



## DISCONTINUANCE CHARGES Q&A

### INTRODUCTION

This question and answer guide provides details of the discontinuance charges, which apply to both Crest Growth and Crest Secure policies. It explains what the discontinuance charge is, how and when it applies, the calculations involved and other mechanics. It doesn't cover any additional charges that may apply such as those associated with the enhancement of transfer-in payments.

### WHAT IS THE DISCONTINUANCE CHARGE AND WHEN DOES IT APPLY?

The charging structure for Crest policies assumes that a policy will be in force for a minimum of 20 years. If a policy is wound-up before the 20 years has ended, we may apply a discontinuance charge to recover expenses incurred together with our normal profit margin.

The charge is calculated and applied in line with advice from Royal London's Actuary as outlined in the Group Policy (for example in Schedule J of a Growth Policy or Schedule I of a Secure Policy).

### HOW MUCH IS THE CHARGE?

The amount of the charge depends on a number of factors such as the type of Crest policy, the type of contributions paid in, the commission that was paid to the financial adviser and the average term in force across all members of the scheme. The charge is percentage based and not a fixed amount.

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

Early exit charges can apply to the account when the member decides to take their pension benefits or transfer their savings, before they reach the retirement age agreed under their account. The charge will not apply if the member waits until the agreed retirement age before doing the same thing.

Market value reductions are not included within the new 1% cap.

### HOW IS THE CHARGE CALCULATED?

The table below shows how much the charge will be based on the value of the funds in each member's account and to any scheme account.

Average term in force	Regular contributions				Transfer & Single Premium
	Crest Secure		Crest Growth		
	Nil/level commission	Full initial commission	Nil/level commission	Full initial commission	
1	8.0%	16.0%	6.0%	10.0%	5.0%
2	7.6%	15.2%	5.7%	9.5%	4.0%
3	7.2%	14.4%	5.4%	9.0%	3.0%
4	6.8%	13.6%	5.1%	8.5%	2.0%
5	6.4%	12.8%	4.8%	8.0%	1.0%
6	6.0%	12.0%	4.5%	7.5%	0.0%
10	4.4%	8.8%	3.3%	5.5%	0.0%
20	0.4%	0.8%	0.3%	0.5%	0.0%
20+	0.0%	0.0%	0.0%	0.0%	0.0%

## ARE THERE ANY EXCEPTIONS TO THIS CALCULATION?

Yes, there are two exceptions which are detailed below:

- 1 If a policy is wound-up with an average term much shorter than expected, the charge shown in the table may not be enough to cover our expenses. For a policy which has an average term in force of less than five years, we'll calculate a charge based on the contributions paid in, the commission paid out and the withdrawals over the term since the policy started. The charge we'll apply will be the higher of this alternative calculation and the charge shown in the table. We do this to recover our expenses over the term of the policy together with our normal profit margin.
- 2 In some scenarios, it may be possible that the charge is reduced. If the policy is valued at more than £7.5 million, we'll look at the contributions paid in, commission paid out and withdrawals over the policy term. If the appropriate charge in the table is higher than necessary to recover our expenses, we may reduce it.

## WHY ARE THERE DIFFERENT COMMISSION TERMS IN THE TABLE?

We may have paid commission to the financial adviser when the policy was set up. We may also have paid commission for new members or on increments paid for existing members. There are different kinds of commission which are payable to financial advisers. These range from a percentage based on the first year's contributions (initial commission), an amount based on all ongoing contributions (level commission) or no payment at all (nil commission).

## HOW IS THE CHARGE CALCULATED IF INITIAL COMMISSION WAS PAID BUT WAS LESS THAN THE FULL AMOUNT AVAILABLE?

Let's look at an example where the charge is to be calculated for a Crest Secure policy into which only regular contributions have been paid and which has an average term in force of 10 years. Assuming the maximum level of initial commission available to the financial adviser was 40%, the charge would be:

- 4.4% if no commission was taken.
- 8.8% if the full 40% initial commission was taken.
- 6.6% if only 20% initial commission was taken.
- 4.95% if only 5% initial commission was taken.

## WHAT'S THE 'TERM IN FORCE'?

For regular contributions, this means the time between the date contributions are first paid for an individual member and the date that the discontinuance charge is calculated. For single premiums and transfers, this is the time between the date the single premium or transfer was made and the date the charge is calculated.

## HOW IS THE AVERAGE TERM IN FORCE CALCULATED?

This is calculated by averaging the term in force of all members at the quotation date across the total number of members who have benefits under the policy. An example is given in the table below, assuming the average term in force is being calculated in respect of regular contributions and the date of entry is the date of the member's first contribution. A similar calculation is used for single payments and transfers but uses the duration since payment of the single premium or transfer instead of the duration since entry.

Duration since entry (years)	X Number of members	=
1	1	1
2	2	4
3	1	3
4	0	0
5	19	95
6	36	216
7	35	245
Total	94	564

In this example, the average term in force would be  $564/94 = 6.0$  years.

Assuming that this is for a Crest Growth policy with regular contributions and no commission, the discontinuance charge would be 4.5%.

## HOW IS THE CHARGE CALCULATED WHERE CONTRIBUTIONS HAVE BEEN PAID FOR AN INCOMPLETE NUMBER OF YEARS?

The calculation is based on the number of complete years and months. For example, if a scheme has two members, one with a term of two years and three months and one with a term of five years and nine months, the calculation would be  $(2.25 + 5.75) / 2 = 4$  years.

## **WHICH CREST POLICIES DOES THE CHARGE APPLY TO?**

The discontinuance charge applies to all types of Crest policies, although not every policy will incur a charge on wind-up.

## **IS THE CHARGE GUARANTEED AFTER IT'S BEEN CALCULATED?**

The charge is guaranteed for three months once it's been calculated, as a percentage and not a monetary amount. Once the three months has passed, it may be recalculated. The charge may be recalculated within the three month guarantee period if there's a change to the policy such as a significant number of members leaving during the three months.

The charge will not be recalculated once the wind-up is complete and individual policies have been issued. However, it may be necessary to apply an additional adjustment to the value of funds held in Crest Secure contracts or funds invested in with profits. This is known as a Market value reduction and is applied to reflect the investment market levels over the full term of the investment.

Market value reductions can apply in circumstances other than on wind-up. It is a reduction applied at the same time as the discontinuance charge and is in addition to this charge.

## **WHEN IS THE DISCONTINUANCE CHARGE APPLIED?**

Any members who aren't issued with an individual policy from us but choose to transfer their benefits out after the wind-up has been advised, will have the charge applied.

It's also possible that a charge may be applied to the value of the members' individual accounts when they're issued with individual policies from us.

## **THIS SCHEME WAS ADMINISTERED BY ANOTHER PROVIDER BEFORE ROYAL LONDON. IS THE CHARGE BASED ON THE COMPLETE PERIOD OF SERVICE OR ONLY THE TERM SINCE THE ROYAL LONDON POLICY STARTED?**

The charge is only based on the term since the Royal London policy started.

## **HOW WILL THE CHARGE APPLY IF THERE IS MORE THAN ONE CREST POLICY HELD BY THE SAME SCHEME?**

It's possible that more than one Crest policy is held under the same Scheme such as a Crest Secure policy running at the same time as a Crest Growth policy. In this example, the charge for each policy will be calculated separately.

## **HOW IS THE CHARGE APPLIED TO POLICIES THAT HAVE PAID A COMBINATION OF SINGLE AND REGULAR CONTRIBUTIONS?**

Two separate calculations are done; a charge for the regular contributions and a charge for single premiums and transfer benefits. Each of these charges is applied to the part of the members' funds corresponding to that particular payment type.

## **DOES THE DISCONTINUANCE CHARGE APPLY TO WIND-UPS ONLY?**

There are other circumstances where the charge may apply such as if a member leaves the scheme but not service. It may also be applied where more than 25% of the members have left on the same day or within the previous 12 months. Please contact us if you'd like more information or refer to your policy conditions.



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