

## What

- Outlines the Key Features and terms and conditions of our Tax Exempt Savings Plan

## Why

- To help explain the Tax Exempt Savings Plan – how it works, its aims, terms and conditions
- To give you the main features of the product to help you decide if it is suitable for you
- Includes information on your bonuses and how we invest, manage, protect and grow your money



The Financial Services Authority is the independent financial services regulator. It requires us, Foresters Friendly Society, to give you this important information to help you to decide whether our Tax Exempt Savings Plan 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.

## Foresters Friendly Society Tax Exempt Savings Plan Key Features

Information, including a copy of this Key Features document is available in large print, audio and Braille upon request.

### Its Aims

Providing all the contributions are paid throughout the term, a Foresters Friendly Society Tax Exempt Savings Plan (TESP) aims to provide you with:

- A tax-free cash lump sum on maturity
- At least the guaranteed maturity amount, with the aim of adding to this amount by way of annual bonuses, with a possible additional bonus being paid at maturity.

### Your Commitment

- You agree to pay a regular monthly contribution throughout the term. The TESP is unsuitable as a short term investment.
- Current legislation states that the total amount that can be contributed in to all Friendly Society Tax Exempt Savings Plan(s) cannot exceed £25 a month.
- Your contribution is £25 a month (from £15 if you apply online) for the agreed term (minimum of 10 years, maximum of 25).

### Risks

- Bonuses will depend on the future investment performance of the Order Insurance With Profits Fund, as well as any deductions and how Foresters Friendly Society decide to distribute any profit.
- The addition of bonuses is not guaranteed and therefore it is possible that the TESP might not receive any annual and/or final bonus.
- Legislation may change to affect the tax status of this plan.
- Your circumstances may change, forcing you to stop making contributions.
- If you stop making contributions in the first year the plan will lapse with no value. You will not be

able to get your contributions back. If cashed in during the early years you may get back less than you put in by way of contributions.

- If you do not maintain contributions for the chosen period you could be liable to tax on any gains made on the investment.
- Our deductions may turn out to be higher than expected.
- The plan benefits can only be paid to you.
- You should be aware that inflation will reduce what you can buy in the future with the fund.

## Your Questions Answered

### What is the Tax Exempt Savings Plan?

The money that you invest in this plan is invested in a fund which is free of tax on both Income and Capital Gains, although dividends earned on equities within the fund will have been taxed at source and cannot be reclaimed. It pays a guaranteed maturity amount at the end of the term.

### Where is the money invested?

Any money paid into the TESP is invested in Foresters Friendly Society's Order Insurance With Profits Fund. By spreading the money paid into the fund across a number of different types of investments you benefit from the exposure to a range of asset classes which may include equities (company shares), fixed interest bonds (government and company), property and cash. A further advantage of this approach is that if the return on any one particular asset type is very poor, your investment may be protected from the full impact of this fall as the other assets forming part of the overall investment may perform better. Thus the fall in value in one asset class (e.g. shares) may be cushioned by the potential better performance in another asset class (e.g. property).

### How are bonuses decided?

Depending on how the underlying assets in the fund perform, and the costs incurred, we aim to declare an annual bonus. In addition, when your Foresters Friendly Society TESP matures we may add a final bonus depending on the overall investment growth that has been achieved and expenses incurred. This is different from a Bank or Building Society account where your savings can grow as a result of the interest rate on the account. Bonuses are added as the result of the growth performance of the underlying fund. Although in some investment conditions the growth in the Foresters Friendly Society TESP might not be as great as that on an

interest paying Bank or Building Society account, investing in this way means that there is the potential for growth over and above the level which might be achieved on interest paying accounts.

### How will it work?

- Within this Key Features document you will find a typical illustration showing example figures of how the plan may work for you.

### Will my plan work out exactly as in the personal illustration?

- Providing you maintain the agreed levels of contributions, at maturity you will receive at least the guaranteed maturity amount based on the amount you wish to save and the term.
- Any additional benefits will depend on the bonuses, if any, added to the fund which will vary.

### What happens if contributions stop?

- In the first year the plan will lapse with no value.
- Plans with arrears can be reinstated if all arrears are received within 13 months of the due date of the first unpaid contribution. After this point it will not be possible to resume paying contributions.
- After one year you can apply for the plan to be made a paid-up plan. This means that the guaranteed maturity value will be reduced as determined by the Foresters Friendly Society Actuary. Money paid out from a plan which has been paid-up may be taxable depending upon when the contributions stopped. Bonuses may continue to be added, but will be calculated according to the reduced maturity amount. Once a plan has been made paid-up it cannot be reinstated.
- After one year you can cash-in the plan but you may not get back as much as you have paid in, particularly in the early years.

### What might you get back?

This depends on the length of time you save for. Depending on the investment growth we achieve, we may or may not also pay out an annual and/or final bonus.

The figures at the top of the next column compare three different potential growth rates for a Tax Exempt Savings Plan for £25 per month for 10 years which apply no matter how old you are. You will receive a specific illustration when you receive your policy documents.

### An Example:

Term 10 years 0 months. Monthly Premium:	£25
Example: guaranteed maturity amount	£3,000
<b>What might the policy pay out at maturity</b>	
If investments grew at 4% a year you would get back	£3,080
If investments grew at 6% a year you would get back	£3,390
If investments grew at 8% a year you would get back	£3,740

- These figures are only examples and are not guaranteed. They are not minimum or maximum amounts. What you could get back depends on the length of your investment, how the investment grows and its tax treatment.
- You could get back more or less than this.
- The guarantee is that, subject to scheduled contributions being paid when due, at maturity you will not get back less than the guaranteed maturity amount which will be at least the sum of contributions.
- The yearly growth rates have been based on our reasonable estimate of potential returns and are slightly lower than the maximum allowable investment growth assumptions.
- Do not forget that inflation would reduce what you could buy in the future with the amounts shown.

### What happens if the plan is cashed in early?

**WARNING:** If cashed in during the early years you could get back less than you paid in. The figures below are based on saving £25 a month for 10 years. The last two columns assume that investment will grow at 6.0% a year.

### The Early Years

At end of year	Total paid in to date	Effect of deductions to date	What you might get back
1	£300	£309	£0
2	£600	£261	£376
3	£900	£302	£683
4	£1,200	£346	£1,000
5	£1,500	£393	£1,350

### The Later Years

At end of year	Total paid in to date	Effect of deductions to date	What you might get back
10	£3,000	£684	£3,390

## What charges are made for the Tax Exempt Savings Plan?

We make annual charges against the total fund which are deducted before bonuses are declared. These charges are illustrated under the 'Effects of deductions to date'.

### What are the deductions for?

- The deductions include the cost of expenses, charges, any surrender penalties and other adjustments.
- The charges, expenses and other deductions used in this guide are best estimates based on current experience. They could vary in the future.
- The bottom line in the table shows that over the full term of the plan the effect of the total deductions could amount to £684.
- Putting it another way, this would have the same effect as bringing investment growth from 6.0% a year to 2.4% a year.

### What happens if I die?

- In the event of your death before the maturity of your Policy, the Society shall refund all premiums to your estate.
- The amount paid on death will normally form part of your estate and may be subject to Inheritance Tax.
- This plan does not protect against the financial consequences of death.

## Further Information

### Cancellation rights

After your application is accepted you will receive a statutory notice of your right to cancel. You will then have 30 days from the commencement date of the plan, or the date the notice is received whichever is later, in which to change your mind. If you choose to change your mind a full refund of all monies will be paid. You can do this by completing and returning the cancellation form to us at Foresters Friendly Society, Foresters House, 29-33 Shirley Road, Southampton SO15 3EW.

### Advice

We do not offer advice. You should contact an Independent Financial Adviser if you have any doubts about this plan's suitability. You may have to pay a fee for this advice.

### Contributions

Contributions are paid by Direct Debit.

## Tax

The fund is free of tax on both Income and Capital Gains except for tax deducted from dividend income which cannot be reclaimed. If you do not continue to pay the contributions to the end of the term you could be liable to tax. Do remember that tax benefits may vary as a result of statutory change and their value will depend on individual circumstances.

### Paid-up values

If you stop paying contributions after one year you can make the plan paid-up. The guaranteed maturity amount will be reduced. The bonuses already added will not be affected. Bonuses may continue to be added, but will be calculated according to the reduced maturity amount.

### Law

The law applicable to the formation and performance of this plan is that of England and Wales. The language of the plan is English. We will communicate with you in English. Our Head Office is in the United Kingdom.

### Legislation

All or any of the benefits, the premium or the Plan Conditions may be adjusted as deemed appropriate:

- If there is any change in law or taxation affecting the plan.
- If any levy is imposed on Foresters Friendly Society under statute or statutory authority.

Notice would be given of any such adjustment.

### Queries and Complaints

For further information or queries on Foresters Friendly Society products or services please contact the Member Services Department, by tel: 0800 783 4162, email: [memberservices@forestersfriendlysociety.co.uk](mailto:memberservices@forestersfriendlysociety.co.uk) or at the address at the back of this document.

If you wish to complain about any aspect of the service you have received, please contact Foresters Friendly Society. If a complaint is not dealt with to your satisfaction you can then 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.

### Compensation

The Financial Services Compensation Scheme (FSCS) covers this plan. You may qualify for compensation from the Scheme if we are unable to meet our obligations. You can get further information from us or from the FSCS.

## Client Categorisation

We are required under the Financial Services Authority (FSA) rules to categorise our clients/members. All of our clients/members are categorised as 'Retail Clients', which affords our clients/members the highest level of protection under the FSA Rules.

## How you share in the profits of Foresters Friendly Society

The Society manages a number of funds for its members and these funds have different uses such as managing our insurance business and running the Society's branches. Four of the Society's funds are with profits funds; this means that the with profits policyholders of each particular fund participate in any profits or losses that are generated within the fund. This guide is an outline of how we manage one of these with profits funds, the Order Insurance Fund (OIF).

## Principles and Practices of Financial Management (PPFM)

The PPFM is a document describing, in detail, how we manage our with profits funds. Because the PPFM is a long and very detailed document, this guide only highlights its key points. The PPFM covers:

- Principles: High-level statements that describe our long-term approach to managing the funds.
- Practices: Specific statements on how we intend to put the Principles in place.

We do not expect to change the Principles often, but will do so if we think they could lead to members being treated unfairly, or if they could stop us managing the funds properly. If we do intend to materially change any of our Principles, we must inform you at least three months in advance. This ensures that you will know if our long-term approach is changing.

Practices change more regularly, as we need to be able to respond to how the economy is performing and new rules and regulations in the life insurance industry. We will publish any changes to Practices on our website and tell you about them in our next letter to you. In this way, you will be kept informed of how our approach has changed.

A copy of the PPFM can be found on our website at: [www.forestersfriendlysociety.co.uk](http://www.forestersfriendlysociety.co.uk)

## What is the Order Insurance Fund (OIF)?

The OIF is a fund where your money is combined with that of other members and then invested in a range of different assets. Our main objective is to ensure that we are able to pay all the guaranteed benefits, including any annual bonuses added to the policies within the OIF at all times. At the same time we want to maximise the financial returns to policyholders without taking undue levels of risk. Profits are distributed to with profits policyholders by way of annual and final bonuses, although neither is guaranteed in advance.

**Annual bonus** – This is set by taking into account what the OIF can afford to pay both now and what we can expect it to be able to afford in the future. Annual bonus rates are then set to make sure that we can meet all the guaranteed amounts when they need to be paid and to build a cushion for any final bonus.

Once an annual bonus has been added to a policy it increases the guaranteed benefit and so cannot be taken away. However it is only guaranteed as described in the policy conditions, and is not guaranteed at other times, such as on surrender. An interim bonus may be added if you claim during a period for which an annual bonus has not yet been declared.

**Final bonus** – When you claim on your policy, if what we calculate as a fair payout on your policy exceeds your total guaranteed benefits then we may add a final bonus to make up the difference.

## How do we determine payouts?

In determining what we consider to be a fair payout, the first stage is determining the policy's asset share.

Asset shares are calculated for groups of similar policies by taking into account: the premiums paid; the investment returns earned; deductions made for the charges that we make to cover expenses and guarantees; and adjustments made for tax if appropriate.

Any profit or loss generated by the OIF will be passed on to policyholders by increasing or decreasing the investment return earned.

On most claims we set final bonuses so that on average we pay out the full asset share to policyholders on maturity or surrender. We also

use smoothing to make sure that payouts, wherever possible, do not alter significantly from year to year or between similar policies. This may mean the actual payout is higher or lower than the asset share.

The position is slightly different for regular premium whole life policies with guaranteed death benefits but no maturity date. As these policies' asset shares will build up over time as premiums are paid in we would naturally expect some members to die while their asset share is lower than their guaranteed benefit. Final bonus rates are therefore set so that the estimated future cost of providing the benefits payable on death is equal to the asset share for this group of plans.

### What is smoothing?

The Society smoothes the returns paid to with profits policyholders with the main aim of protecting policyholders from short term fluctuations in the value of assets within the OIF. However, this approach does not protect policyholders from long term and sustained falls in asset values.

The two main ways that the Society smoothes returns are: setting annual bonus rates that are fairly constant year on year, and aiming to limit the change in payouts on similar policies to a maximum of 10% year on year (subject to meeting the guaranteed benefits of the policies). The Society may make more rapid changes than these in times of significant market or regulatory change.

### How is investment return determined?

The investment return is determined for the different types of assets held within the OIF. The investment return credited to a type of policy reflects the investment return of the assets backing that specific policy type. For example our ethical policies are backed by ethical investments and so the investment return on our ethical policies is based on the investment return on our ethical investments.

Also the level of guarantees on an individual policy type may affect which assets we use to back that policy type. If the guaranteed benefits on a policy are high we may have to adopt a safer investment approach in order to ensure that we can meet the guarantee in adverse investment conditions (for example by investing in deposits or fixed interest assets). However where guarantees are relatively low we may invest in assets that have a higher level of risk attached but over time could be expected to outperform the safer assets and thus to provide a better return.

### How do we determine charges?

In determining asset shares we make deductions for charges for two main reasons: to cover expenses and to pay for guarantees. For some policy types the level of charges to cover expenses is stated in the policy conditions. Where it is not, the charge is based on what we consider to be the OIF's fair share of Foresters Friendly Society's total costs. This cost is then split between policies with different policies having different shares based on the size and type of policy.

The main guarantees that we charge for are life insurance cover for products which have a significant level of life insurance cover and maturity guarantees for endowment products and certain other products providing guarantees at maturity. The assumed cost of life cover is based on recent mortality experience, with allowance for mortality improvements. Currently the charge for maturity guarantees is set at 2% of asset share. The level of these charges may vary from time to time depending upon the actual cost of guarantees.

### What happens if you surrender your policy early?

If you surrender your policy, we work out how much to pay you with the aim of being fair to you and to those staying in the OIF. We do this by setting surrender payouts that are broadly consistent with asset share. If there is any conflict between the interests of members who are leaving and those who are staying, we normally give priority to those staying.

### What is a Market Value Reduction (MVR)?

If an ISA, Bond or Child Trust Fund policy written since April 2005 is surrendered or transferred out and what we consider a fair payout on policy, when considering its asset share, is less than the contributions paid plus the annual bonuses, then we may apply a market value reduction (MVR). An MVR reduces the face value of the policy to its fair value to ensure that a fair share of the OIF is left to those remaining in the fund.

MVRs are not applied to payouts on death, and for Child Trust Fund policies no MVRs will be applied to maturity or terminal illness payouts.

## How do we invest your money?

The OIF invests in a range of different assets such as:

- equities (shares)
- property
- fixed-interest type assets (such as government bonds and corporate bonds)
- cash

We control the risks that come with investing by choosing assets of good quality and by setting limits on the amounts we invest in any one asset or our exposure to any third party. If we think it is right to do so, we may allocate certain assets to specific policies in the OIF. For example, we may do this to reflect the type, the amount and the timing of guarantees.

When deciding exactly what to invest in and how much, we do so by looking at:

- The OIF's current and future financial position and the need to make sure there is enough money in the fund
- The level of guarantees in the OIF
- Members' reasonable expectations, in relation to how your money is invested.

## How we manage potential risks?

The OIF is exposed to a number of risks. Our biggest risk comes from the need to pay all guarantees when they are due given the possibility of falls in asset values. The OIF is also exposed to the risk of more members dying than expected - increasing the claim costs, or the risk that our expenses are higher than expected - increasing our charges.

We aim to reduce our exposure to investment risk by changing our investment strategy as market conditions dictate. Currently, we aim to spread risk over the OIF as a whole. However, if a risk arises which is related closely to a particular policy type, we may apply some or all of the cost of this risk to the policies in question as long as this is consistent with the policy conditions and the law.

The other funds of the Society may be used to reduce some of the risks the OIF faces. However the other funds are not normally available to otherwise benefit the OIF policyholders. Similarly the assets of the OIF will be maintained for the members of the OIF and not normally called upon to support other areas of the Society.

## How to get in touch

**Write to:**

Foresters Friendly Society  
Foresters House  
29/33 Shirley Road  
Southampton  
SO15 3EW

**Visit:** [www.forestersfriendlysociety.co.uk](http://www.forestersfriendlysociety.co.uk)

**Tel:**

0800 783 4162

**Fax:**

023 8022 9657

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Foresters Friendly Society is the trading name of The Ancient Order of Foresters Friendly Society Limited.

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Foresters Friendly Society is an incorporated branch society registered in the United Kingdom.

