface. We discuss guarantees elsewhere in this report but in essence they are damaging the future prospects for many with-profit funds, because there will be many plan holders who will be able to get out of the fund well above market value, damaging the fund's solvency position and also the remaining plan holders potential pay out.

In conclusion, we believe there is a prospect of serious problem, but even the best case scenarios for many with-profits funds are not looking great.

## 2002-2008: a revealing period for the next few years?

### Authors note

In 2002 I believed and predicted that there would be a crisis in the with-profits bond market. I thought that the climate then would derail companies across the board. Some of the companies were derailed and have closed their books and stopped paying bonuses ever since. Some managed to ride the storm of the 2001-2003 market falls and then prospered as the markets recovered over the following five years. Note the weaker companies did not prosper over these years, barely surviving.

Will it be different this time? I think it is more likely this time around that we will see wholesale problems for with-profits companies, right across the board. I state this for two reasons: one is that this time we have seen a complete collapse in nearly all asset markets. This time we have serious recession, whereas before there was no recession or only a technical one very briefly. This feels like we are in for a long period of downturn, including property, whereas last time property held up. Remember that the past 20 years in the UK (up to 2008) were highly unusual; assets don't always go up relentlessly. Just look at Japan where their stock market today is roughly the same as it was 26 years ago. Secondly this time with-profit companies are not seeing strong in flows into their funds of new money. This means they do not have the incoming cash flow to help the funds, plus they have to factor in ever growing and more expensive guarantee liabilities into their future provisions.

There will be problems: they have already started, note Aviva's back tracking on some of their previous commitments on their inherited estate in the past few weeks. The only question for me is will there be pockets of problems or a universal industry-wide problem? Whatever the answer investors at an individual level can take individual action to protect themselves.

## 12. There's only one solution: get an audit

To understand the with-profit market and the current state of play is to understand that no two plans are the same. Even two plans held by two individuals with the same company may have different positions and may require different solutions.

The one conclusion we have drawn from our research into with-profits that sits above all others is this:

***Very few individuals understand what they hold.***

This is in no way a criticism of individual plan holders: far from it, the blame for this universal position lies firmly at the door of the Insurance Industry, for operating such arcane and confusing plans and policies.

We have researched the with-profit market at length and still find it difficult to translate many of the positions that exist with various companies and their with-profit funds. Even with the time we have dedicated to this, we still find it difficult to get answers out of companies and often find that insurance company staff and representatives do not fully understand their own plans and company positions.

The only true way that any individual policy holder can get a full understanding of their own position and what it represents and most importantly what they should do about it, is to arrange an **individual audit**.

Such an audit can be produced quickly and by a reputable independent financial adviser (IFA) and in most cases at no cost.

### What will an individual audit contain and how will it be produced?

The idea behind an audit of this sort is that it is tailor-made to the individual's plan. The way an IFA would conduct such an audit is very simple. You, the policy holder will give them your policy details, specifically the name of the company and the plan number, with an authority for them to collect information on your behalf.

The IFA will then contact the insurance company and ask them certain key details which will vary depending on what type of plan you have.

However as a minimum they will find out the current face value of the plan, the surrender value, what the bonus history is, where the underlying money is currently invested, what penalties apply for transfer or surrender (including any MVR) and whether any guarantees will apply at any stage on the plan. Generally speaking these are all *hard facts* which are a matter of fact and record.

They will then ascertain the future value and prospects for the Company and this plan. This will include an assessment of the position should you continue to hold the plan versus transferring it or surrendering it. This is a more subjective part of the audit.

A conclusion is then reached on what you should do or, at worst; the conclusion will draw out your options and allow you to consider the position further. At the very least you will have completely up to date information presented in a simple but concise and easy to understand form.

## To arrange an audit

To arrange an audit please go back to our web site [www.exitwith-profits.co.uk](http://www.exitwith-profits.co.uk) and complete our online enquiry form or if you prefer fill out the attached paper copy of the enquiry form that appears at the back of this guide and send it to us at:

With-profits audit service

DMP Marketing Ltd  
FREEPOST RSAH-HGJB-SYHY  
Cirencester Office Park  
Tetbury Road  
CIRENCESTER  
GL7 6JJ

Or fax it to us on: 01285 646320

Or give us a call on 01285 700749 or 01285 700759

## 13. About us

DMP Marketing Ltd runs a series of web sites, all aimed at helping individuals understand a financial subject. We work to the line “Information, Education and Inspiration”.

Ours is a financial education business, using the internet to impart information about financial subjects, with a view to getting individuals better informed about the plans they might have, the decisions they might have to take, how and where to get advice and so.

Our sites all aim to provide this information for free. There is no cost to the individual for accessing any of the information we provide. Where appropriate our site then offers further services, should they be required.

This includes a service linking individuals to advice sources and on our sites we will have links to independent financial advisers who will be able to help with further advice.

# 14. Regulatory statement and sources

## Regulatory Statement

Please note that this booklet is not a regulated document. Nothing in this document should be construed as advice nor should any action be taken solely as a result of anything written. The authors and distributors of this booklet take no responsibility for any action or decisions taken as a result of the production or reading of anything contained within. Any individual reading this document should take independent and regulated advice before taking any action. Such advice should be taken from a registered firm or individual regulated by the FSA or other suitable regulator.

## Sources

The booklet contains information taken from numerous sources. These include, but are not restricted to, information published or supplied by the companies that produce information about or on their own with-profits funds; reports and surveys produced by AKG, Cazalet Consulting, Money Management and Reuters. We have also used the with-profit bond working party report from 30 March 2000 and the paper "Modelling and Valuation of Guarantees in With-Profit and Unitised With Profit Life Insurance Contracts" written by Haberman, Ballotta and Wang, April 2003 for further guidance. Information has also been taken from various documents published on the internet and from information supplied by independent financial advisers.

## Contact Points

DMP Marketing Ltd has produced the booklet as information to assist readers with their understanding of the market for with-profits plans in the UK. There are certain classes of offshore with-profits which are not covered by this booklet. There are numerous technical aspects of the with-profits market which have not been covered.

To contact the author or distributors of this document please use one of the following contact points:

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# 15. Audit/Enquiry form

**Audit/Enquiry form**

Your name

Address

Postcode

Contact telephone

Email address

I would like an audit of my with-profits plan  Yes  No

Please give brief details of the type of plan(s) you have and any other relevant detail (e.g., the company, the size of the investment, when you took that plan out – if you have it – Don't worry if you don't).

Please tell us if there is any other area we can help with:

Investing for Income       Inheritance Tax Planning       Equity Release

Retirement Planning       Planning Education Fees       Other (please provide details)