

With Profits Report



CLIENT NAME: Mary Walker

CLIENT Ref: MW120167

ADVISER NAME: Mr David Briggers

REPORT PRINT DATE: 11/03/2009

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Adviser Name: Mr David Briggers
Case Reference: 6414

This report has been based on the following information. Please make it known if any part of this information is incorrect as it may affect the result of this analysis.

Personal Information

Name	Mrs Mary Walker
Date of Birth	12/06/1967
Sex	Female
Marital Status	Married
Spouse's Date of Birth	14/06/1966
Other Dependants	Yes
Health Status	Normal
Attitude to Risk	Medium
Employment	Employed

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Phoenix Life Ltd - Phoenix With-Profits Fund With Profits Report

Year Opened	2006
Year Closed to New Business	2006
Fund Open to New Business	No
Are Assets Ring Fenced	No

Personal Pension Policies Fund Rating

Financial Strength	***
Future Performance	**
Transparency	***

Fund Background

The fund was established on 31 December 2006 to receive all the business transferred from Phoenix Life & Pensions Ltd ('PLP'), both with profits and non profit.

PLP traces its history back to Royal Life Insurance Ltd ('RLI'), which was created in 1981 to receive the UK life insurance businesses of Royal Insurance Company Ltd. This included business from Law Union and Rock Insurance Company Ltd and Liverpool and London and Global Insurance Company Ltd which was transferred into Royal Insurance Company Limited in 1964.

RLI was a company within the Royal Insurance Group, which merged with the Sun Alliance and London Insurance Group in 1996. In 1998, RLI was renamed Royal & Sun Alliance Life and Pensions ('RSALP'). RSALP was bought by the Resolution Life Group in 2004. RSALP changed its name to PLP in 2005.

PLP closed to new business in 2002, although the fund continues to write incremental new business.

The with profits contracts in the fund mainly fall into the following categories:

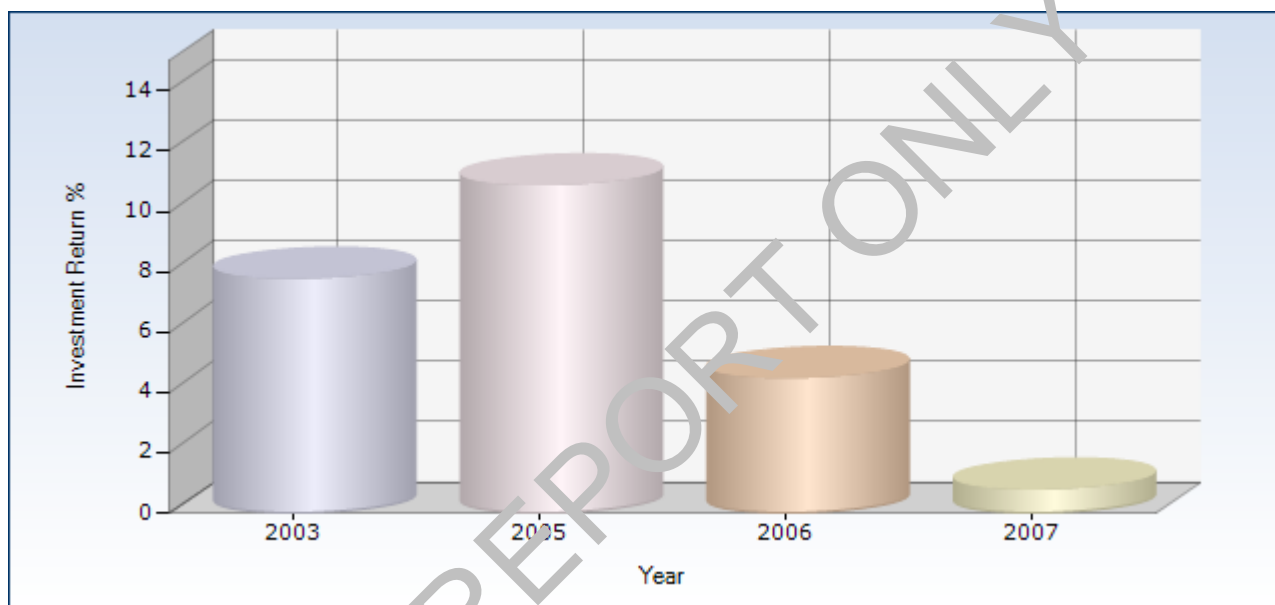
- traditional endowments and whole life policies
- traditional pension policies funding for cash, most of which have GAOs
- single premium unitised with profits whole life bonds
- unitised with profits pension policies

In September 2005, PLP sold, subject to court approval, a substantial part of the non profit pension annuity business that was in force at 1 January 2005 to Prudential. Initially this involved payment of a reinsurance premium of £1.5bn, but the business was finally transferred to Prudential Retirement Income Ltd in June 2006. This transaction substantially reduced the volume of non profit business in the fund. It led to a one-off reduction in asset shares of up to 1.4%, offset subsequently by an estimated 0.4% reduction the company would have made if the policies had not been reinsured.

Past Performance

In general, past performance results have been steadily deteriorating, relative to other companies, in recent years. However, personal pensions 20 year payouts showed a surprisingly large increase in March 2008, placing them in the second quartile. Most of the other published payouts are now firmly in the fourth quartile, with the remainder in the third quartile.

Investment Return



Future Performance

Notwithstanding the relatively high standard EBR quoted by the company, in aggregate the fund had only some 34% of its assets in equities and property at the end of 2006. This reflects the impact of the staggered investment policy. The fund retains a significant exposure to guarantees, and the imposition of an explicit charge for guarantees can only depress longer term returns. Current maturity and surrender payouts are disappointing, despite the 1.5% asset share enhancement from the estate.

Financial Strength

The fund remains quite sizeable, being the largest of the company's six with profits funds, but it cannot be considered as exceptionally strong. The PLP shareholder provided financial support to the fund in 2006 by way of loans, but this loan support was repaid by the end of 2006, and the fund does not currently need to rely on any capital support from the Non-Profit Fund or Shareholder Fund.

The notes to the realistic balance sheet show that the fund had working capital of £167m at the end of 2007, before zeroisation.

Transparency

Whilst this is essentially an old style fund, with all that this entails, Phoenix has shown a willingness to increase the volume of information available to policyholders, partly as a response to regulatory requirements but also as a result of its overall approach to policyholder communication. It advises policyholders of approaching MVR-free dates.

Phoenix Life's annual reports to with profits policyholders are fairly detailed, although this partly reflects the increased complexity of the company's funds. However they fail to mention at all the fact that in its 2007 FSA Returns, PLL was unable to certify that its with profits fund had been managed in accordance with its PPFM, 'due to certain minor instances where the management of the fund differed from the published PPFM but these have not resulted in the unfair treatment of policyholders'.

There has been no wholly independent representation on the WPC in the past, but this is set to change after the 2009 reorganisation.

Market Value Reductions

MVRs are guaranteed not to be applied on certain events such as maturities, specified anniversaries, death and some withdrawals. The company has been applying MVRs on some contracts since January 2001.

Investment

During 2006 responsibility for investment management switched to Resolution Asset Management (now named Ignis Asset Management) from F&C Asset Management.

The fund adopted a new investment strategy from January 2004 whereby the asset mix backing a with profits policy depends on the year of commencement and outstanding term as well as underlying guarantees. Some types of policy do not have any equities or property backing them. The company publishes extensive tables to policyholders each year, setting out in some detail the various asset proportions applying to their policy type.

In 2008, the EBR for with profits policies is 70%, subject to following variations:

- If there are less than 9 years of term remaining, then the mixes are changed proportionately as the term remaining reduces until the EBR is 17.5% (with an intended increase to 23.3% in 2008, 29.2% in 2009 and 35% in 2010) with one year or less of term remaining.
- If the rate of return required from equity shares and commercial property for the asset share to grow over the term remaining, after the deduction of retentions and charges, to equal the projected guaranteed benefits at the maturity date is more than 5%p.a. gross, then the EBR is reduced as follows: Rate of return required 5% to 7.5%, reduction applied 33%; 7.5% to 10%, 67%; 10% or more, 100%.

The table below shows the average asset mix within the fund for all business.

Asset Type	Actual 31 03 2005	Actual 31 12 2006	Actual 31 12 2007	
UK Equities	9%	15.3%	15.8%	
Overseas Equities	3%	6.2%	7.3%	
Property	9%	14.4%	11.2%	
Fixed Interest	78%	61.2%	60.6%	
Cash	0%	2.9%	5%	
Other	1%	0%	0%	

Guarantees

In addition to MVR free and other guarantees, the fund holds a significant reserve in respect of GAOs of £315m. There are also further special reserves of £65m for such things as the pensions review and data contingencies. With profits bonds issued between January 1999 and July 2000 have guaranteed minimum cash-in values at the tenth anniversary.

The company determines the charges it will deduct for guarantees and smoothing by equating these with past (since January 2004) and expected experience of the fund, less an amount (agreed by the FSA) of £35m plus interest from October 2004. Future increases in GAO costs do not affect policies sold after 31 December 2000, however.

The charge made to asset shares in respect of guarantee costs is normally limited to 1% p.a. (or an equivalent amount expressed in different terms, for example as a percentage of premium), together with a maximum exit charge of 7% of asset share in 2008 reducing to nil in 2015. However, sometimes larger charges will apply if it is necessary to enable the fund to continue to meet its objectives. The charges made in 2007 totalled £4.6m. As at 1 July 2008, the explicit charges being made were:

- 3%/2.1% of every regular premium for CWP life/pensions policies, and 0.5% p.a. of asset share for UWP bonds issued between January 1999 and July 2000.
- For UWP bonds not eligible for final bonus an amount to cover the cost of payments in excess of asset share on regular withdrawals.

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