

Additional Pension Savings Survey 2006

With-profits results



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Introduction

In this year's Additional Pension Savings Survey, we have gathered together all of the information that is pertinent to with-profits investment and published it in this 'With-profits results' brochure.

As in previous years, we approached the leading AVC providers and have received responses from the majority of these. However, there are some

providers, typically those that are closed to new business, which have declined to complete the survey.

Investment mix

We asked the providers to give us details of the investment mix underlying their with-profits funds as at 31 December 2005. The responses from the providers are presented in Figure 1 showing the detailed breakdown of the underlying assets

in each fund. Where a provider operates more than one with-profits fund, we have shown the fund to which new with-profits business is being directed.

The trend for an increasing proportion of the average with-profits fund to be invested in real assets, such as UK and overseas equities and property, has continued since the 2005 survey. This is demonstrated

Figure 1: With-profits fund investment mix as at 31 December 2005

| Provider | UK equities % | Overseas equities % | Property % | Fixed interest % | Cash % | Other % |
|--------------------|---------------|---------------------|------------|------------------|------------|------------|
| AXA | 31.8 | 10.1 | 16.5 | 37.9 | 1.3 | 2.4 |
| CIS | 50.5 | 14.9 | 0.0 | 32.6 | 2.0 | 0.0 |
| Clerical Medical | 34.4 | 8.3 | 17.9 | 32.7 | 5.0 | 1.7 |
| Friends Provident | 29.1 | 10.7 | 8.2 | 46.0 | 1.7 | 4.3 |
| Legal & General | 38.0 | 11.0 | 18.0 | 33.0 | 0.0 | 0.0 |
| Norwich Union | 41.3 | 13.1 | 18.0 | 22.3 | 5.3 | 0.0 |
| Prudential | 40.0 | 19.0 | 15.0 | 21.0 | 3.0 | 2.0 |
| Royal London | 35.5 | 7.9 | 12.6 | 35.0 | 3.1 | 5.9 |
| Scottish Equitable | 45.9 | 10.4 | 0.0 | 42.9 | 0.8 | 0.0 |
| Scottish Life | 19.0 | 7.0 | 7.0 | 66.0 | 1.0 | 0.0 |
| Scottish Widows | 38.0 | 9.0 | 11.0 | 32.0 | 0.0 | 10.0 |
| Skandia | 39.2 | 15.9 | 0.0 | 44.8 | 0.1 | 0.0 |
| Standard Life | 20.8 | 7.4 | 14.0 | 45.4 | 9.9 | 2.5 |
| Winterthur Life | 35.8 | 5.5 | 1.1 | 53.3 | 1.9 | 2.4 |
| Zurich | 42.0 | 0.0 | 0.0 | 54.0 | 4.0 | 0.0 |
| Average | 36.1 | 10.0 | 9.3 | 39.9 | 2.6 | 2.1 |



in Figure 2 which shows how the proportion of the underlying assets of the average with-profits fund has altered over the last five years of the AVC Survey.

However, this trend towards increasing exposure to real assets can only be exercised by those with-profits providers that have the financial strength to operate with this degree of investment flexibility. The offices with a more constrained financial position are required to closely match their liabilities, mainly with the use of fixed interest securities.

Figure 2: Proportion of with-profits funds held in real assets

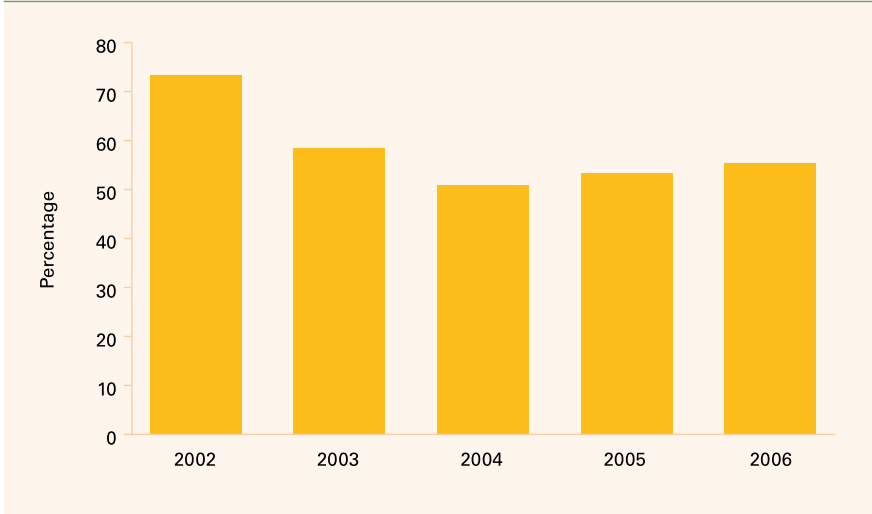


Figure 3: Underlying performance of with-profits funds

| Provider | Underlying return in 2005 (gross) % | Annual bonus rate applying at 31/12/2005 % | Date rate declared |
|--------------------|-------------------------------------|--------------------------------------------|--------------------|
| AXA | 15.9 | 2.75 | 28/02/2005 |
| Clerical Medical | 15.0 | 1.00 | 01/02/2005 |
| Friends Provident | 15.0 | 1.90 | 16/02/2005 |
| Legal & General | 19.0 | 4.75 | 31/12/2005 |
| Norwich Union | 17.7 | 4.00 | 01/01/2005 |
| Prudential | 20.0 | 3.00 | 15/03/2005 |
| Royal London | 17.4 | 3.00 | 01/01/2005 |
| Scottish Equitable | 16.9 | 0.50 | 01/04/2005 |
| Scottish Life | 14.5 | 0.50 | 01/01/2005 |
| Scottish Widows | 16.0 | 1.50 | 01/07/2005 |
| Standard Life | 16.1 | 2.50 | 01/02/2005 |
| Winterthur Life | 13.0 | 0.00 | 01/01/2005 |
| Zurich | 9.8 | 1.00 | 14/03/2005 |

The bonus rate shown for Legal & General is the Interim bonus payable on contributions made in 2005 to FPF contracts.

| Indices | Return in 2005 % |
|--------------------------------|------------------|
| FTSE All Share Index* | 22.0 |
| CAPS Property Index* | 19.2 |
| FTSE A All Stocks Gilts Index* | 7.9 |
| CAPS UK Cash Index* | 4.6 |

*Source: CAPS

Underlying returns

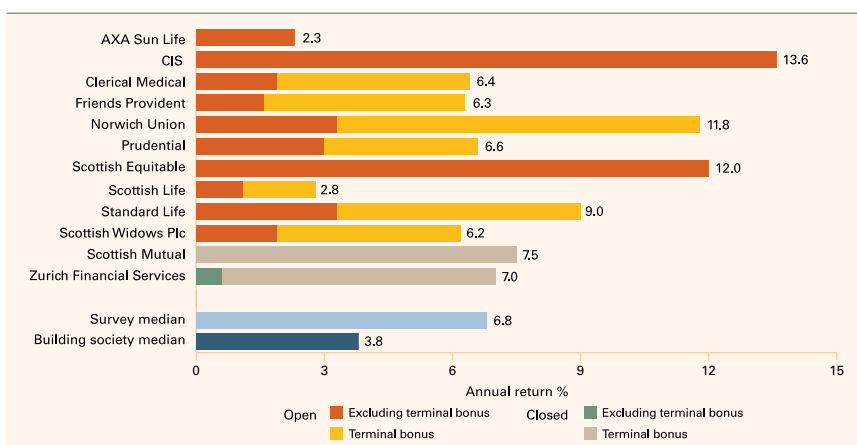
In Figure 3, we have compared the actual returns earned on the underlying with-profits assets during 2005 with the returns of the various indices relevant to the asset classes in which the funds are invested, and also the regular bonus rate applied by the funds at the end of 2005.

The underlying returns achieved during 2005 have generally reflected the proportions invested in real assets, with the fund with the highest exposure to real assets achieving the highest returns. The returns on the underlying assets have again exceeded by some margin the reversionary bonus levels declared. This implies that some returns are being held back to meet the cost of bonuses already promised and to allow for reversionary and terminal bonuses to be distributed in future (if appropriate).

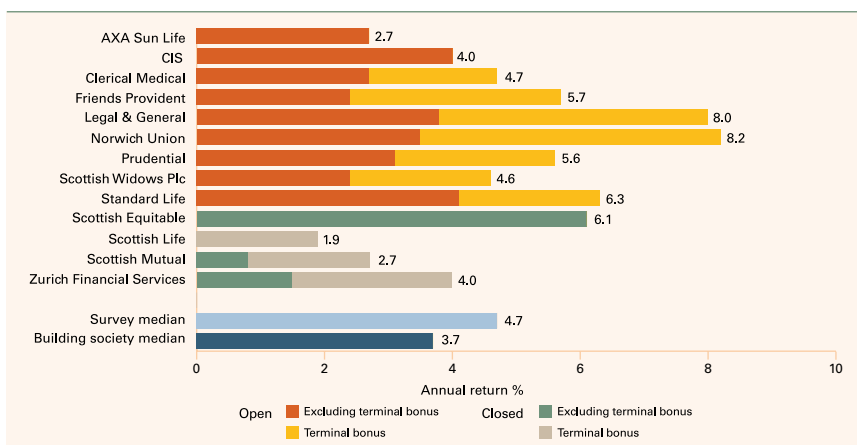
Performance results

We asked the providers to give us details of accumulated fund values at maturity, taking account of the charges applied for clients of Watson Wyatt, assuming contributions of £25 per month and £100 per month. Figures for the with-profits policies illustrated have been gathered together in the six tables on this page of this brochure. Performance has been measured over three-, five- and ten-year periods to 1 March 2006.

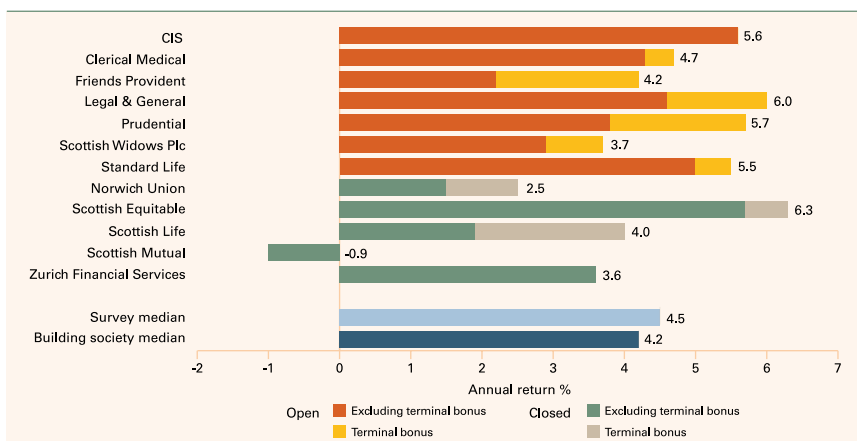
Three-year performance to 1 March 2006 based on a contribution of £25 per month



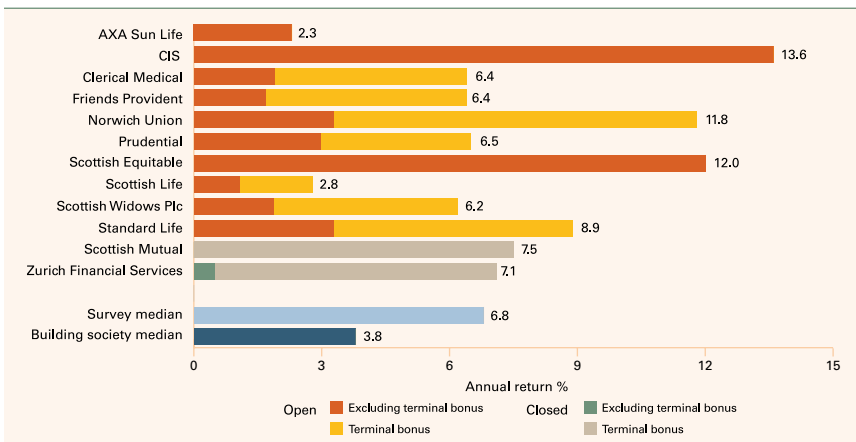
Five-year performance to 1 March 2006 based on a contribution of £25 per month



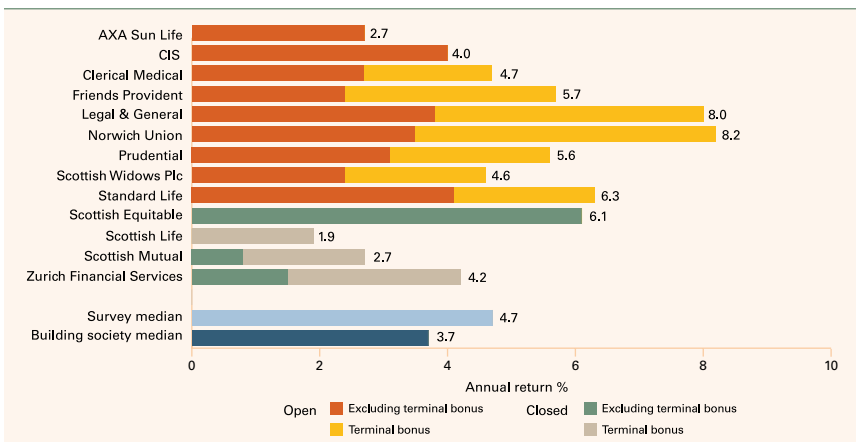
Ten-year performance to 1 March 2006 based on a contribution of £25 per month



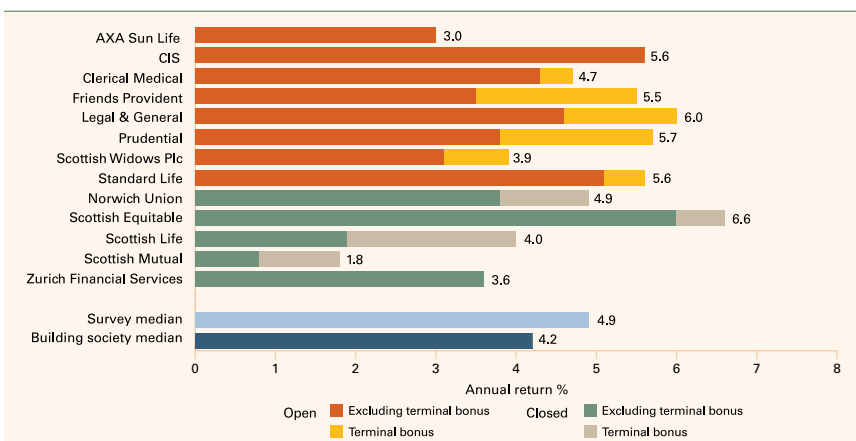
Three-year performance to 1 March 2006 based on a contribution of £100 per month



Five-year performance to 1 March 2006 based on a contribution of £100 per month



Ten-year performance to 1 March 2006 based on a contribution of £100 per month



We have split the charts to separately identify those providers whose AVC funds are open to new schemes and those now closed to new contracts (in green and grey), but continue to operate for existing schemes. Median with-profits fund figures are also shown in each table, and for comparison purposes, we have also shown the performance of the median bank/building society deposit fund, calculated on the same basis.



When reviewing the results the following points should be borne in mind:

- Not all providers' contracts have been available for sufficient time for results to be available for the relevant time period. As a result, no performance information is shown in these cases.
- No response was received from several life companies that previously contributed to the survey but that are now closed to new business, such as Equitable Life, London Life, NPI and Royal & SunAlliance – so they have not been included in our survey.
- Figures for £25 per month have not been shown for AXA Sun Life for the ten-year term as this was below its minimum contribution at the time.
- The five and ten-year figures shown for CIS are for a with-profits contract that is only available for co-operative societies. However in April 2001, CIS introduced an alternative with-profits fund, accessible by external clients, which distributes a smoothed return using a variable unit price and, hence, does not contain some of the guarantees inherent in other with-profits funds.
- No three-year term figures have been shown for Legal & General as its minimum term for with-profits investment is five years.
- The five and ten-year figures shown for Scottish Equitable are for with-profits funds that are no longer open to new business. The three-year figures are for the With Profits Growth fund which was launched in September 2002 and which distributes a smoothed return using a variable unit price and, therefore, does not contain

some of the guarantees inherent in other with-profits funds.

- The three-year performance data for Scottish Life is for the Royal London Ordinary Long Term Fund to which all new business is now directed.

Whilst every care is taken to ensure that the figures shown in this survey are correct, we are reliant on the accuracy of the information provided to us.

Performance highlights

The three, five and ten-year figures to 1 March 2006 generally show a continuation of the trend of improving performance for with-profits funds, particularly for shorter-term policies, due to the continuing recovery of equity markets over the year to 1 March 2006. This is highlighted by Figure 4, which shows how the median with-profits fund returns for £100 per month policies of durations of three, five and ten years have

changed over the last five years' AVC surveys.

However, it is noticeable, within these shorter term policies the increasing proportion of the final payout that is represented by final bonuses. These final bonuses are only added to the policy at maturity and therefore, unlike the annual bonuses, do not increase the liabilities of the life company during the lifetime of the policy. Instead, they are added at the end of the policy to better reflect how the underlying asset share of the policy has accumulated over the term.

It should also be noted that the CIS and Scottish Equitable with-profits fund returns over the three-year period are for funds that do not contain the guarantees implicit within other funds and are able to distribute a greater proportion of the underlying return on their assets through a variable unit price.

Figure 4: Comparison of long term with-profits median returns





All providers now only take their fees through an annual management charge, applied as a percentage of the funds under management. Over the ten-year terms illustrated, a handful of providers still levied additional fixed charges, and hence, where this is the case, these charges had a greater impact on the £25 per month rather than the £100 per month policies and this is reflected in the performance figures in the charts.

Comparative performance

In Figure 5, we have shown a comparison between the median returns over the last five years for with-profits, unit-linked managed and

building society funds over a ten-year term for policies paying a regular contribution of £100 per month.

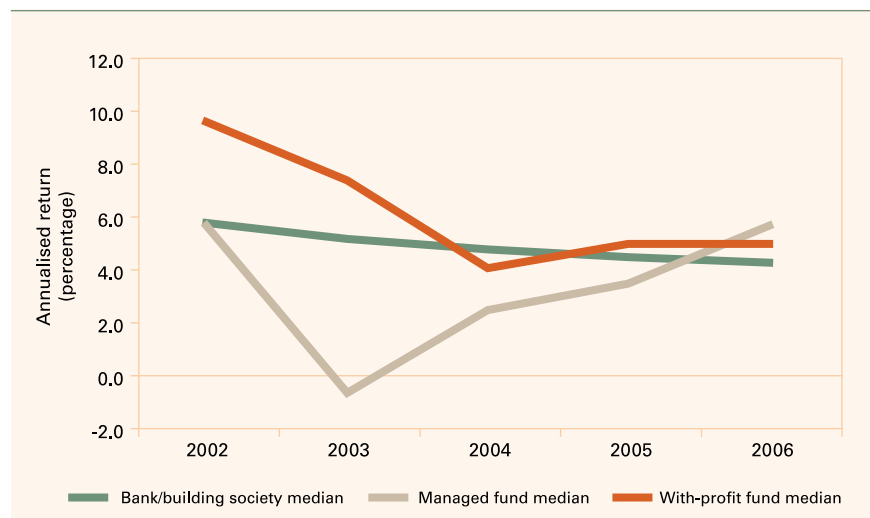
The Figure shows that the strong returns achieved by stock markets over recent years have meant that the average managed fund is now producing a superior annual return compared with the average with-profits fund. Whilst, during periods of market turbulence, the smoothing of returns by with-profits funds enabled them to continue delivering positive performance. Now that markets have recovered, many with-profits funds have had to reduce their exposure to real

assets and, as a result, are unable to benefit for the strong growth in these asset classes.

This survey could not be produced without the information supplied by the providers, and we are grateful for the time and effort spent in providing their responses.

We hope that the information provided within this survey will prove to be useful to you. However, we would suggest that any trustees considering the options available to them for future AVC provision should take appropriate advice before taking any action.

Figure 5: Comparison of 10-year, £100 per month returns



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