

How do bonuses work on with-profits policies?

We've tried to explain how bonuses work in a simple way in the questions and answers that follow.

What type of bonuses are there?

For most with-profits policies we may add two types of bonus. These are an annual bonus which may be added each year to the value of the policy and a final bonus which may be added when the policy ends.

For some policies we may add just an annual bonus but not a final one. For other policies the bonuses might be shown in the form of what's called a declared return. This bonus comes from how the fund that your policy is invested in has performed. Another way a bonus might be applied is by adding a rate of interest to the policy value.

It's important to understand that bonuses might not apply to every type of with-profits policy. Your annual statement will explain what type of with-profits policy you have and how any bonus might be applied to it. You can also find information on your policy in the with-profits section of this website. If you have any questions about how your bonuses are applied, please contact us using the telephone number on your annual statement.

How does an annual bonus work?

We aim to add an annual bonus to most with-profits policies each year. An annual bonus will depend on the performance of the with-profits fund so we can't guarantee that a bonus will be added every year. The bonus rates for the annual bonus will also vary as it'll depend on the type of policy you hold and the fund it's invested in.

When we add an annual bonus, it increases the guaranteed benefit for the policy. This means the amount we guarantee to pay when your policy matures or if you die will increase by the amount of the annual bonuses we've added. Your annual statement will show any annual bonuses that have been added to your policy.

When is an annual bonus given?

When deciding if we can add an annual bonus we look at the current financial position of the with-profits fund your policy is invested in and estimate how we expect this to change in the future. We also compare the guaranteed benefits that are listed below with the underlying value of policies in the fund.

The underlying value of policies means the premiums that have been paid in and the investment performance of the with-profits fund. We consider these values alongside the

expenses we have to manage the fund, the charges that need to be paid and any tax that's due. We also consider what expected values for the future might be.

For life policies, the guaranteed benefits may include:

- a sum assured – this is the minimum we guarantee to pay out on the policy;
- any annual bonuses added; or
- with-profits units in the fund including any annual bonuses already added.

For pension policies, the guaranteed benefits may include:

- a minimum cash sum, or retirement income called an annuity;
- any annual bonuses added; or
- with-profits units in the fund including any annual bonuses already added.

Some policies may also have a guaranteed minimum death benefit.

We will only add annual bonuses if we are confident that the underlying value of policies will be enough to pay these bonuses when policies mature. This means we may not add annual bonuses for some with-profits funds and policy types even if recent investment returns have been positive.

How does a final bonus work?

We may pay a final bonus when your policy matures or if you die during the time the policy is held. The amount that's added will reflect a fair share of the profits during the lifetime of the policy.

Final bonuses are never guaranteed. The final bonus you receive may not be the same amount we have shown on annual statements, in any estimated maturity value letter or a projection we may have sent to you.

We normally review final bonuses at least once a year, but we may change them at any time. When the time comes, we will tell you the amount of final bonus we have added to your payout. There are some with-profits funds and policy types where we are not currently adding a final bonus. Not all types of policy get a final bonus.

When is a final bonus given?

When deciding if we'll add a final bonus, we compare the underlying values of maturing policies with the value of their guaranteed benefits. You can see explanations of what guaranteed benefits and underlying value of policies are on the previous page.

If the underlying value of the policies is more than the value of their guaranteed benefits, we will add a final bonus. If the opposite is true and the value of the guaranteed benefits is more than the underlying value of the policies, we will not add a final bonus.