

# A GUIDE TO THE WITH-PROFITS ANNUITY



**NFU Mutual**  
INSURANCE | PENSIONS | INVESTMENTS

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## HOW WILL THIS GUIDE HELP?

**This guide explains how the NFU Mutual with-profits fund works for the with-profits annuity. The with-profits annuity closed to new business from 1 March 2018. Please keep this guide in a safe place with your other documents, to refer to in the future. It is also available on our website [nfumutual.co.uk](http://nfumutual.co.uk)**

If you would like more information on how we manage our with-profits fund please read our principles and practices of financial management, available at [nfumutual.co.uk](http://nfumutual.co.uk) or from our customer services team on 0800 622 323.

## 1. WITH-PROFITS INVESTMENTS

**A with-profits annuity provides a regular income throughout your lifetime. This income may increase over time if annual bonuses are added.**

The regular income, including any increases previously awarded, is guaranteed not to reduce throughout your lifetime.

## 2. HOW YOUR MONEY IS INVESTED

**Our with-profits fund pools your payment (less any deductions to cover charges) with those of other with-profits policyholders.**

The with-profits fund invests in a wide mix of different types of assets, such as:

- UK and overseas company shares (equities)
- Commercial property
- Government and company bonds (loans to the government or companies)
- Deposits.

The investment strategy of the with-profits fund reflects what our Board of Directors believes is an appropriate balance between the risks of different investments and the potential reward they offer. Our investment managers aim to maximise the returns on our assets, whilst working within the overall investment strategy.

Higher risk assets, such as equities and property, offer the potential for higher returns over the long term than lower risk assets such as deposits

and bonds. Currently we invest a significant proportion of the with-profits fund in equities and property in order to try and increase returns for our with-profits policyholders.

We may also invest some of the assets in non-traditional assets to optimise the investment returns whilst managing risk by investing across a diversified range of investments. These assets are also known as alternative assets. An example of alternative assets is Infrastructure, which comprises investment in physical assets, facilities, and services such as roads, bridges, tunnels, and drainage systems, which are considered essential to the functioning and economic productivity of a society. We only invest in alternative assets if the overall expected return, or the reduction in overall risk, is better than expected on an investment in similar traditional assets. Any such investment will be subject to being able to meet our regulatory capital and liquidity requirements.

The actual mix of assets may change over time, depending on the risks our Board is willing to take and the investment managers' view on potential future returns from different types of asset. (Go to [nfumutual.co.uk](http://nfumutual.co.uk) for information on the current mix).

The amount of risk our Board is willing to take will be influenced by the size of our estate (the excess of our assets over our liabilities) as this offers a cushion against volatility in asset values.

Company assets from outside the with-profits fund may be available both to transfer into the with-profits fund and to support the solvency position of the with-profits fund.

### **3. WHAT ARE BONUSES?**

Your regular income may increase if annual bonuses are added. The level of bonus can go up and down and there is no guarantee that a bonus will be added each year.

We announce the level of bonus once a year.

Once an annual bonus has been added to your income it is guaranteed and your level of income will not reduce throughout your lifetime.

No terminal or final bonus is payable for with-profit annuities.

### **HOW DO WE SET BONUSES?**

The aim when we set annual bonus rates is to increase the regular income in line with the retail price index (a measure of inflation), but this is not guaranteed.

Your bonus will depend primarily on:

1. The investment return we achieve on the assets we hold to back the with-profits annuity.
2. The expenses associated with issuing and administering the business.

At the time you bought a with-profits annuity, we assessed the length of time we expected to make payments to you. This length of time was used to set the starting level of income we pay you. If you live longer or shorter than we expected we will make payments for a different length of time than we expected, but this will not impact on the bonuses we pay.

A share of the total fund is notionally allocated to your policy, based on:

- How much you have invested
- When you made the investment
- How much income we have paid to you
- The fund's performance over time, allowing for taxation
- The costs related to running our business
- The cost of guarantees

- Various profits and losses (see section six **“Managing risks the with-profits fund is exposed to”**).

This is known as the asset share and is used to decide what bonuses to add to each policy.

To work out the actual bonus level we group similar policies together, and determine a fair return for those policies. Different groups of policies may receive different levels of bonus.

We compare the asset shares for the groups of similar policies to the amount we expect to pay out for those policies in the future. After considering the difference between these two values we may set an annual bonus rate that is higher or lower than the increase in the retail price index.

#### 4. WHAT IS SMOOTHING?

**Investment values can be volatile so the value of the with-profits fund and your asset share can fluctuate quite a lot. This is because we invest a significant proportion of the with-profits fund in higher risk assets (such as equities and property).**

Instead of simply sharing out what the fund makes or loses each year, we even out some of

the fluctuations. This is known as smoothing. In practice we keep some of the growth back when investment conditions have been good, so that we can add it back when investment conditions are poor.

## 5. CHARGES AND EXPENSES?

**The with-profits fund incurs operating expenses in providing advice to customers, selling, underwriting and setting up new policies and in servicing existing policies. We aim to share these costs fairly among different types of policy. The expenses are used to calculate the asset shares and therefore impact on the amount we pay out.**

Advice was charged for separately on policies commencing on or after 31 December 2012 and therefore the expenses applied to the asset shares for these policies do not include any costs arising from providing advice.

## 6. MANAGING RISKS THE WITH-PROFITS FUND IS EXPOSED TO

**The performance of the with-profits fund is affected by risks that may increase or reduce the value of the with-profits fund. These risks may change over time.**

Currently the major risks facing the with-profits fund as a whole are:

- Potential losses on investments
- The cost of guarantees made on some with-profits policies being greater than expected
- Losses on our non-profit business (such as claims being more than expected)
- Expenses being higher than planned.

Our Board of Directors is responsible for actively managing any risks to the with-profits fund. They approve all significant risks after considering factors including:

- Whether the risk is worth taking
- The size of our estate (see the next section)
- The size of the potential impact on our assets and our ability to pay policyholders
- Our exposure to other risks.

The estate will normally absorb any profits or losses that arise from the risks the with-profits fund runs. However, as a mutual organisation, with no shareholders, any losses (or profits) may ultimately be borne by (or credited to) the with-profits policyholders.

## **7. THE ESTATE AND HOW WE USE IT TO MANAGE YOUR INVESTMENT**

The estate is the term we use to describe the excess of our assets over liabilities. Or in other words, what we own over what we owe. It provides us with the money (working capital) to operate our business. We carefully manage the estate so that it is big enough to:

- Provide enough money, so that we can continue to issue new business
- Cover the costs of smoothing
- Meet the costs of certain policy guarantees
- Meet any excess of expenses over charges to with-profits policies
- Provide investment freedom so we can invest in riskier assets which have potential for higher investment returns (such as equities and property)
- Cover one-off exceptional expenses.

## **8. VOLUMES OF NEW BUSINESS**

The financial soundness of the with-profits fund can be adversely affected if the company issues too many new policies. Our estate is

large enough such that currently we do not set any limits on the amount of with-profits business that we sell in any year. We regularly monitor the levels of new business.

## **TO FIND OUT MORE**

If you would like to know more about our with-profits annuities, you can:

- Contact your NFU Mutual Financial Adviser
- Call our customer services team on 0800 622 323
- Read the principles and practices of financial management (PPFM) at [nfumutual.co.uk](http://nfumutual.co.uk). The PPFM overrides the contents of this guide if there are any differences between the two documents.

**NFU Mutual Financial Advisers advise on NFU Mutual products and selected products from specialist providers. Financial advice is provided by NFU Mutual Select Investments Limited. They will explain the advice services and charges.**



**NFU Mutual**

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