How we manage our with-profits fund

Introduction

This document, the Customer Friendly Principles and Practices of Financial Management, sets out how Railway Enginemen's Assurance Society Limited ("the Society") manages its with-profits business. It provides an insight into how we manage the with-profits fund.

There is further information in the more detailed version of this guide, the Principles and Practices of Financial Management ("PPFM").

What is a with-profits fund?

This is a fund where your money is combined with that of other with-profits policyholders. The Society manages the fund on your behalf, by investing in a range of assets. As a with-profits policyholder, you are eligible to share in any profits and losses of the Society through the addition of policy bonuses.

Policy bonuses

Regular bonuses are one way the Society can use to distribute profits. They may be regularly added throughout the life of a with-profits policy, increasing the guaranteed benefits payable to the policyholder.

The Society expects to review regular bonus rates once a year. The level of bonus can go up or down and, although there is no limit to the changes in the rates, the Society aims to avoid large variations year to year.

Interim bonus rates are the additional bonuses paid to claims during the year. They are normally set equal to the previously declared regular bonus rates, unless a significant change in regular bonus rates is expected at the next declaration.

The Society may also pay special bonuses to reflect sustained capital gains. Alternatively, or in addition, the Society may pay final bonuses when the policy matures or in the event of a death claim (or disablement claim where covered by the policy). The amounts will depend on the relative sizes of the asset share (see below) and the guaranteed benefits.

Asset share

The asset share is one guide used by the Society to set the amounts payable to with-profits policyholders. An asset share is a measure of the fair payout on a with-profits policy. It allows for the investment return earned, premiums paid, expenses and other surplus, in accordance with the Society's actual experience.

For a group of with-profits policies, the long-term aim is to return, on average, 100% of asset shares. The amounts payable on surrender or maturity in any year, or to any particular with-profits policyholder, may be more or less than 100%. This is due to the effects of smoothing, guarantees, the grouping of policies and, for surrenders, any deductions necessary to protect the interests of remaining policyholders.

The Society carries out regular reviews of its experience and uses these to determine the main factors used in the asset share calculations. Any approximations are in line with the overall aim of sharing the Society's experience between with-profits policyholders.

The target ranges for payouts and further information on asset shares are detailed in the PPFM.

Smoothing

With-profits insurances are not designed to pay the exact amount accumulated within the Society allowing for the exact investment return on those assets. Instead, they use smoothing to reduce the variation in maturity payouts and, to a lesser extent, surrender payouts. There are two levels of smoothing applied:

- implicit smoothing between different contribution levels, durations, ages and products;
- explicit smoothing over different periods to avoid excessive movements in payouts.

The Society will keep back some of the surplus achieved during a good year to pay out similar payout values in a bad year, hence reducing the fluctuation in payouts from year to year.

Smoothing only helps to protect policyholders if there are short-term falls in the value of the asset within the fund. It will not protect against more long-term and sustained falls in asset values.

Investment

The investment strategy of the Society is to maximise the overall return of the Society's investments subject to meeting the guarantees. These returns will be used for the benefit of the Society's policyholders.

The Society may invest in any category of asset class including properties, bonds, equities and deposits. Returns include income and increases in capital value.

Factors affecting the overall performance of the fund

Charges and expenses

The expenses of running the Society are charged directly to the Society's long-term business fund. Where asset shares are used to set payouts, the expenses of the Society, other than some unusually large costs of a non-capital nature, are apportioned across individual asset shares in line with Committee decisions. The basis used aims to be proportionate to the level of cost and complexity.

The Committee may amend the basis on which charges are applied or expenses are apportioned if, in its view, the current basis leads to a material inequity between different types and generations of policyholders.

Expenses cover the acquisition of business, (including commission) and the administration of existing business including claims and investment costs.

Investment return

The investment returns earned by the with-profits assets will have the largest impact on the performance of the fund. The PPFM outlines the investment strategy and the various ways in which the Society limits its exposure to certain risks associated with investing its assets.

Asset mix

The investment return will depend on the mix of assets held due to the varying investment performance of different types of assets.

The Society's investment strategy aims to hold a diversified portfolio of assets and measure the performance for each asset class against a specified set of benchmarks.

The Committee will review at least annually the investment performance of the investment manager, the choice of investment manager and basic strategy.

The PPFM contains further information on the investment strategy.

Other factors

As the Society is owned by its members, all of the costs and benefits from business decisions, including whether to accept new business and on what terms, will ultimately be shared amongst the members. The Society aims to hold sufficient working capital to meet any shocks that may occur, smooth payouts and allow the writing of new business, whilst not retaining excess levels of capital.

The Society addresses risks through its risk management system, which identifies risks and puts controls in place to reduce their likelihood and impact.

Factors affecting how much you might get back

Guaranteed benefit level

The guaranteed benefit amount you are entitled to depends on the type of policy you hold. For more information, please refer to your policy documentation or contact us for further information.

Asset share

For each with-profits policy, we calculate the overall fair share of the assets in the with-profits fund. For further information, please see page 1 of this document or refer to the PPFM.

Bonus rates

The Society's general aims in setting regular bonus rates for all classes of with-profits policy are to:

- distribute a proportion of the investment income earned by the assets backing the liabilities in a smoothed manner;
- reflect the surplus generated by policies.

In the event of a significant difference in the bonus expectations between a range or generation of policies, the Society would consider setting up a new bonus series.

Regular bonus rates are currently set by reference to a sustainable level based on expected investment income according to the future investment strategy.

How can you find out more?

There is further information in the Principles and Practices of Financial Management. This is available on our website or on request from the Society's head office.

If you need more information:

- Visit our website at www.enginemens.co.uk; or
- Contact our head office:
  - phone: 0121 327 1027; or
  - email: info@enginemens.co.uk; or
  - post: Railway Enginemen's Assurance Society Limited, 727 Washwood Heath Road, Birmingham B8 2LE; or
  - Speak to your financial adviser. Note that they may charge you for any advice given.

Authorised by the Prudential Regulation Authority
Regulated by the Financial Conduct Authority & the Prudential Regulation Authority
Incorporated under the Friendly Societies Act 1992