



CHARGES UPDATE FOR FINANCIAL ADVISERS

Our Retirement Solutions workplace pension charges are changing to comply with the legislation capping default fund charges and banning commission and consultancy charges on auto enrolment and qualifying schemes.

We're committed to the intermediary market and understand that it may take some time to re-position your business to account for these reforms. That's why we're implementing these changes in a way that supports your business, primarily by:

- Continuing to pay initial and trail commission for new and existing members until the employer's staging date. If your client staged before April 2016, this happened by April 2016 for Group Personal Pensions or Stakeholder Pension Schemes.
- Re-pricing schemes individually so the annual management charge (AMC) will be at a market-competitive price. We may also charge some employers an administration charge, to allow us to continue to provide the same high quality of service.
- Adding ad hoc adviser charges to our group personal pensions (GPPs).

BACKGROUND

The Government implemented legislation from April 2015 that affects workplace pension schemes. Their '**Better workplace pensions: Further measures for savers**' and '**Better workplace pensions: Putting savers' interests first**' papers set out a number of changes for all qualifying and auto enrolment schemes, including the following to charges:

From April 2015:

- A default fund charge cap of 0.75% came into effect covering charges paid by members. This applies to the nominated default investment and any other investment 80% or more of the members are invested in.
- Consultancy charges (CC) were banned, including those where there was a legally enforceable agreement in place between employer and adviser pre 10 May 2013.

From April 2016:

- Member-borne commission payments to advisers are banned.
- Active member discount (AMD) charging structures or any similar structure where charges are higher for deferred members are banned.

From April 2017:

- Government to review whether transaction costs should be included in the default fund charge cap and whether the level of the charge cap should be lowered.

These pension reforms will have a significant impact on our industry:

For advisers, the removal of commission could present a serious challenge to the commercial viability of your existing business model.

For providers, the introduction of a 0.75% charge cap presents a serious challenge to the commercial viability of workplace pensions.

SUMMARY OF WHAT WE'RE CHANGING

Here's an overview of the changes we're making to our Retirement Solutions workplace pensions to comply with the legislation changes.

1. Commission/ Financial Adviser's fee (FAF) and consultancy charges (CC)	<ul style="list-style-type: none">• We'll continue to support CC until the employer's staging date. However, if your client staged before April 2015 then CC payments stopped in April 2015.• If your client has a Group Personal Pension or Stakeholder Pension Scheme, we'll continue to support initial and trail commission including Financial Adviser's Fee (FAF) until the employer's staging date. However, if your client stages before April 2016, then commission payments stop in April 2016.• If your client has an existing Company Pension Plan we'll continue to support initial and trail commission including Financial Adviser's Fee (FAF) until the Government bans commission on auto enrolment / qualifying occupational pension schemes. The Government is consulting on the regulations for these schemes during 2016. We'll confirm when commission on existing schemes will be switched off once we know when this will be.
2. Product charges	<ul style="list-style-type: none">• We'll cap the AMC at 0.75% for default funds from the employer's staging date. However, if your client staged before April 2015 then we capped the AMC by April 2015.• We'll re-price schemes individually, so the annual management charge (AMC) will be at a market-competitive price.• We'll remove charging structures with allocation rates of less than 100% which were available on older schemes.• For qualifying/auto enrolment schemes we'll remove any FAF charges from members' plans by the employer's staging date. However, if your client has staged before April 2015 then we removed any FAF charges from members' plans by April 2015.
3. Employer administration charge	<ul style="list-style-type: none">• We want to be able to offer employers an auto enrolment scheme that helps them meet their employer duties. However, in some cases it may not be possible for us to provide a qualifying scheme within an AMC of 0.75%. We may introduce an employer administration charge for these schemes to make them financially viable for us.• If the Government reduces the charge cap below 0.75% in the future, we reserve the right to introduce an employer administration charge as a standard charge for schemes. If this or any other change occurs that results in us needing to change the charges on a scheme, we'd provide the employer with at least 90 days' notice of the change.
4. Adviser charges	<ul style="list-style-type: none">• We understand that you may be looking at alternative revenue streams. So, where you're providing individual advice to Group Pension Plan (GPP) or Company Pension Plan scheme members, we can make adviser charge payments from the members' plans.• We currently offer initial and ongoing adviser charges on Retirement Solutions GPPs or Company Pension Plans established post-RDR.• An ad hoc adviser charge option is available to all our Retirement Solutions GPPs.
5. Default investments	<ul style="list-style-type: none">• We reviewed the default investments that we support for new and existing schemes and some employers will need to change the default where this includes external funds with additional charges.• Where the responsibility for designing the default investment and assessing its ongoing suitability sits with you or the employer we'll provide details of permitted default investments to help you make an alternative selection.• Where any active member's plan is not invested in the default investment and is invested in funds with additional investment charges, we'll write to them to tell them that their plan is not currently invested in the default and the total charge they pay could exceed 0.75%.

TIMETABLE FOR CHANGES

- We'll re-price existing schemes and remove consultancy charges from the employer's staging date.
- If your client staged before April 2015 we re-priced the scheme and removed consultancy charges, where they applied, by April 2015.
- We'll remove commission on auto enrolment/qualifying Group Personal Pensions and Group Stakeholder Plans from the employer's staging date. However, if your client staged before April 2016, then we removed commission, where it applied, by April 2016.
- If your client has an existing Company Pension Plan, the commission payments will be removed when the Government's planned legislation on occupational pension schemes bans it. We'll confirm this date once we know what it is.

Examples

Staging date	Scheme re-priced and consultancy charges removed	Commission removed
1 May 2015	1 May 2015	6 April 2016
1 Nov 2015	1 Nov 2015	6 April 2016
1 May 2016	1 May 2016	1 May 2016



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