HOW YOUR **WITH PROFITS POLICY** WORKS

1. Introduction

This leaflet gives a reminder of how *With Profits Policies* in the *United Friendly Industrial Branch Fund (UFIB Fund)* work.

We manage these policies in line with our *Principles and Practices of Financial Management (PPFM)*, which is a very detailed technical document. This leaflet sets out a summary of the key points in a more digestible way.

You can read the current *PPFM* by visiting our website **royallondon.com/scheme2020** or you can request a copy by calling **0345 600 4116** (or **01625 718330** if you're calling from outside the UK).

We use some technical terms in this leaflet. We've highlighted them all with initial capitals and italics, e.g. *With Profits Policy*, and you'll find them explained in the Glossary at the back of the **Your guide to our proposal** booklet.

2. What is a *With Profits Policy*?

- A *With Profits Policy* is a life insurance policy which is designed to help you save for the future. Often our policyholders are simply saving for a rainy day or to help cover expenses when the *Life Covered* dies.
- The underlying value of your policy (your *Policy Value*) changes with ups and downs in investment markets and other factors. However, there is a *Guaranteed Minimum Amount* the policy will pay out in return for the *Premiums* you promise to pay, no matter what investment markets do. We explain how we determine your payout in sections **4** and **5**.
- A *With Profits Policy* protects you against short-term ups and downs in investment markets through *Smoothing*. We explain *Smoothing* in section **6**.

3. What are the different types of *With Profits Policy*?

There are three main types of *With Profits Policy* in the *UFIB Fund*. The type of policy you have is detailed at the top of your letter.

Whole of Life	***Whole of Life* with *Periodic Payments***	***Endowment***
• The policy pays out a lump sum when the *Life Covered* dies. • You pay *Premiums* until the last policy anniversary before the 85th birthday of the *Life Covered*.	• The policy has the same features as a *Whole of Life Policy* (see left). • The policy also pays out cash payments (known as *Periodic Payments*) every 5 years.	• The policy pays out a lump sum after a fixed number of years. • You pay *Premiums* throughout the term of the policy. • If the *Life Covered* dies during the term of the policy, the policy pays out a lump sum.

For each type of policy above, you can cash in your policy or stop paying *Premiums* early. However, the amount we'll pay out may be reduced as you might not have paid all your *Premiums*.

4. What is the *Guaranteed Minimum Amount*?

At the start of your policy, we agreed with you the minimum amount we'd guarantee to pay out in exchange for your *Premiums* – we call this amount the *Sum Assured*. We also refer to it as the *Guaranteed Minimum Amount*.

We may increase the *Guaranteed Minimum Amount* by adding *Annual Bonuses* each year. Once *Annual Bonuses* have been added, they cannot be taken away.

However, if you decide to cash in your policy early or stop paying your *Premiums*, we'll reduce the *Guaranteed Minimum Amount* to take into account the *Premiums* you'll no longer pay.

5. How does *Royal London* decide *Final Bonuses*?

In addition to your *Guaranteed Minimum Amount*, we may add a *Final Bonus* when your benefits are claimed.

We aim to be fair to you and to the other *With Profits Policyholders* remaining in the fund when determining how much we'll pay out.

We base *Final Bonuses* on two things:

1. The performance of the fund since the start of your policy, and
2. Your share of the *Estate*

These are explained on the next page.

1. Performance of the fund	2. Share of the *Estate*
We aim to add a *Final Bonus* if your *Policy Value* is more than your *Guaranteed Minimum Amount*. We use your *Policy Value* to determine what is a fair amount to pay out when your *With Profits Policy* is claimed. By *Policy Value* we mean the build-up of: + the *Premiums* you've paid into the fund - less expenses, tax and the cost of providing benefits or guarantees to the policies in the *UFIB Fund* [1] + the investment returns earned by the investments we've chosen to invest your policy in each year [2] **Notes** (1) We do not take explicit charges from the *With Profits Policies*. Instead, we take into account the expenses of administering policies in the fund, and other charges when we decide bonuses. (2) Our investment strategy aims to achieve the best possible returns for our policyholders, while still making sure that we can pay out at least everyone's *Guaranteed Minimum Amount*. We do this by investing in a mixture of company shares, property, government bonds, other bonds, cash and other investments. Usually, the investments that provide the best long-term return are also the most risky. Therefore, we also invest some of the fund in investments where the return is more stable. We don't set *Final Bonuses* based on your individual *Policy Value*. Instead we set *Final Bonuses* to reflect the *Policy Value* of a group of policies like yours. Finally, we smooth out short-term investment market fluctuations when we determine *Final Bonuses*. We explain *Smoothing* more in section **6**.	We manage each of our *With Profits Funds* separately from each other. This means that each *With Profits Fund* needs to hold back enough money to protect against future risks, to meet rules set by our *Regulators* and to make sure we can always pay at least the *Guaranteed Minimum Amount* promised to policyholders. To do this, we keep a pot of money aside which we call the *Estate*. Since the *UFIB Fund* is closed to new policies, it's getting smaller as policies pay out. This means the amount of money we need to hold back in the *UFIB Fund Estate* is also getting smaller. Therefore we're able to share out some of this money by increasing your *Policy Value* each year and by potentially adding an extra amount when your policy is claimed.

We may announce *Final Bonuses* more often than once a year to make sure every policyholder receives their fair share of the fund in both good and bad times.

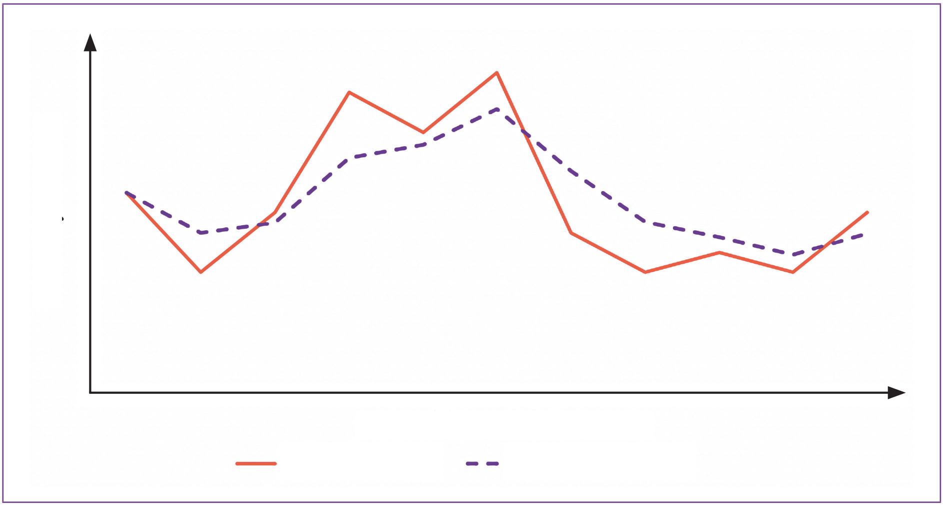
Also, we may reduce *Final Bonuses* at any time in order to protect the fund. *Final Bonuses* are **not** guaranteed in any circumstances and we might not pay any *Final Bonus*.

6. What is *Smoothing* and how does *Royal London* allow for it?

Smoothing is one of the main features we take into account when setting payouts of *With Profits Policies*.

We try to add *Final Bonuses* in a way that protects payouts from short-term variations in the investments held by the fund. Instead of adding big *Final Bonuses* in good years and no *Final Bonuses* in bad years, we try to smooth them out. So we hold back some of the investment gains earned during good years and release them as bonuses when returns have been poorer or when the fund has made a loss.

We aim for the effect of *Smoothing* to cancel itself out over the long term. This means that, over time, the amounts we hold back in good years should offset the amounts we release as bonuses in bad years.



We're happy to provide your documents in a different format, such as Braille, large print or audio – just ask us by calling 0345 600 4116 (or 01625 718330 if you're calling from outside the UK).

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