NPI

How we look after your unit-linked policy

A guide for policyholders with unit-linked policies provided by:

- **NPI Limited;**
- **National Provident Life Limited;**
- **Pearl Assurance Limited; and**
- **London Life Limited.**

What this guide is for

This guide explains how unit-linked policies work and how we currently manage them. We may change the way we manage policies in future to cope with changing conditions. We will let you know about any changes that significantly affect the way we manage your policy. (For example, we would let you know if we made a major change to the way we allow for tax when working out unit prices.)

Introduction

This guide covers unit-linked policies that invest in one or more of the Phoenix Group's unit-linked funds.

This guide does not apply to the parts of any policies that invest in our with-profits funds. The "About our with-profits fund" section of our website explains how we manage our with-profits business.

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

This guide tries to answer some of the questions you may have about how we look after your policy and how we work out the prices of units in our unit-linked funds. We will cover the following questions:

- How do unit-linked policies work?
- What is a unit-linked fund?
- What are the funds invested in?
- How do you work out the prices of units in each fund?
- How do you allow for tax when working out unit prices?
- Will I have to pay any additional tax?
- What charges apply to my policy?
- What prices apply when I buy or sell units?
- Where can I find current unit prices?
- Who looks after my interests?
- How do I know that I'm being treated fairly?
- What happens if you make a mistake?
- Where can I find out more information?

The way we look after our unit-linked policies and funds may change from time to time to cope with changing conditions. We will write to you in advance if we propose to make any changes that will significantly affect your policy.

If you would like more information on unit-linked funds than we have given in this guide, please see the section 'Where can I find out more information?'.

How do unit-linked policies work?

A unit-linked policy is a life insurance policy whose value is expressed in terms of the numbers of units it holds and the prices of those units. For example, a policy holding 1,000 units in a UK equity fund that have a unit price of £2.00 each would have a value of £2,000.

The payments you make into your policy (the premiums) are used to buy units in the fund or funds you have chosen in accordance with the rules of your particular policy.

We will sell or cancel units from time to time to pay charges and to meet the costs of life cover or other insurance benefits provided under the policy in accordance with the rules of your particular policy.

We have many different types of unit-linked policies and this guide does not try to describe in detail how they all work. Your policy document will explain how units will be added to, or taken away from, 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 goes up or down as the value of the underlying investments changes. Income received and any tax or expenses that have to be met by the funds will also affect the price of the units.

For most of our funds the price changes every day. For some of our funds, the price may change less often, for example once a week or month.

What is a unit-linked fund?

A unit-linked fund is a group of assets (such as a collection of shares), looked after by a fund manager, that many individual customers invest in.

The fund is divided into units, each representing an equal share of the fund. The units are usually priced daily. When you put money into your policy, you buy units from us (the insurance company). When you withdraw money from your policy, you sell some of your units back to us.

As with many other types of life insurance policy, investing in a unit-linked fund allows you to invest in a much wider range of assets than you could by yourself. The assets may include UK and overseas equities (shares), government bonds, corporate bonds, property, derivatives (futures, swaps, and options), and cash.

The value of your units depends on the market value of the assets of the fund. We try to ensure fairness towards all policyholders when working out unit prices and managing our unit-linked funds. We do not deal in the funds for our own benefit.

The value of unit-linked funds can go down as well as up and is generally not guaranteed (except for some cash funds, which guarantee that the price will never go down).

Please note that, as a unit-linked policyholder, you do not legally own the underlying assets; you own a contract (your policy) with a right to a benefit. The value of that benefit is determined by reference to a specific set of assets.

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.

Each unit-linked fund will usually have a specific investment objective which says what it is trying to achieve, what asset types it will invest in, and how volatile the values of those assets might be. Generally, higher volatility means higher risk for the customer as you will be less certain of the value you will receive when you cash in your policy.

Each unit-linked fund has a different mix of assets and we will select specialist fund managers whom we believe will provide the best returns for each type of asset.

Many of our funds are invested in collective investment schemes run by our fund managers. These investment schemes are regulated by the Financial Services Authority. These schemes give our funds access to a wider range of assets than they could invest in if they each invested separately. This reduces investment risk and helps to keep investment costs down.

If you want more detail on how we invest your particular funds please see the section 'Where can I find out more information?'.

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

We update the values of the investments in each fund every working day. For most investments we get an updated value every time we calculate the price of the units in each fund.

Where possible, we get the value of our investments from prices quoted by the markets. A collective investment scheme will be valued as the total of the market values of the investments held by the investment scheme.

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 a fund than is being invested, the value of the underlying investments reflects the market prices for selling investments.

In each case, we adjust the values to allow for expected dealing costs.

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

The fund values also include any income earned to date, but not yet received.

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

We calculate 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 has investments worth £24 million on a particular day. If there are 12 million units in the fund, the unit price of the fund would be worked out as:

£24,000,000 ÷ 12,000,000 = £2.00 a unit

This would normally be the price you would get when taking the money out of this fund. This is usually called the bid 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 round prices, and by how much.

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

You may have a policy which invests in funds that are subject to tax. You should check your policy document to work out whether or not this is the case.

If you are invested in funds that are subject to UK tax then, for tax purposes, we treat each fund separately. This means that one group of policyholders is not subsidising other policyholders' tax. The tax rates we use in unit pricing are normally based on the current basic rates for UK income tax.

Pensions policies are not currently directly subject to UK tax so we do not currently take tax directly from the fund. We do allow for any taxes we have had to pay that we cannot claim back. For example, we may have to pay withholding tax on some overseas investments.

There are two main types of UK tax that we have to allow for:

- Tax on income, such as interest payments on fixed interest investments and cash, and dividends on overseas shares.
- Tax on capital gains. We get a capital gain when we sell an investment for more than we paid for it. We get a capital loss when we sell an investment for less than we paid for it.

For funds that are subject to UK tax, we allow for the tax we expect to pay when we work out unit prices, as follows:

- Any tax due on income (including capital gains that are treated as income under the tax rules) is allowed for as if it is being paid straight away.
- Any capital gains tax due on investments we have sold is allowed for as if it will be paid in our next regular tax settlement with Her Majesty's Revenue & Customs (HMRC – the UK tax authority).

- Where we have not sold investments, but expect to pay capital gains tax on them in the future, we will allow for this in unit prices. We apply a reduced tax rate that allows for the length of time before we expect to pay the tax and the investment return we expect to earn until then.
- The tax rules applying to collective investment schemes that invest in shares mean that we have to assume that assets are sold at their market value at the end of each year, and work out the amount of any taxable capital gain. This gain is then spread over several years' tax returns for working out the tax we have to pay. To allow for this spreading we apply a reduced tax rate that reflects when we expect to pay the tax and the investment return we expect to earn until then.
- If we have had capital losses on some investments, and expect to get value for these losses by reduced future tax payments to HMRC, we will allow for this in the unit prices.

The tax allowances will change each time we work out unit prices because the values of the investments in the funds will have changed.

Will I have to pay any additional tax?

The tax payable when you receive a benefit from your policy may depend on a number of factors. For example, the tax rules applying to pension benefits are different from those applying to benefits taken from a non-pension policy. You should consult an independent financial adviser for help in understanding your tax position before taking action such as cashing in your policy or changing your premiums.

What charges apply to my policy?

The charges that we may apply to your policy are explained in your policy document.

This guide does not explain the detail of all the charges that may apply to the various types of unit-linked policy we have issued. However, we have summarised the main charges below. Not all of these charges apply to all policy types.

These charges are intended to cover our costs and enable us to make a fair profit from carrying out unit-linked insurance business.

We will never increase charges if this is contrary to the terms of your policy. Where the policy terms do allow us to increase charges we will only make increases if we think they are fair and necessary. Some charges, such as some policy fees, change regularly in line with changes in an inflation index, such as the Retail Prices Index (RPI).

There are two main types of charges:

Explicit charges, the main ones being:

- Policy fees;
- Charges for optional insurance benefits;
- Policy value reductions on surrender or early retirement; and
- Allocation rates (applying less than 100% of a premium to buy units).

Charges allowed for in working out unit prices:

- A regular amount, based on the fund value, that we take from the fund, reducing the unit price (sometimes called the annual management charge). Some policies have unit types bought with the premiums in the policy's first year or two that have a higher annual management charge than the units bought with later premiums; and
- A bid-offer spread on unit prices (the difference between the price at which we sell units to you and the price at which you sell them back to us when you cash in your policy).

When we work out unit prices, we also have to allow for expenses such as dealing costs, safe custody fees, and administrative expenses within collective investment schemes.

What prices apply when I buy or sell units?

For some policies, when you pay premiums, switch investments between funds, or make a withdrawal from your policy, we work out the number of units we add or cancel by using the next available prices after receiving your instructions. For other policies we work out the number of units using the last available prices.

Some transactions will, however, be carried out based on historic prices. Examples are the payments we make if you die or when your policy matures, which are normally based on the price at the date of death or the date of maturity.

Your policy document will set out which prices apply to the different types of policy transactions.

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 our other policyholders and where your policy terms allow this. We will always tell you if this has happened, and why.

An example might be where you make a very large withdrawal that has a significant effect on the fund.

Where can I find current unit prices?

You can find the prices for most of our funds on the company websites listed in the section 'Where can I find out more information?'. 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 the website, please contact us using the details supplied in the last section of this guide. You will need to quote your policy number.

Who looks after my interests?

The Board of Directors of each company is responsible for the management of our unit-linked policies and funds. The Board has delegated the day-to-day running of the business to senior management. The senior management group includes actuaries and people with investment expertise. They are in regular contact with the fund managers and the people who provide customer service.

How do I know I'm being treated fairly?

Senior management have set up committees to oversee the running of our unit-linked business, including identifying, monitoring, and controlling areas of risk.

Among the things we do to ensure that customers are being treated fairly, we:

- Regularly review the investment performance and strategy of the funds.
- Decide whether and when we should combine funds, close them down, or create new ones.
- Make sure that we work out unit prices in line with agreed methods, and that these methods are fair and comply with the regulatory requirements and industry standards.
- Regularly review the things that affect unit prices, such as tax rates, or the levels of expenses incurred by the unit-linked funds.
- Apply rigorous checks to the calculation of unit prices each time they are worked out.
- Take suitable action if we make a mistake in calculating unit prices.
- Identify and decide what to do in emergency situations or exceptional circumstances. This may include suspending unit pricing and transactions for a time.
- Regularly check that policy performance and the behaviour of the funds is in line with what we expect.

What happens if you make a mistake?

We make every effort to work out unit prices correctly, and process transactions on your policies promptly and properly. We apply rigorous checks to our unit prices before we publish them and apply them to policies.

If we process something incorrectly on your policy, we will correct it as soon as possible.

If we make a mistake in working out unit prices, we will seek to correct the error, and ensure that customers who have suffered a loss are compensated. We aim to ensure that our approach to compensation meets or exceeds the minimum regulatory requirements and current industry standards. If a fund has suffered a shortfall in value because of a unit pricing error, we will compensate the fund so that you get correct unit prices for future transactions.

Where can I find out more information?

Your policy document will set out the details of how your policy works, and what charges apply to it. The policy document will also give you more information about any options that may apply to your policy.

Your yearly statement shows the fund or funds that we invest your policy in.

Please note that this guide does not offer any financial advice. We are not making any recommendations about whether your unit-linked policy is still suitable for your financial needs. You should see an independent financial adviser if you want financial advice.

If you want more information about the funds your policy invests in, you can find the latest published investment reports or fund fact sheets on our websites.

If you have a specific query about your policy, you can contact us through our company websites, by telephone, or by letter. Please remember to quote your policy number.

Our websites, enquiry telephone numbers, and postal addresses are:

www.pearl.co.uk	www.npi.co.uk	www.london-life.com
0845 880 0088	**0845 887 4569**	**0845 888 5522**
Pearl	NPI	London Life
The Pearl Centre	The Pearl Centre	The Pearl Centre
Lynch Wood	Lynch Wood	Lynch Wood
Peterborough	Peterborough	Peterborough
PE2 6FY	PE2 6FY	PE2 6FY

The enquiry telephone numbers are open from 9 am to 6 pm Monday to Friday (excluding UK bank holidays). Calls from BT landlines are charged at local rates.

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