

Appendix 43

Allocation of the aggregate PIP between Policyholders

A report for the policyholder advocate in connection
with the reattribution of the inherited estates
of the CGNU Life and CULAC with-profits funds

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1.00 Introduction and summary of conclusions

1.01 Introduction

This appendix has been prepared by LECG Ltd. for the policyholder advocate. While care has been taken to explain the technical terms and concepts contained in this appendix, the complex issues involved will be better understood by readers with some familiarity of the concepts involved.

Aviva plc (Aviva) has offered eligible policyholders an aggregate Policyholder Incentive Payment (PIP) of at least £500 million in exchange for eligible policyholders giving up their interest in the inherited estates of the CGNU Life and CULAC with-profits funds. The full amount will only be paid by Aviva if 100 per cent of policyholders elect to accept their reattribution offer.

Appendix 42: Evaluation of the Aggregate PIP Offer shows that, in aggregate, under current FSA rules, Aviva's offer is estimated to exceed the value of potential future special distributions that policyholders would forgo if they were to accept the offer, under a range of potential outcomes: that is, in aggregate, policyholders are being offered a payment that is likely to be more valuable than the rights that they are being asked to give up. Under the current FSA rules, this remains true regardless of the set of assumptions used to inform the analysis, whether those assumptions are Aviva's or the policyholder advocate's.

Consequently, if a mechanism could be found that allocated Aviva's aggregate PIP to policyholders in proportion to potential future special distributions, all policyholders would receive an amount equal to their potential future special distributions, plus an amount that would make them better off.

However, it is not possible to establish such a mechanism because the value of potential future special distributions by each policyholder is uncertain whilst Aviva also has certain systems and technical constraints, which are noted below. The uncertainty in potential future special distributions is caused by:

- uncertainty as to the value and timing of potential future special distributions from the inherited estates;
- uncertainty as to the individual behaviour of policyholders. Even if the timing and value of future special distributions were known with certainty, it would be impossible to know the circumstances of individual policyholders over the 25 years of the projections; and
- in particular, it is uncertain which policyholders will surrender early and which will remain to the end of their policy term. Indeed many policies have no specified end date at all.

The value and timing of potential future special distributions to eligible policyholders from the inherited estates are primarily determined by the value of the inherited estates today, future investment returns and future levels of new with-profits business. Under current FSA rules, new with-profits business is allowed to be supported by inherited estate capital which has the effect of transferring estate capital from one generation of policyholders to the next. Although it is possible to make assumptions about both future investment returns and new business volumes, there is no certainty that those assumptions will be correct. In order to provide guidance to policyholder groups as to whether policyholders should accept the offer or not, the policyholder advocate has looked at a variety of different assumptions for new with-profits business and future special distributions in addition to Aviva's assumptions.

As to the circumstances of individual policyholders, many policyholders, particularly those with with-profit bonds, can choose to surrender their policy at any time without suffering any direct penalty.¹ The surrender of any individual policy might occur in practice at a time different from any present intention of the policyholder as their circumstances, investment objectives or investment outlook change. Similarly, policyholders may leave the fund if they allow their policies to lapse or in the event of the policyholder's death. Such events may not

¹ Other policyholders may have their policy values adjusted if the value of the underlying assets is less than the value of the policy (including bonuses). Such a "Market Value Reduction" is normally applied only to policies that lapse or are surrendered prior to maturity.

be predicted accurately today, even in aggregate, and certainly not for any single policyholder.

Any allocation mechanism also faces practical constraints, in particular a lack of comprehensive data about each policyholder. The CULAC and CGNU Life with-profits funds are the product of mergers between several older funds. As a consequence, electronic records are held by Aviva on a variety of computer systems. Due to the length of time that some of the policies have been running, the original records of many policies are held only on paper. LECG understands that adding additional data items would have involved significant IT effort to extract the data from the many source systems. Aviva made decisions on what data to extract ahead of the engagement of the policyholder advocate and therefore collected and cleansed a sub-set of data common to all policyholders. Consequently, it is this data set upon which the allocation mechanism must be based. In ideal circumstances, the policyholder advocate would have liked a more comprehensive set of data including future premium payments and retirement dates which might have enabled a better allocation mechanism to be developed.

In addition, the PIP must be paid by Aviva at the time of the reattribution. There is no opportunity for Aviva to use the allocation mechanism to promote particular policyholder behaviours following the reattribution, even if such a use of the allocation mechanism were thought appropriate. The PIP allocation is therefore a ‘one round game’ in which approximations must be made and where there is no subsequent opportunity to amend payments in the light of future experience.

The purpose of this appendix is to analyse Aviva’s allocation mechanism for the PIP. The allocation mechanism sets the terms on which, first, the aggregate PIP is divided among policyholders and, second, the inherited estates of the funds are divided between the Reattributed Inherited Estate External Support Account (RIEESA) and the Old With Profits Sub Fund (Old WPSF). Only those policyholders choosing to accept Aviva’s reattribution offer will receive their share of the aggregate PIP and have their share of the inherited estates transferred to the RIEESA.

It is important to recognise that the analysis of the value of potential future special distributions across different policy types and different outstanding terms as shown in the various tables in this appendix and the conclusions reached are highly dependent on the underlying assumptions and that there is no certainty that these assumptions will be borne out in practice.

1.02 Summary of conclusions

Aviva's allocation mechanism is described in detail in Section 4.00. Aviva's analysis of its allocation mechanism suggests that almost all policies in the funds would need to wait for more than 10 years, or to a date beyond the maturity date of their policy, to receive a value of special distributions from the inherited estates that exceeds the value of their PIP offer. Around 95 per cent would need to wait 25 years or more. On that basis, using its own assumptions, Aviva has concluded that the allocation mechanism is appropriate for an overwhelming majority of policyholders.

After estimating potential future special distributions from the inherited estates to groups of policyholders, LECG has modelled the allocation of these distributions to individual policies using a separate model. These individual policyholder estimates of potential future special distributions are then compared to the estimated PIP allocated to each individual to determine which value is greater. It is important to recognise that this does not mean LECG has modelled individual policies, but rather has estimated the proportion of policies in each group for which potential future special distributions may exceed the PIP offer, based on estimated allocations of special distributions and the aggregate PIP. The value of future special distributions can only be estimated because the timing and amount of such distributions depend upon the future experience of the with-profits funds, and that experience cannot be predicted with any certainty.

LECG notes, however, that there are a number of factors that might influence policyholders to make their decision on grounds other than this comparison alone (see *Appendix 45: Formulation of Guidance to Policyholders* for information used to help inform the policyholder advocate's guidance to policyholders).

LECG's analysis indicates that, on Aviva's assumption of new business increasing by 5 per cent per annum from 2011, between 84 per cent and 97 per cent of policyholders could receive a PIP that is greater than the value of potential future special distributions allocated to them, and so might expect to be better off accepting the reattribution offer, rather than opting to receive future special distributions from the inherited estates.. On the policyholder advocate's alternative, lowest new business assumption of a 15 per cent annual decline in new business from 2011, between 78 per cent and 87 per cent of policyholders would be better off accepting the reattribution offer, based on a comparison with potential future special distributions that would be forgone. Under either new business assumption, it is policies with small PIP Liabilities² today, but which have long terms to run and make regular premium payments, that are most likely to receive a value of future special distributions in excess of their PIP offer. Despite the adjustment to the PIP Liabilities of most such policies under Aviva's allocation mechanism (as described in Section 4.00), our analysis suggests that Aviva's proposed allocation mechanism is not well correlated to the potential special distributions forgone by certain categories of policyholder. It also suggests that almost all categories of policyholder are likely to contain some policyholders whose potential special distributions forgone exceed their PIP allocation.

The overall impact of Aviva's allocation mechanism is that small policies will benefit from the minimum payment offered, while policies whose PIP Liabilities have been adjusted by Aviva should also receive a PIP offer that is more closely aligned with the potential special distributions they would forgo if they elected to accept the offer. LECG notes, however, that a significant number of eligible policies will have left the funds by the date of the reattribution. Such policies will be overcompensated for the (zero) value of special distributions forgone, in some cases significantly so.

The aggregate PIP offer is determined by the Reattribution Estate as valued by Aviva during the months leading up to the Effective Date of the reattribution, 1 October 2009. However, LECG has modelled potential future special distributions based on KPMG's assessment of the

² PIP Liabilities are a proxy for the realistic liabilities of each policy on 21 November 2006, calculated by means of a formula which uses the sum assured and reversionary bonuses (or their equivalent) attached to a policy and are intended to approximate to the larger of the policy's asset share or minimum guaranteed value.

inherited estates found in Appendix 35: *Size of the Inherited Estates*, which entails an upward adjustment of £177 million at 31 December 2008 (equivalent to £185 million at 1 the Effective Date). The estate values quoted in this appendix refer to the Reattribution Estate value, or the “unadjusted estate value” upon which the PIP is calculated, while the special distributions to which the PIP offer is compared have been calculated after adding KPMG’s advised adjustments. For example, at a Reattribution Estate of £1,200 million the aggregate PIP offer is £500 million; when calculating special distributions for comparison against that PIP offer, LECG has added £185 million at 1 October 2009, for a total estate value of £1,385 million. During the period leading up to the reattribution, KPMG will be reviewing these adjustments to determine if they need to be revised.

Based on the LECG analysis and depending on the value of the Reattribution Estate (the value of the inherited estate as calculated for determining the aggregate PIP at the Effective Date of 1 October 2009), special distributions are not expected for several years: for example, under Aviva new business assumptions, at a Reattribution Estate value of £1,200 million (the lowest value at which the reattribution will proceed) LECG concludes that special distributions are not expected until 2020. At a Reattribution Estate value of £1,570 million (equivalent to the end-2008 published figure of £1,529 million plus a £41 million post year-end adjustment) LECG concludes that special distributions are not expected until 2016 under Aviva new business assumptions.³ Thus, all policies maturing or surrendered before these dates are always better off accepting the reattribution offer, so long as the surrender of the policy does not invalidate its eligibility. In addition, Aviva’s adjustments to the PIP Liabilities of regular premium policies make many such policies better off electing for the reattribution, unless the policy has a very long term to run. For single premium policies, whether a policy is made better off or not by accepting the PIP offer is largely determined by how long the policy remains in the fund, with policies that are surrendered in the early years more likely to be better off.

³ The estate values quoted throughout this appendix are Aviva’s Reattribution Estate as at 1 October 2009 and do not include the £177 million adjustments at 31 December 2008 advised by KPMG, although these adjustments have been made for the purposes of modelling potential future special distributions; further details can be found in *Appendix 35: Size of the Inherited Estates*.

In conclusion, the policyholder advocate is satisfied that Aviva's allocation mechanism, despite its weaknesses, ensures that a majority of policyholders receive a PIP offer in excess of their potential special distributions forgone on a wide range of assumptions about potential future outcomes.

The remainder of this report is divided into six sections:

- Section 2 discusses the basis of analysis used in this paper, and how it compares to that used in other papers;
- Section 3 demonstrates the key drivers of potential special distributions forgone by electing policyholders;
- Section 4 describes Aviva's allocation mechanism in detail and how it will divide the aggregate PIP between categories of policyholders;
- Section 5 considers Aviva's analysis of the allocation mechanism;
- Section 6 considers the LECG's analysis of the allocation mechanism; and
- Section 7 contains LECG's conclusions.

2.00 Approach to modelling the allocation of special distributions

The purpose of this section is to describe key aspects of how LECG has approached the modelling of the allocation of potential special distributions to policyholders in order to analyse various aspects of Aviva's reattribution proposals. The outline of this approach is contained in *Appendix 33: Modelling for the Purposes of the Reattribution*.

Below, LECG first summarises the two models it has used to analyse Aviva's reattribution scheme: a 'fund-level' model and a 'policy-level' model. Each of those models has a different purpose and uses slightly different data sets: nevertheless, LECG believes that the differences are sufficiently minor that the conclusions drawn may be relied upon. LECG then describes how the policy-level model has been used to assess the allocation of potential special distributions to policyholders choosing to accept the offer and the division of the inherited estates between the RIEESA and the OWPSF.

2.01 Description of LECG models

LECG has constructed two models to assist the policyholder advocate's analysis of Aviva's reattribution proposals. The first model is built at the level of the combined CGNU Life and CULAC with-profits funds. This fund-level model uses aggregate data as at end 2006 supplied by Aviva on groups of policies. The second model is based on data supplied by Aviva on each of the individual policies that were eligible for the reattribution on 19 November 2007.⁴ This data set is effectively divided into two large groups of policies. The first group is policies with a known expected maturity date. The second, similar sized group consists of policies that may be surrendered at the discretion of the policyholder and are therefore without a known expected maturity date.

LECG has adjusted the policy-level data in the model in the following ways:

⁴ Following an LECG request, Aviva supplied an extract from its policy data store that contained policies eligible for the reattribution at 19 November 2007, approximately one year after the announcement of the proposed reattribution.

- the PIP Liability in the Aviva data has been adjusted to reflect the weightings to be used in the reattribution scheme;
- each policy has been assigned a category that corresponds to the categories in the fund-level data by Aviva;
- the potential future special distributions in each category of policy have been imported from the fund-level model into the policy-level model under the bases used by the policyholder advocate (Aviva's new business assumptions incorporating 5 per cent per annum growth from 2011 and also lower sets of new business assumptions with a 5 per cent and 15 per cent per annum decline from 2011);
- the potential future special distributions in each category have been used to calculate the approximate potential future special distributions for each policy; and
- the PIP allocation mechanism proposed by Aviva, including the minimum PIP amount, has been applied to the adjusted PIP liabilities of each policy to estimate the PIP allocation of each policy.

The value of the inherited estates has fallen since the end of 2007 owing in part to negative returns on the equity and property components of the funds' asset portfolios at that time, and in part to the special distribution of £2.3 billion announced in February 2008, of which approximately £2.1 billion (at that time) was allocated to policyholders. The value of liabilities in the policy-level model has not been updated to reflect their probable corresponding fall in value. In principle, however, that does not affect the validity of analysis using the two models. The reason is that adjustments can be made to the fund-level model, so the value of potential future special distributions by eligible policyholders can be calculated at a range of dates, including at 1 October 2009, the assumed Effective Date of the reattribution. The analysis can also be performed using a range of alternative values for the inherited estate at 1 October 2009 (called the Reattribution Estate), as Aviva has done.

2.02 Uses and operation of the policy-level data model

LECG has used the policy-level data model to assess the following aspects of the reattribution:

- the allocation of the aggregate PIP between groups of policies in the CGNU Life and CULAC with-profits funds;
- the position of non-electing policyholders under a reattribution, set out in *Appendix 44: The Position of Non-Electing Policyholders*; and
- the comparison of potential individual future special distributions with the individual PIP allocation amount offered by Aviva, set out in *Appendix 45: Formulation of Guidance to Policyholders*.

In all three analyses, after estimating potential future special distributions from the inherited estates to groups of policyholders, LECG has modelled the allocation of these distributions to individual policies. These individual policyholder estimates of potential future special distributions are then compared to the estimated PIP allocated to each individual to determine which value is greater. It is important to recognise that this does not mean LECG has modelled individual policies, but rather has estimated the proportion of policies for which potential future special distributions may exceed the PIP offer, based on estimated allocations of special distributions and the aggregate PIP.

The analysis has been conducted on a range of assumptions about the value of the Reattribution Estate on 1 October 2009, the assumed Effective Date of the reattribution. Policyholders with a policy whose PIP allocation is greater than or equal to their potential future special distributions are assumed to accept Aviva's offer. Potential non-electors are those policyholders with policies whose potential future special distributions exceed their PIP allocation. Aviva's approach to calculating policies made better off under a given mechanism is set out in Section 5.01 below.

For the purposes of assessing Aviva's allocation mechanism for dividing the aggregate PIP between individual policyholders, LECG used a random number generator to identify the

specific policies assumed to surrender, configured such that the run-off profile of policies matched the aggregate profile assumed in the fund-level model. LECG tested the robustness of this approach by using different sets of random numbers and are satisfied that the impact of a different draw of random numbers on the analysis is not material.

Aviva uses different assumptions to LECG in its analysis of the allocation mechanism. Aviva has said that it groups open maturity policies according to the key driver of lapses for similar policies, for example, policies with a similar duration in force, or policies with the same guarantees. Each group of open maturity policies is then treated as an homogenous block of policies. Aviva calculate the VPDP as a percentage of asset share for the group and apply this percentage to each individual policy, which is the equivalent of allocating the group VPDP to the individual policies on a pro-rata basis in proportion to asset share. This VPDP is then compared to each individual policy's calculation of the PIP offer (taking in to account the minimum PIP). The implication of Aviva's method is that for a group of such policies, if the value of the aggregate PIP offer (for the group of policies) exceeds their potential value of aggregate future special distributions by a sufficient margin, then 100 per cent of the policies without a known expected maturity date will be found to be better off since both the PIP and the VPDP change proportionally with asset share. On average, as the aggregate PIP offer exceeds Aviva's estimates of VPDP by a significant margin, Aviva's method will tend to overestimate the proportion of open maturity policyholders for whom the PIP will exceed potential future special distributions.

In principle, the first method used by LECG is superior to the one used by Aviva because it reflects the assumption employed by Aviva itself in its own fund-level data. In aggregate, therefore, it may more accurately reflect the potential benefits expected to be forgone by groups of policyholders in the funds. For these reasons, LECG has employed the first method for its analysis, using a random number generator to determine policy lapses in accordance with the fund level data supplied. Aviva has adopted the second method in its analysis

In practice, policyholders who wish to keep their policies invested in the funds for a long period of time might expect to receive a higher-than-average value of potential special distributions from the inherited estate in relation to the value of their policy's realistic

liabilities in 2007. LECG returns to an assessment of these issues in *Appendix 45: Formulation of Guidance to Policyholders*.

3.00 Drivers of special distributions forgone to individual and groups of policyholders

Prior to discussing Aviva's allocation mechanism in detail, in this section we set out the drivers of special distributions forgone by individual policies. In principle, a superior allocation mechanism would align individual PIP offers closely to special distributions forgone and be guided by the same factors that determine the special distributions being given up by individual policyholders. To assess Aviva's offer and allocation mechanism, the policyholder advocate has sought to understand the extent to which different policyholders might benefit, on average, from future special distributions from the inherited estates.

Aviva says that any future special distributions from the inherited estates are of uncertain magnitude, timing and form. The company therefore says that there is no single value of special distributions forgone that may be identified, either in aggregate or for individual policyholders. The policyholder advocate accepts Aviva's points, but notes that both Aviva and LECG have analysed Aviva's offer on a central forecast, while the actual outcome is likely to be higher or lower. The central forecast is therefore a reasonable estimate of potential special distributions forgone by electing policyholders and one upon which sensitivity testing can be performed.

In principle, there are three factors affecting the value of future special distributions of excess surplus to any individual policyholder, given the assumptions about investment returns, guarantees, levels of new business and other factors embodied in the Aviva data:

- the value of the policy at the date when any distribution is made;
- whether premiums are payable in the future or not (regular premium policies will have faster growing asset shares as future premiums are paid); and
- the outstanding term of the policy.

Although Aviva says that it is not possible to be certain in what form future special distributions might be made, it does seem reasonable to assume that distributions to individual policyholders in the future will be proportionate to the asset share of each policy at the date of distribution as was the case with the recent special distribution. LECG has further assumed that any future special distributions will be added to the asset shares of the policies.

With respect to outstanding term, it is clear that the longer a policy is expected to be in the fund, the more likely it is to benefit from future special distributions. Many policies written by Aviva are of fixed duration and therefore have known outstanding terms. For such policies, it is possible to estimate the present value of their potential future special distributions, given a set of assumptions about asset returns, the management of the funds and early surrender rates. Many other policies, however, do not have a defined term and may be surrendered by the policyholder at a date of his or her choosing, for instance after some minimum period of investment in the funds. The value of potential future special distributions forgone by electing policyholders with such policies is a function of the policyholder's intent.⁵ If the holders of those policies intend to leave them invested in the funds for a longer period of time, they will have a significantly greater probability of sharing in future special distributions, all else being equal. LECG's analysis in respect of these policies uses a random number generator to identify specific policies assumed to be surrendered, configured such that the run-off profile of policies matches the aggregate profile assumed in the fund-level model.

LECG has analysed the value of future special distributions to policyholders based on the outstanding term and duration in force of their policies. Duration in force and outstanding term are inversely correlated to some degree: older policies often have shorter outstanding terms and vice-versa. The results of the analysis are shown for a Reattribution Estate value of £1,200 million in Table 1 and for a Reattribution Estate value of £1,570 million in Table 2 below using Aviva's new business assumptions of a 5 per cent per annum increase from

⁵ The decisions of such policyholders will also affect the potential value of special distributions to other policyholders as policyholders who are no longer in the fund do not share in special distributions.

2011.⁶ As previously noted, the estate values quoted throughout this appendix are Aviva's Reattribution Estate as at 1 October 2009 and do not include the £177 million adjustments at 31 December 2008 advised by KPMG, although these adjustments have been made for the purposes of modelling potential future special distributions; further details can be found in *Appendix 35: Size of the Inherited Estates*.

Table 1 NPV of future special distributions, Aviva new business assumptions (+5% p.a. from 2011), eligible policyholders, 2006 – 2031, unadjusted estate £1,200 million, £ million^{7 8}

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	16	████	████	8	████	████
5 to 10 years	35	████	████	20	████	████
11 to 15 years	21	████	████	4	████	████
More than 15 years	12	████	████	52	████	████
Total	84	20,985	0.40%	84	20,985	0.40%

⁶ Asset share figures shown in this table, and those following, are as at 21 November 2006. The analysis has been derived from the LECG fund-level model. The more detailed analysis shown in later sections of this appendix and in *Appendix 44: The Position of Non-Electing Policyholders* is based on the LECG policy-level model. There may therefore be slight differences between the results shown here and those derived from the policy-level model, but an overall comparison shows that these averages provide a good approximation.

⁷ Similar tables for a range of potential values of the inherited estate are contained in Annex C.

⁸ Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

Table 2 NPV of future special distributions, Aviva new business assumptions (+5% p.a. from 2011), eligible policyholders, 2006 – 2031, unadjusted estate £1,570 million, £ million⁹

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	36	■	■	16	■	■
5 to 10 years	77	■	■	43	■	■
11 to 15 years	56	■	■	32	■	■
More than 15 years	28	■	■	107	■	■
Total	197	20,985	0.94%	197	20,985	0.94%

Table 1 and Table 2 show that around 70 per cent of the potential future special distributions accrue to policies with more than 10 years outstanding term in 2006. There is also a strong correlation between outstanding term and potential future special distributions as a percentage of asset share, with policies with more than 10 years outstanding receiving significantly larger distributions per pound of asset share. Considering duration in force, policies that have been in force for between 5 and 15 years receive proportionately more distributions; newer policies are likely to receive fewer distributions as a result of having smaller initial asset shares, while older policies are likely to receive fewer distributions as a result of having shorter outstanding terms.

A similar analysis using the policyholder advocate's alternative, lower new business assumptions (minus 5 per cent and minus 15 per cent per annum from 2011) is shown below in Table 3 and Table 4 for a Reattribution Estate values of £1,200 million and Table 5 and Table 6 for a Reattribution Estate value of £1,570 million.

⁹ Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

Table 3 NPV of future special distributions, alternative new business assumption of 5% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £1,200 million, £ million¹⁰

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	55	█	█	25	█	█
5 to 10 years	117	█	█	65	█	█
11 to 15 years	76	█	█	29	█	█
More than 15 years	44	█	█	173	█	█
Total	292	20,985	1.39%	292	20,985	1.39%

Table 4 NPV of future special distributions, alternative new business assumption of 15% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £1,200 million, £ million¹¹

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	80	█	█	36	█	█
5 to 10 years	170	█	█	94	█	█
11 to 15 years	116	█	█	51	█	█
More than 15 years	65	█	█	250	█	█
Total	431	20,985	2.05%	431	20,985	2.05%

¹⁰ Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

¹¹ Ibid.

Table 5 NPV of future special distributions, alternative new business assumption of 5% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £1,570 million, £ million¹²

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	81	█	█	36	█	█
5 to 10 years	172	█	█	97	█	█
11 to 15 years	128	█	█	75	█	█
More than 15 years	66	█	█	240	█	█
Total	448	20,985	2.13%	448	20,985	2.13%

Table 6 NPV of future special distributions, alternative new business assumption of 15% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £1,570 million, £ million¹³

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	109	█	█	48	█	█
5 to 10 years	230	█	█	133	█	█
11 to 15 years	174	█	█	103	█	█
More than 15 years	91	█	█	321	█	█
Total	605	20,985	2.88%	605	20,985	2.88%

Under current FSA rules, the value of eligible policyholders' potential special distributions from the inherited estates is reduced by the intergenerational transfer of the estate capital, which is retained in the fund to provide capital support for new with-profits business. If Aviva were not allowed to write new business supported by estate capital, then eligible policyholders would expect to receive a much larger proportion of the future special

¹² Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

¹³ Ibid.

distributions from the estates. This is shown below in Table 7 for a Reattribution Estate value of £1,200 million and in Table 8 for a Reattribution Estate value of £1,570 million.

Table 7 NPV of future special distributions, existing business only, eligible policyholders, 2006 – 2031, unadjusted estate £1,200 million, £ million¹⁴

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	220	████	████	97	████	████
5 to 10 years	457	████	████	273	████	████
11 to 15 years	349	████	████	204	████	████
More than 15 years	184	████	████	635	████	████
Total	1,210	20,985	5.76%	1,210	20,985	5.76%

Table 8 NPV of future special distributions, existing business only, eligible policyholders, 2006 – 2031, unadjusted estate £1,570 million, £ million¹⁵

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	274	████	████	120	████	████
5 to 10 years	565	████	████	387	████	████
11 to 15 years	450	████	████	286	████	████
More than 15 years	253	████	████	749	████	████
Total	1,542	20,985	7.35%	1,542	20,985	7.35%

The tables above confirm the overall pattern of potential future special distributions of excess surplus to eligible policyholders, with a similar trend in favour of policies with longer terms to run. It therefore seems reasonable to conclude that potential special distributions from the inherited estates in the absence of a reattribution (which policyholders who elect for the

¹⁴ Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

¹⁵ Ibid.

retribution would forgo) increase in line with the outstanding terms of policies, certainly up to 15 years outstanding term, irrespective of the assumption made in respect of new business.

The trend is even more pronounced if we consider only those policies with a known outstanding term. Table 9 and Table 10 show the same analysis for the highest and lowest new business assumptions considered but excluding single premium policies that may be surrendered by policyholders at any time for Reattribution Estate values of £1,200 million and £1,570 million.

Table 9 NPV of future special distributions by outstanding term, eligible policyholders with a known maturity date, 2006 – 2031, unadjusted estate £1,200 million, £ million¹⁶

	Aviva new business			Policyholder advocate basis, 15% p.a. decline in new business		
	Outstanding term	Asset share	Special distributions / Asset share	Outstanding term	Asset share	Special distributions / Asset share
Less than 5 years	0	■	■	0	■	■
5 to 10 years	0	■	■	0	■	■
11 to 15 years	3	■	■	59	■	■
More than 15 years	30	■	■	136	■	■
Total	33	10,464	0.32%	194	10,464	1.86%

¹⁶ Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

Table 10 NPV of future special distributions by outstanding term, eligible policyholders with a known maturity date, 2006 – 2031, unadjusted estate £1,570 million, £ million¹⁷

	Aviva new business			Policyholder advocate basis, 15% p.a. decline in new business		
	Outstanding term	Asset share	Special distributions / Asset share	Outstanding term	Asset share	Special distributions / Asset share
Less than 5 years	0	█	█	0	█	█
5 to 10 years	2	█	█	21	█	█
11 to 15 years	35	█	█	104	█	█
More than 15 years	54	█	█	161	█	█
Total	91	10,464	0.87%	286	10,464	2.73%

In summary, among policyholders generally, it is only those with more than 5 years of outstanding term or single premium policyholders who wish to remain in the funds for longer than 5 years, who may expect to receive at least some portion of the potential future special distributions from the inherited estate. Whether those potential special distributions are sufficient to outweigh the benefit of receiving a cash PIP is considered in detail in *Appendix 45: Formulation of Guidance to Policyholders*.

If it were assumed that Aviva would – absent a reattribution – write increasing amounts of new with-profits business supported by estate capital into the funds, as Aviva says it would, then eligible policyholders would – absent a reattribution – receive an ever-diminishing share of future special distributions, leading special distributions to peak (based on the LECG analysis) between 2011 and 2021, depending on the value of the Reattribution Estate. If, conversely, the trend of new with-profits business supported by estate capital were to fall over time, as the policyholder advocate believes possible, the value of potential future special distributions to eligible policyholders would increase.

¹⁷ Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

In light of the analysis presented above, it is apparent that outstanding term is a key driver of potential special distributions that would be forgone by electing policyholders. Any allocation mechanism seeking to compensate policyholders for their interest in the CGNU Life and CULAC inherited estates should therefore include an element corresponding to a policy's outstanding term, if known.

4.00 Aviva's allocation mechanism

This section describes Aviva's allocation mechanism and its high-level implications for electing and non-electing policyholders.

4.01 The allocation mechanism for the inherited estate and PIP

Aviva proposes to reattribute the CGNU Life and CULAC inherited estates and to determine the PIP using allocation mechanisms based on the adjusted realistic liabilities of eligible policies. The allocation mechanism is described in *Appendix 41: The Aviva Offer*. The proposed mechanism will allocate the PIP pro rata to a proxy for the realistic liabilities of eligible policies on 21 November 2006, adjusted by a multiplier for policies in selected product groups, subject to a minimum payment per policy.¹⁸ The types of policy and outstanding terms of policies that Aviva proposes to adjust are set out below.

Table 11 Policies to which increased weightings will be applied

Policy type	Outstanding term					
	<=5 yrs	>5 <=10 yrs	>10 <=15 yrs	>15 <=20yrs	>20 <=25 yrs	>25 yrs
CWP regular premium	1	1.7	1.85	2	2	2
Defined benefit	1.7	1.7	1.7	1.7	1.7	1.7
Deposit administration	1.7	1.7	1.7	1.7	1.7	1.7
With-profits annuity	2	2	2	2	2	2
Unitised pensions	1	1.3	1.9	2.05	2.05	2.05

The overall impact of the mechanism will be that:

¹⁸ The purpose of the adjustment is to align the PIP more closely with potential future special distributions. The minimum payment is also meant to ensure that policyholders with a small PIP Liability are not offered a trivial amount in exchange for giving up their interest in the inherited estates. Payments to other policyholders will be scaled down to meet the cost of the adjustments and minimum PIP such that the aggregate offer matches the total calculated under Aviva's formula. The weightings applied by Aviva have been determined by the company and are based on its own analysis.

- policies with a small PIP Liability will receive more than they would if no minimum were applied;
- policies with increased weightings will receive more than they would if no weighting adjustment were applied; and
- policies without any weighting or minimum payment will receive less than if there were no minimum payment or weighting adjustment applied.

The basis for allocation of the inherited estates between the RIEESA and the Old WPSF will be pro rata to the proportion of PIP paid to electing policyholders and the PIP declined by non-electors. The allocation of the inherited estates will therefore reflect the same weightings as the PIP allocation mechanism.

LECG notes that certain eligible policies have already left the funds for contractual reasons and no longer have any asset shares in the funds. Under the terms of the reattribution, Aviva will nevertheless pay the PIP and transfer an equivalent portion of the inherited estates of such policies to the RIEESA based on their PIP Liabilities on 21 November 2006. From LECG's analysis of the policy-level data, it appears that around 8 per cent of the policies in force on 21 November 2006 are expected to leave the funds before 1 October 2009. These policyholders are deemed to accept Aviva's offer and will receive a PIP, but will not transfer any liabilities to the New WPSF under the reattribution Scheme. Because they are no longer in force, they have no guarantees and no liabilities in the funds. The proportion of the inherited estates transferred to the RIEESA is therefore likely to exceed the proportion of liabilities transferred to the New WPSF. The reverse will be true of the Old WPSF i.e. the value of the inherited estates transferred to the Old WPSF will be proportionally smaller than the liabilities transferred to the Old WPSF. Aviva has acknowledged that the Value of Potential Distributions to Policyholders (VPDP) to non-electors as a whole should be broadly preserved by the reattribution. If the VPDP for transferring non-electors is reduced by the reattribution, then the Old WPSF inherited estate will be increased by a transfer from the RIEESA by up to £100 million, as described in *Appendix 44: The Position of Non-Electing Policyholders*.

4.02 Structure of future special distributions and PIP allocation by policy type

The allocation mechanism for dividing the aggregate PIP between individual policyholders is not well correlated to potential future special distributions for certain categories of policyholder, as shown below. This means there are some categories of policyholder who might be less likely to benefit from accepting the PIP. The analysis shown in Table 12 and Table 13 below is conducted on the basis of aggregate PIP offers of £500 million and £704 million at 1 October 2009, which are consistent with Reattribution Estate values of £1,200 million and £1,570 million, respectively.

Table 12 Potential future special distributions and PIP allocation by policy type, inherited estate £1,200 million, aggregate PIP £500 million^{19 20 21}

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	Potential future special distributions spread over next 25 years		
				Aviva new business (5% p.a. growth from 2011) (£m)	Policyholder advocate assumptions from 2011	
					5% p.a. decline in new business (£m)	15% p.a. decline in new business (£m)
Conventional life sum assured	██████	5,214	120	3	22	37
Conventional pensions	██	62	1	0	0	0
Conventional pension sum assured	██████	1,355	28	2	11	17
Conventional whole life	██████	931	23	1	4	7
Defined benefit	██	334	7	4	9	13
Deposit administration	██████	158	4	1	5	7
Unitised life (single premium bonds)	██████	11,500	209	47	152	221
United life & pensions non-protected rights	██████	3,586	86	16	54	79
Unitised life & pensions protected rights	██████	868	20	9	32	46
With-profits annuities	██	63	1	0	0	1
Total	999,597	24,070	500	83	292	431

¹⁹ Similar tables for different sizes of inherited estate are contained in Annexe A.

²⁰ Total might not equal sum of special distributions by policy due to rounding.

²¹ Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

Table 13 Potential future special distributions and PIP allocation by policy type, inherited estate £1,570 million, aggregate PIP £704 million²²

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	Potential future special distributions spread over next 25 years		
				Aviva new business (5% p.a. growth from 2011) (£m)	Policyholder advocate assumptions from 2011	
					5% p.a. decline in new business (£m)	15% decline in new business (£m)
Conventional life sum assured	■	5,214	169	22	53	73
Conventional pensions	■	62	2	0	1	1
Conventional pension sum assured	■	1,355	40	8	18	25
Conventional whole life	■	931	32	4	9	13
Defined benefit	■	334	10	5	11	15
Deposit administration	■	158	5	3	7	9
Unitised life (single premium bonds)	■	11,500	295	100	224	301
United life & pensions non-protected rights	■	3,586	122	35	78	105
Unitised life & pensions protected rights	■	868	27	19	44	59
With-profits annuities	■	63	2	0	1	1
Total	999,597	24,070	704	197	448	605

The tables show that, on Aviva's new business assumptions (a 5 per cent per annum increase from 2011), all categories of policyholders are likely to receive an aggregate PIP allocation that meets or exceeds the value of the aggregate special distributions that they might potentially have received absent a reattribution. On the policyholder advocate's alternative new business assumption of a 15 per cent decline per annum from 2011 onwards, there are four categories of policyholder whose potential future special distributions exceed the value of their PIP allocation. Defined benefit policies face a -46 per cent shortfall at a Reattribution

²² Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

Estate value of £1,200 million, and a -33 per cent shortfall at a Reattribution Estate value of £1,570 million; deposit administration policies face a -43 per cent shortfall at a Reattribution Estate value of £1,200 million, and a -44 per cent shortfall at a Reattribution Estate value of £1,570 million; unitised life policies (single premium bonds) face a -5 per cent shortfall at a Reattribution Estate value of £1,200 million, and a -2 per cent shortfall at a Reattribution Estate value of £1,570 million; and unitised life and pension policies with protected rights face a -57 per cent shortfall at a Reattribution Estate value of £1,200 million, and a -54 per cent shortfall at a Reattribution Estate value of £1,570 million. This result is based on the central assumptions adopted in the analysis; market movements and other changes will affect these results, the effects of which are discussed in *Appendix 45: Formulation of Guidance to Policyholders*. Many policyholders in these categories will be better off individually by accepting Aviva's offer, while others can expect a PIP of lower value than the special distributions they might forgo. More generally, we expect that almost all categories of policies will contain some policyholders whose PIP offer is likely to be less than potential future special distributions they would forgo if they elected to accept the offer, although the proportions will be lower than in the four categories with aggregate shortfalls.

4.03 Structure of potential future special distributions and PIP allocation by outstanding term

As noted in Section 0 above, special distributions forgone by electing individual policyholders increase with outstanding term, particularly for regular premium policies. The extent to which this may be true is indicated in Table 14 for a Reattribution Estate value of £1,200 million and in Table 15 for a Reattribution Estate value of £1,570 million. The tables divide policies between those with known expected maturity dates and open-ended policies, which have no expected maturity date. The table clearly illustrates that policies with less than five years outstanding may expect to receive almost no special distributions at all, but after six or more years, the probability and value of expected future special distributions from the inherited estate generally rises.

Table 14 Potential future special distributions (SD) and PIP allocation by outstanding term, inherited estate £1,200 million, aggregate PIP £500 million^{23 24 25}

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	% of PIP allocation	NU new business (£m)		5% decline in new business (£m)		15% decline in new business (£m)	
					Potential future SD	% of future SD	Potential future SD	% of future SD	Potential future SD	% of future SD
0 – 5 years	██████	4,297	104	21%	-	0%	-	0%	-	0%
6 – 10 years	██████	3,324	74	15%	-	0%	-	0%	-	0%
11 – 15 years	██████	2,149	48	10%	3	4%	33	11%	59	14%
15+ years	██████	2,477	58	12%	30	36%	96	33%	136	32%
Open-ended policies	██████	11,823	216	43%	50	60%	162	56%	234	55%
Total	999,597	24,070	500	100%	83	100%	292	100%	431	100%

²³ Additional tables showing the value of potential future special distributions and PIP allocations for a range of alternative sizes of the inherited estate are contained in Annexe B.

²⁴ Total might not equal sum of PIP allocation or special distributions by outstanding term due to rounding.

²⁵ Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

Table 15 Potential future special distributions (SD) and PIP allocation by outstanding term, inherited estate £1,570 million, aggregate PIP £704 million²⁶

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	% of PIP allocation	NU new business (£m)		5% decline in new business (£m)		15% decline in new business (£m)	
					Potential future SD	% of future SD	Potential future SD	% of future SD	Potential future SD	% of future SD
0 – 5 years	██████	4,297	146	21%	-	0%	-	0%	-	0%
6 – 10 years	██████	3,324	105	15%	2	1%	12	3%	21	3%
11 – 15 years	██████	2,149	67	10%	35	18%	77	17%	104	17%
15+ years	██████	2,477	81	12%	54	27%	121	27%	161	27%
Open-ended policies	██████	11,823	304	43%	105	54%	235	53%	316	52%
Total	999,597	24,070	704	100%	197	100%	448	100%	605	100%

Table 14 and Table 15 demonstrate that Aviva’s PIP allocation for policies with a known maturity date is not closely correlated with the pattern of special distributions forgone by electing policyholders. At one extreme, policies maturing in the next five years may expect to receive no special distributions but receive 21 per cent of the aggregate PIP: their votes can transfer 21 per cent of the estates to the RIEESA. At the other extreme, policies maturing after 2021 may expect to receive between 32 per cent and 36 per cent of the potential value of special distributions from a Reattribution Estate of £1,200 million, and 27 per cent of the potential value of special distributions from a Reattribution Estate of £1,570 million, but only 12 per cent of the aggregate PIP. Absent the weighting of certain policies according to their outstanding term, the correlation between individual PIP offers and special distributions forgone by electing policyholders would most likely be poorer.

²⁶ Aviva has required that some of these figures be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

Aviva says that payments offered to policyholders with short terms to run reflect, in part, their loyalty to the funds. However, the reattribution is a cash payment in exchange for the potential future special distributions being given up, which are solely a forward looking measure. It is clear that some policyholders with longer terms will not be offered a PIP of sufficient magnitude to compensate them for the potential value of their special distributions forgone if they elect to accept the PIP.

5.00 Aviva’s analysis of the allocation of potential future special distributions to policyholders

5.01 Aviva’s approach to analysing the allocation of potential future special distributions to policyholders

Aviva has estimated the Value of Potential Distributions to Policyholders (VPDP) using a stochastic model (i.e. a model that takes into account the probability of different future outcomes). This is a different approach from that used by LECG, which uses Aviva’s ‘best estimate’ forecast (the 54th percentile from its stochastic model) of future fund performance.

We understand that Aviva’s approach builds on their new business forecasts and relies on grouped data about eligible policies and involves the following steps:

- the calculation of the VPDP for various groups of policyholders, split by type of policy and expected outstanding term. Single premium policies (and other policies without a known expected maturity date) are assumed to have the same average VPDP as other open maturity policies with similar characteristics;
- the calculation of the PIP allocation to each group of policies, based on their adjusted PIP Liabilities, the PIP rate (expressed as percentage of adjusted PIP Liabilities) and the proportion voting in favour of the reattribution; and
- a comparison of the aggregate VPDP of each group of policies with the aggregate PIP allocation to each group of policies.

Aviva divides groups of eligible policies according to the length of time that it would take such a group of policies to receive a VPDP greater than or equal to the value of the PIP payment (their “payback period”). For instance, if a policy is offered a PIP of (say) £1,000, Aviva calculates how long it could take that policy to receive a VPDP of £1,000 without a reattribution.

5.02 Results of Aviva's analysis of the allocation of future special distributions to policyholders

Aviva's calculation of the value of the aggregate VPDP of policyholders without a reattribution is between £103 million (based on a Reattribution Estate of £1,200 million) and £720 million, based on a Reattribution Estate of £2,500 million at the Effective Date of the reattribution. The value of the aggregate PIP at 1 October 2009, at this range of valuations of the Reattribution Estate, would lie between £500 million and £1,215 million.

The results of Aviva's calculations in respect of the VPDP and PIP are shown below for a range of values of the Reattribution Estate.

Table 16 Aviva's aggregate VPDP calculations for a range of aggregate PIP values, 1 October 2009, £ million

Reattribution Estate	Aggregate PIP	Aggregate VPDP
1,200	500	103
1,300	555	130
1,400	610	161
1,500	665	195
1,600	720	233
1,700	775	273
1,800	830	317
1,900	885	364
2,000	940	414
2,100	995	468
2,200	1,050	525
2,300	1,105	585
2,400	1,160	650
2,500	1,215	720

Source: Aviva

Aviva considers the reattribution offer to provide ‘good value’ for a policyholder if the policyholder would otherwise need to remain in the funds for more than 10 years to receive a VPDP greater than their PIP allocation. Aviva’s reasoning is that future special distributions are inherently uncertain in magnitude and timing and, in some cases, may not be tax-free for policyholders; and that a break-even point of 10 years or more is therefore not likely to prove attractive to many policyholders. On Aviva’s calculations and assumptions, 99 per cent of policyholders, representing a similar proportion of the value of the funds, would be made better off by the PIP offer under the proposed allocation mechanism. Aviva believes that the offer is “excellent value” for around 95 per cent of policies, meaning they would need to either wait at least 25 years to receive a VPDP in excess of their PIP allocation, or their PIP allocation would always exceed their VPDP.

6.00 LECG's analysis of the allocation of potential future special distributions to policyholders

As set out in Section 2.02, LECG's approach involves a calculation for each policy of the potential future special distributions absent a reattribution, based on any particular level of the inherited estates. Based on a comparison of those potential future special distributions against the PIP, LECG has calculated the proportion of policies that may be better off by accepting the PIP and those that may be worse off.

LECG's analysis of the allocation of future special distributions to policyholders differs from that of Aviva in that LECG's analysis of the allocation mechanism compares the value of the PIP allocation for each policy against an estimate of the future special distributions by each policy. Aviva's analysis compares the future special distributions and PIP allocations of groups of policyholders, while LECG has estimated the proportion of policies for which potential future special distributions may exceed the PIP offer, based on estimated allocations of special distributions and the aggregate PIP. It is possible that an aggregate analysis of a group may differ materially from an analysis of individual members of a group. The policyholder advocate also uses different assumptions about the adjustments and deductions required to value the inherited estates in an appropriate manner for a reattribution transaction; these are discussed in more detail in *Appendix 35: Size of the Inherited Estates*.

In other respects, LECG believes that the two analyses are directly comparable.

6.01 Results of LECG's analysis of the allocation of potential future special distributions to policyholders

LECG has considered the aggregate allocation of potential future special distributions to policyholders across a range of estate values on the basis of three distinct assumptions as to the levels of new business (Aviva's assumption of new business growth at 5 per cent per annum from 2011 and the policyholder advocate's assumptions of 5 per cent and 15 per cent per annum decline from 2011) The effect of using different new business assumptions is discussed in *Appendix 45: Formulation of Guidance to Policyholders*. Based on a

comparison of the PIP allocation for individual policies to the value of their potential future special distributions, the aggregate results of LECG's analysis are set out below.

Table 17 Aggregate results of allocation analysis

Estate value – 10/09 (£bn)	PIP value – 10/09 (£m)	Aviva's new business assumptions: +5% p.a. from 2011		Policyholder advocate Alternative new business assumption: -5% p.a. from 2011		Policyholder advocate Alternative new business assumption: -15% p.a. from 2011	
		Potential future special distributions > PIP allocation	PIP allocation > future special distributions	Potential future special distributions > PIP allocation	PIP allocation > future special distributions	Potential future special distributions > PIP allocation	PIP allocation > future special distributions
1.2	500	3.4%	96.6%	10.6%	89.4%	13.2%	86.8%
1.57	704	6.5%	93.5%	13.2%	86.8%	17.3%	82.7%
1.8	830	8.4%	91.6%	16.4%	83.6%	18.7%	81.3%
2.1	995	12.0%	88.0%	18.5%	81.5%	19.6%	80.4%
2.5	1,215	15.8%	84.2%	19.4%	80.6%	21.7%	78.3%

The table illustrates the following points:

- under Aviva's new business assumptions, between 84 per cent and 97 per cent of policyholders are offered a PIP allocation that is in excess of the estimated value of their potential future special distributions;
- under the policyholder advocate's alternative new business assumption of 5 per cent per annum decline from 2011 onwards, between 81 per cent and 89 per cent of policyholders are offered a PIP allocation that is estimated to be in excess of the value of their potential future special distributions; and
- under the policyholder advocate's alternative new business assumption of 15 per cent per annum decline from 2011 onwards, between 78 per cent and 87 per cent of policyholders are offered a PIP allocation that is estimated to be in excess of the value of their potential future special distributions.

At either end of the scale, there are large groups of policyholders that are made either much better off or much worse off by the reattribution offer, as compared with estimates of their potential future special distributions from the inherited estates.

The decline in the percentage of policies ‘better off’ when new business is assumed to decline by 15 per cent per annum from 2011 is primarily accounted for by single premium investment bonds without a known maturity date. As may be seen from the table, the reattribution offer broadly maintains a constant percentage of policyholders ‘better’ and ‘worse’ off across the range of estate values assessed, particularly under alternative, lower new business assumptions. That result is to be expected because the aggregate PIP value varies with the size of the estate, which (all else being equal) determines the value of future special distributions. The structure of potential special distributions forgone reinforces the tendency towards static percentages because:

- at one end of the scale there are policies that are expected to mature or lapse before 2016. Such policies are unlikely to share in any future special distributions from the inherited estates, assuming a Reattribution Estate value of approximately £1,570 million, the actual end-2008 value. The value of their future special distributions is therefore small. The value of their PIP Liability, however, is often large and offers them a sizeable PIP allocation. Policies with large liabilities and short terms to run are therefore those most likely to be made better off by Aviva’s reattribution allocation mechanism and any increase in the PIP; and
- at the other end of scale, there are many policies with long terms to run and smaller liabilities at 21 November 2006. Such policies are those most likely to share in significant potential future special distributions of excess surplus from the inherited estates in future, but are likely to receive a smaller PIP allocation under the terms of Aviva’s offer. The size of the gap between the value of their PIP allocation and the value of potential future special distributions would require a significant increase in the PIP, for any given value of inherited estate,

before an offer could be made that exceeded the value of their potential future special distributions.

Given the poor correlation between potential future special distributions and the allocation mechanism for the PIP for some groups of policyholders, much of the value from a PIP offer would be received by policyholders with large liabilities and short terms to run, because they are unlikely to share in any future special distributions from the estates. For the same reason, there are policies for which the value of potential future special distributions exceeds the value of the PIP offer despite the fact that the aggregate level of the PIP offer exceeds the aggregate value of future special distributions under the full range of new business assumptions employed. The number of such policies is significantly higher under the policyholder advocate's lowest new business assumptions.

Further, a significant factor in estimating the special distributions for those policies with long terms to run are Aviva's assumptions about the rates at which each group of policies will lapse. Aligning the PIP to match the potential special distributions of those policies that do not lapse, and therefore have potential distributions which exceed their PIP offer, would require making additional assumptions about the behaviour of specific policyholders.

LECG has analysed the universe of policies for which the value of PIP allocation exceeds the estimated value of the potential future special distributions. Assuming a Reattribution Estate value of £1,200 million, 2020 is the first year in which potential special distributions are projected to occur under Aviva's new business assumptions; assuming a Reattribution Estate value of £1,570 million, 2016 is the first year in which special distributions are projected to occur under Aviva's new business assumptions. Therefore all policies expected or obligated to leave the funds before these points may receive no special distributions under Aviva new business assumptions. LECG has divided these policies between those with known maturity dates and those with no known maturity date²⁷ and, within each of these two groups, policies expected to leave the funds before or after 2020 for a £1,200 million Reattribution Estate and before or after 2016 for a £1,570 million Reattribution Estate. All else being equal, a higher

²⁷ As noted above, policies are analysed differently if they have a known maturity date.

value of the Reattribution Estate will lead to earlier distributions, while a lower estate value will postpone distributions.

The breakdowns of policies between the four groups are shown in Table 18 and Table 19 below.

Table 18 Breakdown of policies with PIP allocation > potential future special distributions, Reattribution Estate of £1,200 million at 1 October 2009, aggregate PIP £500 million

	Aviva's new business assumptions	5% decline per annum (from 2011) in new business	15% decline per annum (from 2011) in new business
<u>Policies maturing before 2020 (known maturity date)</u>			
as a % of all policies	41%	41%	40%
as a % of policies in this grouping	100%	100%	97%
<u>Policies maturing on 1 January 2020 or after (known maturity date)</u>			
as a % of all policies	21%	16%	14%
as a % of policies in this grouping	95%	72%	66%
<u>Single premium investment bonds assumed to be surrendered before 2020</u>			
as a % of all policies	33%	33%	32%
as a % of policies in this grouping	100%	99%	98%
<u>Single premium investment bonds assumed to be surrendered on 1 January 2020 or after</u>			
as a % of all policies	2%	0%	0%
as a % of policies in this grouping	49%	10%	8%
Total PIP allocation > future special distributions	96.6%	89.4%	86.8%
Total future special distributions > PIP allocation	3.4%	10.6%	13.2%

Table 19 Breakdown of policies with PIP allocation > potential future special distributions, Reattribution Estate of £1,570 million at 1 October 2009, aggregate PIP £704 million

	Aviva's new business assumptions	5% decline per annum (from 2011) in new business	15% decline per annum (from 2011) in new business
<u>Policies maturing before 2016 (known maturity date)</u>			
as a % of all policies	28%	28%	28%
as a % of policies in this grouping	100%	100%	100%
<u>Policies maturing on 1 January 2016 or after (known maturity date)</u>			
as a % of all policies	31%	26%	23%
as a % of policies in this grouping	92%	77%	67%
<u>Single premium investment bonds assumed to be surrendered before 2016</u>			
as a % of all policies	30%	30%	30%
as a % of policies in this grouping	100%	100%	100%
<u>Single premium investment bonds assumed to be surrendered on 1 January 2016 or after</u>			
as a % of all policies	4%	2%	2%
as a % of policies in this grouping	50%	30%	21%
Total PIP allocation > future special distributions	93.5%	86.8%	82.7%
Total future special distributions > PIP allocation	6.5%	13.2%	17.3%

Table 18 illustrates the following points, assuming an unadjusted estate of £1,200 million:

- Between 40 per cent and 41 per cent of all policies have a known maturity date before 2020, when potential special distributions are projected to first occur under Aviva's new business assumptions (i.e. they are contractually obliged to leave the funds between 21 November 2006 and 31 December 2019). These policies are estimated to have no future special distributions and therefore will

be made better off by any PIP allocation mechanism irrespective of the assumptions made;

- a relatively high proportion of policies (between 66 per cent and 95 per cent) with a known maturity date, but maturing after 1 January 2020, have a larger PIP allocation than LECG's estimates of potential future special distributions. One may surmise that the multiplier applied to many of these policies' PIP Liabilities described in Section 0 has made a significant difference to these policies; and
- for single premium investment bonds without a known maturity date, the individual decision on when to leave the funds is the primary factor determining whether each PIP allocation might exceed potential future special distributions. Less than half of single premium investment bonds assumed to be surrendered on 1 January 2020 or after receive a larger PIP allocation than potential future special distributions. However, according to Aviva's assumptions regarding the timing of surrender of those policies, less than 5 per cent of all policies fall into this category.

We note that the analysis above does not quantify the relative size of the PIP allocation of, and potential future special distributions by, each policy. Many of the 13 per cent to 22 per cent of policies for which an assumed 15 per cent per annum decline in new business is estimated to result in potential future special distributions which exceed the PIP have a sizeable gap between the value of their PIP allocation and the estimated value of their potential future special distributions. In *Appendix 45: Formulation of Guidance to Policyholders*, LECG sets out a more detailed analysis of the distribution of future special distributions in comparison to the PIP allocations of individual policies.

7.00 Conclusions

The purpose of this paper has been to analyse Aviva's proposed allocation mechanism. As noted in *Appendix 42: Evaluation of the Aggregate PIP Offer*, the aggregate value of the Aviva offer to policyholders is superior to the potential value of future special distributions from the inherited estates to existing, eligible policyholders across a wide range of potential outcomes. In principle a perfect allocation mechanism would translate that superior value, at an aggregate level, into a superior value for each and every eligible policyholder.

In reality, however, such a mechanism is infeasible. In particular, there is uncertainty about the value and timing of future special distributions from the inherited estates, such that the potential value estimated today may be higher, or lower, than the value ultimately realised. That uncertainty is compounded by uncertainty about the behaviour and circumstances of individual policyholders. In addition, Aviva has collated only a limited set of data about policyholders. It is possible that a superior mechanism could be devised if more data were available. We understand from Aviva, however, that the collection and cleaning of additional data carries with it a high cost and time impact and that this needs to be weighed against the benefits that it could realise.

For individual policies, the three main drivers of the potential value of future special distributions are the size of the policy at the date of any special distribution, whether premiums are paid in the future and the length of the policy's outstanding term. Although Aviva says that there is no certainty as to the manner in which future special distributions may be allocated between policyholders, LECG has assumed that they will be allocated according to each policy's liabilities. All else being equal, we would expect policies with larger liabilities to receive a larger share of future special distributions at any given date. Clearly, policies that remain in the funds for longer (i.e. which have a longer outstanding term) may be expected to receive a greater number of future special distributions and so to capture more value from the inherited estates, all else being equal. For that reason, both in aggregate and at the individual policy level, most future special distributions are estimated to accrue to policies with more than 10 years outstanding term at November 2006. That positive correlation

between outstanding term and the estimated value of potential future special distributions is even more pronounced for regular premium than for single premium policies.

LECG has analysed Aviva's proposed allocation mechanism using two different models, a fund-level model to analyse the position of groups of policies and a policy-level model that assesses the position of individual policies. In conducting its analysis, LECG employed a random number generator to model the lapse rates of policies with no known maturity date such that the run off matches the fund level data provided by Aviva..

The overall impact of Aviva's allocation mechanism is that small policies will benefit from the minimum payment, while policies whose PIP Liabilities have been adjusted by Aviva should also receive a PIP offer that is more closely aligned with estimates of their special distributions potentially forgone, absent a reattribution. LECG notes, however, that a significant number of eligible policies will have left the funds by the date of the reattribution. Such policies will receive a PIP payment and will transfer a portion of the inherited estates to the RIEESA, but will not transfer any liabilities to the New WPSF. It is therefore likely that the proportion of the inherited estates transferred to the RIEESA will exceed the proportion of liabilities transferred to the New WPSF. The corollary of this is that the Old WPSF may not have enough estate transferred to support the potential future special distributions from the estate which non-electing policyholders may have enjoyed without the reattribution. There are also a number of other reasons why this might be the case, and therefore Aviva has introduced a 'safety net' to ensure enough estate is transferred in most circumstances. The safety net is described in detail in *Appendix 44: The Position of Non-Electing Policyholders*.

Aviva's analysis of its allocation mechanism is performed at the level of categories of policyholders, rather than individual policies. Aviva computes the VPDP for each group of policyholders and calculates how long the policies would need to remain in the funds to receive such a value. Aviva says that around 95 per cent of policies would need to remain in the funds for more than 25 years, or beyond the expected maturity date of the policy, to receive a present value of potential future special distributions in excess of their PIP offer. Its calculations also suggest that over 99 per cent of policies would need to remain in the funds

for more than 10 years, or beyond the expected maturity date of the policy, to be better off not electing for the reattribution offer.

After estimating potential future special distributions from the inherited estates to groups of policyholders, LECG has allocated these distributions to individual policies. These individual policyholder estimates of potential future special distributions are then compared to the estimated PIP allocated to each individual to determine which value is greater by estimating the proportion of policies for which potential future special distributions may exceed the PIP offer, based on estimated allocations of special distributions and the aggregate PIP.

On Aviva's assumption of increasing amounts of new business (5 per cent per annum from 2011), LECG's analysis suggests that for between 84 per cent and 97 per cent of policies the PIP offer is likely to exceed potential future special distributions. On the policyholder advocate's alternative, lowest new business assumption of a 15 per cent annual decline in new business from 2011, for between 78 per cent and 87 per cent of policyholders the PIP offer is likely to exceed potential future special distributions..

The narrow ranges indicated by the analysis are a function of the polarised structure of the estimates of potential future special distributions. At either end of the scale, there are large groups of policyholders where the reattribution offer is much greater than potential future special distributions

In aggregate, LECG's analysis suggests that Aviva's proposed allocation mechanism is not well correlated to the potential special distributions that could be received by certain categories of policyholder. It also suggests that almost all categories of policyholder are likely to contain some policyholders whose potential special distributions exceed their PIP allocation. In particular, policies with longer outstanding terms (especially those paying regular premiums) are likely to receive a higher proportion of the special distributions potentially available from the inherited estate. On Aviva's new business assumptions (5 per cent per annum increase from 2011), the value of potential future special distributions peaks between 2011 and 2021 before declining. On the policyholder advocate's alternative, lower new business assumptions, the value of potential future special distributions to existing

policies is estimated to increase substantially. In large part, the lack of correlation between the PIP and the estimated value of potential special distributions to some categories of policyholders is a function of the PIP being paid in proportion to a proxy for realistic liabilities in November 2006. In reality, the special distributions that could be added to a policy in the absence of a reattribution are likely to be driven by its liabilities at the date of any distribution that is made. At any such date, many policies in force in 2006 will have left by the funds, while those that remain are likely to have larger liabilities than at the date used by Aviva in its allocation mechanism.

Depending on the value of the Reattribution Estate, special distributions are not forecast to occur for several years: for example, under Aviva new business assumptions, at a Reattribution Estate of £1,200 million, special distributions are not estimated to occur until 2020, and at a Reattribution Estate of £1,570 million, special distributions are not estimated to occur until 2016. Thus for all policies maturing or surrendered before then the reattribution offer is likely to exceed the estimated value of the potential future special distributions under Aviva new business assumptions. In addition, Aviva's adjustments to the PIP Liabilities of regular premium policies means that for many such policies the reattribution offer may well exceed any potential future special distributions, unless the policy has a very long term to run.

In conclusion, LECG believes that Aviva's proposed allocation mechanism has weaknesses insofar as it is not well correlated with the value of potential special distributions which would be forgone by electing policyholders for certain policies. In addition, the structure of the mechanism overcompensates policyholders with shorter terms to run, who are unlikely to receive any future special distributions of excess surplus from the inherited estate.

Nevertheless, LECG recognises that Aviva has taken steps to match PIP offers more closely to potential special distributions for certain categories of policyholder and that, for smaller policies, the minimum PIP represents a valuable benefit. Given the constraints faced by Aviva, the policyholder advocate is satisfied that the mechanism ensures that a majority of policyholders receive a PIP offer in excess of the potential special distributions they would forgo by electing for the reattribution, on a wide range of assumptions about potential future outcomes.

Annexe A: Potential future special distributions and PIP

allocation by policy type for other estate values²⁸

Table 20 Potential future special distributions and PIP allocation by policy type, inherited estate £1,800 million, aggregate PIP £830 million²⁹

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	Potential future special distributions		
				Aviva new business (5% p.a. growth from 2011) (£m)	Policyholder advocate assumptions from 2011	
					5% p.a. decline in new business (£m)	15% decline in new business (£m)
Conventional life sum assured	■	5,214	200	42	77	100
Conventional pensions	■	62	2	0	1	1
Conventional pension sum assured	■	1,355	47	12	24	31
Conventional whole life	■	931	38	7	13	17
Defined benefit	■	334	12	6	12	16
Deposit administration	■	158	6	4	8	10
Unitised life (single premium bonds)	■	11,500	348	143	274	354
United life & pensions non-protected rights	■	3,586	143	49	94	121
Unitised life & pensions protected rights	■	868	32	26	51	67
With-profits annuities	■	63	2	0	1	1
Total	999,597	24,070	830	292	557	721

²⁸ Aviva has required that some of the figures in these tables be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

²⁹ Total might not equal sum of special distributions by policy due to rounding.

Table 21 Potential future special distributions and PIP allocation by policy type, inherited estate £2,100 million, aggregate PIP £995 million

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	Potential future special distributions		
				Aviva new business (5% p.a. growth from 2011) (£m)	Policyholder advocate assumptions from 2011	
					5% p.a. decline in new business (£m)	15% decline in new business (£m)
Conventional life sum assured	██████	5,214	239	78	115	140
Conventional pensions	██	62	2	1	1	1
Conventional pension sum assured	██████	1,355	56	19	31	39
Conventional whole life	██████	931	45	12	19	23
Defined benefit	██	334	14	8	14	17
Deposit administration	██████	158	7	5	9	12
Unitised life (single premium bonds)	██████	11,500	417	211	346	429
United life & pensions non-protected rights	██████	3,586	172	69	115	143
Unitised life & pensions protected rights	██████	868	39	35	61	76
With-profits annuities	██	63	3	1	1	1
Total	999,597	24,070	995	440	716	885

Table 22 Potential future special distributions and PIP allocation by policy type, inherited estate £2,500 million, aggregate PIP £1,215 million

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	Potential future special distributions		
				Aviva new business (5% p.a. growth from 2011) (£m)	Policyholder advocate assumptions from 2011	
					5% p.a. decline in new business (£m)	15% decline in new business (£m)
Conventional life sum assured	██████	5,214	292	138	177	202
Conventional pensions	██	62	3	1	2	2
Conventional pension sum assured	██████	1,355	68	30	43	50
Conventional whole life	██████	931	55	21	27	31
Defined benefit	█	334	17	9	15	19
Deposit administration	██████	158	9	7	11	14
Unitised life (single premium bonds)	██████	11,500	509	324	461	545
United life & pensions non-protected rights	██████	3,586	210	98	144	172
Unitised life & pensions protected rights	██████	868	47	46	72	88
With-profits annuities	██	63	3	1	1	2
Total	999,597	24,070	1,215	679	958	1,128

Annexe B: Potential future special distributions and PIP allocation by outstanding term for other estate values³⁰

Table 23 Potential future special distributions (SD) and PIP allocation by outstanding term, inherited estate £1,800 million, aggregate PIP £830 million³¹

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	% of PIP allocation	Aviva new business (£m)		5% decline in new business (£m)		15% decline in new business (£m)	
					Potential future SD	% of future SD	Potential future SD	% of future SD	Potential future SD	% of future SD
0 – 5 years	██████	4,297	173	21%	-	0%	-	0%	-	0%
6 – 10 years	██████	3,324	124	15%	17	6%	34	6%	46	6%
11 – 15 years	██████	2,149	79	10%	57	20%	100	18%	127	18%
15+ years	██████	2,477	96	12%	67	23%	135	24%	175	24%
Open-ended policies	██████	11,823	358	43%	150	51%	286	52%	370	52%
Total	999,597	24,070	830	100%	292	100%	557	100%	721	100%

³⁰ Aviva has required that some of the figures in these tables be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

³¹ Total might not equal sum of PIP allocations or special distributions by outstanding term due to rounding.

Table 24 Potential future special distributions (SD) and PIP allocation by outstanding term, inherited estate £2,100 million, aggregate PIP £995 million

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	% of PIP allocation	Aviva new business (£m)		5% decline in new business (£m)		15% decline in new business (£m)	
					Potential future SD	% of future SD	Potential future SD	% of future SD	Potential future SD	% of future SD
0 – 5 years	██████	4,297	207	21%	-	0%	-	0%	-	0%
6 – 10 years	██████	3,324	148	15%	56	13%	78	11%	93	11%
11 – 15 years	██████	2,149	95	10%	83	19%	126	18%	152	17%
15+ years	██████	2,477	115	12%	82	19%	150	21%	190	22%
Open-ended policies	██████	11,823	430	43%	218	50%	360	50%	446	51%
Total	999,597	24,070	995	100%	440	100%	716	100%	885	100%

Table 25 Potential future special distributions (SD) and PIP allocation by outstanding term, inherited estate £2,500 million, aggregate PIP £1,215 million

	Number of policies	Adjusted PIP Liability (£m)	PIP allocation (£m)	% of PIP allocation	Aviva new business (£m)		5% decline in new business (£m)		15% decline in new business (£m)	
					Potential future SD	% of future SD	Potential future SD	% of future SD	Potential future SD	% of future SD
0 – 5 years	██████	4,297	253	21%	17	2%	17	2%	18	2%
6 – 10 years	██████	3,324	181	15%	119	18%	141	15%	157	14%
11 – 15 years	██████	2,149	116	10%	110	16%	153	16%	180	16%
15+ years	██████	2,477	140	12%	98	15%	167	17%	206	18%
Open-ended policies	██████	11,823	524	43%	333	49%	476	50%	563	50%
Total	999,597	24,070	1,215	100%	679	100%	958	100%	1,128	100%

Annexe C: NPV of potential future special distributions for other estate values and new business assumptions under consideration³²

Note: All asset share figure shown are as at 21 November 2006.

Aviva new business assumption

Table 26 NPV of potential future special distributions, Aviva new business assumptions, eligible policyholders, 2006 – 2031, unadjusted estate £1,800 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	52	■	■	23	■	■
5 to 10 years	109	■	■	66	■	■
11 to 15 years	87	■	■	59	■	■
More than 15 years	44	■	■	144	■	■
Total	292	20,985	1.39%	292	20,985	1.39%

³² Aviva has required that some of the figures in these tables be blanked out on the basis that they are commercially sensitive. The policyholder advocate believes these figures are not commercially sensitive and should be disclosed.

Table 27 NPV of potential future special distributions, Aviva new business assumptions, eligible policyholders, 2006 – 2031, unadjusted estate £2,100 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	76	█	█	33	█	█
5 to 10 years	157	█	█	118	█	█
11 to 15 years	132	█	█	95	█	█
More than 15 years	75	█	█	194	█	█
Total	440	20,985	2.10%	440	20,985	2.10%

Table 28 NPV of potential future special distributions, Aviva new business assumptions, eligible policyholders, 2006 – 2031, unadjusted estate £2,500 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	115	█	█	54	█	█
5 to 10 years	236	█	█	217	█	█
11 to 15 years	196	█	█	141	█	█
More than 15 years	132	█	█	267	█	█
Total	679	20,985	3.24%	679	20,985	3.24%

Policyholder advocate alternative new business assumption: 5% p.a. decline

Table 29 NPV of potential future special distributions, alternative new business assumption of 5% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £1,800 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	99	█	█	43	█	█
5 to 10 years	208	█	█	129	█	█
11 to 15 years	163	█	█	104	█	█
More than 15 years	87	█	█	280	█	█
Total	557	20,985	2.66%	557	20,985	2.66%

Table 30 NPV of potential future special distributions, alternative new business assumption of 5% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £2,100 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	125	█	█	54	█	█
5 to 10 years	259	█	█	187	█	█
11 to 15 years	210	█	█	141	█	█
More than 15 years	122	█	█	333	█	█
Total	716	20,985	3.41%	716	20,985	3.41%

Table 31 NPV of potential future special distributions, alternative new business assumption of 5% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £2,500 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	165	■	■	76	■	■
5 to 10 years	339	■	■	287	■	■
11 to 15 years	276	■	■	188	■	■
More than 15 years	179	■	■	407	■	■
Total	958	20,985	4.57%	958	20,985	4.57%

Policyholder advocate alternative new business assumption: 15% p.a. decline

Table 32 NPV of potential future special distributions, alternative new business assumption of 15% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £1,800 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	129	████	████	56	████	████
5 to 10 years	268	████	████	169	████	████
11 to 15 years	210	████	████	134	████	████
More than 15 years	114	████	████	363	████	████
Total	721	20,985	3.44%	721	20,985	3.44%

Table 33 NPV of potential future special distributions, alternative new business assumption of 15% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £2,100 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	155	████	████	67	████	████
5 to 10 years	321	████	████	230	████	████
11 to 15 years	258	████	████	171	████	████
More than 15 years	151	████	████	417	████	████
Total	885	20,985	4.22%	885	20,985	4.22%

Table 34 NPV of potential future special distributions, alternative new business assumption of 15% p.a. decline in new business, eligible policyholders, 2006 – 2031, unadjusted estate £2,500 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	195	█	█	89	█	█
5 to 10 years	401	█	█	332	█	█
11 to 15 years	324	█	█	218	█	█
More than 15 years	208	█	█	490	█	█
Total	1,129	20,985	5.38%	1,129	20,985	5.38%

Existing business only assumption

Table 35 NPV of potential future special distributions, existing business only, eligible policyholders, 2006 – 2031, unadjusted estate £1,800 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	307	████	████	135	████	████
5 to 10 years	632	████	████	472	████	████
11 to 15 years	508	████	████	330	████	████
More than 15 years	302	████	████	813	████	████
Total	1,749	20,985	8.33%	1,749	20,985	8.33%

Table 36 NPV of potential future special distributions, existing business only, eligible policyholders, 2006 – 2031, unadjusted estate £2,100 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	351	████	████	160	████	████
5 to 10 years	720	████	████	585	████	████
11 to 15 years	580	████	████	380	████	████
More than 15 years	366	████	████	893	████	████
Total	2,017	20,985	9.61%	2,017	20,985	9.61%

Table 37 NPV of potential future special distributions, existing business only, eligible policyholders, 2006 – 2031, unadjusted estate £2,500 million, £ million

	Distributions by duration in force			Distributions by outstanding term		
	Special distributions	Asset share	Special distributions / Asset share	Special distributions	Asset share	Special distributions / Asset share
Less than 5 years	421	████	████	205	████	████
5 to 10 years	836	████	████	724	████	████
11 to 15 years	668	████	████	440	████	████
More than 15 years	449	████	████	1,007	████	████
Total	2,375	20,985	11.32%	2,375	20,985	11.32%