

With-Profits bonus review Adviser briefing

28 July 2022

On 28 July 2022, we announced that we had reviewed our Irish with-profits bonus rates.

- Some customers will have seen their policy values decrease since the last bonus review on 1 February 2022
- Regular bonus rates were not part of this review and are therefore unchanged from the rates we announced in February, see section 1 below
- Many customers will continue to benefit from smoothing and the guarantees that apply under their policies

1. Regular bonus rates and guarantees

Regular bonus rates increase With-Profits guarantees.

Pension With Profits Fund/Pension With Profits 2 Fund	Guaranteed benefits continue to grow at a rate of	
Unitised With-Profits pensions that have a 4% pa unit price growth guarantee	4% pa	
Other unitised funds with guarantees	From 1 February 2022 (until further notice) guaranteed benefits will grow at a rate of	
With Profits Bond	2.50% pa	
MoneyWorks Plan (net)	0.50% pa	
MoneyWorks Plan (gross) and SSIA	0.75% pa	
Retirement With Profits Fund	0.75% pa	
Conventional plans	Bonus added to guaranteed benefits on 1 February 2022	
Life plans	0.25% on sum assured	0.35% on attaching bonuses
Pension plans	0.25% on sum assured	0.25% on attaching bonuses

2. How With-Profits policies will be affected by this review

Standard Life reviews bonus rates and payouts on With-Profits policies on a regular basis. This is to ensure that With-Profits customers continue to receive a fair return on their policies.

At this review we have reset final bonus rates and calculation factors that we use to calculate payout values for many types of With-Profits policies.

Some policy values will have decreased overnight following this review.

The impact that an individual customer will see from their annual statements will depend on the individual policy (premium frequency, premium size, etc.) and the timing of the annual statements each year.

Many customers continue to benefit from smoothing and guarantees that apply to their retirement and maturity payout values.

3. Final bonuses and Market Value Adjustments (MVAs)

A policy's With-Profits payout value determines the amount of final bonus, if any, as follows:

- For conventional policies, such as savings endowments, the final bonus at maturity is the difference between the sum assured plus regular bonuses and the payout value
- For unitised policies, the final bonus is the difference between the unit value and the payout value

Sometimes there will be no final bonus.

Market Value Adjustment (MVA) is a term often used when the payout for any policy is lower than its unit value.

The unit value of a With-Profits investment takes account of the bonuses that have been added to the guaranteed amount since that investment started but its fair payout takes account of actual investment returns on the assets in the with-profits fund. There is an MVA because the unit value has grown by more than the fair payout since the With-Profits investment started. (The unit value is the number of units multiplied by the unreduced unit price.)

Note: the payout for a claim will be no lower than any guaranteed amount payable in accordance with the terms and conditions of the policy for that type of claim. In these circumstances there would be no MVA.

At any time, depending on the history of payments into and out of With-Profits, an MVA may apply to some policies but we may be paying final bonuses on other policies.

Currently many With-Profits policies still have MVAs. However, final bonuses are being paid for other policies.

4. Sample payout values

Pensions

The figures in the table below are based on an individual unitised With-Profits pension policy taken out by a man retiring at age 65, who has paid €125 per month since 6 August 1997.

Past performance is not a reliable guide to future performance.

Policy term	Retirement value at 1 February 2022	Retirement value at 28 July 2022	Increase	Annualised return since inception
25 year	€59,106.85	€60,243.41	1.92%	1.95%

Savings endowments

The figures in the table below are based on an individual conventional With-Profits endowment assurance policy taken out by a man aged 29 who has paid €60 per month since 1 August 1997. Past performance is not a reliable guide to future performance.

Policy term	Surrender value at 1 February 2022	Maturity value at 28 July 2022	Increase	Annualised return since inception
25 year	€24,560	€24,546	-0.06%	2.38%

5. Standard Life's With-Profits investment strategy

Standard Life's investment strategy for our With-Profits business aims to provide good potential for growth, while maintaining an appropriate level of financial strength and meeting all contractual obligations to policyholders.

With-Profits business with the most valuable guarantees has a lower equity backing ratio and the majority of the asset mix is fixed interest holdings. With-Profits business that has no investment guarantees has a much higher equity backing ratio.

There are currently three different asset mixes for Irish With-Profits business in Standard Life's Heritage With-Profits Fund, reflecting the extent of any guarantees.

Asset mixes for different categories of With-Profits business at 30 June 2022			
Category	Fund	Equity	Fixed Interest and Cash**
1	Pension With Profits Fund* Pension With Profits 2 Fund*	29.5%	70.5%
2	Life With Profits Fund MoneyWorks With Profits Fund Retirement With Profits Fund Conventional With Profits	60.1%	39.9%
3	Standard Life With Profits Fund (Also known as the Pension With Profits Fund A) With Profits Bond Fund Pension With Profits Fund D	75.4%	24.6%

* 4% per annum minimum unit price growth rate; guarantees only apply in certain circumstances, for example on annuity purchase at the pension age selected when the policy started or on death

** Fixed interest and money market instruments (including cash)

6. Investment markets quarterly performance to 30 June 2022

Global equities suffered a torrid quarter, with US, European and Asian stock markets (apart from China) selling off heavily and global stock markets now in a bear market in US dollar terms in 2022. Central banks are reacting to a worsening inflation picture globally, particularly in the US, UK and European economies, with a series of interest rate rises.

UK equities held up better than their international peers in April and May but sold off sharply in June. Defensive sectors such as telecoms, healthcare and consumer staples outperformed. However the UK FTSE 250 index fell over 10%. In terms of the US equities the S&P 500 Index fell over 16% in dollar terms and the technology-heavy NASDAQ Index dropped over 22%. US shares are now in a bear market. Consumer price inflation hit 8.6% in May, the highest level since December 1981.

European equities dropped over 10% in the quarter to cap a difficult first half of 2022. The small Portuguese stock market was the only European market to finish the quarter in positive territory. The larger German, Italian and Swiss markets all suffered double-digit percentage falls.

Global government bonds suffered another poor quarter after the first quarter's weak showing. Bond markets are grappling with soaring inflation and higher interest rates. Faced with inflation running at its highest level since 1981, in part due to a booming jobs market, the Fed took an increasingly aggressive approach that included a 0.75% increase in its key rate in June. Elsewhere, the BoE increased its base rate twice over the period.

Corporate bonds underperformed government bonds. Bond spreads widened sharply, as investors worried about multi-decade-high inflation levels in the US and Europe and the need for an increasingly aggressive reaction by the major central banks via higher interest rates. US and European high-yield debt were especially weak and recorded double-digit losses over the quarter. European high yield experienced a particularly torrid end to the period. High-yield bond issuance has fallen significantly.

Past performance is not a reliable guide to future performance. The value of With-Profits investments may go down as well as up and may also be affected by changes in currency exchange rates.

(01) 639 7900 www.brokerzone.ie brokersupport@standardlife.ie

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