For customers

Scottish Equitable plc 2022 annual report to with-profits investors

For the year to 31 December 2022

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June 2023

Scottish Equitable and with-profits

In this report you can find details of how we managed our with-profits business in 2022 and how we looked after our with-profits investors' interests

About this report

The Financial Conduct Authority requires us, Scottish Equitable plc, to produce a report each year for our with-profits investors stating whether or not we believe we've complied with our stated Principles and Practices of Financial Management of With-Profits Business (PPFM).

Regulations set by the Financial Conduct Authority require firms like Scottish Equitable that have a with-profits fund to appoint a With-Profits Committee to advise the Board on matters impacting with-profits policyholders. The independent Scottish Equitable Policyholders Trust Ltd (SEPT) acts as Scottish Equitable's With-Profits Committee and oversees the assessment of our compliance with the PPFM. SEPT has reviewed this report before its publication. (You can find more details on this in the section 'How we make sure we're compliant with the PPFM'.)

Our PPFM

Our PPFM sets out in detail our with-profits management strategy and processes. You can view it on our website at aegon.co.uk/with-profits or write to us at Aegon and Scottish Equitable Pensions and Bonds, SUNDERLAND, SR43 4DS for a copy.

Our PPFM is split into two sections: principles and practices. The principles set out our general approach to the management of with-profits business, and we don't expect these to change often. The practices cover the day-to-day operation of our with-profits business within the principles framework.

Our with-profits contracts and funds

Scottish Equitable plc used to be Scottish Equitable Life Assurance Society, which was a mutual company, and you may have invested in your with-profits contract with us then. On 31 December 1993 the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc as part of the demutualisation process as we became a public limited company. Scottish Equitable plc is owned by Aegon UK, which in turn is a subsidiary of the international insurance group Aegon NV.

We have at different points in time offered three broad types of with-profits investment:

- traditional with-profits;
- unitised with-profits, and
- new generation with-profits.

We generally offered traditional with-profits contracts up to 1984 for pensions business (for example retirement annuities) and 1991 for life business (for example mortgage endowment plans). We then offered unitised with-profits investment, available as a fund choice under unit linked contracts taken out up to 30 September 2002. A range of new generation with-profits investment funds were then available as a fund choice under unit linked contracts until 1 August 2013, when we closed the new generation with-profits funds to new investment.

We included minimum pension guarantees (including guaranteed annuity options) in a number of contracts mainly in the 1970s and 1980s. All of our traditional and unitised with-profits (but not new generation with-profits) investments also offered different forms of investment guarantee. As people are living longer than originally expected and interest rates are lower than when these guarantees were written, the cost of meeting them has increased significantly over the many years since they were written. While we bought assets that provided some protection against the impact of interest rate falls, the cost of these guarantees has, over time, reduced the bonuses we are able to pay out to our traditional and unitised with-profits investors.

We stopped offering with-profits business with investment guarantees on 30 September 2002 – apart from ongoing regular contributions, contribution increases and new entrants into existing occupational pension schemes. Further restrictions were introduced from 30 April 2015 which stopped one-off contributions and investment switches being made into unitised with-profits funds. From 1 January 2016, the scale of premium rates applicable to any contribution increases and new entrants into existing occupational pension schemes was increased substantially to reflect the significant cost of guarantees continuing to be provided by these plans.

Between 30 September 2002 and its 1 August 2013 closure date, any new with-profits investments were into our range of new generation with-profits funds. These have no investment guarantees or bonuses and each fund is ring-fenced, which means that all investment profits and losses stay within each new generation fund and are reflected in payouts to investors. These new generation funds are therefore not affected by the cost of meeting the guarantees written in the past.

Scottish Equitable has only one overall with-profits fund, however we manage this as a number of notional individual sub-funds representing the different varieties of traditional, unitised and new generation investments that have been offered over many years. Investments in each of these notional sub-funds benefit from different guarantees (or no guarantee in the case of the new generation sub-funds) and invest in different mixes of company shares, bonds and other asset types. A summary of all of the different notional sub-funds that have been offered over the years is included in the appendix to this report.

With-profits policies with investment guarantees (traditional and unitised with-profits)

If your with-profits investment started before 30 September 2002, you'll have an investment guarantee. The details vary by policy and sub-fund, but typically include a minimum amount payable upon maturity, retirement or death. The investment guarantee doesn't apply on early cash-in, early retirement or on a switch of investment fund choice.

The amount guaranteed to be payable may be increased by any yearly bonus (also known as reversionary bonus) that we may add. For traditional business, the guaranteed benefit payable at the maturity date is increased by any bonuses given. For unitised business, yearly bonus is reflected in either an increase in the unit price or by an increase in the number of units held in the plan. We write to you each year to provide you with details of this yearly bonus and the effect this has on your guaranteed amount.

We may increase your policy payout through the addition of a final (or terminal) bonus if the investment performance of the fund over the period of your investment supports a higher payout than the guaranteed amount. In making this assessment we apply a degree of 'smoothing' to the investment returns. This is a process which aims to keep payouts more stable than following directly the ups and downs of the value of the underlying investments.

While we aim to provide part of your payout in the form of final bonus, there may be occasions where no final bonus is payable and, if this coincides with your maturity or pension date, you'll receive the guaranteed amount. However, if you cash in your policy before your maturity or pension date, your payout may be further reduced by the application of a market value reduction (MVR) (only applies to unitised with-profits business) to reflect the investment returns on the assets underlying your policy, or through a lower surrender value scale (applies to traditional with-profits business).

If you'd like further detail on these features, take a look at our PPFM and other with-profits information on our website at aegon.co.uk/with-profits

With-profits policies without investment guarantees (new generation with-profits)

If your with-profits investment started after 30 September 2002, you'll be invested in one of our new generation with-profits funds. These funds don't have any investment guarantees. However, they do have a mechanism which smooths the daily unit price to dampen the immediate effect of peaks and troughs in the value of investment markets.

Early in 2020 we wrote to all of our new generation with-profits customers to explain additions we were making to the principles and practices described in the PPFM to help facilitate the orderly closure of our new generation with-profits funds when the appropriate time comes to close each of them. We also indicated our intention to close the smallest of these funds, the stakeholder pensions cautious with-profits fund, because it risked becoming too small to sustain the smoothing mechanism.

In keeping with process set out in the updated PPFM, the new generation with-profits stakeholder cautious fund was closed in 2021 and all remaining investments were switched into an alternative fund with a similar asset mix but without the smoothing features of the new generation with-profits fund.

We expect to follow a similar process, at the appropriate time, for other new generation with-profits fund closures.

If you'd like further detail on our new generation with-profits funds, take a look at our PPFM and other with-profits information on our website at aegon.co.uk/with-profits

How we make sure we're compliant with the PPFM

We take advice from the With-Profits Actuary on all aspects of the operation of our with-profits business. This ranges from bonus declarations to the systems and procedures needed to treat with-profits investors fairly. The With-Profits Actuary advises us on whether any changes we make are consistent with our PPFM and produces routine reports for us. One of these is a report explicitly covering compliance with the PPFM during the previous calendar year.

Also, the Scottish Equitable Policyholders Trust Ltd provides independent oversight and advice to Scottish Equitable plc on the way it manages the With-Profits fund. Its board of directors (which is independent of Scottish Equitable plc) meets regularly throughout the year and it takes advice from an independent actuarial adviser (who also sits on the board of Scottish Equitable Policyholders Trust Ltd). The With-Profits Actuary is present at these regular meetings, as well as certain directors and management of Scottish Equitable plc. All reports from the With-Profits Actuary to Scottish Equitable plc's directors are also given to Scottish Equitable Policyholders Trust Ltd.

Our with-profits decisions

Within our with-profits business, we have discretion (in other words we make all the decisions as to what to do) in the following key areas:

Traditional and unitised with-profits business

- How much should be invested in different types of assets (such as company shares, bonds, property).
- The setting of yearly bonus rates, final bonus rates and MVRs.
- The calculation of surrender values (for traditional with-profits contracts) and unit prices (for certain unitised with-profits contracts).
- How much should be deducted from your policy to meet part of the expected future costs of guarantees.
- How much is added to your policy from the Estate (which is the excess assets in the fund over and above the amount required to meet our obligations to our customers) and how much of past additions to your policy may be taken back to protect the overall financial position of the fund (should this become necessary).
- The premium rates we charge on traditional with profits business for a given amount of benefit.

New generation with-profits business

- How much should be invested in different types of assets.
- The setting of Expected Growth Rates (which is what we assume the long-term return on the investments for each fund to be, and which feeds into our smoothing formula).
- The setting of any smoothing adjustments that may be required. (These are adjustments, upwards or downwards, that may apply to your payout when you leave the fund.)
- The relative weightings between the expected growth rate and the actual investment return achieved, as used in our smoothing formula.
- The details of the smoothing formula we use to smooth investment returns to get to the smooth unit price.
- With each fund in run-off, decisions as to the ongoing operation of smoothing and the timing and nature of the closure of each fund.

In line with the demutualisation process that took place in 1993, as described in the 'Our with-profits contracts and funds' section of this document, the expenses or charges allocated to your investment are set at specific levels. If you've invested in unitised or new generation with-profits funds, you can find details of the charges in your illustration and policy conditions booklet. If you invested in traditional with-profits contracts, the relevant expenses charged to your policy were set in our Scheme of Demutualisation and are updated each year for inflation as set out in section 4.9.1 of our PPFM.

Investment policy

You can find the target investment ranges for traditional, unitised and new generation with-profits business in the PPFM (and listed later in this report). In addition, the actual levels are updated quarterly on our fund factsheets, which are available on our public website. The target ranges specify how much of each notional sub-fund is to be invested in a combination of equities (company shares) and property, with the balance to be invested in fixed interest securities (bonds issued by governments and companies) and cash.

Responsible investment

Aegon's responsible investment framework sets out how our with-profits fund assets should be managed, consistent with our objectives, relevant laws and market and consumer expectations. Responsible investment is commonly defined as the incorporation of environmental, social and governance (ESG) factors in investment decisions and stewardship. Prospective fund managers are screened based on their ability to meet our minimum expectations across five areas of responsible investment and to report back to us on activities across these themes and risks.

We expect our fund managers to commit to net zero by 2050 and to sign up to both the United Nations Principles for Responsible Investment and to be signatories to the UK Stewardship Code 2020 and apply its definition of stewardship, which is the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society". As at June 2023, our with-profits asset managers (Aegon Asset Management and Columbia Threadneedle Investments) comply with these expectations. This demonstrates a commitment by asset managers to champion clients' interests and to use their influence to promote sustainable value creation through activities such as voting at shareholder meetings and proactively engaging with companies to ensure they are being managed for the long-term benefit of clients.

Our climate-related disclosures, based on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, show how we are identifying risks and opportunities related to climate change, and acting on them. The Board supervises our efforts to address climate change related risks, and oversees our approach to sustainability, including, our responsible investment and stewardship commitments. This includes Aegon UK's net zero commitments, our climate road map and long-term resilience of the business to climate change. Climate-related key performance indicators (KPI) are evolving as we further build our understanding of the impact of climate change on Aegon, and currently include tracking progress on reducing the CO2 emissions per employee and the proportion of assets under administration that are responsibly invested.

You can find out more about responsible investment by visiting aegon.co.uk/customer/investment-choices/responsible-investing

Traditional and unitised with-profits

During 2022 the proportion of investments targeted to be invested in equities and property was as follows:

Non-unitised products:

Traditional with-profits (life & pension)	10-20%
Reflex Deposit Administration pension (WP) Pension deposit administration	0%

Unitised with-profits funds:

With-Profits Endowment pension fund (WPE) With-Profits Endowment life fund (WPC) With-Profits Whole of life fund (WWP)	0%
With-Profits Option 1 pension fund (WP1) Deposit Administration fund (DAF) Deposit Administration fund 2 (DA2)	15-25%
High Equity with-profits pension fund (WP2) With-Profits Bond (WPB)	65-75%

Under these notional sub-funds, the higher the level of guarantees for investors, the lower the target equity/property range generally. The Appendix to this report contains a summary description of each of these sub-funds along with a brief overview of any associated investment guarantee.

New generation with-profits

The target investment mix for the new generation with-profits funds during 2022 was as follows:

Life Growth, Pensions Growth and Pensions Stakeholder Growth sub-funds

UK and overseas equities	80-90%
UK and overseas fixed interest	10-20%
Cash and others	0-5%

Life Cautious and Pensions Cautious sub-funds

UK and overseas equities	35-45%
UK and overseas fixed interest	55-65%
Cash and others	0-5%

Investment returns

The gross investment returns (before any deductions or additions made by us) over the last two years under traditional and unitised with-profits investments are shown below. These investment returns feed directly into the calculations used to set the bonus rates and MVRs that determine payouts to policyholders. These returns don't directly represent changes in the value of with-profits policies to investors. When we set bonus rates and MVRs, investment returns are smoothed. Past performance isn't a reliable indicator of future results. The value of the investments can fall as well as rise for a number of reasons, for example market and currency movements. You may get back less than the amount originally invested if you surrender the policy before the selected maturity date.

Type of investment	2022 returns	2021 returns
Traditional with-profits (life and pension)	-13.6%	-0.6%
Reflex Deposit Administration pension (WP), Unitised Pensions WPE, Unitised Life WPC, WWP	-14.6%	-4.0%
Unitised Pensions WP1, DAF, DA2	-12.6%	+0.1%
Unitised Pensions WP2 Unitised Life WPB	-9.9%	+12.5%

Against a turbulent global backdrop, much of which followed from events associated with the Russian invasion of Ukraine, high inflation and rising interest rates, the investments of the fund experienced adverse returns over 2022. Our fixed interest and the overseas equity investments fell by between 10% and 20%. The fund's property valuations fell in value by around 9% whilst UK equities lost close to 5% in value.

In detail, the traditional and unitised with-profits fixed interest investments returned -14.6% and new generation with-profits fixed interest investments returned -12.6%. This was a direct consequence of increasing interest rates and bond yields. UK equities, overseas equities and direct property returned -4.6%, -12.6% and -8.6% respectively. The returns shown above reflect the corresponding asset mix held within each of the notional sub-funds (for example WP2 has a high UK equity content and so did not fall by as much as WPE, which only invests in fixed interest).

New generation with-profits sub-funds use a smoothed unit price to share out their profits and losses to investors, unlike traditional with-profits policies and unitised with-profits sub-funds, which use a system of yearly bonuses and final bonuses or MVRs. The change in smoothed unit price (for the 1% annual management charge version) for the new generation with-profits sub-funds over the last two years is shown below.

Fund	2022 unit price change	2021 unit price change
Life Growth fund	-3.5%	13.3%
Life Cautious fund	-8.0%	5.4%
Pensions Growth fund	-3.3%	14.6%
Pensions Cautious fund	-7.7%	6.2%
Pensions Stakeholder Growth fund	-3.3%	14.4%

The unit price changes in the new generation with-profits funds during 2022 broadly reflect the average of the underlying asset returns and the expected growth rates, which are detailed later in this report.

Yearly bonus rates, final bonus rates and MVRs

We declared yearly bonus rates on 1 April 2022 for those funds where the bonus is declared in advance, and on 31 December 2022 for those funds where the bonus is declared in arrears. This was done in line with the methods described in the PPFM. You can find the declared yearly bonus rates below, with the previous year's rates for comparison.

Yearly bonus declared in advance	1 April 2022	1 April 2021
Unitised with-profits pension:		
WP2	2.25%	2.00%
DAF	1.25%	1.25%
DA2	nil	nil
Pension deposit administration funds:		
SE Funding, Barclays Retirement Accumulator Plan, Money Plus and Money Purchase Plan	nil	6.30%
Unitised with-profits life:		
WPB (1.0% annual management charge)	2.75%	2.50%
WP0 (1.5% annual management charge)	2.75%	2.50%

Yearly bonus declared in arrears	31 December 2022	31 December 2021
Traditional with-profits:		
Life	2.50%	2.50%
Pensions	0.25%	0.25%
Pension deposit administration funds:		
Reflex Deposit Administration pension (WP)	nil	nil
Unitised with-profits:		
Pensions WPE fund	nil	nil
Pensions WP1 fund	nil	nil
Life WPC fund	nil	nil
Life WWP fund	nil	nil

Yearly bonus rates are in addition to any guaranteed growth rates, which are as follows:

Fund	Guaranteed growth rate each year
Traditional with-profits	In the range 2-5.5%
Reflex Deposit Administration pension (WP)	5.0%
Pensions Deposit Administration	0.0% (in other words the value can't fall)
Unitised Pensions WPE	Around 5.5%
Unitised Pensions WP1	4.0%
Unitised Pensions WP2 and DAF, Unitised Life WPB	0.0% (in other words the unit price can't fall)
Unitised Pensions DA2	3.0%
Unitised Life WPC	3.9%
Unitised Life WWP	2.7%
All new generation with-profits funds	No investment guarantees

Guaranteed growth rates only apply if you stay invested to a date specified in our policy documents (for example a specified maturity or retirement date or on earlier death).

Following from positive equity market returns over 2021, the 2022 annual bonus rate for the High Equity Unitised Pension WP2 fund was increased by 0.5% to 2.00% and the High Equity Unitised Life WPB fund by 0.25% to 2.75%. Where a nil annual bonus rate is declared this is because the expected investment returns are such that no annual bonus is affordable over and above the guaranteed growth rate.

It's important to view annual bonus rates in the context of the additions and guarantees over the whole investment term. We have to make sure that guarantees to our investors can be met. Once a yearly bonus is added to an investment, it increases the guarantees under that investment. If we build up guarantee levels that are too high, the financial position of the fund may be threatened and this may then require us to move into assets expected to give a lower investment return or reduce payouts to investors.

This is particularly relevant at the moment because:

- many of the notional with-profits sub-funds have high rates of future guaranteed growth on top of any yearly bonus additions (see the table on guaranteed growth rates above);
- guaranteed benefits continue to remain high relative to the investment return that has been achieved under a number of sub-funds, and

Because of all these factors, we believe the 2022 yearly bonus declaration represents a fair outcome to protect the long-term interests of all with-profits investors.

Guaranteed benefits and yearly bonuses represent only a part of the ultimate payout under a with-profits investment. There are also final bonuses or MVRs under unitised with-profits funds and final bonuses and surrender value bases under traditional with-profits contracts. We updated final bonus rates and MVRs every three months during 2022. All our final bonus and MVR calculations in 2022 were calculated using the methods set out in the PPFM.

For unitised with-profits pension deposit administration funds, we declare a bonus based on the investment return achieved on the With-Profits fund's fixed interest investments over the previous calendar year less a charge of 0.5%.

As the fund's fixed interest investments fell in value over 2021, the rate from 1 April 2022 was decreased to nil. This investment loss is now carried forward to be offset against any future gains before any bonus additions are made to the deposit administration funds.

Additions to policies from Estate distribution and deductions for guarantee costs

Additions from the Estate and deductions for guarantee costs apply only to traditional and unitised with-profits policies and do not apply to new generation with-profits policies.

The Estate represents the excess of assets within the fund over and above the amount required to meet our obligations to customers. The shareholder (Scottish Equitable plc) has no entitlement to any of the Estate, which is wholly for the benefit of with profits policyholders. The Estate is used to provide protection to the fund against the risk of adverse future events and to meet changes in the cost of guarantees.

Taking into account these requirements, we aim to distribute the Estate fairly to traditional and unitised with-profits policyholders over time by making discretionary additions from the Estate to investment returns or final payouts. Such additions are not guaranteed and the amount can be changed at any time.

In the event of adverse financial circumstances affecting the fund, we may have to take back past additions from the Estate we've made to investment returns and stop making additions to final payouts from the Estate.

During 2022 we made discretionary additions from the Estate to final payouts of 6% (first half of 2022), reducing to 3% (July to September) and then to 1% (October to December); before making any further increases required to meet guaranteed minimum payouts.

As we explain in the PPFM, we may make regular deductions from the with-profits investment returns to meet some of the expected future guarantee costs, including guaranteed annuity option costs. The rest of the expected future guarantee costs will be met from the Estate.

The same rate of addition from the Estate or deduction for guarantee costs applies to all our traditional and unitised with-profits policies. During 2022 we did not make any deductions for guarantee costs.

You can find more detail about the rates of deduction from investment returns for guarantee costs, and rates of addition to investment returns in relation to Estate distribution on the with profits sub-fund factsheets on our public website at aegon.co.uk/with-profits

Competing interests of different stakeholders

The main stakeholders of the With-Profits fund are the with-profits investors (policyholders) and the shareholder of Scottish Equitable plc. As the shareholder isn't entitled to receive a share of the profits generated within the fund (other than contractual policy charges and expenses), there is limited scope for conflicts of interest to arise between the with-profits investors and the shareholder. The shareholder's main aims are that the fund maintains enough capital to withstand adverse circumstances and that investors are treated fairly.

Different groups of with-profits investors within the fund have differing levels of guarantees depending on when they joined the fund. The assets in which different groups of with profits customers are invested vary depending on the level of guarantees they benefit from. Payouts on traditional and unitised with-profits policies (not on new generation with-profits policies) can be affected by the profits and losses made by the fund as a whole. This means that losses made as a result of guarantees that apply to only some policyholders could lead to reduced payouts for all policyholders in the fund (except for new generation policies). Conversely if guarantees applying to only some policyholders cost less than expected then all policyholders (except new generation policyholders) may benefit from this.

Management actions

As described earlier we expect to distribute the Estate over time by making additions to traditional and unitised with-profits policies. The Estate can vary in size as a result of profits and losses from the impact of investment returns on the cost of guarantees and various other factors such as how long people are expected to live.

When we test the financial strength of the fund to ensure that it is able to meet regulatory solvency requirements we make assumptions about what we would do to ensure the fund remains solvent in the event that the fund makes significant losses that could not be adequately covered by the Estate. These assumptions about what we would do are known to us and to our regulator as 'management actions'. During 2022 the management actions we assumed that we could take in the event that the fund incurred significant losses that could not be adequately covered by the Estate included:

- Reducing all regular bonus rates to nil
- Changing the asset mix on traditional and unitised with-profits policies so that it contains more government bonds and less company bonds and shares
- Reducing payouts on traditional and unitised with-profits policies, either by increasing the level of annual deductions for guarantee costs up to a maximum of 2% each year, or making a one-off deduction of up to 20%. We would not pay out less than any guaranteed minimum amount that applied.

Over 2022 the fund was able to meet its regulatory solvency requirements and we didn't require to take such actions. However, rising interest rates and inflation continued to impact the rate of estate distribution during the year as the estate fell in value. In the first half of 2022 we made estate distributions of 6% to exiting policies; during the third quarter of 2022 an estate distribution of 3% was applied and during the fourth quarter an estate distribution of 1% applied.

Ensuring fair payouts (traditional and unitised with-profits)

To help ensure that policyholders are treated fairly, we monitor levels of traditional and unitised with-profits payouts relative to the investment returns that have been achieved on the amounts invested by customers after allowing for expenses and charges and any discretionary additions from the Estate (the total of which is referred to as 'asset share' in the PPFM). Regulations set by the Financial Conduct Authority require us to make sure that we expect no less than 90% of maturity payments to fall within the target payout range specified in our PPFM. Our current target payout ranges as a percentage of asset share are:

Unitised with-profits (other than deposit administration)	85% - 115%
Unitised with-profits (deposit administration funds)	80% - 120%
All traditional with-profits life and pension contracts	70% - 180%

Throughout 2022, terminal bonus rates for unitised with-profits funds were determined by direct reference to smoothed investment returns less charges, resulting in target payouts at the point of each quarterly rate review of between 96.4% and 105.3% of asset share before any discretionary distribution from the estate was added.

Whilst the ratio varies by fund, they all started the year below 100% reflecting a period of generally favourable investment performance over the previous 2 years. However, as asset valuations fell sharply over 2022, the target payout ratio steadily increased quarter on quarter with all funds showing a target ratio in excess of 100% by the final quarter of the year. The ratio differs between notional sub-funds and is influenced by the smoothing position of each sub-fund, which in turn depends on both past investment returns and our assumptions about future investment returns; both of these varying depending on the underlying asset mix.

For traditional with-profits a single rate of final bonus is set for each group of policies of a similar age. In calculating the asset share for traditional policies we deduct a fixed amount per policy each year to cover administration expenses.

Because these fixed expenses have a particularly significant impact on the asset shares of very small policies we don't include policies worth less than £5,000 when we are checking that 90% of policy payouts fall within the 70% to 180% range.

All traditional with-profits payouts made during 2022 which fell below the lower end of the target range or above the upper end of the target range were checked for any underlying problem with the claim payout. The purpose of this review is to highlight any policies where we may conclude that action is required because the payout was unfair. No policies were identified as requiring an adjustment to their payout over 2022.

In addition to complying with our target payout ranges, if we find that a final bonus rate or MVR has been calculated incorrectly and we conclude that as a result a payout was unfair, our practice is that this will be corrected and, if appropriate, an additional payment made.

Calculation of surrender values (traditional with-profits)

The monitoring of payouts described above includes monitoring of fair surrender values for both premium paying and paid-up traditional with-profits contracts.

New generation with-profits - expected growth rates

We reviewed the yearly expected growth rates for the new generation with-profits funds during 2022 against our expected future rates of return on equities and fixed interest securities. As a result, the yearly expected growth rates applying during 2022 were:

Fund	From 01/04/22-31/03/23	From 01/04/21-31/03/22
Life Growth	4.50%	4.50%
Life Cautious	2.75%	2.50%
Pensions Growth (inc Stakeholder)	4.75%	5.00%
Pensions Cautious	3.25%	2.75%

These expected growth rates are before any annual management charge deduction. The expected growth rates for the life funds can be slightly lower than for pensions funds as life funds must allow for the expected effect of taxation.

New generation with-profits - smoothing adjustments

We currently don't apply smoothing adjustments to payouts to investors leaving the new generation with-profits funds as long as the ratio of the smoothed fund value to the actual value of the underlying investments is in the range 80% to 130%. During 2022 there were 10 claims where the ratio fell marginally below the bottom of this range. We therefore applied an upwards smoothing adjustment to these claims, with an aggregate impact of less than £100. There were 2 claims where the ratio marginally exceeded the top of this range and where we therefore applied downwards smoothing adjustments, with an aggregate impact of less than £20.

Changes to the PPFM during 2022

There were no material changes made to the principles of the PPFM during 2022. To reflect the closure of the NGWP Stakeholder Pensions Cautious fund, minor text updates were made to Principles 5.1.4 and 5.1.5 as well as Practice 6.1.3.

In addition, the following updates were made to the practices:

- Practice 4.1.3.1 was amended to delete reference to a small volume of reinsured business from Royal Scottish Assurance plc; an arrangement that ceased in 2021.
- Practices 4.7.9 and 6.3.8 were updated to reflect an increase in the overseas equity component of equity investments within relevant funds from 20%-40% to 30%-50%.

Our directors’ opinion on our with-profits management in 2022

We can confirm that, throughout 2022, we’ve met the requirements of the PPFM and we’ve exercised our judgement fairly, taking into account the interests of with-profits investors in a fair and reasonable manner. This is based on the evidence and explanations we’ve provided in this report, and a review undertaken by the With Profits Actuary. Scottish Equitable Policyholders Trust Ltd, acting as the Scottish Equitable With-Profits Committee, has reviewed this annual report to policyholders and the With-Profits Actuary’s statement.

The directors of Scottish Equitable plc
June 2023

We’re not allowed to give you advice, but if you’d like any further information on our with-profits contracts or funds and how we run them, please contact us:

Aegon and Scottish Equitable Pensions and Bonds
SUNDERLAND
SR43 4DS

03456 10 00 10
+44(0)131 666 8567 from abroad

Call charges will vary

Statement by the With-Profits Actuary

I can confirm that, in my opinion, the firm’s 2022 annual report to with-profits investors and the discretion exercised by the firm’s directors during 2022 have taken the interests of with-profits investors into account in a reasonable and proportionate manner. In reaching this conclusion, I have taken account of the information and explanations provided to me by the firm, as well as the relevant rules and guidance of the Financial Conduct Authority.

Alan McBride
With-Profits Actuary
Scottish Equitable plc

Appendix

Investment guarantees

The With-Profits fund contains a number of notional sub-funds with different features. The guarantees associated with each of these different sub-funds are listed below. These guarantees don't apply if you cash in your with-profits investment early (including switching your investment fund choice). Any guarantees are based on the ability of the issuing insurance company – in this case Scottish Equitable plc – to pay them. If, for example, the company no longer existed, then the guarantees it provides would be affected.

In the table, 'pension date' means the retirement date you selected at the outset of your policy.

Sub-fund	Investment guarantees in summary
Traditional With-Profits	Significant investment guarantees when held to the contractual maturity date.
High Equity With-Profits pension fund (WP2)	At certain points as set out in your policy conditions, a guarantee that the price you receive when you sell units won't be less than the selling price when you bought the units.
With-Profits Endowment pension fund (WPE)	Guaranteed minimum return of around 5.5% each year for units held to your pension date.
With-Profits Option 1 pension fund (WP1)	Guaranteed minimum return of around 4.0% each year for units held to your pension date.
Reflex Deposit Administration pension contracts (WP)	Guaranteed minimum return of around 5.0% each year for units held to your pension date.
Deposit Administration Fund (DAF)	At certain points as set out in your policy conditions, a guarantee that the price you receive when you sell units won't be less than the selling price when you bought the units.
Deposit Administration Fund 2 (DA2)	Guaranteed minimum return of around 3.0% each year for units held to your pension date.
Pension deposit administration contracts	A guarantee that the amount received won't be less than the amount invested into the contract plus any annual deposit bonus additions. The individual and group pension plans sold on this basis included SEF, Money Purchase, Money Plus, BRAP and BISCO.
With-Profits Bonds (WPB, WP8, WP9 and WP0)	At certain points as set out in your policy conditions, a guarantee that the price you receive when you sell units won't be less than the selling price when you bought the units.
With-Profits Endowment life fund (WPC)	Guaranteed minimum return of around 3.9% each year for units held to your contractual maturity date.
With-Profits Whole of Life fund (WWP)	Guaranteed minimum return of around 2.7% each year for units held to your 85th birthday.
New Generation With-Profits Growth and Cautious funds (life and pensions variants)	There are no investment guarantees applicable to these funds.