Forester Life Limited - Directors' Annual Report to Tunbridge Wells Fund's With-Profits Planholders - 2021

Introduction

This annual report explains how we managed the Tunbridge Wells Fund in 2021. In particular, it considers:

- if our operation of the Tunbridge Wells Fund during 2021 complied with the fund's Principles and Practices of Financial Management (PPFM). The PPFM is the document that we are required by law to produce and which sets out how the company will manage the fund. A copy of the latest PPFM can be found on our website www.foresters.com/en-gb/tools-and-guides/managing-with-profits-funds;

- the way we have exercised management discretion in making key decisions during 2021 and whether this was consistent with the PPFM; and

- how we have addressed any competing or conflicting rights, interests or expectations of the fund's planholders.

In order to ensure that the PPFM is maintained and complied with, we have established a Tunbridge Wells Fund Advisory Panel. The panel acts in an advisory capacity to inform and monitor the decision-making of Forester Life in its management of the Tunbridge Wells Fund and thereby protect the interests of the planholders in the fund.

In addition to taking advice from the panel, we also receive advice from our With Profits Actuary (WPA) on the management of the fund. The WPA is required to produce an annual report to planholders and a copy of the report for 2021 is also available on our website. The panel, although not required to do so, can choose to write to planholders if it feels it appropriate. However, as the panel considers that this report provides a full and fair view of the fund's operation in 2021, they do not intend to produce a separate report.

Statement of Compliance

Forester Life, having considered the advice of the panel and the WPA, believes that in respect of the calendar year 2021 it has complied with the PPFM in all material aspects. In particular, management discretion has been exercised appropriately and the competing or conflicting rights, interests or expectations of different groups of planholders have been taken into account.

Overview of 2021

In managing the fund, key areas of management discretion concern investment management, pay-outs from the fund, expenses, management of the fund's surplus assets, the non-profit business, and changes to the PPFM. Each of these areas is now considered separately.

Investment Management

Investment management of the Tunbridge Wells Fund is undertaken by Schroders.

The investment strategy of the fund is to invest in such a mix of asset classes as is necessary to facilitate the aims and objectives of the Tunbridge Wells Fund. These aims and objectives, which are fully outlined in the PPFM, are broadly:

- to provide and manage a fund that is suitable for both medium and long-term investment by individual customers who are seeking a return that reflects some exposure to real assets while providing a degree of security of capital;

- to manage the fund in such a way as to enable each plan to benefit from investment returns achieved from a mix of asset classes while at the same time limiting exposure to the risk of investment in volatile asset classes; and

- to achieve as good an investment return as is practicable for each plan.

To meet this strategy the fund's investments can include UK and overseas equities, UK and overseas government bonds, UK and overseas corporate bonds, UK and overseas pooled investment vehicles (e.g. unit trusts, OEICS, etc.), money market instruments, derivative instruments, property (including property trusts) and cash.

The Fund aims to match the cash-flows from the fixed interest investments with the expected guaranteed payments to planholders.

Pay-outs

The management of pay-outs from the fund is achieved through the setting of bonuses, smoothing of pay-outs and determining surrender values.

Bonuses are set to ensure a planholder receives a fair and equitable share of the fund in respect of the period they are invested. To do this, we calculate a value known as an asset share. An individual plan's asset share consists of the payments made into it, less management expenses, tax and other charges plus a share of any business profits added. These amounts are then built up at the rate of investment return allocated to the plan.

During 2021, there were no changes to the annual bonus rates, whilst final bonus rates for unitised with-profits plans were adjusted in January and July. For other with-profits plans, the final bonus is based on a plan's individual asset share.

In respect of smoothing, we smooth the investment returns applied to the asset shares for maturing policies and death claims.

The surrender value methodology also uses individual asset shares to determine plan pay-outs, but without smoothing.

All of these actions ensured that the majority of pay-outs during 2021 were in line with the target ranges set out in the PPFM. Almost all cases above the range were paid-up cases, where a generous paid-up methodology applied in the past. The one additional above range case was a Boots Old plan, to which enhanced terms apply as part of a past business transfer. All the cases below the ranges were cases where the asset share is less than zero.

Given that more than the required 90% of pay-outs fell within the ranges and the fact that the methodology uses individual asset shares to determine pay-outs, we consider pay-outs from the fund to be fair and reasonable.

Management of Expenses

The expenses and costs charged to the fund were no higher than those specified in the transfer agreement that led to the establishment of the Tunbridge Wells Fund.

Surplus Assets in the Fund

The Tunbridge Wells Fund has additional surplus assets in excess of those required to meet the expected claim payments to planholders, the fund's expenses and tax. As the fund is now closed to new business, pay-outs from the fund will include, where appropriate, a proportion of this additional surplus. The aim is to distribute it on a fair basis to different generations of planholders taking into account the need to retain capital in the fund for future contingencies.

Non-profit Business

A particular issue for the fund was the block of non-profit business, which was becoming more significant due to the rapid run-off of the with-profit business. The non-profit business is expected to stay in force for longer than the with-profits business and holding back capital to support it made it harder to run-off the with-profits business in an equitable fashion.

With effect from 1 October 2021, a reinsurance agreement was put in place with Forester Life's Open Business Fund (OBF). Under this agreement, the risks under most of the non-profit business were reinsured with the OBF in return for a reinsurance premium.

The method for calculating the reinsurance premium and the premium itself were agreed by both the With Profits Actuary (representing the Tunbridge Wells Fund planholders) and Forester Life's Chief Actuary (representing the OBF planholders). In particular, the With Profits Actuary believes that the premium was fair to the Tunbridge Wells Fund and will allow the fund to be run off equitably.

Changes to the PPFM

No changes were made to the PPFM during 2021. However, changes were agreed during the year and made with effect from 1 January 2022:

- In the introductory section, we note that most of the risks on the non-profit business were transferred to the company's Open Business Fund. This was done to allow the Tunbridge Wells Fund to be run-off in a way that is fairer to the remaining with-profits planholders.

- We have also updated section 4.7 on pay-outs. Previously we expected most maturity pay-outs to fall within a range of 70% to 130% of adjusted asset share. Following a review of the target ranges, this has been changed to 80% to 120% of adjusted asset share, and some explanation for the width of the range has been added. A similar change has been made for surrender pay-outs where the range was 65% to 135% and has been changed to 75% to 125%.

Further Information

If you have any questions regarding this document, please write to the following:

Customer Services
Foresters House
2 Cromwell Avenue
Bromley
BR2 9BF

Email: service@foresters.co.uk

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