

How we work out unit prices

A guide for policyholders with unit-linked policies

This guide explains how we work out the prices of our unit-linked funds. The way we run the unit-linked funds may change from time-to-time. We will normally write to you before we make any changes that have a significant effect on your funds, if giving advance notice would not be unfair to any of our policyholders.

If you want to get in touch about your unit-linked policy, use our contact details on www.phoenixlife.co.uk.

Contents

1. What does this guide cover?
2. What is a unit-linked policy and how does it work?
3. Where is my money invested?
4. How do you work out the price of each unit?
5. How do you work out the value of investments in a fund?
6. Which day's price will I get when I buy and sell units?
7. How do you allow for tax when working out unit prices?
8. What are the charges?
9. Who looks after my interests?
10. What is the role of the shareholders?
11. What happens if you make a mistake with the calculation of unit prices?
12. Where can I find out more, including current unit prices?

1 What does this guide cover?

The guide covers unit-linked policies that invest in one or more of the unit-linked funds provided by Phoenix Life Limited. It doesn't apply to the following.

- Investments in unitised with-profits funds. These are covered in the separate guides we have for our with-profits policyholders, which you can find on www.phoenixlife.co.uk.
- Policies with benefits linked directly to a unit trust or other type of collective investment scheme.
- Policies with benefits linked to a market index.

The guide doesn't describe in detail how each unit-linked policy works. This is because we have many different types of policy. For example, if your policy includes life cover or other insurance benefits we may sell or cancel units in your policy to pay for these benefits. Your policy document has more information on how your policy works but contact us if you're not sure.

The content of this guide does not form part of, or change, the terms of your policy.

2 What is a unit-linked policy and how does it work?

Some or all of the payments you make (the premiums) are used to buy units in one or more unit-linked funds.

A unit-linked fund is a pool of assets that is divided into units, each unit representing an equal share of the fund. When you put money into your policy, you buy units from us. When you take money from your policy, you sell some of your units back to us.

You do not own the underlying assets or the units themselves; you own a contract (your policy) with a right to a benefit. The value of that benefit is worked out by the number of units you have in each fund multiplied by the unit price for that fund. There may be an extra adjustment applied to this value when the units are sold, for example a charge for surrendering your policy early.

We try to make sure we are fair towards all our policyholders when working out unit prices and managing our unit-linked funds. Units are normally only created or cancelled because of transactions that you and other policyholders carry out. We don't deal actively in the funds for our own benefit. We may hold additional units in the funds if we have additional responsibilities to you and our other policyholders that are linked to the value of the fund. We may also reduce the number of units in our funds if the regulatory rules allow us to, and where it would be financially more efficient.

3 Where is my money invested?

Some policies allow you to choose one or more funds from a range of funds. The funds invest in assets and these will be different for each fund, depending on the aim of the fund. The assets may for example, include company shares, fixed interest securities, property investments and cash. Funds may hold these types of asset directly or it could be through investment in one or more collective investment schemes, such as unit trusts and Open-Ended Investment Companies (OEICs).

As part of our investment strategy we may lend some assets of our unit-linked funds to selected financial institutions, with the aim of enhancing the returns to the fund. In some circumstances, for example if the institution faced financial difficulties and was unable to return the asset, the fund could suffer a loss. We use a number of controls, such as getting security from the borrower and monitoring their credit rating, to reduce the risks to the fund. Where we invest in collective investment schemes, the managers of those schemes may also lend assets and are responsible for their own controls.

Your yearly statement (where you receive one) will show the names of the fund or funds that your policy currently invests in. Depending on the terms of your policy, you may be able to switch your investments between funds. For more information on how to switch funds, please contact us.

If you want more detail on how we invest your particular funds, please contact us, or see the fund factsheets and additional information pages on www.phoenixlife.co.uk. Fund factsheets can be accessed in the Customer Centre, in the unit-linked fund prices section, by double-clicking on the fund names on the pages showing the fund prices. Additional information may be available by clicking the link under the “More Info” column alongside the fund prices.

4 How do you work out the price of each unit?

The unit price is worked out by dividing the total value of investments in the fund by the number of units in the fund. For example, if there were 10,000 units held in a fund worth £20,000, then the price of each unit would be £20,000 divided by 10,000 = £2 (or 200 pence) a unit.

This price is usually known as the ‘bid price’, and is normally how much you would get if you wanted to take money out of the fund. If it’s part of your policy terms, your units may also have an ‘offer price’, which is higher than the bid price and is what you’d pay to buy new units in the fund.

The difference between the offer and bid price is a charge sometimes known as the ‘bid-offer spread’. In some funds, there is no bid-offer spread and the bid and offer prices are the same.

For most of our funds we work out unit prices every working day but for some, the price may change less often, for example once a week or month. Unit prices may be rounded up or down, for example to the nearest tenth of a penny. Your policy terms will say how we can round prices, and by how much.

Any tax, expenses or charges met by the funds will also affect the price of the units. The price of the units in each fund goes up or down as the investments change in value, so the value of your units in the fund is generally not guaranteed.

Our unit-linked cash funds are a special case. In some funds we have guaranteed in the terms and conditions that the bid price will never go down. In many others we are running them as though they do have such a guarantee, even if it does not say as much in the terms and conditions.

If a cash fund does not have a guarantee that the price will not fall (or is not being treated like it does), then the price will fall when interest rates are lower than the charges on the fund. Even where a guarantee is being applied, the fund prices will not move at all when the interest earned is less than our charge. In this case, although the interest rate isn’t enough to pay the charges, we still guarantee that the price will not fall.

You may have heard about the possibility of so-called ‘negative interest rates’. What this means is that banks and other deposit takers charge for holding money instead of paying interest. If this situation affected our cash fund investments, we reserve the right to limit the extent to which we apply the guarantee. But this would only be for those unit-linked cash funds where it’s not a clear requirement from the terms and conditions to apply the guarantee.

5 How do you work out the value of investments in a fund?

We regularly update the value of the investments in our funds. For most investments, we get an updated value every working day using prices quoted by the stock market. Some types of investments such as property are valued less often. Where quoted market prices don’t exist, as is the case for property, we use a valuation from an independent expert such as a qualified surveyor.

If the value of an investment is not fully up-to-date when we calculate the unit prices, we may adjust its value in our calculations. This may involve adjusting the price using changes in market indices, changes in other market indicators or changes in foreign exchange rates, for example.

Where more money is being put into a fund than is being taken out, the value of the underlying investments normally reflects the market prices for buying investments. Where more money is being taken out of the fund than is being put in, the value of the underlying investments normally reflects the market prices for selling investments. In each case, the values allow for expected dealing costs, like stamp duty, where this is due. As we are not taking on any new customers, the amount of money being taken out is normally higher than new investments in 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 where we take investment income from the fund and use it to create extra units. In some funds the income is paid out at regular intervals, such as once every six months.

We take from the fund any tax, charges and expenses that are due.

6 Which day's price will I get when I buy or sell units?

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 after receiving your instructions. This helps to protect all policyholders' units in the fund, because it means that no-one can take advantage of changes in the stock markets that aren't reflected in the most recent fund prices.

Some transactions will be carried out based on prices already calculated and published. 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 your policy terms allow it. Examples of this could be where you make a large withdrawal that will have a material impact on the management of the fund.

Your policy document sets out which prices apply to the different types of policy transactions or contact us for more information. We will always tell you if we have calculated a special price, and why we have done this.

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

Your policy documents tell you if you are invested in a fund that is subject to tax. Or, if you're not sure, please contact us.

Pension policies in the UK can grow free of direct UK tax, so we don't take tax directly from our pension funds. However, we do allow for any taxes we have had to pay that we can't claim back. For example, there may be tax credits attached to dividends from UK shares that we can't reclaim and we may have to pay withholding tax on some overseas investments.

Where a fund is subject to tax, we allow for the tax we expect to pay when we work out unit prices.

Generally, we treat each fund separately as though it were the entire business of the company. This means that funds don't subsidise each other's tax.

The starting point for the rate of tax we apply is the special corporation tax rate payable by life insurance companies, currently 20%. Insurance companies also pay a different rate of tax on profits they make for their shareholders, but this doesn't affect the tax rate we must use for our policyholders' investments.

There are two main types of UK tax that we have to allow for – tax on income and tax on capital gains.

Tax on income

Income is taxed at the special corporation tax rate and includes interest on deposits, untaxed income from overseas shares, coupons on fixed interest assets and rental income from properties. Tax rules for insurance companies also mean that changes in the market value of fixed interest assets (such as government bonds) are treated as income.

If there's a loss on a fixed interest asset, we will usually give tax relief to the fund, if we think it's fair to do so.

Tax on capital gains

We get a capital gain when we sell an investment (such as a company share) for more than we paid for it and a capital loss when we sell an investment for less than we paid for it.

We add up all the losses and gains we have made and, if there has been an overall gain, this is taxed at the special corporation tax rate. We also make an allowance in our pricing for expected future capital gains on investments we have not yet sold.

Where we have made losses on investments, whether we have sold them or not, we may give a tax credit to the fund. This depends on whether we can use those losses to offset against gains we have already made now or will do so in future.

Tax calculations can be complex and can involve judgements being made about the future. Changes in tax allowances in pricing can also sometimes have a significant effect on prices.

For some unit funds we don't allow for tax on capital gains in the unit price and instead we make a charge whenever units are sold.

8 What are the charges?

The charges on your policy are to meet our costs and allow us to make a profit from carrying out unit-linked insurance business. The charges we may apply are explained in your policy document and will vary according to the type of policy you have. Not all charges apply to all policy types, but the main charges that may affect unit prices are shown below.

- A bid-offer spread on the price of units (see Question 4 - 'How do you work out the price of each unit?' above).
- A regular amount that we take from the fund, reducing the unit price. This is sometimes called the annual management charge. There may be different levels of management charge that apply to different types of units you hold, even in the same fund. For example, 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. Your policy document will tell you more about these or contact us for more information.

- Any charges or expenses incurred within collective investment schemes that the fund holds. This may include their own annual management charges, though where we are able to claim these back they may be added back to the fund, depending on your policy.
- Charges for tax made in life insurance funds.
- Rounding of unit prices, for example where we round up the price you pay to buy units to the next higher tenth of a penny.

When we work out unit prices, the fund value will also take into account the expenses of running the fund, such as the costs of holding the assets in safe custody, where we can charge those to the fund.

We will only increase charges if your policy terms allow, and we will only make increases if we think they are fair and necessary, for example to meet any increased costs.

We may introduce new fund charges in limited circumstances, for example if the Government introduces a new tax and where this can legally and fairly be passed on to our customers.

Our fund managers will have to pay costs and expenses when they buy or sell the assets of the fund. These may include broker fees, commissions and taxes. Our fund managers may have to buy and sell investments to meet income and expenses, or they may trade to make sure the fund keeps to its investment aims or to meet our performance targets. We review the levels of these costs where we can.

9 Who looks after my interests?

The Board of Phoenix Life Limited is responsible for the overall management of their company's unit-linked funds. The Board gives day-to-day responsibilities to management committees.

Responsibilities include:

- to regularly review the investment performance of the funds;
- to decide whether and when to combine funds, close them down, or create new ones;
- to make sure we work out prices in line with fair, agreed methods and regulatory requirements or industry standards;
- to 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, taxes or costs;
- to agree changes to when and how often we work out unit prices;
- to decide what action to take if we make a mistake in working out unit prices and make sure that we take that action; and
- to decide what to do in emergency situations or exceptional circumstances, which may include suspending unit pricing or transactions in the fund for a time. This could happen if we had issues with our systems, if there are problems in the investment markets that make it difficult to decide a fair unit price, or if we are unable to trade in the assets we hold.

We have the authority to close any of our unit-linked funds in some circumstances, such as where they become too small to manage as independent funds. If this were to happen, we would give you new units of equal value in a different fund. The replacement fund will be a fund from those available from Phoenix Life Limited at the time. We would normally write to you if we were going to take this action.

10 What is the role of the shareholders?

Shareholders provide a pot of money on top of the unit funds and any other funds we have set aside to make sure 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 our shareholders receive in most cases all of the profits we make from running the unit-linked business.

11 What happens if you make a mistake with the calculation of unit prices?

We make every effort to work out unit prices correctly and apply careful checks to help minimise any errors. If mistakes do happen, we aim to put them right as quickly as possible.

We aim to make sure that we deal with errors in line with industry guidance provided by the Association of British Insurers (ABI).

We first correct the fund so that its price is correct going forwards, and to make any changes to systems or procedures to help reduce the possibility of the error happening again.

Depending on the size of the error, we may then look at whether there has been any impact on the transactions our customers have carried out when the prices were incorrect. We would normally do this as follows.

- Where the error in the price was 0.5% or more, we recalculate transactions in all cases to work out any impact.
- For errors between 0.1% and 0.5% of the price, we do not normally investigate the impact on transactions but we may do so if we believe the error to be widespread and it's likely to have caused individual customers a material loss.
- For errors less than 0.1% of the price, we do not calculate the impact on transactions.

For policies that are still in force, any remediation will generally be paid in the form of additional units. For policies no longer in force, remediation can be by cheque or bank transfer and the amount may be increased to allow for interest between the date of the error and the date of payment. We will not usually pay remediation to you where your loss as a result of an error is less than £10.

The minimum amounts we apply before paying or investigating remediation will be updated in line with industry guidance from time-to-time.

Where there has been an error in price of 0.5% or more and customers have gained from this, we may seek recovery of overpayments, in line with policies agreed with the Board. This may involve a unit adjustment to a policy if it's still in force, or in cases where a claim has been overpaid we may ask you to pay back the extra amount.

12 Where can I find out more, including current unit prices?

Your policy document shows you how your policy works and what charges apply. Your yearly statement shows the fund or funds your policy is currently invested in.

You can find the prices for most of our funds in the Customer centre, in the unit-linked fund prices section, on **www.phoenixlife.co.uk**.

If you want more information about your unit-linked policy and the funds it invests in, please get in touch. Our contact details are available on **www.phoenixlife.co.uk**.

unit_linked_fund_guide (Oct 2023)

Phoenix Life Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Phoenix Life Limited is registered in England No. 1016269 Registered Office: 1 Wythall Green Way, Wythall, Birmingham B47 6WG.