

# Heritage With-Profits Fund

**Report to Irish With-Profits policyholders**  
1 January 2023 to 31 December 2023



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# 1. Introduction and summary

## 1.1 Background

From 1 January 2020, Irish regulation requires the Board of Standard Life International designated activity company (“SL International”) to provide an annual report to with-profits policyholders on compliance with our With-Profits Operating Principles.

The Board of SL International is responsible for the content of this report. As described in Section 2, SL International relies on Phoenix Life Limited (“Phoenix”) and its Board, so for clarity, the conclusions and opinions of SL International are clearly identified in this document.

Your policy participates in the SL International Heritage With-Profits Fund (“SL International HWPF”). This fund was created on 29 March 2019 in order to protect customers from the risk that their policies could not be serviced following the exit of the United Kingdom from the European Union. The Irish, German and Austrian business in the Standard Life Assurance Limited (“SLAL”) HWPF was transferred from SLAL to SL International and simultaneously reinsured back (see Section 2) to the HWPF of SLAL. The transfer of SLAL business to Phoenix Life Limited took place on 27 October 2023. As a result, all of the business in the SL International HWPF is now reinsured to the Phoenix HWPF. The Phoenix HWPF was established to contain all of the business of the SLAL HWPF. This will allow policyholders to participate in the experience of the With-Profits fund in the same way as before the transfers.

This is a report on the operation of the Irish with-profits business in our Heritage With-Profits Fund. This section summarises the main conclusions.

We describe how we manage our Irish with-profits business in our With-Profits Operating Principles (“WPOP”).

This report is about Irish business but, during 2023 the Phoenix Heritage With-Profits Fund also had with-profits business that was written in the United Kingdom, Germany and Austria, see Section 9.

We publish our WPOP, and other documents referred to later in this report, on our website at [standardlife.ie/withprofits](https://standardlife.ie/withprofits)

## 1.2 Opinion of the Board of Standard Life International dac

The Board of SL International has reviewed the operation of Irish with-profits business in our Heritage With-Profits Fund. The Board’s opinion is that throughout 2023, this business was managed in accordance with the WPOP for the Heritage With-Profits Fund (“HWPF WPOP”).

It is also the Board’s opinion that the reinsurance arrangements (see Section 2) between SL International and Phoenix operated as expected and that the exercise of discretion during 2023:

- Was appropriate
- Took full account of policyholders’ reasonable expectations
- Maintained fairness between different categories of policy and policyholder, and
- Maintained fairness between policyholders and shareholders

Sections 5 and 6 of this report discuss the main areas where discretion has been applied.

The Board’s opinion takes account both of a report from our Head of Actuarial Function and due to the reinsurance arrangements between SL International and Phoenix, the opinion of the Phoenix Board which is supported by advice from their With-Profits Actuary and With-Profits Committee on all key aspects of the operation of the with-profits business during 2023.

## 2. Reinsurance

All of the business in the SL International HWPF is reinsured to the Phoenix HWPF fund. The Phoenix HWPF is the fund that all the business that was in the SLAL HWPF was transferred to by the Phoenix Scheme on 27 October 2023.

SL International monitors and can take action under the reinsurance to protect the interests of its customers, including being able to terminate the arrangements under certain circumstances.

As the business is reinsured to Phoenix, much of what is described in this document is performed by Phoenix through the application of principles to the management of the Phoenix HWPF. References to the Heritage With-Profits Fund in this report should be read to include both the Phoenix HWPF and the SL International HWPF unless otherwise stated. Due to the reinsurance, such references will generally be of primary practical relevance to activity carried out by Phoenix in respect of the Phoenix HWPF.

## 3. Roles and responsibilities

### 3.1 Governance

Each year, the Board of SL International will review whether its Irish with-profits business has been operated in line with its WPOP. We then report to our Irish with-profits policyholders on compliance with the WPOP and on the exercise of discretion. This is the report for the Heritage With-Profits Fund.

As explained in Section 2 due to the reinsurance arrangement, most of the day-to-day management is carried out by Phoenix in respect of the Phoenix HWPF. Phoenix considers the interests of SL International policyholders equally with its own policyholders as was the case before the transfer of business to SL International.

To ensure that the position of SL International policyholders is fully represented, Phoenix must involve SL International in the decision making processes and this is accomplished by SL International participating in relevant management committees and the sharing of relevant information.

Phoenix is subject to a very similar governance regime for its With-Profits business with its operating principles summarised in its Heritage With-Profits Fund Principles and Practices of Financial Management (“HWPF PPFM”) supported by a With-Profits Actuary and a With-Profits Committee.

There is substantial overlap between the HWPF WPOP and HWPF PPFM with 43 common principles on the management of the HWPF and four specific principles in the WPOP related to the reinsurance arrangements. Phoenix is directly involved in these 43 principles reflecting its significant role in the management of the funds with SL International covering the other four. Overall responsibility for compliance with the WPOP remains with SL International.

During the year, senior managers document any proposals for discretionary actions to be taken in relation to the Heritage With-Profits Fund and those proposals are discussed with the With-Profits Actuary, Head of Actuarial Function and the With-Profits Committee.

The Phoenix Board decides on the actions to be taken, after taking into account the views expressed by the With-Profits Actuary, the With-Profits Committee and, for matters affecting Irish with-profits business, SL International. In some cases the Phoenix Board delegates this decision-making power to appropriate committees or persons.

The SL International Board makes the final decisions for its with-profits business acting in the interests of its customers. In some cases the Board delegates this decision-making power to appropriate committees or persons.

### 3.2 Role of the UK With-Profits Actuary

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

### 3.3 Role of the UK With-Profits Committee

The With-Profits Committee exercises independent judgement in advising on the management of the with-profits business. In particular, the Committee:

- Considers the interest of all with-profits policyholders equally (both those of Phoenix and SL international) and
- Advises the Phoenix Board on achieving fair treatment for those policyholders

### 3.4 Role of the SL International Head of Actuarial Function

The Board of SL International is separately advised by its Head of Actuarial Function who prepares an annual report on the company's compliance with its WPOP.

## 4. Management of With-Profits business in the Heritage With-Profits Fund and the exercise of discretion

### 4.1 Opinion of the Board of Standard Life International dac

The SL International Board has reviewed the operation of the Irish with-profits business in the Heritage With-Profits Fund. The Board's opinion is that throughout 2023, this business has been managed in accordance with the principles in the HWPF WPOP.

It is also the Board's opinion that the reinsurance arrangements between SL International and Phoenix operated as expected and the exercise of discretion during 2023:

- Was appropriate
- Took full account of policyholders' reasonable expectations
- Maintained fairness between different categories of policy and policyholder, and
- Maintained fairness between policyholders and shareholders

In forming this opinion, the Board of SL International has been supported by the following statements.

### 4.2 Opinion of the Board of Phoenix Life Limited

The Phoenix Board has reviewed the operation of all with-profits business in the Heritage With-Profits Fund. The Board's opinion is that throughout 2023 this business has been managed in accordance with the HWPF PPFM.

### 4.3 Head of Actuarial Function's opinion

The Head of Actuarial Function's opinion is that, in 2023, the business has been managed in accordance with the principles in the HWPF WPOP, and the exercise of discretion during 2023:

- Was appropriate
- Took full account of policyholders' reasonable expectations
- Maintained fairness between different categories of policy and policyholder, and
- Maintained fairness between policyholders and shareholders

The Head of Actuarial Function's report does not identify any further information that would be of interest to With-Profits fund members.

### 4.4 With-Profits Actuary's opinion

The With-Profits Actuary has confirmed that the discretion exercised during 2023 took all policyholders' interests in the Phoenix HWPF into account in a reasonable and proportionate manner.

### 4.5 With-Profits Committee's opinion

The With-Profits Committee's opinion is that, during 2023:

- The HWPF PPFM has been complied with; and
- Discretion was exercised in an appropriate manner

In reaching this conclusion it has relied on the information that Phoenix has provided.

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

There's more information about with-profits business on our website, [standardlife.ie/withprofits](https://www.standardlife.ie/withprofits)

## 5. With-Profits payout values

The methods we used to set with-profits payouts were consistent with the HWPf WPOP throughout 2023.

Most types of with-profits policy have guarantees, usually a guaranteed amount to be paid on maturity, retirement or death. Over time we may add regular bonuses, which increase the guaranteed amount. In addition, we may pay a final bonus as part of the payout for a with-profits policy. Bonus payments are discretionary. Sometimes the bonus will be zero.

### 5.1 Regular bonuses

For the types of with-profits policy which may have regular bonuses, we declared new regular bonus rates on 1 February 2023. For unitised with-profits life and pensions business, the regular bonus rate was increased by 0.50%. For all other policies, the new rates were the same as the rates declared on 1 February 2022.

### 5.2 Payout bases, including final bonuses

For some types of with-profits policy which may have a final bonus, we changed final bonus rates and other payout calculation factors for all types of payouts on 1 February and 1 August 2023. In doing so we took account in each case of investment performance for the relevant asset mix, deductions for costs, and any smoothing applied.

For other types of with-profits policy, whether or not a final bonus may be paid, the payout value was calculated directly for each policy taking account of investment performance for the relevant asset mix, deductions for costs, and any smoothing applied.

For most unitised plans the deductions for charges and costs, other than guarantee costs (see Section 5.4), are comparable with the charges and costs for investment-linked plans. For most other types of plans the deductions allow for a fair share of the expenses incurred (see Section 5.6) and a contribution to capital, as well as for guarantee costs.

## 5.3 Smoothing

An asset share, which allows for investment performance and deductions, represents the underlying value of a with-profits investment. Smoothing is then the process by which we can even out some of the short-term fluctuations in investment returns to reduce the immediate impact on payouts. Smoothing is a discretionary adjustment and we take account of the need to protect the interests of all policyholders when we decide how much smoothing to provide.

For some minor lines of business, constituting a very small proportion of the with-profits business, we do not calculate asset shares but set payouts by reference to other lines of similar business.

### 5.4 Guarantees

Most types of with-profits policy have guarantees. Whenever a guarantee applies to a payout we pay at least the guaranteed amount.

Section 5.2 explains that we make deductions for charges and costs when we set final bonus rates, calculate payout values and determine the declared rates of return. One of these deductions is for the costs of guarantees. It varies between types of policy and fund, reflecting the nature of the guarantees provided.

Our assessment of the cost of guarantees fluctuates. For example, it tends to increase if the assets backing with-profits policies fall in value. So we adjust the deductions from time to time. On 6 January 2023, we reduced the rates of deduction to zero for most business.

### 5.5 Inherited Estate distributions

The Heritage With-Profits Fund has an Inherited Estate, the primary role of which is to provide a cushion against the possibility of any unforeseen increase in liabilities. Any excess over the amount needed for this is available for distribution to eligible policies by enhancements to payout values. During 2023, there were small enhancements of up to about 5.9%.

## 5.6 Allocation of expenses

The only expenses charged to the Heritage With-Profits Fund are those incurred in running it. The amounts charged are reviewed by the With-Profits Actuary and Head of Actuarial Function to ensure fair treatment of with-profits policyholders. However the effect of the expenses depends on the type of business that they relate to:

- For most unitised plans, the excess of the plan charges we have allowed for over the expenses incurred is normally paid out of the Heritage With-Profits Fund to shareholders each year. So the Fund is unaffected by the amount of the expenses incurred for those plans
- For most other types of plan, the deductions for costs allow for a fair share of the expenses incurred by the Fund. The deductions for costs are set against the expenses that the Heritage With-Profits Fund incurs for these plans and any difference falls to or is met by the Inherited Estate

Certain exceptional expenses incurred in the operation of the Heritage With-Profits Fund may be met by the Inherited Estate. Such expenses have no direct impact on with-profits payout values but any Inherited Estate distribution enhancement (Section 5.5) may be less as a result.

## 5.7 Errors

We seek to maintain high administrative standards. However, errors occur from time to time in the operation of with-profits and other types of business. When we discover such errors we correct them. If appropriate, we make additional payments to policyholders whose payouts have been adversely affected by such errors. Also, where appropriate, we put in place extra controls to reduce the risk of future errors.

We are not aware of any errors during 2023 that would have compromised our compliance with the HWPF WPOP.

Errors can increase costs. We need to ensure that no inappropriate costs fall on policyholders. So, if an exceptionally significant error is identified, it's appropriate to give individual consideration to the proper allocation of the costs in the particular circumstances. We have a set of principles for allocating costs resulting from errors that we use as a guide to help determine when such costs should be met from shareholder funds and when they should be met from the Heritage With-Profits Fund. We also seek advice from the With-Profits Actuary and the With-Profits Committee.

To the extent that it is appropriate to allocate any error costs to the Heritage With-Profits Fund we intend that they will be borne by the Inherited Estate (Section 5.5). In accordance with the above principles no cost should fall on the Fund if it resulted from a failure of our duty of care in managing the Fund.

## 6. Management of With-Profits assets and liabilities

When deciding what asset mix to hold we consider a number of factors, including:

- The extent of guarantees for each class of with-profits policy
- The appropriate balance between risk and expected return, and
- our approach to responsible investment. Responsible investment means considering environmental, social and governance (ESG) risks and opportunities when deciding where to invest money

Our aim is to achieve good outcomes for with-profits policyholders by optimising investment returns and providing growth over the long term.

We invest in a wide range of assets including equities, bonds, cash deposits and money market instruments. We expect that holding a high proportion of equities would produce returns that are relatively high over the long term but more variable over the short term. We expect that holding a high proportion of bonds and cash would result in returns that are more stable but lower over the long term.

When we invest in assets that tend to have more variable values, such as equities, there's a higher risk that they will have low values when we need to make payouts to policyholders. It's then more likely that the Heritage With-Profits Fund will have to top up these payouts to the level of the guaranteed benefits. To meet the extra cost of this we might then have to increase the guarantee deductions, see section 5.4. Or we might have to make adjustments to payouts for policyholders who are leaving with-profits early to protect the interests of remaining policyholders.

Because of this, the higher the level of guarantees for a class of policy, the more we may need to back it with lower-risk assets such as bonds and cash deposits. And as economic conditions change we have to keep the overall investment in such assets under review.

For investment returns and asset mixes please visit our website, [standardlife.ie/withprofits](https://www.standardlife.ie/withprofits)

## 7. New business

Apart from increments to existing policies, only a small amount of new business has been written in the fund in recent years and it has no material effect on existing business.

On 27 October 2023 the Heritage With Profits Fund was designated as 'closed' to new business, for the purpose of the Financial Conduct Authority Conduct of Business rules. This did not change how we manage the fund and small amounts of additional business will still be written.

## 8. Shareholder cashflows

Shareholders are entitled to certain payments from the Heritage With-Profits Fund. A Court-Approved Scheme describes the payments and the conditions that apply to them. The broad effect of these arrangements is that shareholders receive the charges on unisex plans and meet the expenses incurred for these plans.

Whilst the reinsurance with Phoenix is in place, the shareholder cashflows are those allocated to Phoenix shareholders from the Phoenix HWPF. SL International shareholders are not entitled to any cashflows from the SL International HWPF.

## 9. Non-Irish business in the Heritage With-Profits Fund

During 2023, the Phoenix Heritage With-Profits Fund also contained business written in the United Kingdom, Germany and Austria. We manage this business separately, but there is some pooling of risk with United Kingdom, German and Austrian with-profits business.

This means that the business in any one country can affect the whole Fund and so have some effect on policyholders in other countries. For example, the size of the Inherited Estate

depends on all of the assets of the Fund and all of its liabilities. Also, any adjustment to the level of deductions for the cost of guarantees takes into account the assessed guarantee costs for all with-profits business.

Distributions of the Inherited Estate were made for United Kingdom, German and Austrian business, as for Irish business, throughout 2023.

## 10. WPOP review

The HWPF WPOP was published on 1 January 2020.

During 2023 the SL International WPOPs were updated to reflect the transfer of business from SLAL to Phoenix and the replacement of SLAL with Phoenix as reinsurer for the European with-profits business.

You can find the current version of the WPOP on our website at [standardlife.ie/withprofits](https://www.standardlife.ie/withprofits)



For more information on with-profits, please visit [standardlife.ie/withprofits](https://www.standardlife.ie/withprofits) or talk to your financial adviser

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Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

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SCOZ0624583920-001

