

The **co-operative** investments
good with money

With-Profits Guide

Your pension plan with The Co-operative Investments

A guide to investing in the CIS With-Profits Fund

Your plan with The Co-operative Investments

A reference guide to how your pension plan works

At a Glance – some common questions

This page contains brief answers to some commonly asked questions.

What is a ‘with-profits’ plan?

A with-profits plan is a type of insurance plan that lets you share in the profits and losses of the long-term insurance business in our with-profits fund. You receive your share of these profits and losses in the form of bonuses which we may add to your plan. (See section 2.)

What guarantees do I have?

This depends on the type of plan you have.

For plans which provide a guaranteed lump sum at retirement

For such plans, we guarantee to provide this lump sum, plus all annual bonuses we may have added at the retirement date originally selected for the plan provided all the contributions are paid on time. You will normally be required to use the fund at retirement to purchase a pension, which is taxable. In some circumstances you may be able to take some or all of your benefits as a lump sum.

For plans which provide a guaranteed basic annuity at retirement

For such plans, we guarantee to pay you a basic annuity and any cash sum allowed for under the terms of the plan, plus all annual bonuses we may have added. We’ll do this on the retirement date originally selected for the plan, provided all the contributions are paid on time. (See section 3.)

What affects my bonuses?

Your bonuses vary according to the investment returns achieved by the fund, the level of plan guarantees, the charges that we make and how we smooth payouts. (See section 5.)

What types of bonus could I get?

- Annual bonuses, which we may add to plans each year.
- Interim bonuses, which we may add when a claim is made.
- Final bonuses, which we may add when a claim is made. (See section 6.)

What risks are there in investing in the fund?

- The main risks are the risks relating to how well our investments might do and how much our costs might be.
- The fund is also exposed to other risks. (See section 8.)

What if I decide to transfer the value of my plan to another pension provider?

It may not be in your best interest to transfer the value of your plan to another pension provider but if you did, we would aim to provide a fair transfer amount. You should consider seeking independent financial advice before deciding whether to transfer the value of your plan. (See section 10.)

For more complete answers see the rest of this booklet. It describes how your plan works, and how we manage the fund that your plan is invested in. It’s not necessary for you to read it now, but we suggest you keep it in a safe place in case you should wish to refer to it in the future.

1. What is this guide for?

This guide tells you how we manage the CIS With-Profits Fund.

It should answer most of the questions you might have. If you have any further questions about the CIS with-profits fund then please contact us – our contact details are shown at the end of this guide. The guide explains the main points about how we currently manage our with-profits fund. It covers the key points from the detailed technical guide called the Principles and Practices of Financial Management (PPFM) document, but is not a replacement for it. Please see the PPFM for a fuller description of how we manage our with-profits fund. If this guide is inconsistent with the PPFM, the PPFM overrides this guide.

You can download all of our guides, including the PPFM documents, from our website, co-operativeinvestments.co.uk or instead you can contact us for a copy.

If we make a significant change to our approach to managing our with-profits fund in the future, we'll write to tell you and also provide you with an updated copy of this guide.

2. What is a with-profits plan?

A with-profits plan is a type of insurance plan that lets you share in the profits and losses of our long-term insurance business, which includes life assurance and pensions business.

Your money, together with other planholders' money, is invested in our with-profits fund. We aim to make profits for the fund by investing in a range of assets (types of investments), which we will then share with with-profits planholders by adding bonuses to their plans. We also use the fund to issue plans which do not share in the profits or losses of the fund, known as non-profit policies.

Your with-profits plan benefits from a special feature known as smoothing. Smoothing is designed to protect with-profits planholders from the direct impact of some of the sudden movements in the stockmarket, but it cannot get rid of the strong link between the underlying market investment returns, and with-profits returns.

For plans such as yours, in deciding what the bonuses should be, we smooth (or average) the investment profits or losses over a number of years. This means that we hold back some of the profit made when investment returns are good, so that we can increase returns if investment returns are lower. We do this so that your investment should provide a steadier return from day to day than if you invest in a fund which fully reflects the rise and fall in stock markets, such as a unit trust.

Smoothing does not protect against prolonged falls in the stock market, because the profits held back from periods of good returns may not provide sufficient protection against investment losses.

Also, unlike simpler stock market investments, your plan contains some guarantees about the amount of money you'll receive. So, for example, if the stock market falls heavily before the retirement date originally selected for your plan, you'll receive at least the guaranteed retirement benefits at that time.

3. What are the guarantees?

This depends on the type of plan you have.

For plans which provide a guaranteed lump sum at retirement

For such plans, we guarantee to provide this lump sum, plus all annual bonuses we may have added at the retirement date originally selected for the plan provided all the contributions are paid on time. You will normally be required to use the fund at retirement to purchase a pension, which is taxable. In some circumstances you may be able to take some or all of your benefits as a lump sum.

For plans which provide a guaranteed basic annuity at retirement

For such plans, we guarantee to pay you a basic annuity and any cash sum allowed for under the terms of the plan, plus all annual bonuses we may have added. We'll do this on the retirement date originally selected for the plan, provided all the contributions are paid on time.

Some types of plan also have other guarantees, which are shown in plan documents.

4. What are the investments in the with-profits fund?

The fund is invested in a wide range of carefully selected assets with the aim of achieving growth. A wide range of assets is held to help reduce the risk to the value of the fund that would arise if most or all of the assets were invested in a single category of assets.

Investments include:

- UK and overseas shares
- government bonds (loans to the government)
- company bonds (loans to companies)
- property (which may also include our business premises)
- our subsidiary companies
- cash deposits
- more complex types of assets that are used to help reduce investment risk such as derivatives.

Our Responsible Shareholding programme is an important part of how we manage the investments in the fund.

We aim to influence the companies we invest in on a range of social, ethical and environmental issues. In particular, and following extensive consultation with our customers, in 2005 we were the first insurance company in the world to launch an ethical engagement policy.

This means that we will engage with companies on a broad and challenging ethical agenda, reflecting the issues that our customers would expect the businesses in which we invest to address. We consider such influence to be for the benefit of the companies in which the fund invests and therefore for the benefit of the fund itself.

In the 1980s and 1990s, when stockmarket investment returns were relatively high, we invested a high proportion of the assets of the fund in shares and property with the aim of achieving above average investment returns. Although shares and property investments are riskier than other types of investments such as bonds and cash deposits, over the longer term they tend to produce higher investment returns (although this is not guaranteed).

As a result of the generally much lower investment performance of the world stock markets since the year 2000 and following a general decline in interest rates, we have moved towards holding a lower proportion of shares and property assets in recent years. Also, since 2004 we have allocated the assets of the fund in different ways to different groups of policies. We do this to take account of a number of factors such as the value and nature of policy guarantees. As a result, different groups of policies might be invested in a different mix of assets.

For plans such as yours, we currently aim to hold between 40% and 60% of the assets obtained by investing your contributions in shares and property, with investments in property normally representing no more than 40% of the total invested in shares and property. We hold the rest of the assets in less risky assets such as bonds, cash deposits and suitable derivatives.

The current mix of assets held for your type of plan is usually shown with your statement and is also available on request.

5. What affects the bonuses that may be added to my plan?

The bonuses are affected by the investment returns achieved by the fund, the level of plan guarantees, the charges that we make and how we smooth payouts.

The bonuses added to your plan represent your share of the profits and losses of our with-profits fund.

The main factor that affects the level of bonuses that we may add to different groups of with-profits plans is the investment profits or losses of the assets held in respect of those plans. Other important factors are:

- the charges we make
- the effect of the guarantees we offer to you and to other planholders.

Other factors, such as the profits (or losses) that result from other types of business in the fund and any difference between the amount we have paid to investors moving out of the fund and the fair share (see section 7) of the total fund value for those plans at the time, may also give rise to profits or losses within the fund. (See section 8.)

The charges which we make allow for, amongst other things:

- our costs of acquiring and administering plans
- tax
- the costs of helping to meet plan guarantees.

In particular, we are currently charging plans taken out before 1 January 2003 an amount in respect of the policy guarantees provided. This charge is allowed for when we set bonuses for such plans by reducing the investment return achieved on the assets backing the plans by 0.5% each year. We regularly monitor the effect of this charge and we may vary it in the future, for example, to reflect changes in the level of working capital. (See section 9.)

We use all the profits of the life assurance and pensions business in the fund for the benefit of the life assurance and pensions planholders only. This includes adding to reserves to strengthen the fund for current and future life assurance and pensions planholders. No profits in respect of the long term business in the fund will be distributed to our shareholders.

Similarly, any losses incurred within the fund are met by the planholders, either through a reduction in the working capital of the fund or through a reduction in their benefits.

6. What types of bonuses may be added to my plan?

There are generally three types of bonuses:

- annual bonuses, which we may add to plans each year and which increase the guaranteed minimum amount that we will pay out
- interim bonuses, which we may add when a claim is made, to cover the period since any annual bonuses were previously added
- final bonuses, which we may add when a claim is made.

For plans which provide a guaranteed lump sum at retirement

Unless any special conditions apply as described in documents provided to planholders, the cash sum available to provide retirement benefits on the retirement date originally selected for the plan is the guaranteed cash sum plus any annual bonuses already added to the plan, plus any interim and final bonuses. You will normally be required to use the fund at retirement to purchase a pension, which is taxable. In some circumstances you may be able to take some or all of your benefits as a lump sum.

For plans which provide a guaranteed basic annuity at retirement

Unless any special conditions apply as described in documents provided to planholders, at the retirement date originally selected for the plan we will pay you the basic annuity (and any cash sum allowed for under the terms of the plan), plus any annual bonuses already added to the plan, plus any interim and final bonuses.

7. How do we decide what the bonuses should be?

Bonuses are set so that payouts represent a fair share of the fund, allowing for smoothing. In setting annual bonuses, we also aim to ensure that the fund is large enough to cover all our liabilities to planholders at any time and has enough working capital.

Annual and interim bonuses

We set annual bonuses on 1 April each year. These bonuses pay out part of the profits of the fund, increasing a plan's guaranteed benefits.

We set annual bonus rates with the aim of holding back part of the plan's share of the profits of the fund to be paid as final bonus. When we set annual bonuses, we take account of factors such as our long-term view of future investment conditions, the level of guarantees applying to plans and the level of working capital in the fund. Annual bonuses increase the level of guarantees applying to plans such as yours. In order to ensure that the fund can afford to pay such guarantees, it may be necessary to limit future annual bonuses or to set annual bonuses to zero.

Interim bonuses are usually set at the same time and at the same rates as annual bonuses.

However, interim bonus rates could be changed more often than annual bonus rates, or set at different rates.

Final bonuses

These represent a fair share of the profits and losses arising over the lifetime of plans which we haven't already distributed as annual or interim bonuses. In setting final bonuses, we also aim to ensure that the fund is large enough to cover all our liabilities to planholders at any time and has enough working capital. We normally set final bonuses on 1 April each year, but we also review final bonus rates at least once more during the year, and may change them if necessary.

There are a number of different factors that contribute to the fund's profits and losses and we have to decide how to share these profits or losses when we set the bonuses. We do this by calculating a 'fair share' of the assets of the fund for typical plans and using the results to fix a scale of final bonuses to apply to all similar plans.

The fair share depends on the profits earned by plans such as yours over the period of the investment. In calculating the fair share, we smooth the investment return earned by averaging the annual return over a period of years.

We also look at the total fair share for different groups of investors and use the results to decide the level of bonuses we pay to each group.

We aim to set final bonuses so that, in total, payouts on the retirement date originally selected on plans are equal to their fair share of the fund. Some final bonuses might be zero, for example when the guaranteed benefits are greater than the fair share.

We may smooth bonus rates further.

We may smooth final bonus rates further by limiting the amount by which payouts for similar plans change from one year to the next. A limit of approximately 20% (for plans providing a basic cash sum at retirement) or 30% (for plans providing a basic annuity at retirement) is applied to year-on-year changes in retirement values for similar plans of the same original term.

The way that smoothing works means that in any one year the amount paid out for each group of plans may be more, or less, than the amount that would be paid if there were no smoothing. Over the longer term we aim to make the average smoothed payout equal to the average payout without smoothing, and for plans such as yours we normally expect that the majority of smoothed payouts would be within 20% of the unsmoothed amounts for each group of plans.

8. What are the risks associated with investing in the fund?

The fund is exposed to a number of risks, for example:

- risks relating to how well our investments might do
- risks relating to how much our costs might be
- the cost of meeting guarantees that apply to most with-profits plans (such as basic sums assured and basic annuities together with any attaching annual bonuses); guaranteed annuity rates that apply to the majority of our with-profits pension business and guarantees that apply when certain with-profits bonds are cashed in
- the risk that we might have to pay compensation to certain planholders
- risks associated with acquiring new business
- risks associated with operating subsidiary companies owned by the fund.

Losses from certain risks such as the cost of paying guaranteed annuity rates and any that arise from our operating subsidiary companies, are currently covered by the working capital of the fund. Such risks do not usually affect what you get back. But if the working capital is not enough to meet some or all of these losses, we may have to reduce bonuses and transfer values. Similarly, if the level of working capital is more than we require, we may share out additional profits. Compensation costs arising from non-profit business will be met by a fund held outside of the CIS with-profits fund and will therefore not be charged to with-profits planholders.

We actively monitor the risks and take preventative action when necessary.

We regularly monitor the level of business risks within the fund as part of our standard risk management procedures, and where we think it is necessary we act to reduce risk exposure.

In particular, we regularly review the amount and type of new business issued in the fund to ensure that, where possible, it adequately reflects the risks taken by the fund and that, in total, it is expected to provide an adequate return on the working capital of the fund. This allows us to plan what volumes and mix of new business are appropriate given the fund's level of working capital. We would continue to issue new business in the fund provided that this was not expected to have a materially adverse effect on the existing business in the fund.

9. What is the working capital of the fund and what is it used for?

The working capital of the fund is the excess of the value of the fund's assets over the amount needed to meet its liabilities.

We use the working capital for a variety of purposes, for example to ensure that the fund is large enough to cover all our liabilities to planholders at any time, to meet our future business plans and to support smoothing of payouts.

In the event that we were to stop accepting new with-profits business we would, if permitted by our regulator, retain enough working capital to enable us to issue non-profit business within the fund and to manage the existing with-profits and non-profit plans. Any remaining capital arising from the profits from the life and pensions business issued by the fund would be distributed to with-profits planholders.

In the event of closure of the fund to all long-term business, we would retain enough working capital within the fund to manage the existing with-profits and non-profit plans. We would also aim to repay any support provided to the fund from outside the fund. Subject to this, we would distribute any remaining profits that had arisen from the life and pensions business in the fund to with-profits planholders.

10. What if I decide to transfer the value of my plan to another pension provider?

It may not be in your best interest to transfer the value of your plan to another pension provider, but if you did we would aim to provide a fair transfer amount. You should consider seeking independent financial advice before deciding whether to transfer the value of your plan.

Your plan is a long-term investment and is designed to be held until its retirement date. If you do decide to transfer the value of your plan, we will adjust your benefits to pay a fair amount taking into account factors such as our costs and investment returns over the time that the plan was held and allowing for smoothing.

Over the longer term, we aim to set transfer values so that the fund does not make a profit or loss from transfer values and, at any time, we normally expect the majority of transfer values to be within 20% of the unsmoothed amounts.

How to contact us

If you have any questions about the CIS With-Profits Fund, you can call us on **0161 274 8702** or alternatively you can write to us at:

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Our website **[co-operativeinvestments.co.uk](https://www.co-operativeinvestments.co.uk)** contains more information, including all of our guides like this one, and the more detailed guides called the Principles and Practices of Financial Management.

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