



# Friendly MoneyBuilder Key Features

The Financial Services Authority is the independent financial services regulator. It requires us, Scottish Friendly, to give you this important information to help you to decide whether our Scottish Bond is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.

## **ITS AIMS**

- To provide you with a cash lump sum at the end of 15 years.
- To provide life cover during the 15-year term.

## **YOUR COMMITMENT**

- You agree to pay regular monthly premiums for 15 years.
- Premiums increase by 20% of the initial premium each year for the first 5 years.

## **RISK FACTORS**

- Future bonus rates will depend on investment performance and are not guaranteed.
- Your circumstances may change, forcing you to cash in the policy early. You will get nothing back if you cash-in in the first two years.
- If you cash in your plan early you are unlikely to get back as much as you have paid in. A Market Value Adjustment may apply if you cash in early.
- Our deductions may turn out to be higher than expected.
- If you stop paying premiums in the first two years, the plan will lapse with no value.

No advice has been provided by Scottish Friendly in relation to this plan. If you are in any doubt as to whether this plan is suitable for you, you should contact a financial adviser for advice. If you do not have a financial adviser, you can get details of local financial advisers by calling IFA Promotion on 0800 085 3250 or visiting [www.unbiased.co.uk](http://www.unbiased.co.uk). Advisers may charge for providing such advice and should confirm any cost beforehand.



### **What might I get back after 15 years?**

#### **An example:**

**Investor** – Aged 35 next birthday

**Policy Term** – 15 years

**Initial Monthly Premium** – £10

**Life Cover** – £2,430

**Minimum Cash Sum** – £2,959

**Total invested** – £3,240

If investments grew at 4% per year you would get back £3,580.

If investments grew at 6% per year you would get back £4,080.

If investments grew at 8% per year you would get back £4,660.

- These figures are only examples and are not guaranteed. They are not minimum or maximum amounts. What you get back depends on how your investments grow.
- You could get back more or less than this.
- All friendly societies use the same rates of growth for illustrations, but their charges vary.
- Do not forget that inflation would reduce what you could buy in the future with the amounts shown.

### **What is Friendly MoneyBuilder?**

- It is a unitised with profits regular savings plan with a 15-year fixed term.
- It gives life insurance cover on your life.
- It guarantees to pay a minimum cash sum after 15 years.

### **How does it work and how is my money invested?**

- You select at outset how much you initially wish to save each month. At the end of each of the first 5 years, premiums increase by 20% of the initial premium.
- After deducting the charges shown in the illustration, the remainder of each premium is used to buy units in our With Profits Fund. The Fund, which is part of the Society's main taxable fund, is invested in a wide variety of long-term investments such as fixed interest stocks, commercial property and company shares.
- Your plan comes into force when your policy document is issued and your first premium is successfully collected.
- Regular bonuses are added by increases in the unit price. The rate of bonus additions will vary from time to time, reflecting changes in market conditions and the rates of return being achieved from the underlying investments. The Society aims to provide a smooth rate of increase in unit prices by ironing out extreme fluctuations in the underlying investment returns.

### **How much can I save?**

- Regular premiums must be paid monthly by direct debit.
- The minimum initial monthly payment is £10 and the maximum is £100.

### **What if I were to die during the term?**

- The plan will pay out a lump sum if you should die before the plan ends. The amount of this lump sum will depend on the value of your savings (including any terminal bonus) but, provided that we can apply our standard terms to the life cover, it will be at least the life cover amount shown in the illustration the next page. We will tell you before the plan starts if special terms apply.
- Once we have paid out a lump sum on death, the plan ends and has no further value.

#### What happens if I stop paying the premiums?

- If you stop paying premiums in the first two years, the plan will lapse with no value. If you stop paying premiums after the first two years, you can decide to make the plan 'paid up' (if you do not take a surrender value). This means your money will be left invested, no more units will be bought and life cover will cease. The value of the plan at the end of the term will depend on the growth of the units purchased before the plan was made 'paid up'.
- Provided we have not paid out any cash-in value, you can restart the plan at any time within 13 months of the due date of the first outstanding premium, subject to satisfactory evidence of health and payment of the outstanding premiums. After 13 months the policy cannot be reinstated.

#### What happens if I need to cash in early?

- If you cash in during the early years you may get back less than you paid in.
- Please refer to the table opposite for more information about initial charges and some examples of possible cash-in values.
- If any benefits are taken at any time other than maturity (or death), we may reduce the value of your units by applying a Market Value Adjustment (MVA).
- An MVA will apply if, in our view, the actual investment return achieved over the time your plan is in force is insufficient to support the bonus additions. For example, a reduction may be made when stockmarkets are depressed. This could be a significant proportion of the value of units. The MVA is designed to protect continuing investors and ensure a fair distribution of investment returns.

#### The early years

The illustration below is based on an initial £10 monthly investment in the Friendly MoneyBuilder for an investor aged 35 next birthday.

**WARNING:** If you cash in during the early years of your plan, you could get back less than you have paid in.

The last two columns assume that investments will grow at 6% a year.

At end of year	Total paid in to date	Total actual deductions to date	Effect of deductions to date	What you might get back
	£	£	£	£
<b>1</b>	120	120	125	0
<b>2</b>	264	264	283	0
<b>3</b>	432	266	303	166
<b>4</b>	624	271	325	370
<b>5</b>	840	277	352	609
<b>10</b>	2,040	349	550	2,130
<b>15</b>	3,240	500	903	4,080

#### What are the deductions?

For the example shown above, there is:

- An initial charge of 100% of each premium paid in the first 24 months.
- A regular charge for the cost of life cover.
- Any expenses not covered by other charges will be charged for by a reduction in the bonuses declared in the With Profits Fund and this reduction is assumed to be 1% of the Fund value per year in the above table.

#### **What are the deductions for?**

- The deductions include the cost of setting up the policy, service and administration expenses and the cost of life cover.
- The last line in the table shows that, over the full term of the policy, the effect of the total charges could amount to £903.
- Putting it another way, this would have the same effect as bringing investment growth down from 6% to 3.3%.

#### **FURTHER INFORMATION**

##### **Cancellation rights**

- After your application is accepted, you will receive notice of your right to cancel the policy. By law, you then have 30 days in which to change your mind. To cancel, you simply need to follow the instructions contained within your welcome pack. If you cancel within this time, you will receive back any premiums paid.

##### **Investments**

- Your money will be invested in the Society's main With Profits Fund. The main fund invests in a wide range of shares, government stocks and commercial property.

##### **Tax**

- The fund in which your money is invested is subject to tax, which is paid by us. If you pay all the premiums due, the benefits paid out will, under current rules, be free of personal Income Tax and Capital Gains Tax. However, if the cash sum on death forms part of your estate, Inheritance Tax might have to be paid on it.
- All references to taxation are to UK taxation and are issued on the basis of Scottish Friendly Assurance Society's understanding of current tax law and practice. In particular, it must be remembered that the levels and basis of taxation may change.

##### **Cashing in**

- You may cash in at any time, however, in the early years, the return may be less than the amount paid in. You will receive nothing if you cash in during the first two years.
- Applications for termination or surrender should be made in writing to Scottish Friendly.

##### **Language**

- The contractual terms and conditions and all communications in relation to this plan will be supplied in English.

##### **Law**

- In legal disputes, the law of Scotland will apply.

##### **The Society**

- Scottish Friendly Assurance Society Limited was founded in 1862 (formerly The City of Glasgow Friendly Society) and is an incorporated friendly society under the Friendly Societies Act 1992, registered in the United Kingdom at the address overleaf. The total funds under management are over £800m (as at 31/12/07).

##### **Queries and complaints**

- For further information, or if you wish to complain about any aspect of the service you have received, please contact Scottish Friendly Assurance Society Limited, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ. If your complaint is not dealt with to your satisfaction, you can complain to the Financial Ombudsman Service, South Quay Plaza, 183 Marsh Wall, London E14 9SR. Tel: 0845 080 1800. Making a complaint will not prejudice your right to take legal proceedings.

### **Direct debit guarantee**

- This guarantee is offered by all Banks and Building Societies that take part in the Direct Debit Scheme. The efficiency and security of the Scheme is monitored and protected by your own Bank or Building Society. If the amounts to be paid or the payment dates change, Scottish Friendly will notify you 5 business days in advance of your plan being debited, or as otherwise agreed. If an error is made by Scottish Friendly or your Bank or Building Society, you are guaranteed a full and immediate refund, from your branch, of the amount paid. You can cancel a Direct Debit at any time by writing to your Bank or Building Society. Please also send a copy of your letter to Scottish Friendly.

### **Rules of the Society**

- A copy of the Rules of the Society is available on request from the Society.

### **Your Client Category**

- We are required to categorise our clients and this determines the level of detail and information that you will receive. We will treat you as a 'Retail Client' in respect of the services we will provide you, which means that you will benefit from the highest level of consumer protection.

### **Compensation**

- If Scottish Friendly is unable to meet its liabilities, compensation may be payable by The Financial Services Compensation Scheme. The first £2,000 of a claim in relation to the value of the plan is protected in full. Above this, the Scheme covers up to 90% of the remaining plan value. Further information on the Scheme can be obtained from the Financial Services Compensation Scheme. Tel: 020 7892 7300 [www.fscs.org.uk](http://www.fscs.org.uk)

### **A GUIDE TO HOW WE MANAGE OUR WITH PROFITS FUND**

The premiums you pay into the Friendly MoneyBuilder are invested in Scottish Friendly's With Profits Fund. This guide tells you how we manage the fund and explains what you can expect to get back from the Friendly MoneyBuilder.

**Please read this guide – it gives important information about how with profits policies work.**

### **Introduction**

We manage our With Profits Fund by following a set of principles. These principles and how we follow them in practice are explained in a document called the 'Principles and Practices of Financial Management' (PPFM). PPFM is a long and detailed document. This guide is a summary of the contents of the PPFM. If there is any conflict in interpretation between this document and the PPFM then the PPFM takes precedence.

### **What is a 'unitised with profits' policy?**

Premiums paid into a unitised with profits policy buy units in the With Profits Fund. The number of units bought depends on the amount of the premium, the unit price on the day the premium is paid and any deductions we make to pay for our expenses. Regular bonuses are added throughout the policy term through daily increases in the unit price. A final bonus called a 'terminal bonus' may be added at the maturity date.

What you get back at the end of the policy term will depend on the total number of units you have bought, the unit price on the maturity date (which includes regular bonuses) and any terminal bonus we add. The bonuses added to with profits policies depend on the way we manage the With Profits Fund and on how the investments in the With Profits Fund have performed while you have been paying premiums into it.

### **What are the main principles we follow?**

- We manage the With Profits Fund and determine bonus payments in a lawful, sound and prudent manner.
- We aim to treat all policyholders fairly.
- We aim to ensure that we can pay all guaranteed benefits as and when they become due.

### **How do we decide regular bonuses?**

- Regular bonuses are set by taking into account what the fund can afford now and in the future.
- We normally set regular bonus rates once a year.
- We aim not to vary too much the amount of regular bonuses from year to year.
- We take into account the interest rate payable on risk-free government bonds when setting the regular bonus rate.

When regular bonuses are added by increasing the unit price they cannot be taken away. The unit price is guaranteed not to fall. However, if you leave the fund early a Market Value Adjustment may apply. See 'What happens if you leave the fund early?'

### **How do we decide terminal bonuses?**

Terminal bonuses are paid to make sure that you get back an amount that fairly reflects performance of the With Profits Fund investments, if the regular bonuses we have added have not already done this. We call this amount your 'asset share' or 'fair share'.

When we calculate your fair share we take into account the premiums you have paid, the investment performance of the With Profits Fund while the premiums have been invested and the charges we make to cover our expenses.

We aim to pay out on average the full fair share to policyholders but we ignore day to day movements in the value of the fund.

Terminal bonuses may not be added at all if the value of the With Profits Fund falls to a level where other policyholders' guaranteed benefits may become at risk of not being paid.

### **What are the charges?**

The charges cover the expense of selling and setting up the policy, the expense of investing the premiums, the cost of ongoing administration and the cost of providing life insurance.

We deduct some charges from premiums before you buy units in the With Profits Fund. Other charges are made by reducing the number of units held on a monthly basis or are taken into account before regular bonuses are added.

You will receive a personalised illustration showing the amount of the charges once your policy is set up. The Key Features show the charges for a typical investor.

### **What happens if you leave the fund early?**

We also use a 'fair share' approach when we work out how much to pay if you decide not to pay premiums until the maturity date. If the value of the units you hold is greater than the fair share because of movements in the value of the assets held by the With Profits Fund a Market Value Adjustment (MVA) may be applied. This maintains fairness between policyholders leaving the fund and those staying in it. We use a method called 'smoothing' when deciding what MVA should be applied, if any.

To reflect the cost of setting up your policy, there will be no payment if you stop paying premiums within the first two years.

**What is 'smoothing'?**

We group policies by the month in which the policy started. We calculate a fair share value for each group of policies depending on the amount of premiums paid etc. If we decide that an MVA should apply, we aim to ensure that every policyholder who leaves receives an amount which is within 5% of their full fair share. The target range for payments where no MVA applies is 75% to 150% of the full fair share.

**What happens if you die before the end of the policy term?**

The full value of the units held at the time of death is paid out. Terminal bonus may also be paid but this will depend on the number of years the policy was in force before the time of death.

**What does the With Profits Fund invest in?**

The With Profits Fund invests in a range of assets including stocks and shares, government bonds, property and cash. We aim to maximise the investment returns while ensuring the fund can meet its commitments to policyholders.

We formally review the assets in the fund every year and more frequently when market values are volatile. We closely monitor the amount of shares and property invested in the fund as returns from these investments are generally more volatile than those from government bonds and cash. We would expect this to generally be in the range 40% to 70%.

**Why does the fund have more assets than it needs?**

At all times the With Profits Fund needs to hold enough assets to pay policyholders the benefits promised to them i.e. their fair share. In addition, the fund needs to hold extra assets to pay for any guarantees it has promised e.g. that the unit price will not fall if a policy is held for the full term. We hold reserves to cover these amounts.

Over the history of the Society, the With Profits Fund has built up more assets than the reserves needed. The extra assets are called the 'inherited estate'. The inherited estate gives the fund working capital and supports the way the With Profits Fund works e.g. the inherited estate supports the cost of smoothing payouts to those who leave the fund early.

**What risks are the With Profits Fund exposed to?**

The Society does not have any shareholders so the with profits policyholders ultimately receive the benefits but bear the risks of all business activity carried out.

There is a risk associated with selling new policies. There are currently no limits on the amount of new business that may be accepted into the With Profits Fund. However, we review our business plans each year to ensure that the costs of selling and maintaining the policies can be supported by the fund without damaging the interests of existing policyholders.

There is a risk that the cost of maintaining existing policies rises. Increases in expenses cannot be passed on to policyholders who hold policies which are not 'with profits' policies. The With Profits Fund currently meets the cost of any expense overruns for these 'non profit' policies. The non profit policies make up around 10-15% of the society's liabilities.

Any other business ventures undertaken by the Society must be approved by the Board of Directors. These ventures might include launching new products or wider strategic developments such as changing the way products are distributed and sold. The Board will act on the advice of the With Profits Actuary who looks after the interests of the with profits policyholders. To be approved a venture must be expected to achieve appropriate returns given the risks involved and the returns should be comparable with other available investments.

Any profits or losses arising from business risks are met by the inherited estate and are not taken into account when determining the fair share payable for maturing policies. However, if the level of the inherited estate falls below the level needed to support the fund losses may be deducted from fair shares.

**Where can I find out more?**

The full PPFM is available on our website [www.scottishfriendly.co.uk](http://www.scottishfriendly.co.uk) or you can request a copy by calling 08456 00 54 33.

*This leaflet is a brief guide to the Key Features of the product. Full details are contained in the policy document, which is evidence of the legally binding contract between you and Scottish Friendly Assurance Society Limited.*

*If you have any queries, call us on:*

**08456 00 54 33**

*(Lines are open 8.30am to 5.30pm Monday to Friday.  
The maximum call charge from a BT landline is 4p  
per minute. Calls from other networks may vary.  
We may record and monitor calls to help us  
to improve our service.)*



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Details can be found on the FSA register – Registration No. 110002.  
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