

## **Pearl Assurance Limited SERP Fund**

### **Annual report to with-profits policyholders by the Board of Pearl Assurance Limited for the period 1 January 2010 to 31 December 2010**

#### **Purpose**

We set out how we manage the Pearl Assurance Limited with-profits funds in our Principles and Practices of Financial Management (PPFM). In this report we give details of how we have complied with the PPFM for 2010 for our SERP Fund ('the fund').

Pearl Assurance Limited has discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders. This report deals with how Pearl Assurance Limited has exercised its discretion in these areas.

#### **Background**

The Pearl Assurance Limited SERP Fund consists of self employed retirement plans (SERPs) previously invested in the National Provident Life Limited (NPLL) with-profits fund, which were transferred to Pearl on 15 February 2010, with an effective date of 4 January 2010. Although the SERP transfer Scheme did not become effective until 2010, its impact on SERP policyholders was considered in detail during 2009 and this report only considers the discretion exercised in respect of the Pearl SERP Fund after the effective date of the transfer.

Pearl Assurance Limited also has another with-profits fund. We manage each with-profits fund in accordance with its own PPFM. The with-profits bonuses, policy returns and payouts for each with-profits fund reflect the financial position of that fund.

We have produced a separate report for our other with-profits fund.

Our PPFM is available on our website at [www.pearl.co.uk](http://www.pearl.co.uk), or you can ask us for a copy. We have produced a shorter guide called 'A Guide to How We Manage Our With-Profits Fund' and this can be obtained in the same way.

#### **Independent review**

The company formally consulted with, and took into account the opinions of the With-Profits Actuary and the With-Profits Committee (a committee that is independent by virtue of its majority of independent members) regarding all material changes during 2010. This included consultation on the changes to bonus rates, surrender values and the estate.

## **Summary**

Payouts for with-profits policies depend on the discretion exercised by the firm. The interests of with-profits policyholders are protected by the PPFM and a High Court Scheme of Transfer (the “Scheme of Transfer”), which sets out a number of provisions the firm must abide by.

Each year the Board will produce a report to you, the with-profits policyholders, summarising compliance with the PPFM and how any discretion has been used over the previous year.

The main areas of discretion are as follows:

- Methods used to determine payouts
- Setting annual bonus rates
- The approach to setting final bonus rates
- Smoothing of payouts
- Investment strategy
- Business risks
- Charges and expenses
- Management of the Pearl SERP Fund estate
- Equity between policyholders and shareholders

These are expanded on in the sections below. In addition there is commentary on any changes to the PPFM and communications with policyholders during the year.

### **Methods used to determine payouts**

Asset shares remain the basis for payouts on with-profits policies, subject to a minimum payout of any guaranteed benefits, as set out within the PPFM.

In the Board's opinion, the methodology used to calculate asset shares has been in line with the PPFM. Further, in the Board's opinion, the discretion applied to methods used to determine payouts on all policies during 2010 has been in line with the PPFM.

The intention is to pay you an amount close to your asset share, subject to any guaranteed benefits when the policy pays out. This was achieved during the year by the way the final bonuses were set and by adjusting surrender value calculations. The Board is satisfied that the approach taken in determining final bonuses and surrender values during the year was in line with the PPFM.

### **Setting annual bonus rates**

Bonuses are the additions which the firm makes to the value of your policy. As previously advised, the annual bonus rate is set to zero, and is likely to remain so. The Board is satisfied that the approach taken in determining annual bonuses during the year was in line with the PPFM.

### **The approach to setting final bonuses**

Final bonus rates and surrender values were changed from 30 June 2010. The change reflected movements in asset share subject to smoothing. The Board is satisfied the changes resulted in changes to payouts that are consistent with the PPFM and consistent with treating customers fairly.

In addition the cash factors used to determine Open Market Options were changed on a number of occasions during the year, reflecting changes to investment returns. The Board is satisfied the changes were consistent with the PPFM.

### **Smoothing of payouts**

There were no changes to the way the ups and downs of investment markets were reflected in policy values during the year.

### **Investment strategy**

There were no material changes to investment strategy during 2010.

### **Business risks**

There were no significant changes to the risks the fund was exposed to during the year and no charges were made to asset shares in respect of guarantee costs.

### **Charges and expenses**

The way charges and expenses were set was unchanged during the year and was consistent with the Scheme of Transfer. The Board is satisfied that the allocation of expenses and the charges deducted were in line with the PPFM.

### **Management of the Pearl SERP Fund estate**

The Pearl SERP Fund estate will continue to be used to meet the expected costs as they arise where guaranteed payouts to policyholders exceed asset share. The Allocated Estate, which is the part of the estate that is potentially distributable to policyholders, reduced significantly during 2010 due to guarantee costs. The reduction was expected and the Board is satisfied that the approach to the management of the estate is in line with the PPFM.

### **Equity between policyholders and shareholders**

Shareholders have injected capital into the Pearl SERP Fund during 2010 consistent with the principles set out in the PPFM.

### **Changes to the PPFM**

There have been no changes to the PPFM during the year.

### **Communications to policyholders**

During 2010 policyholders, should have received their annual policy statements and the accompanying letter.

The Pearl website, [www.pearl.co.uk](http://www.pearl.co.uk), contains a number of additional documents relevant to policyholders, including the current versions of the Pearl SERP Fund PPFM and the Guide to How We Manage the With-Profits Fund which was sent to SERP policyholders in 2009 as part of the communication regarding the transfer of SERP business to Pearl.

## **Conclusion**

It is the opinion of the Board that Pearl Assurance Limited including the SERP Fund was, in all material respects, managed in accordance with the PPFM over 2010.

The With-Profits Committee has reviewed this annual report to with-profits policyholders and does not wish to make any additional or separate reports.

## **The Directors of Pearl Assurance Limited**

June 2011

## **Report to with-profits policyholders by the With-Profits Actuary of the Pearl Assurance Limited SERP Fund for the period 1 January 2010 to 31 December 2010**

### **Purpose**

The Principles and Practices of Financial Management (PPFM) for Pearl Assurance Limited ('the company') is a detailed document which sets out how the company manages its with-profits business.

The company has discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders.

The purpose of my report to the company's with-profits policyholders of the SERP Fund is to give my opinion, as required by the rules of the Financial Services Authority, as to whether the company has taken the interests of these with-profits policyholders into account in a reasonable and proportionate manner in exercising this discretion during 2010.

### **Conclusion**

In my opinion, the company has taken the interests of with-profits policyholders of the SERP Fund into account in a reasonable and proportionate manner in exercising this discretion during 2010.

My opinion is based on the information that the company provided to me during the year.

The Board of Actuarial Standards has issued a number of Technical Actuarial Standards (TASs). My report, when considered alongside the information in the company's own report to which my report is annexed, together with other information provided to policyholders in relation to 2010, is intended to comply with TAS R (which relates to the reporting of actuarial information), TAS M (which relates to modelling) and TAS D (which relates to data).

Kevin Arnott  
Fellow of the Institute of Actuaries  
With-Profits Actuary  
June 2011