

## **Profit Sharing Account – Questions and Answers**

### **Are further reductions likely?**

As with any With-Profit fund, the Profit Sharing Account's (PSA) underlying investment performance will continue to be reviewed and future adjustments to the PSA fund values are always possible.

We aim to formally review all investment factors for the PSA fund at least annually.

### **Is this reduction affecting all investment funds? Which investments are affected?**

This reduction applies only to the PSA and, as such, only affects 2 National Provident Life Limited products:

- Executive Pension Plans (EPP), including those sold under Small Self- Administered Schemes (SSAS) and those subsequently set up as EPP Re-issue policies; and
- Pension Transfer Plans (PTP), including those previously sold as Spectrum 32 policies.

These policies include other types of investment options, and it is important to understand that only the PSA is affected by this change.

Other investment options (i.e. Unit Linked funds and Capital Account) are not impacted by this reduction.

### **Why are only these products affected?**

These products are the only ones which have PSA as an investment choice.

### **Why is PSA the only fund affected?**

Unit linked funds are valued by their daily unit prices which vary directly with the actual investment performance.

The PSA and the Capital Account are the only funds available to these products which smooth fluctuations in investment returns by adding bonuses. Such funds are regularly reviewed to ensure longer term consistency with the underlying fund performance.

Of these two funds only the PSA currently needs an adjustment to correct the benefits payable so that everyone receives their true and fair share whether they remain in the fund or leave early.

### **Is it possible to switch from the PSA Account?**

Rights to switch out of the PSA remain unaltered.

However, it should be noted that as this is exiting the fund (the PSA) prior to the Normal Retirement Date, the value available for switching to a different investment is reduced by this change.

By switching out of the PSA now, prior to Normal Retirement Date, the reduced value will apply.

It is also important to note, for example, that switching back into the PSA at a later date will not purchase the same PSA guaranteed benefits that were given up when switching out of the PSA fund.

Before taking any action to switch funds, we recommend that you seek independent financial advice. If you do not have a financial adviser, you can contact IFA Promotions on 0800 085 3250, or via their website at [www.unbiased.co.uk](http://www.unbiased.co.uk), and they will provide details of financial advisers in your area. There may be a charge for obtaining financial advice.

### **What happens to future contributions into the PSA under EPP policies?**

Contributions into the PSA will continue to purchase benefits in the normal way. However the amount of benefits purchased will be reduced because the full change effective from 8 October 2005 also reduces the new sum assured purchased each time a new contribution is made.

### **In light of these reductions, what is the position if EPP contributions into the PSA are stopped?**

The fund value of the existing investments in the PSA would not grow as currently projected, as contributions will cease.

Before taking any action to stop paying premiums, we recommend that you seek independent financial advice. If you do not have a financial adviser, you can contact IFA Promotions on 0800 085 3250, or via their website at [www.unbiased.co.uk](http://www.unbiased.co.uk), and they will provide details of financial advisers in your area. There may be a charge for obtaining financial advice.

### **What factors are taken into account when calculating Fund Values?**

The factors that are taken into account when calculating Fund Values are:

- Period of time the investment was invested in the PSA
- The expenses incurred
- The investment return on assets underlying the PSA during the period of investment
- Any bonuses allocated
- The term remaining to the Normal Retirement Date

### **Why is this change being made now and why has it not been done before?**

Previously the underlying performance of the fund has been appropriately reflected in the level of bonuses allocated to policies.

The level of bonuses allocated to policies has reduced over recent years with no immediate prospect of any further bonuses being added. This is mainly due to a fundamental change in underlying assets (which took place in 2003) from predominantly equities and property to mainly fixed interest securities. This change stabilised the fund but returns from fixed interest securities are generally lower.

We are now at a point where alternative methods need to be employed to ensure everyone receives their true and fair value, as we can no longer control this via bonus allocation to policies.