

A Guide To How We Manage Our With-Profits Fund

For Unitised With-Profits Policies

Tax Exempt Savings Plan/Tax Free Savings Plan (issued since January 2005)

Regular Savings Plan

Guaranteed Savings Plan

Guaranteed Growth Bond

Teachers Anniversary Bond

This guide is known as our “Consumer Friendly Principles and Practices of Financial Management”, or CFPPFM for short. It is intended to give you an overview of how we manage our With-Profits Fund and how bonuses on our with-profits policies are calculated.

It is an important document that will help you understand how our with-profits policies work, what factors are considered when deciding how much you will get back, and how we manage your money in the meantime. Further copies are available either from our website www.teachersassurance.co.uk - click on the “Staff Room”, choose the “About Us” page and select “Principles and Practices” and then select “Guide to How we Manage our With-Profits Fund” - or from our Helpline on the number shown below.

If you need any further information, please call our Customer Support Team on 0800 056 0563.

Introduction

This document is a guide for customers with unitised with-profits policies:

**Tax Exempt Savings Plan/Tax Free Savings Plan
(issued since January 2005)**

Regular Savings Plan

Guaranteed Savings Plan

Teachers Anniversary Bond

Guaranteed Growth Bond

This document describes how Teachers Provident Society (trading as Teachers Assurance) manages its With-Profits Fund (the Fund). It presents the most important information from our Principles and Practices of Financial Management (PPFM) that applies to our unitised with-profits policies. Should there be any differences between this document and the PPFM, the PPFM will apply. The PPFM deals with two main areas:

- **Principles** – these are high-level statements about the general approach we take to managing the Fund; these rarely change.
- **Practices** – these give more information on the way we currently manage the Fund; these may change depending on the economy, regulation, and changes in our business.

A copy of the PPFM can be found on our website www.teachersassurance.co.uk/pdf/Full-Principles.pdf and is also available in print from our Customer Support Team on 0800 056 0563.

This document uses a number of special terms. To help you know which these are, they are shown in **bold**.

Whilst reading the following sections you may want to refer to your policy document and annual statements.

How do we decide how much your policy pays out?

Teachers Assurance is a mutual friendly society, which means that all of our profits are used for the benefit of our members (who include with-profits policyholders), not shareholders. The amount of these profits helps us to determine the level of payouts to give with-profits policyholders.

For each type of policy we aim to pay an amount that is fair considering the financial and business performance of the Fund over the period you have held a policy with us, subject to your guaranteed benefits and the **smoothing** process. We calculate something called the **asset share** of a policy to help us make decisions about what this amount should be.

Teachers Anniversary Bond

If you have a Teachers Anniversary Bond, your money buys units in the main With-Profits Fund. These units increase in value in line with the **annual bonus** rate declared by us.

For the Teachers Anniversary Bond the **asset share** is the amount of premium you have invested, less the cost of providing benefits and the expenses incurred in running your policy, increased by the actual return achieved by the main With-Profits Fund.

Various adjustments can be made to this **asset share** to reflect other profits or losses made by Teachers Assurance, for example, profits from selling other life insurance products.

If the **asset share** is greater than the value of units then a **final bonus** may be added.

If there is a significant fall in the value of our investments and the **asset share** is less than the value of units, we may apply a **market value reduction** to the value of your units, reducing what you get back.

This is done to protect the policyholders who remain invested in the Fund, making sure that claim amounts are not higher than the value of a fair share of the investments. However, we promise not to apply a **market value reduction** on the tenth anniversary of the Bond or on death.

Our aim is to pay out approximately 100% of **asset share** on claims. However, payouts can range from 85% up to 115% of **asset share**.

[Tax Exempt Savings Plan/ Tax Free Savings Plan/ Regular Savings Plan/ Guaranteed Savings Plan](#)

If you have one of these types of plan, your money buys units in the unitised section of the With-Profits Fund (**the UWPF**). The part of your premium that is allocated to units represents what is left after we have covered the cost of providing benefits and the expenses incurred in running your policy. The value of the units then grows or reduces in line with the investment return (net of fund charges) on the assets in **the UWPF**; the value of your units is designed to represent the **asset share** of the policy.

Our aim is to pay out approximately 100% of **asset share** on claims. However, payouts can range from 85% up to 115% of **asset share**, with a minimum of any guaranteed or **smoothed** amount referred to below.

Should performance over the term of your policy be such that the value of your units at maturity is less than the total premiums you've paid in, provided you have paid all of your premiums, we guarantee to at least return all premiums paid. For policies started before 2007, this minimum guarantee is increased by any **annual bonuses** we may have added.

[Guaranteed Growth Bond](#)

If you have a Guaranteed Growth Bond, a proportion of your premium is used to buy units in the unitised section of the With-Profits Fund (**the UWPF**). The value of the units then grows or reduces in line with the investment return (net of fund charges) on the assets in **the UWPF**; the value of your units is designed to represent the **asset share** of the policy.

Our aim is to pay out approximately 100% of **asset share** on claims. However, payouts can range from 85% up to 115% of **asset share**.

However, irrespective of the investment performance over the term of your policy, when your bond matures you will receive the greater of either the value of the units you hold at that time, or the guaranteed minimum amount shown in your policy schedule.

How do we decide what annual bonuses should be?

[Regular Savings Plan and Tax Exempt Savings Plan policies taken out during 2005 and 2006](#)

The **annual bonus** rate is decided at the start of the year based on the investment return expected on **the UWPF** and is reviewed at quarterly intervals to include changes in investment returns over time. The daily equivalent of this is added to the value of your policy to increase the guaranteed benefits payable on death or maturity.

[Guaranteed Savings Plan, Tax Exempt Savings Plan and Tax Free Savings Plan policies taken out from 2007](#)

These policies do not have annual bonuses but are eligible for bonuses called "**Mutuality Bonuses**". The key factor in deciding on the **Mutuality Bonus** rate is the level of profits from non-investment sources. This is decided each year and remains valid for a period of 12 months. Mutuality Bonuses are not guaranteed to be paid and will often be zero. When they are paid, they are likely to be small. This bonus rate is used to calculate an equivalent number of bonus units. These are added to your policy once a year, typically one day prior to your policy anniversary, or on earlier withdrawal of your money. Bonus units purchased by **Mutuality Bonuses** do not have a value if your plan is cashed in during the first five years.

[Teachers Anniversary Bond](#)

The **annual bonus** rate is decided at the start of the year based on the experience of the Fund and, in particular, the investment return earned over the year and what we expect future returns may be. The daily equivalent of this is added to the value of your units and also increases the guaranteed benefits payable on death or on the tenth policy anniversary.

[Guaranteed Growth Bond](#)

The Guaranteed Growth Bond does not have annual bonuses.

General information about Bonuses

In helping us to decide what level of **annual bonus** can be declared, our aim is that the guaranteed benefits do not form an unduly large proportion of asset shares of policies, in order to help us maintain a healthy solvency position of Teachers Provident Society.

We aim not to alter **annual bonus** rates by more than 1.5% per annum from year to year (this is part of our process called **smoothing**, described later). However, in adverse circumstances **annual bonus** rates may be reduced by a larger margin and to low levels, possibly even to zero.

You will receive a statement each year that will show any bonuses that may have been added to your policy.

What is a final bonus?

A **final bonus** only applies to the Teachers Anniversary Bond and may be paid when you make a claim on your policy. **Final bonuses** are not guaranteed.

The aim of a **final bonus** is to increase the current value of your policy so that it is approximately equal to the **asset share**. Our aim is to pay out approximately 100% of **asset share** on claims. However payouts can range from 85% up to 115% of **asset share**.

We look at the current value of your policy, which includes the **annual bonuses** since it was taken out, and if this amount is less than the corresponding **asset share** we may top up the payout with a **final bonus**. However, if previous **annual bonuses** mean that the payout is more than the corresponding **asset share**, we may decide that no **final bonus** is payable. It is important to realise that a **final bonus** is not guaranteed.

A **final bonus** is applied as a percentage of the unit value at the time of claim. As mentioned earlier, in certain circumstances (although not on the tenth anniversary of the Bond or on death) we may apply a **market value reduction** to the value of your units, which would reduce the payout.

For other unitised with-profits policies, the current value of your units in **the UWPF** already represents your **asset share**. This means that a **final bonus** is not explicitly added at the time of paying out a claim.

How do we manage your money?

Our aim is to obtain long-term growth. This means investing in a range of assets including equities

(company shares), fixed-interest bonds (both government and corporate), index-linked bonds, property and cash. It is our intention to invest in a wide spread of investments so if one asset class performs poorly, the returns on other asset classes *may* compensate. This is known as diversifying our investments.

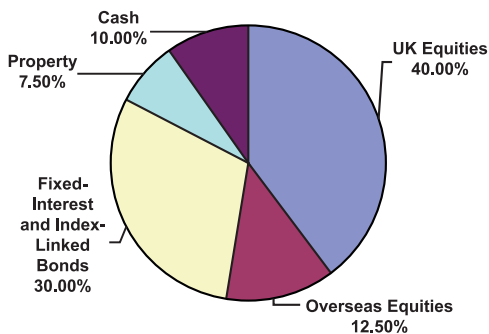
We currently use Legal & General Investment Management Limited to manage the assets within the equity and bond asset classes, with Teachers Assurance choosing the proportion of the Fund that should be invested in each class. Property and cash are managed internally.

We regularly review the appropriateness of the mix of assets in the Fund. The mix of assets may change over time, depending on the level of the guarantees given to policyholders, the financial health of Teachers Assurance and the investment return prospects for each asset class.

The overriding principles considered when setting the mix of assets are to ensure that we can meet our obligations to policyholders now and in the future, and to remain financially strong.

Over the longer-term, equities and property investments have tended to out-perform other forms of investment; we therefore aim to have a high percentage of these types of investment in the Fund, typically around 60%. However, the factors referred to above may mean that the percentage held could be lower than this, potentially down to zero.

The long-term target asset mix is as follows:



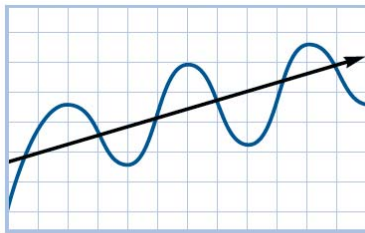
The current asset mix can be found on our website, www.teachersassurance.co.uk, - click on "Investments", choose "With Profits Fund" and then "Unitised With-Profits" and select "How do you manage the fund?" - or is available from our Customer Support Team on 0800 056 0563.

What is smoothing?

Smoothing does not apply to Guaranteed Growth Bond policies.

We use a process called **smoothing** to help protect our other with-profits policyholders from sudden changes in the value of our investments. However, **smoothing** cannot protect with-profits policyholders against long-term poor investment returns. Because of the **smoothing** process, the amount we pay out may be higher or lower than the corresponding **asset share**.

In the long-term, the effect of **smoothing** is expected to be neutral. For unithised with-profits policies, we may take a charge for **smoothing** payouts into account when calculating **asset shares**.



— Smoothed investment return
— Underlying investment performance

This chart is for illustrative purposes only.

For the Teachers Anniversary Bond, we use the value of your units (less any surrender charges) as the means of **smoothing** payouts, other than during periods of exceptional circumstances when a **market value reduction** may be applied.

When a regular premium unithised with-profits policy matures we calculate a **smoothed** version of the value of your units by averaging the unit price over the previous two years. If this turns out to be higher than the current value of your units, then we pay you this instead. This has the effect of protecting you from large stock market falls just before maturity.

How do we cover the expenses of your policy?

Teachers Assurance incurs expenses when setting up and administering your policy, which are paid for out of the Fund, and are taken into account when working out the **asset shares** of policies. We try to make sure that the expenses taken out of **asset shares** are fair and reflect the costs each type of policy has incurred. Types of expenses include:

- Policy running expenses, for example collecting premiums, paying claims and policy administration.
- Investment expenses on the assets within the Fund.
- Sales and marketing costs.

Sales and marketing costs over and above those quoted in new business illustrations, and certain exceptional costs, will not be charged to **asset shares**, but paid for out of the **free assets** (described later).

How do we control the risks we take?

Teachers Assurance encounters many risks through its day-to-day activities and the decisions it makes. It is our responsibility to ensure that these risks are well managed, and do not endanger the financial position of Teachers Assurance.

When assessing new risks, for example launching a new product or setting up a new administration system, we endeavour to make sure that expected future bonuses and returns for existing policyholders are not adversely affected, and that the return for taking the risk is acceptable. We also have to make sure that we have enough capital (**free assets**) to undertake the risks.

Profits or losses made from certain risks, for example profits made from selling other life insurance products, are accounted for in the calculation of a policy's **asset share**. Profits or losses from other risks, for example one-off expenses or exceptional costs, are borne by the **free assets**.

The risks associated with your product are explained in your Key Features Document, including the long-term nature of your policy and that cashing-in early may not be in your interests.

What are the free assets?

The **free assets** (sometimes referred to as the inherited estate) are the extra assets in the Fund on top of those put aside to meet expected payments to current policyholders. They fulfil some very important roles:

- Allowing us to take on new risks and sell new policies
- Giving us the freedom to invest in assets with more unpredictable short-term returns, but higher expected returns in the long-term
- Acting as a buffer to help with **smoothing**
- Being available to meet one-off expenses and exceptional costs

The size of the **free assets** also helps to demonstrate to our regulator (the Financial Services Authority) that Teachers Assurance is in good health and has a cushion against unexpected events.

If Teachers Assurance decides it has excess **free assets**, it may use part of the excess that the Board of Directors considers appropriate to ensure the ongoing strength and vibrancy of Teachers Assurance. Examples of such usage could include, but are not limited to, supporting new business to attract new customers and distributing to existing with-profit policyholders.

Further information

Our full PPFM, available in print from our Customer Helpline team or on our website, www.teachersassurance.co.uk/pdf/Full-Principles.pdf, gives a more detailed description of our approach to managing our With-Profits Fund.

You can also find more information in your policy literature.

- If you are in the process of applying for a policy, please refer to your personal illustration and Key Features Document.
- If you are already a policyholder, please refer to your policy document, annual statements and the original Key Features Document or policy brochure.

For any further information on your policy and our With-Profits Fund please call our Customer Support Team on 0800 056 0563.

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