



# Consumer friendly principle and practices of financial management (CFPPFM)

Your guide to how we manage our  
OneFamily (ELL) With Profits Fund

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## Aim of this Guide

This guide tells you how we manage the OneFamily (ELL) With Profits Fund for plans previously managed by Ecclesiastical Life Limited.

## Why this guide is important

Please read this guide. It gives important information about how plans work and what planholders can expect back from them. You may wish to read it in conjunction with the following:

- the key features document, which gives essential information such as the level of risk involved in taking out the plan
- your illustration, which shows what you might get back in the future.

If you have lost your copy of either of these documents, please get in touch with us on **0800 298 3542<sup>+</sup>** or by email at **mail@onefamily.com**

If you decide not to read this guide now, please keep it in a safe place with your other plan documents.

## 1. Introduction

We manage two With Profits Funds. These are managed as separate Funds, with a separate Principles and Practices of Financial Management (PPFM) for each one.

### **Important note:**

This guide applies only to policies in the OneFamily (ELL) With Profits Fund previously managed by Ecclesiastical Life Limited. A separate guide is available for other policies.

For the remainder of this document the OneFamily (ELL) With Profits Fund relating to plans purchased from and previously managed by Ecclesiastical Life Limited will be referred to as 'the Fund' or the 'With Profits Fund' and the PPFM used to manage this as 'the PPFM'.

From 30 November 2010 the With Profits Fund was closed to new business and a run off plan was produced describing how the inherited estate would be distributed to existing policyholders. We tell you more about this in section 9. Sections 2, 3 and 4 of this guide describe how we determine payouts and bonuses before allowing for any distribution of the inherited estate.

### **What is the PPFM?**

The PPFM is a document describing how we run the With Profits Fund. It is split into Principles and Practices:

- principles are high-level statements that describe our long-term approach to managing the Fund
- practices are more specific statements, which flow from the Principles. These describe how we manage the Fund.

We don't expect to change the Principles often, but will do so if we think they could lead to planholders being treated unfairly, or if they could stop us managing the Fund properly, or to provide greater clarity. We must tell you at least three months in advance if changes are to be made to the Principles.

Practices change more often because we need to respond to how the economy is doing, new rules and regulations, and new methods in the life insurance industry. We will publish any changes to our Practices on our website and tell you about them in your next bonus notice.

The PPFM is a long and detailed document. This guide sets out only its key points. If there is any conflict between this document and the PPFM then the PPFM takes precedence.

## 2. How we decide how much you will receive

Under with profits plans, in return for your premiums, we pay a guaranteed amount which may be:

- one lump sum payment (called a sum assured)
- a series of payments (called an annuity or pension).

We aim to increase the guaranteed amount by adding bonuses.

Guaranteed amounts from your plan will be paid on the set event or set date stated in your plan policy. The set event may be the end of the plan's term, as agreed when you took it out, called the maturity date. The set date may be when you retire. If you leave your plan early, we may reduce the amount we pay out.

Different amounts may be paid out on other events, and your plan document will tell you what these amounts are.

## 3. How we decide bonuses

We announce bonuses at least once a year for most with profits plans.

When deciding whether or not we should pay bonuses, we look at the level of guaranteed benefits on plans compared to what we feel is a fair payout. As a guide to what is fair, we use what is known as the asset share of plans. Asset share is a calculation that determines how much each group of plans has contributed to the Fund and how much profit or loss, on average, that group has made.

We calculate asset share by:

- looking at the premiums the group has paid to the Fund
- making deductions to cover our expenses, tax and the costs of providing benefits to that group of plans
- adding the investment returns made by the group.

We also look at the current financial position of the Fund and forecast how we expect this to change in the future. This may result in us adjusting the calculation of asset shares to allow for:

- a contribution to/from the estate. We explain more about this in section 9
- a share in the overall profits and losses of the Fund.

If the guaranteed benefits for the group are higher than their asset share, bonuses may be small or nothing.

We may pay different bonuses for different groups of plans to reflect the nature of the plans.

### Regular bonuses

Regular bonuses are set by taking into account what the Fund can afford to pay now and in the future. This approach enables us to make sure we can meet all guaranteed amounts when they have to be paid.

We aim to not vary too much the amount of regular bonuses from year to year.

Once a regular bonus has been added, it increases the guaranteed amount payable on a plan so that it can't be taken away.

### Interim bonuses

Interim bonuses may be paid between regular bonuses.

If you make a claim between dates on which we've paid a regular bonus, we may add an interim bonus too. This makes up for some, or all, of the expected regular bonus earned since the last one.

### Final bonuses

Final bonuses may be paid in addition to guaranteed amounts when the plan ends. They are paid where appropriate so that you get a fair total payout that allows for smoothing. We tell you more about smoothing in section 5.

In recent years, we have not paid a final bonus on many plans due to the large stock market falls in 2001-02 and the general fall in interest rates.

## 4. How we decide how much you get if you leave your plan early

If you leave your plan early (surrender your plan), we work out how much to pay you with the aim of being fair to both planholders leaving the Fund as well as those staying.

The amounts paid on surrender are set so that you get a fair payout that allows for smoothing. For some plans we may do this by applying a market value reduction, which will reduce the value of your plan, so that the surrender payouts reflect the asset shares on groups of policies that are surrendering, and leave a fair share for remaining policyholders.

The size of a market value reduction will change from time to time. Market value reductions are not applied to payouts on maturity or death.

## 5. How we cushion your money from the ups and downs of the stockmarket

Historically, shares and property have produced higher returns than government bonds and cash over long periods such as 20 years. The returns have also been more volatile. One year an investment may do very well, the next it could fall in value. Our aim is to cushion investors against heavy falls. Instead of adding big bonuses in good years and small or no bonuses in bad years, we aim to smooth out the returns. To do this we hold back some of the profit earned during good years and then release it as bonuses when returns have been poorer or seem likely to get poorer. This 'smoothing' is one of the main ways in which the Fund aims to be fair to all investors.

In adverse or unusual circumstances, we may apply a lesser degree of smoothing than normal to protect the Fund's financial strength.

We may smooth regular-premium plans that continue until maturity more than we smooth surrendered plans and single premium plans.

## 6. How we invest the With Profits Fund

We decide what to invest in and how much to invest by looking at:

- the Fund's current and future financial position and the need to make sure there's enough money in it
- the level of guarantees in the Fund
- planholders' investment expectations.

The Fund invests in a mix of assets which can include equities (shares), property, fixed interest type assets (such as government bonds and corporate bonds), and cash. We may also sometimes use derivatives (rights to buy or sell assets at a particular price at a particular time).

We control the risks that come with investing by setting limits on the amounts we invest in any one asset and our exposure to any third party.

We review our investment strategy at least annually and more often if market conditions change quickly.

## 7. How we manage exposure to risk

The Fund is exposed to a number of risks. We monitor the risks on a regular basis and assess them against the potential rewards for the Fund. If a risk seems to be too great, then we aim to reduce its potential impact. For example, our biggest risks come from the need to pay all guarantees when they are due and the possibility of falls in share or property values. If these risks become too great, then we would change our investment strategy.

We normally allocate the cost of risks to the Fund as a whole. However, if a risk arises which is related closely to a particular plan type, we may apply some or all of the cost of this risk to the plans in question.

## 8. How we decide charges and expenses

There is a predetermined expense arrangement relating to the Fund.

The expenses paid by the Fund are based on agreed formulae primarily involving the numbers of policies in the Fund, the levels of new business in the Fund and the value of the total assets of the Fund and not the actual costs we incur in servicing the business in the Fund.

## 9. What the estate is and how we use it

The inherited estate is a pot of money that provides working capital for the Fund and supports its operation. Now that the Fund is closed to new business the inherited estate will be distributed in a fair manner to existing with profits policyholders by increasing claims values. For all with profits policies (with the exception of Deposit Administration policies) the inherited estate will be distributed gradually as existing policies become claims. For Deposit Administration policies the inherited estate will be distributed on an annual basis via a special bonus.

The amount by which claims values will be increased, and the size of the special bonus to Deposit Administration policies, will be reviewed on at least an annual basis. This amount may change from year to year depending on the overall financial strength of the Fund.

## 10. How to find out more

You can get a more detailed technical description of how we manage the With Profits Fund in the PPFM. You or your adviser can ask us for a copy (our details are below), or you can read it on our website, [onefamily.com/withprofits](http://onefamily.com/withprofits)

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