

# Phoenix Life Limited

## Scottish Mutual With-Profits Fund

Report to with-profits policyholders  
1 January 2024 to 31 December 2024



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# 1 Introduction and summary

This report is about the Phoenix Life Limited Scottish Mutual With-Profits Fund (the fund). It considers how we manage the fund in line with its Principles and Practices of Financial Management (PPFM). The PPFM protects the interests of with-profits policyholders. The report is produced every year and comes from the Phoenix Life Limited Board.

In this report, we explain how we have met the terms of the PPFM during 2024. We suggest that you read this report alongside the PPFM.



We publish our PPFM on our website [phoenixlife.co.uk/PPFM](https://phoenixlife.co.uk/PPFM) or you can ask us for a copy by calling us on the telephone number shown on your annual policy statement.

The Board of Phoenix Life Limited can make choices, or use discretion in a number of areas, like setting bonuses, policy payouts and surrender values. The Board will also address any competing or conflicting rights of policyholders and shareholders. This report also sets out how Phoenix Life Limited has used its discretion in these areas.

## 2 Roles and responsibilities

### 2.1 Governance

Each year, the Board reviews whether its with-profits business has been operated in line with its PPFM. We then report to our with-profits policyholders on compliance with the PPFM and on the exercise of discretion. This is the report for the Scottish Mutual With-Profits Fund.

During the year, senior managers prepare proposals for the decisions we make for how we operate the fund. These proposals are discussed with the With-Profits Actuary and the With-Profits Committee. See below for more details about their roles.

The Board decides on the actions to be taken, after taking into account the views expressed by the With-Profits Actuary and the With-Profits Committee. In some cases, the Board delegates this decision-making power to appropriate committees or persons.

### 2.2 Role of the With-Profits Actuary

The With-Profits Actuary provides advice whenever we are preparing to make key decisions that affect with-profits business. The advice takes account of relevant Principles and Practices as set out in the Phoenix Life PPFM and of the need to ensure the fair treatment of all with-profits policyholders. The Board must consider the With-Profits Actuary's advice.

## 2.3 Role of the With-Profits Committee

The With-Profits Committee works solely in the interests of with-profits policyholders. It's independent of Phoenix Life Limited. It gives us advice on the fair treatment of with-profits policyholders, and raises any issues it feels we need to consider.

There's more information on our website about what the With-Profits Committee does and who its members are, see Section 3.

# 3 Management of the Scottish Mutual With-Profits Fund and the exercise of discretion

## 3.1 Opinion of the Board of Phoenix Life Limited

The Board has reviewed the operation of our with-profits business in the fund. The Board's opinion is that throughout 2024 this business was managed, in all material aspects, in accordance with the Phoenix Life PPFM.

The Board believes that the decisions made in managing the Scottish Mutual With-Profits Fund were:

- appropriate,
- took full account of policyholders' reasonable expectations,
- treated with-profits policyholders fairly, and
- maintained fairness between policyholders and shareholders.

The Scottish Mutual With-Profits Fund is one of many with-profits funds in Phoenix Life Limited.

We manage each Phoenix Life with-profits fund in line with our Phoenix Life PPFM. There are guiding principles and practices which apply to all Phoenix Life with-profits funds, covering:

- Legal requirements. Phoenix Life Limited and its with-profits funds are managed in line with Phoenix Life Limited's understanding of all legal and regulatory requirements.
- Basic fund concepts. Each with-profits fund is operated as a stand-alone fund.
- Fair treatment. Phoenix Life Limited aims to treat its with-profits policyholders fairly.

In the Board's opinion, the guiding principles were applied in line with the PPFM.

The Board's opinion takes account of advice from our With-Profits Actuary and With-Profits Committee on all key aspects of the operation of our with-profits business during the period. This advice takes into account the competing or conflicting rights, interests or expectations of groups of with-profits policyholders and the shareholders.

### 3.2 With-Profits Actuary's statement

Each year we provide a statement from the With-Profits Actuary alongside our report on the operation of our with-profits business in the fund (this report). When producing the statement the With-Profits Actuary reviews our report as well as the discretion exercised during the period it covers.



The With-Profits Actuary's report is at the end of this report.

### 3.3 With-Profits Committee's opinion

The With-Profits Committee's opinion is that, during 2024:

- the PPFM has been complied with in all material aspects; and
- discretion was exercised in an appropriate manner.

In reaching this conclusion it has relied on the information that has been provided by the Board.

### 3.4 Where to get more information about with-profits



There's more information about with-profits on our website [phoenixlife.co.uk/withprofits](https://phoenixlife.co.uk/withprofits).

You'll also find the information on our With-Profits Committee on our website [phoenixlife.co.uk/WPC](https://phoenixlife.co.uk/WPC).

## 4 With-profits payout values

We aim to pay all policyholders their fair share of the profits that the fund has earned over the time they have held their policy. To decide what is a fair share we look at the underlying value (sometimes called the asset share) of representative sample policies. We aim to pay 100% of the underlying policy value as well as any uplift described under Estate management.

Our target range for policy payouts is 80% to 120% of the fair value of policies. The only times we won't do this are:

- where the payment of a guaranteed benefit results in a higher amount, and
- where the amount cannot reasonably be compared with a calculated underlying policy value.

We believe this range is appropriate to take into account market movement in the assets where the fund is invested.

For policies where the guaranteed benefits are bigger than the underlying policy value we will be paying out more than 100% of the underlying policy value at the guarantee date. It's unlikely any further bonuses will be added to these policies.

Sometimes we may pay out less than the underlying policy value for individual policies. One reason for this is because we calculate bonuses using an average approach for groups of policies.

Where a policy is surrendered close to maturity and the asset share is less than the guaranteed amount, the payout may be above the target range.

The methods we used to set with-profits payouts were consistent with the Phoenix Life PPFM throughout 2024.

We aim to maintain high administrative standards. Mistakes can happen from time to time in the operation of with-profits and other types of business. When we discover any mistakes, we correct them. If appropriate, we make additional payments to policyholders whose payouts have been negatively affected by any mistakes. We will also put in place extra controls to reduce the risk of future mistakes.

## 4.1 Annual bonus rates

For traditional with-profits policies we were not able to add an annual bonus for 2024.

For group cash policies and also for group deferred annuity/pension policies on pre 2015 premium rates we have not been able to add any annual bonus for 2025.

We have added an annual bonus rate of 3.0% of benefits applied to purchase further benefits in 2025 for group deferred annuity/pension policies on 2015 premium rates.

For with-profits annuity policies, a 6.50% annual bonus was added in respect of the policy anniversary between 6 April 2024 and 5 April 2025.

For unitised business, annual bonus applies from 1 April for life and pension series and from 1 March for International series. Life series I&II and Pension series I&II have a guaranteed amount of annual bonus and these have been added as usual. The 2024 annual bonus rates for Pension series VII remains at 7.50%, there were increases to annual bonuses for all other bonus series.

## 4.2 Final bonus rates

Final bonuses are normally reviewed twice a year with new rates applying from 1 January and 1 July. We do this to keep the majority of payouts within the target range for the representative sample policies.

We changed final bonus rates on 1 January 2024, but at the 1 July 2024 review we kept them unchanged. We also changed final bonus rates to apply from 1 January 2025.

For some policies where the value of guaranteed benefits is already above the underlying policy value, we did not add any final bonus.

## 4.3 Smoothing

During 2024 when we changed final bonus rates, we compared the resulting maturity or retirement payout with the payouts if bonus rates were not changed and generally limited the changes in maturity or retirement payouts to not more than 7.5% at each six monthly review. Similarly we generally limited changes in surrender values to not more than 10% at each six monthly review. These limits are applied before making any changes to payouts to allow for estate distribution (the uplift described under Estate management). For some policies where payout ratios were significantly out of line with 100% of the underlying policy value, we allowed larger differences.

For group deferred cash and group pension policies we smooth the actual investment return when reviewing annual bonuses. For with-profits annuities we smooth the annual bonus rates.

Smoothing payouts like this is intended to avoid excessive differences in payouts on similar policies over short periods of time. Judgement is used in determining the degree of smoothing to apply when setting final bonus rates and market value reductions. The Board is satisfied that the movements in final bonuses and maturity payouts in 2024 were necessary:

- to keep payouts reasonably in line with the underlying value of policies,
- to make sure there's fairness between groups of policyholders, and
- to protect the financial position of the fund.

#### 4.4 Surrender values

During 2024, we set surrender values with the aim of paying 100% of the underlying value of representative sample policies, as well as any estate distribution (the uplift described under Estate management). Surrender values include an allowance for final bonus and these final bonus allowances were revised from 1 January 2024 and 1 January 2025 in line with changes in final bonus rates. For 1 July 2024 the final bonus allowances were unchanged.

For unitised with-profits business, we based surrender values on the value of the with-profits units and any final bonus or market value reduction (MVR) that might apply. If the underlying policy value is less than the value of the with-profits units, then no final bonus is added and we apply an MVR. The MVR reduces the value of the with-profits units, so that the surrender value reflects the underlying policy value. We apply an MVR to maintain fairness between policyholders coming out of the fund and those staying in it.

## 5 Investment strategy

We review our investment strategy regularly, taking account of a variety of considerations, including our approach to responsible investment. Responsible investing means considering environmental, social and governance (ESG) risks and opportunities when we decide where to invest money and work with asset management partners and companies. You can find out more about our approach to responsible investing in our [Fund Climate Report](#).

During 2024, we invested the fund in a mix of assets such as company shares (equities), property, fixed interest stocks (bonds or loans issued by governments or companies) and cash deposits.

We had the following asset mix for UK traditional with-profits policies on 31 December 2024.

Investment type	Traditional life policies	Traditional pension policies	Traditional with-profits annuities
Company shares (equities)	36%	22%	22%
Property	8%	4%	4%
Other growth assets	6%	5%	5%
<b>Total growth assets</b>	<b>50%</b>	<b>31%</b>	<b>31%</b>
Fixed interest stocks - issued by the UK government (gilts)	22%	33%	33%
Fixed interest stocks - other (including corporate bonds)	25%	34%	34%
Cash	3%	2%	2%
<b>Total fixed interest and cash assets</b>	<b>50%</b>	<b>69%</b>	<b>69%</b>
<b>Total assets</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

For unitised with-profits policies, the asset mix on 31 December 2024 was:

Investment type	Unitised with-profits policy with guaranteed minimum bonus rate	Unitised with-profits policy without guaranteed minimum bonus rate
Company shares (equities)	22%	44%
Property	4%	9%
Other growth assets	5%	6%
<b>Total growth assets</b>	<b>31%</b>	<b>59%</b>
Fixed interest stocks - issued by the UK government (gilts)	33%	18%
Fixed interest stocks - other (including corporate bonds)	34%	20%
Cash	2%	3%
<b>Total fixed interest and cash assets</b>	<b>69%</b>	<b>41%</b>
<b>Total assets</b>	<b>100%</b>	<b>100%</b>

The above asset mix applies to the main with-profits business. For overseas life assurance business, sterling, euro and US dollar denominated policies different asset mixes apply.

The fund also contains investments which back the cost of guarantees, the cost of smoothing and the estate.

## 6 Business risks

There were no significant changes to the risks the fund was exposed to during the year.

In the opinion of the Board, appropriate measures were taken to limit the with-profits business exposure to risk to amounts which are fair.

## 7 Expenses and charges

The way costs and charges were set was unchanged during the year and in line with the schemes that applied during the year. The Board is satisfied that the allocation of costs and the charges taken were in line with the PPFM.

We allocated a share of the provisional amount of tax to the fund, in line with the PPFM. We calculated this by treating the fund as though it was our only fund. When we've agreed our tax charge with His Majesty's Revenue & Customs (HMRC), we will review the amount of tax we've allocated to the fund to make sure it's fair.

We made an appropriate allocation of tax to the underlying value of with-profits policies in the fund.

During 2024, the total expenses charged to the fund were lower than those permitted by the 2009 Scheme and the subsequent 2024 Scheme which replaced it.

The policies in the fund provide a number of guarantees. We do not currently make any charges for the cost of guarantees although such charges have been made in the past. The cost of guarantees is currently borne by the estate.

## 8 Estate management

There is more money in the fund than we expect to pay out in claims, unless we uplift bonuses. We refer to this surplus money as the estate.

During 2024 we used some of this surplus money to increase the final bonuses by including an additional amount which we call an uplift.

The table below shows the percentage uplift applicable during 2024 and also from January 2025.

Date applicable	Policy values increased by up to
01/01/2025 – 30/06/2025	56.7%
01/07/2024 – 31/12/2024	45.0%
01/01/2024 – 30/06/2024	45.0%

The amount of surplus money in the fund continually changes and is affected by a range of factors. If your policy doesn't mature for several years it's likely the uplift percentage shown on any projections you receive will change many times before the maturity date of your policy. The actual payout value you receive will reflect the uplift applying at your payout date.

## 9 New business

The fund is no longer actively seeking new business. This means we look after our existing policyholders and do not seek new customers.

## 10 Equity between the fund and shareholders

The Board considers any competing or conflicting rights between policyholders and shareholders. It seeks the advice of the With-Profits Actuary and With-Profits Committee when balancing competing or conflicting rights.

Our shareholders received a share of the distributed profits. For traditional with-profits policies sold after the Scottish Mutual Assurance Society demutualised on 1 January 1992, this was equal to one ninth of the value of bonuses we distributed to with-profits policyholders. For unitised with-profits policies, the shareholders receive the annual management charges. The shareholders' share of distributed profits for 2024 was £0.8m. The policyholders' share of distributed profits for 2024 was £30.5m.

The Board is satisfied that the shareholders' share of the distributed profits for 2024 is in line with the PPFM.

Where there are material transactions that involve both shareholder and with-profits policyholder interests, they're considered by the governance committees including the With-Profits Committee before they're carried out.

This will include any changes to commercial arrangements with Phoenix Group Management Services (PGMS). It also includes the terms of any transactions between the with-profits fund and the Non-Profit Fund. PGMS is a company within the Phoenix group of companies (Phoenix Group), providing management and administration services to the with-profits fund.

# With-Profits Actuary Report to policyholders in the Scottish Mutual With-Profits Fund for 1 January 2024 to 31 December 2024

I advise Phoenix Life Limited (PLL) when it exercises its discretion in managing the with-profits business in the Scottish Mutual With-Profits Fund, for example when deciding on bonus rates. With-Profits Actuaries provide public reports like this one annually to with-profits policyholders.

A feature of with-profits funds is that risks and rewards are shared across policyholders. The shareholders also bear the risk that the assets in a fund are not enough to meet its commitments to policyholders. This sharing of risk and reward means that the rights, interests, and expectations of different groups can conflict with each other. The main groups where this may arise are:

- Big and small policies
- Policyholders and shareholders
- Policyholders leaving soon and those staying in the fund longer
- Policies with high and low levels of guarantee

The PPFM sets out how the company makes choices or uses its discretion to manage these competing interests.

The following table provides a summary of ways that these conflicts are managed:

Conflicting Groups	Actions taken
Big and small policies	<ul style="list-style-type: none"> <li>• Setting the same bonus rates for policies of the same term, regardless of size.</li> </ul>
Policyholders and shareholders	<ul style="list-style-type: none"> <li>• Ensuring policyholders receive at least 90% of the surplus that emerges in a fund.</li> </ul>
Policyholders leaving soon and those staying in the fund	<ul style="list-style-type: none"> <li>• Ensuring that the expenses charged to the fund do not increase in an unfair way for those staying in the fund longer as the fund shrinks.</li> <li>• Distributing the estate at a sustainable pace that prevents it from building up unnecessarily.</li> <li>• Monitoring the application of smoothing so that profits/losses do not become too large</li> </ul>
Policies with high and low levels of guarantee	<ul style="list-style-type: none"> <li>• Setting separate investment strategies for groups of policies with materially different guarantees</li> <li>• Managing the build-up of guarantees to maintain the ability to invest for growth</li> <li>• Making appropriate charges for guarantees</li> </ul>

From my day-to-day involvement in the management of the fund and the information and explanations provided to me more generally by PLL, I am content that PLL the Board has fairly exercised its discretion in managing the Scottish Mutual With-Profits Fund, taking my advice and the advice of the With Profits Committee into account. It's my opinion that the Board took with-profits policyholders' rights, interests and expectations into account in a reasonable and proportionate manner.

In making this statement I have taken account of relevant rules issued by the Financial Conduct Authority and followed applicable professional guidance and standards.

**Corinne Perkins**

**Fellow of the Institute & Faculty of Actuaries**

**With-Profits Actuary**

**June 2025**

Phoenix Life Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Phoenix Life Limited is registered in England No. 1016269  
Registered Office: 1 Wythall Green Way, Wythall, Birmingham B47 6WG  
[www.phoenixlife.co.uk](http://www.phoenixlife.co.uk)