

Understanding your Participating Policy



What is this guide about?

At NTUC Income, we are committed to being transparent to our policyholders. This guide helps you to understand your participating policy and explains how we manage NTUC Income's Life Participating Fund.

- > **What your participating policy is about**
- > **What bonuses are**
- > **How we manage the Participating Fund**



Fund

> Why is this guide important?

Your participating policy is an important part of your financial plan. This guide provides you with important information on your participating policy and what you can expect from it. You may find it a useful reference when you:

- receive your yearly bonus statements
- get a revised illustration of what you may get back from your policy
- discuss your policy with a financial adviser

> What is a participating policy?

If you have bought a participating policy from NTUC Income, your policy is managed in the Participating Fund (“the Fund”). Your policy shares in the profits or losses of the Fund, through bonuses added to your policy.

Your participating policy has three important features:

- The money you pay into your policy is combined with money from other policyholders in the Fund, which is invested in a mixture of assets to provide the potential for growth in the longer term
- Your policy offers some protection against the ups and downs of investment markets (known as ‘smoothing’)

Your policy has some guarantees, which is the minimum benefit you will receive at certain times for example at maturity.

> How does the Fund work?

We combine the money we receive from you with those received from other policyholders in the Fund.

The Fund invests the monies in different types of assets such as bonds, company shares and property. The proportion of the Fund invested in each asset type will vary over time.

The profits of the Fund mainly depend on the returns from these investments less the expenses incurred by the Fund and the cost of providing benefits to policyholders.

Fairness to all policyholders in the Fund

Our aim is to pay the profits of the Fund to policyholders in a way that is fair to everyone. We work out the fair share of the Fund for policyholders. These calculations help us to decide on bonuses that should be given to different policyholders. When calculating benefits we take into account a number of factors, including:

- the premiums paid to the Fund
- the Fund’s investment performance
- the expenses of setting up, administering the policies and investing the Fund’s assets



> What are the bonuses?

We share out the profits of the Fund by adding bonuses to your policy. For most policies, there are two types of bonuses:

- Annual Bonuses, which we may add annually to your policy. These increase the guaranteed benefits on your policy. Once added to your policy, it cannot be taken away
- Special Bonus, which we may add on top of annual bonuses, when a claim is made or when your plan matures

Different types of plans receive different amounts of bonuses. The yearly statement we send you includes information about the current bonuses for your policy. Before adding bonuses, our first priority is to make sure there is enough money in the Fund to pay any guaranteed benefits including annual bonuses already added to policyholders. Further bonuses are only added when those guarantees have been secured.

Annual Bonuses

When deciding how much annual bonuses to pay, the main criteria we take into account is the financial position of the Fund and the level of guaranteed benefits already being provided. We also take into account the returns currently available on bond investments. When determining the amount of annual bonuses, we keep a portion of the profits aside which we intend to pay as special bonus when your policy ends. We aim to avoid making large changes in the amount of annual bonuses added to your policy from year to year, but may need to do so in exceptional circumstances, such as when the market values of investments change very sharply.

Different annual bonuses may apply to different types of policies.

Special Bonus

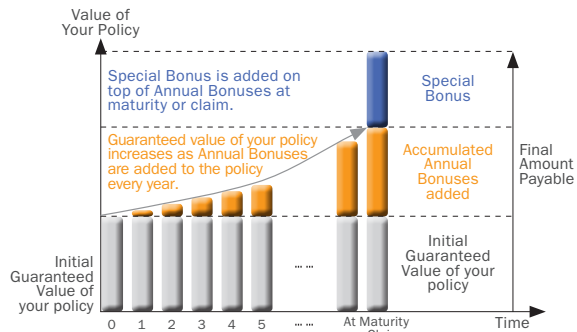
When your policy ends, we would pay a special bonus. The special bonus brings your benefits to a level which targets to give policyholders a fair share of the Fund. We aim to achieve a

fair balance between policyholders who leave early and those who remain in the Fund. We aim to smooth investment returns in order to provide a cushion against the ups and downs of the market when setting special bonuses. Our overall aims are fairness and stability.

Different special bonuses may apply to different types of plans.

We aim to balance the mix between annual and special bonuses in a way which gives us the flexibility to invest and give the best possible Fund performance over the long term.

The diagram below shows how annual and special bonuses are added to the initial guaranteed value of your policy.



This graph is for illustration purposes only.

> What affects the value of my policy?

There are several factors that will affect what you will get back from your policy. These are the main and most important factors:

Investment performance

The most important factor affecting the value of your policy is the investment performance of the assets in the Fund over the lifetime of your policy. These assets earn a return through both the investment income received (for example, interest or dividends) and through any changes in the capital value of the assets (either gains or losses).

Investment performance depends on several factors, including how much of the Fund is invested in different asset types. The Fund invests in a range of assets. The main asset types are:

- bonds (loans to the Government or companies)
- company shares
- property

When deciding how much of the Fund to invest in different types of assets we look at:

- the current and expected future financial position of the Fund
- our obligations to policyholders
- expectations of our policyholders
- how the different assets are likely to perform in the future

How we choose our asset mix

Our first priority is to make sure that the Fund will be in a position to meet its guarantees to you and other policyholders. The safest way of securing those guarantees is by investing in bonds. When we are satisfied that the guarantees are adequately secured, we are able to invest in company shares and property, which have the potential to earn higher returns, but they carry higher risks.

We aim, therefore, to invest in a well-diversified portfolio that strikes a balance between providing the highest potential investment return and protecting the financial position of the Fund. Over time, we may change the balance of the investments.

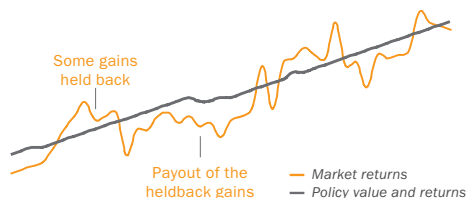
We manage the risks that come with investing by choosing assets of good quality and by setting limits on, for example, how much we invest in any one asset or type of asset. We review our investment strategy regularly and if investment market conditions change sharply.

Smoothing

Participating policies have a feature called 'smoothing', which is your cushion against the short-term ups and downs of investment

markets. The main aim of smoothing is to allow your policy to grow in value steadily and not fluctuate up and down with the market. So, for example, in good years we will hold back some of the profits and use them to top up bonuses in poorer years.

This is explained by the chart below. Without smoothing, your policy value will fluctuate up and down together with the stock market. With smoothing, we protect your policy values against fluctuations. We aim to give your policy a steady increase in value. When times are good, we hold back some profits, and use them to boost bonuses and payouts when times are bad. In this way, your policy value will increase steadily. It may not increase as much as the market when times are good, but it will continue to increase even during the bad times.



Our costs

When determining the value of your policies, we make a deduction for the expenses incurred by the Fund. These expenses include the costs of setting up and administering your policy, commission and fees for investment management and administration. Our aim is to minimise the costs over the long term so as to maximise your benefits. We regularly publish our cost ratio on our website.

> How do I keep track of my policy?

We will send you a yearly statement and update. In this, we will include information about how much we have invested in different asset types. We will also include information about recent investment performance of our Fund and inform you about our latest bonus declaration.

Glossary

Participating Fund: a fund where premiums from all policyholders are pooled. The fund is set up in accordance with regulation and ring fenced from other assets.

Company Shares: an investment that represents part ownership of a company. Shares are also known as equities.

Bonds: loans to governments and companies that pay a predetermined rate of interest.

Property: an investment in commercial property such as offices, shops, and industrial premises.

Premium: the amount paid or to be paid by the policyholders and invested on behalf of policyholders.