

How we work out the prices for the Unit-Linked Funds of Phoenix Life Limited and Phoenix & London Assurance Limited

A guide for policyholders with unit linked policies

The aim of this guide

This guide explains how we work out the fund prices for our unit linked funds.

Why this guide is important

It gives you important information about how we work out the prices for our unit linked funds. If you print this guide, please keep it in a safe place with your other policy documents.

Introduction

The guide covers unit linked policies which invest in one or more of the Phoenix Life Limited (PLL) or Phoenix & London Assurance Limited (PALAL) Unit-Linked Funds (the funds).

This guide does not apply to investments in unitised with profit funds. These are covered in the separate guides we have for our with profits policyholders.

This guide does not apply to the small number of PLL policies with benefits linked directly to a unit trust. It also does not apply to policies whose benefits are linked to a market index.

This guide covers how we run our unit linked funds. It does not cover the details of the policies that invest in those funds. For example, this guide only refers to charges that affect the unit price. It does not cover other types of charges that may apply to some policies, such as the charge we may make for any life cover, or the policy fees. Your policy document will have more information on these items.

Many of PLL's unit linked policies were originally issued by other companies that later became part of what is now the Pearl Group of companies. Policies have been transferred to PLL under a number of arrangements, including an arrangement that was approved by the High Court at the end of 2006 and an arrangement that was approved by the High Court in early 2009.

If you have a unit linked policy originally issued by one of the following companies, your policy is now with PLL and is covered by this guide.

- Phoenix Life & Pensions Limited (previously known as Royal Life Limited)
- Phoenix Assurance Limited
- Britannic Assurance plc
- Alba Life Limited
- Century Life plc
- Britannic Unit Linked Assurance Limited (including former Allianz Cornhill Insurance policies)
- Royal Life (Unit Linked Assurances) Limited
- Royal Life (Unit Linked Pension Funds) Limited
- Sun Alliance Linked Insurance Limited
- Sun Alliance Pensions Limited
- Property Growth Assurance Company Limited
- Royal Heritage Life Assurance Limited
- Lloyd's Life Limited
- Scottish Provident Limited
- Scottish Mutual Assurance Limited (excluding Pegasus funds)

The Pegasus funds of Scottish Mutual were transferred to The Royal London Mutual Insurance Society Limited in 2008.

PALAL was previously known as Sun Alliance and London Assurance Company Limited.

This guide aims to answer some of the questions you might have about how we work out the prices of the unit linked funds for your policy. In this guide, we will cover the following questions.

- How do the funds work?
- What are the funds invested in?
- How do you work out the price of the units in each fund?
- How do you allow for tax when working out unit prices?
- What are the charges?
- Which day's price will I get when I buy or sell units?
- Where can I find out the current unit price?
- What is the role of the shareholders?
- Who looks after my interests?
- Where can I find out more?

The way we manage the unit linked funds may change from time to time. However, we will normally write to you in advance if we make any changes that significantly affect the terms of your policy.

If you would like more information on unit linked funds that we have not covered in this guide please see the section, 'Where can I find out more?'

This guide does not form part of, or change, the terms of your policy.

How do the funds work?

Some or all of the payments you make into your policy (the premiums) are used to buy units in the fund you have chosen. For some policies we will sell or cancel units to pay charges, to meet the costs of life cover and any other insurance benefits provided under the policy. We have many different types of unit linked policies and this guide does not aim to describe how they all work. Your policy document will explain how units will be added or taken away for your particular type of policy.

For some policies you can choose to invest in one or more funds from a range of funds. Depending on the terms of your policy, you may be able to switch your investments between funds or invest premiums in different funds in the future.

The units in each fund have a price which increases or reduces as the value of the underlying investments changes. Any tax, expenses or charges met by the funds will also affect the price of the units. For most of our funds the price changes every day but for some of our funds, the price may change less often, for example every week or month.

Units are only created or cancelled because of transactions you and other policyholders carry out. We do not deal actively in units in our own funds, although we may hold a small number of extra units to make sure that we always have enough units to cover our responsibilities to you and our other policyholders.

What are the funds invested in?

We run many different funds which we invest in different ways. However, your policy is only able to invest in the fund or funds that are available for your type of policy.

Your yearly statement will set out the names of the fund or funds that your policy currently invests in. If you want more detail on how we invest your particular funds please see the section, 'Where can I find out more?'

From time to time we may sell an asset from one fund to another, as long as neither fund would be worse off as a result. Any savings made from transferring assets from one fund to another will benefit the unit holders in either or both funds, depending on the reason for the transfer.

How do you work out the price of the units in each fund?

We work out the price of the units in each fund as the total value of the investments of the fund (such as stocks and shares), plus any other assets of the fund (such as tax relief due to the fund) less the value of any liabilities of the fund (such as tax due from the fund), divided by the number of units in the fund.

For example, suppose a unit linked fund had investments which were worth £24 million on a particular day and it had no other assets or liabilities. If there were 12,000 policyholders with investments in the fund and each policyholder held 1,600 units, the price of the fund would be worked out as:

$$£24,000,000 \div (12,000 \times 1,600) = £1.25 \text{ a unit}$$

This would normally be the price you get when taking the money out of this fund. This is usually called the bid price.

Some of our funds have a bid-offer spread. This means that we adjust the price for buying units so that it is higher than the price for cashing in units. So in the example above, you might pay £1.32 when buying units in the fund. The price for you pay to buy units is usually called the offer price.

We only apply a bid-offer spread where this is part of the policy terms. In some funds there is no bid-offer spread and the bid and offer prices are the same.

When we calculate the price we may round the prices up or down, for example the price at which you can buy units may be rounded up to the next tenth of a penny. Your policy terms will say how we can round prices, and by how much.

We regularly update the value of the investments within each fund. For most investments we get an updated value every time we work out the price of the units in each fund. Some types of investments, such as property, are valued less often.

We get the value of most of our investments from prices quoted by the stock market. However, for investments where quoted market prices do not exist, such as for property, we use a valuation from an appropriate independent expert, such as a qualified surveyor.

Where more money is being invested in a fund than is being taken out, the value of the underlying investments reflects the market prices for buying investments. Where more money is being taken out of the fund than is being invested, the value of the underlying investments reflects the market prices for selling investments. In each case, the values allow for expected dealing costs, such as stamp duty where this is due.

As we are not taking on any new business, the amount of money being taken out now exceeds new investments in many of our funds.

In most funds, we add any income we receive on the investments to the value of the fund. There are a small number of funds however, where we take investment income from the fund and use it to create extra bonus units. In some funds the income is paid out at regular intervals, such as once every six months.

We take any tax, charges and expenses due from the value of the fund.

How do you allow for tax when working out unit prices?

For tax purposes, we generally treat each fund separately as though it were the entire business of the company. The company's tax bill will be different from what we charge to the funds because the company is taxed on the position of all the funds combined, and is also taxed on different types of business such as with profits business.

Since pension investments in the UK can grow free of direct UK taxation, we do not take tax directly from our pension funds. But we do allow for any taxes that have been taken from the investments that we cannot claim back. Examples of these taxes are tax credits attached to dividends from UK shares, or withholding taxes on some overseas investments.

For other types of fund we allow for the tax we expect to pay when we work out the unit price. The starting point for the rate of tax we apply is the special corporation tax rate payable by life insurance companies - currently 20%. Insurance companies also pay a higher rate of tax on profits they make for their shareholders, but we don't use that higher rate in our unit pricing.

The tax rules are complicated, meaning that we deduct tax in a number of different ways. We describe these briefly below – we haven't described every detail of the calculations.

1 Tax on income

Income, such as interest on deposits, untaxed income from overseas shares, coupons on fixed interest assets and rental income from properties, are taxed at the special corporation tax rate.

Due to the tax rules, the changes in the market value of fixed interest assets (such as government bonds) are also taxed as income. In unit pricing we work out whether the assets are showing a gain or a loss. We then add the change since the previous time's pricing into the income for the fund.

If losses on fixed interest assets mean that income in pricing is negative, we give the fund the benefit of appropriate tax relief where we think it is fair to do so.

We treat fund holdings in collective investment schemes (such as unit trusts) as fixed interest assets where those schemes hold more than a certain percentage of their investments in fixed interest assets. This comes from the tax rules.

2 Tax on deemed gains and losses

For holdings in collective investment schemes that are not treated as fixed interest assets, the tax rules mean that at the end of each calendar year we have to assume that they were sold at that point. This is called a deemed disposal. We then work out the gain or loss to this point from the end of the last calendar year (or the date we bought it if it was bought during the year). If there is an overall gain, we reduce it to allow for the effect of inflation, as far as the tax rules allow us to do so.

If there are overall gains, the tax rules for deemed disposals mean that we have to pay tax on one seventh of the gain straight away, and on one seventh of the gain in each of the next six years. When we price the funds we allow for the tax we have to pay now and in future years from the past deemed disposals. In doing so we normally apply a lower tax rate that allows for the delay until the tax is payable and the interest earned on the money set aside to pay the tax.

If there are overall losses from the deemed disposal we can spread these over seven years in equal instalments in the same way as gains. These losses can then be used to reduce tax arising from past or future deemed and realised gains for the benefit of the fund. For an explanation of realised gains, please see the section 'Tax on other gains and losses', below.

We will also consider giving a tax credit to the fund where we think the company can use the losses to reduce its own overall tax bill.

3 Tax on other gains and losses

- Realised capital gains and losses

We make realised capital gains and losses when we sell investments in shares, property and those collective investment schemes that are not treated as fixed interest assets.

The capital gain or loss is basically the difference between the amount we got when we sold the asset and the amount we paid for it. For shares and property investments, we can (due to the tax rules) reduce the amount of any gain we calculate by taking into account inflation from the time we bought the asset until we sold it.

We add up the gains and losses we have made and where this is greater than zero, we tax this at the corporation tax rate. We may reduce this rate to allow for the small delay until we have to pay the tax.

Where the sum of the gains and losses is less than zero, we may give a tax credit to the fund. This is where we think that the company may be able to reduce its own overall tax bill by setting off losses from one fund against gains from another.

- Unrealised capital gains and losses

For assets that will give rise to capital gains or losses when they are sold, but where we continue to hold them, we allow for tax that we expect to pay in future.

Some of the assets will be in a gain position and some will be in a loss position. These are called unrealised gains or unrealised losses. We add up the unrealised gains and losses (reducing the gains to allow for inflation) and where this is greater than zero we make a tax allowance in pricing. The tax rate we use is the special corporation tax rate, but reduced to allow for the time until we expect to sell the assets and the growth on those assets until then.

Where the sum of the unrealised gains and losses is less than zero, we may give a tax credit to the fund. This is where we think that the company may be able to reduce its overall tax bill in future by setting off losses from one fund against gains from another.

3 Timing of tax payments from the funds

We take cash out of the funds regularly to pay the tax liabilities on income and realised gains.

For gains on deemed disposals, in some funds we take tax out over seven years at the full special corporation tax rate in each of those years. In others we settle the whole balance in one go after the deemed disposal, using a tax rate lower than the special corporation tax rate to allow for the delay until the company would have to pay the tax bill.

What are the charges?

The charges that we may apply to your policy are explained in your policy document. This guide does not explain the charges that will apply to all the different types of unit linked policies we have issued. However, some of the charges do affect the unit price of the funds and we set out some examples below.

The charges that we make are to meet our costs and make a profit from carrying out unit linked insurance business.

We do not increase charges if the terms of the policy do not allow us to. Where the policy terms do allow us to increase charges we will only make increases if we think they are fair and necessary, for example to meet any increased costs.

The type of charges we apply will depend on the type of policy and fund but the following are the most common ones which may affect the unit prices.

- A bid-offer spread on the price of units (see 'How do you allow for tax when working out unit prices?')
- A regular amount that we take from the fund that reduces the unit price, sometimes called a management charge. There may be different levels of management charges that apply to different types of units you hold, even in the same fund. Your policy document will tell you more about these.
- Rounding of unit prices, for example, in cases where we round up the price you pay to buy units to the next higher tenth of a penny.

When deciding the unit prices there will usually be extra costs that we allow for. These include dealing costs, safe custody fees, taxes, and in some cases charges made by unit trusts or other collective investment schemes that the funds are invested in (where we are able to claim these back they may be added back to the fund, depending on your policy).

Which day's price will I get when I buy or sell units?

When you pay premiums, switch investments between funds or make a withdrawal from your policy, we will normally work out the number of units we add or withdraw by using the next available prices. This is called forward pricing and helps to protect all policyholders' units in the fund. It means that no-one can take advantage of changes in the stock markets that aren't reflected in the most recent prices.

Some transactions will, however, be carried out based on prices calculated previously. An example of this is the payment we make if you die, which is normally based on the price at the date of death.

In some circumstances we may calculate a special price for the transaction you make, rather than using our normal published prices. We will only do this where we think that using our published prices would be unfair to other customers and where we have said that we can do this in your policy terms and conditions. An example might be where you make a large withdrawal that has a significant impact on the fund.

Where can I find out the current unit price?

You can find the prices for most of our funds on our website at www.phoenixlifegroup.co.uk. If you are not sure which funds you invest in please look at your latest statement or your policy document. If you are still not sure, or cannot find the price on our website, please contact us using the details at the end of this guide, quoting your policy number.

What is the role of the shareholders?

Shareholders provide a fund of money on top of the unit funds and any other funds we have set aside to ensure that we can meet policy benefits. In exceptional circumstances we would use this to provide policy benefits if there is not enough money in the unit linked and other funds. In return for providing this support, the shareholders receive, in most cases, all of the profits we make from running the unit linked business.

Who looks after my interests?

The PLL and PALAL Boards are responsible for all the decisions relating to our unit linked policies and funds. They will, for example:

- review the investment performance and strategy of the funds;
- decide whether and when to combine funds, close them down, or create new ones;
- make sure we work out prices in line with agreed methods, that these methods are fair and keep to any regulatory requirements or industry standards;
- decide on changes to the way we work out prices, such as changes to tax rates we use and decide whether and how to allow for any possible new expenses, taxes or costs;
- agree changes to when and how often we work out unit prices;
- decide what action to take if we make a mistake in working out unit prices and make sure that we take that action; and
- identify and decide what to do in emergency situations or exceptional circumstances, which may include suspending unit pricing and transactions for a time.

To help with these duties, the Boards have set up several internal management committees. For example, the Unit Pricing Committee meets regularly and takes responsibility for monitoring whether prices have been calculated properly and for recommending what to do when mistakes are made. And the Investment Committee meets every three months and reviews the performance of our principal investment manager. The Boards may change these arrangements from time-to-time.

We have the power to close any of our unit linked funds in certain circumstances, such as where they become too small to manage as independent funds. In such cases we would give our policyholders new units of equal value in a different fund. The replacement fund will be a fund from those available from Phoenix at the time. We would normally write to you if we were going to take this action.

Where can I find out more?

Your policy document will give you more information on the options which apply to your particular policy. Your yearly statement shows the fund or funds that we invest your policy in.

If you want more information about the funds your policy invests in, your latest yearly statement will show our up-to-date contact details. Alternatively, please contact using the details below, quoting your policy number.

If you are a Phoenix Life Limited policyholder please call 0845 002 0366. If you are a Phoenix & London Assurance Limited policyholder please call 0845 788 3311. Low call rates apply, although costs can vary between telecom providers.

If you would like this information in large print, in Braille or on cassette or CD please call 01564 202870.