

How we work out the prices for the Unit-Linked Funds of Phoenix Life Limited and Phoenix and 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 and 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 only covers how we run our unit linked funds. It does not cover the other parts of our unit linked policies. 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 the Resolution group of companies and were transferred into PLL at the end of December 2006, by an arrangement that was approved by the High Court (the 2006 court scheme).

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

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?
- What price do I sell units at or buy units for?
- 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 of 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, 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 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.

We take any tax or expenses due from the value of the fund.

We work out the price of the units in each fund as the total value of the assets of 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 a unit linked fund had investments which were worth £24 million on a particular day. 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 £1.30 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.

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 whole penny. Your policy terms will say how we will round prices, and by how much.

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

For tax purposes, we treat each fund separately. The tax rates we use in pricing are normally the current basic rates for personal tax rather than corporation tax (tax on a company's profit).

For pensions policies this means that we do not currently take tax directly from the fund, 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 policy we allow for the tax we expect to pay when we work out the unit price, as follows:

- Any tax due on income (including gains or losses that are treated as income under tax rules) is allowed for as if it is being paid straight away.
- Any capital gains tax due on investments we have sold is also allowed for as if it is being paid straight away.
- Where we have not sold investments, but expect to pay or reclaim tax on them in the future, we will allow for this in the unit price. The allowance we make will depend, for example, on the length of time before we expect to pay or reclaim the tax and the investment return we expect to earn until then.
- In some cases, the tax rules mean that we have to assume that assets are sold at the end of each year, and pay tax on that amount. We will allow for this as if it is paid straight away, except where the rules allow the tax due to be paid over a number of years. In this case, we will normally reduce the tax to reflect that we expect to earn investment returns on the amount set aside to meet the tax over the period until the tax is due.
- From time to time we will take amounts out of the fund to pay for tax. Where we take the amount out of the fund before the tax is due to be paid, we will normally reduce the amount to allow for interest the fund would earn up to the point the tax is due to be paid.

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 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.
- A regular amount that we take from the fund that reduces the unit price (sometimes called a management charge)
- A higher regular charge that we take from certain types of units bought in the early years of a policy. These units are sometimes called Capital Units – not all policies have these.
- Rounding of unit prices, for example, in cases where we round up the price you pay to buy units to the next whole 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 are normally added back to the fund, depending on your policy).

What price do I buy units at or sell units for?

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 historic prices. 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 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. The Unit Pricing Committee meets regularly and takes day-to-day responsibility for making sure unit linked funds are managed properly. And the Investment Committee meets every three months and reviews the performance of the investment manager.

The 2006 court scheme gave us the power to close any of our unit linked funds where the value of the assets is less than £5 million. This level is increased every year with inflation. 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 and London Assurance Limited policyholder please call 0845 601 3296. 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 204236.