ROYAL LONDON

CHARGES SUMMARY

INTRODUCTION

This summary provides details of our Talisman Retirement Options Plans that were available from July 1998 until 31 December 2007. These plans were designed to allow income to be taken from a personal pension without the need to purchase an annuity.

There were three different types of plan:

- Phased retirement
- Income drawdown
- Phased drawdown.

Phased retirement basically means not cashing in the full value of the pension in one go. Instead of taking the maximum possible benefits, the client calculates the amount of tax-free cash sum and/or income they require and then crystallises just enough of the pension plan to provide it. The income is provided as an annuity.

Income drawdown allows the client to withdraw income directly from their existing pension fund, without the requirement to purchase a separate product. Any tax-free cash sum has to be taken at the start of the plan, and can be taken without the need to take an income.

Phased drawdown refers to a combination of the above two approaches. A phased retirement plan is set up, with proceeds from the required portion of the fund being transferred into an income drawdown arrangement. So, instead of the required income being provided via a tax-free cash sum and an annuity, it is provided by a tax-free cash sum and income drawdown. A similar process is followed in subsequent years, allowing income levels to be varied according to need.

ALLOCATION RATES

Our allocation rates for single payments and transfer payments were based on the size of the payment, the amount of single payment commission taken and the term to selected retirement date. The rates are shown in the table below:

Payment amount	Allocation rate for terms less than or equal to 5 years	Allocation rate for terms greater than 5 years
Under £29,999.99	103.2% - commission	103.2% - commission
£30,000 - £34,999.99	103.6% - commission	103.6% - commission
£35,000 - £39,999.99	104.0% - commission	104.0% - commission
£40,000 - £44,999.99	104.4% - commission	104.4% - commission
£45,000 - £49,999.99	104.8% - commission	104.8% - commission
£50,000 - £99,999.99	105.2% - commission	105.6% - commission
£100,000+	105.2% - commission	106.3% - commission

If the term to selected retirement date was less than 5 years, this initial allocation rate is reduced further by an amount between 0% and 2% depending on the term in complete years and months.

The reduction applying for different terms is in the table below:

Term (complete years and months)	0 years	1 year	2 years	3 years	4 years	5 years
Allocation reduction	2%	1%	0.75%	0.5%	0.25%	0%

For example, a single payment of £70,000 with 3% single payment commission taken and a term of 3 years would attract an allocation rate of 101.7% (105.2% - 3% - 0.5%).

The allocation rate applied could differ depending on the type of tax-free cash sum taken. There were two types of tax-free cash sum available:

- a payment based tax-free cash sum usually calculated as 25% of the payment, or
- a fund based tax-free cash sum usually calculated as 25% of the fund at the start of the plan, after the payment has been allocated and the relevant charges applied.

Where a payment based tax-free cash sum was taken, the allocation rate was based on the payment amount less the tax-free cash sum.

Examples 1 and 2 are based on a transfer payment of £100,000, 3% commission being taken, a term of 10 years and a tax-free cash sum of 25%.

Example 1 - payment based tax-free cash sum

Tax-free cash sum is **£25,000**

Payment after deduction of tax-free cash sum is:
£100,000 - £25,000 = £75,000

Allocation rate that applies is 102.6% (105.6% - 3%)

After the bid/offer spread the payment allocated is:
£75,000 x 102.6% x 95% = **£73,102.50**

Example 2 - Fund based tax-free cash sum

Initial allocation rate 103.3% (106.3% - 3%)

After the bid/offer spread the payment allocated is:
£100,000 x 103.3% x 95% = £98,135

25% tax-free cash sum is:
£98,135 x 25% = £24,533.75

As the tax-free cash sum is paid out straightaway an allocation reduction is applied. We do this as the initial payment received an allocation rate of 103.3% based on the term of 10 years.

The true allocation rate on a zero term would have been:
100.2% (105.2% - 3% - 2%)

Reduction calculated as:
£24,533.75 x (1 - 100.2%/103.3%) = £736.25

Tax-free cash sum paid out:
£24,533.75 - £736.25 = **£23,797.50**

The remaining fund is:
£98,135 - £24,533.75 = **£73,601.25**

Additional unit allocation

Additional units are added at a rate of 0.5% of the value of the single payment or transfer payment fund every policy anniversary, effectively reducing the fund management charge from 1% to 0.5% a year.

Taking benefits or transferring before selected retirement date

The single payment or transfer payment fund is reduced if benefits are taken, including income payments, or are transferred within 5 years of the single payment being paid. We do this by calculating what allocation rate would have applied to the actual term and dividing this by the allocation rate actually received.

In effect, what we are doing is adjusting the value of the single payment fund to what it would have been had the actual term been used to calculate the allocation rate at the time the single payment was paid.

Example 3 is based on our earlier example 2 where after 3 years the customer chooses to take an income payment of £3,000. Our example assumes no investment growth, and is for illustration purposes only.

Example 3

Allocation rate actually received of 103.3%

Allocation rate based on actual term of 3 years is:
101.7% (105.2% - 3% - 0.5%)

Remember that where the term is less than 5 years the initial allocation rate is 105.2%, not 106.3%. The 3% is the commission paid. The 0.5% is the reduction applied as the term is 3 years.

Adjustment to transfer payment fund is:
£3,000 x (1 - 101.7%/103.3%) = £46.47

Administration charge for income payment is £5

The remaining fund value is:
£70,549.78 (£73,601.25 - £3,000 - £46.47 - £5)

OTHER CHARGES

Fund management charge

All of our unit linked funds have a fund management charge of 1% a year and a 5% bid/offer spread.

External funds are available. Different fund charges may apply depending on the fund chosen.

Fund switches

There are no charges for switching between any of our investment funds. We do reserve the right to introduce a charge in the future.

A market value reduction factor may be applied to switches out of our with profits fund.

Policy fee

Where applicable, a monthly policy fee is charged. This policy fee increases each year on the policy anniversary in line with the Retail Prices Index. The charge is collected by deducting units from the pension fund to the value of the policy fee each month.

Administration charge on income payments

There is a charge on each income payment. We calculate this as 0.5% of each gross income payment amount. A maximum of £5 applies to each payment.

Fund based renewal commission (FBRC)

Any FBRC is paid by deducting units from the pension fund to the value of the FBRC payable.

OPTION TO INCREASE TRANSFER PAYMENTS

What is it?

As you're no doubt aware, when pensions are transferred a market value reduction factor or charge may be applied by the company transferring the pension. This means that the value of the pension may be reduced, sometimes quite significantly. This reduces the amount being invested in the new pension and the amount payable to beneficiaries on death before a client's intended retirement date.

Our option to increase transfer payments was available to clients with these plans until 31 December 2006. It tries to ensure that our client's beneficiaries don't lose out if they die before they retire. It gave clients the option, for an additional charge, to increase the fund value payable on their death. That increase would, within certain limits, have increased the value of their death benefit to the level it was before any reductions were applied. In effect, we topped up the fund value available on their death to allow them to maintain the level of their death benefits.

Paying for the option

Our charge for providing this option is dependent on how much we topped up the value of the client's death benefit by, when they transferred it to us. To spread the cost of the option, we increased the annual management charge that is deducted from the transfer payment fund each year. By the time the client reaches their selected retirement age this increased charge will have covered the cost of using this option.

TAKING BENEFITS OR TRANSFERRING BEFORE SELECTED RETIREMENT AGE

If the client takes income, retires early or transfers out of their plan with Royal London before their selected retirement age, we will apply a charge to clawback the outstanding cost of using this option. We do this, as otherwise we would not be able to recover the full cost of the option, because we will no longer have until their original retirement date to do so.

New legislation effective from 31 March 2017 means that customers entitled to access their retirement benefits will have exit charges capped at 1% of the plan value. A 1% cap will therefore normally apply from age 55.

Early exit charges can apply to your client's plan when they decide to take their pension benefits or transfer their savings to another provider, before they reach the retirement age agreed under their plan. The charge will not apply if your client waits until the agreed retirement age before doing the same thing.

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