

# Flexible Retirement Plan (FRP)

Personal Pension and Income Drawdown with SIPP Options

## How the range of flexible and transparent commission structures offered under Prudential's FRP can benefit you and your business.

Prudential's Flexible Retirement Plan (FRP) has been designed to offer a range of charging structures, giving you the flexibility to tailor how you charge to fit your clients' requirements and your business model.

We have developed these charging structures to be transparent so that you can easily explain to your clients how the advice you give will be charged for within the FRP.

To help illustrate how each of our charging structures works in practice we have compared our Unfunded Initial Commission (Initial Charge) and Funded Initial Commission (Establishment Charge) against a Transactional Charge option.

### Characteristics of different commission and charging options

#### Initial & Establishment Charge:

- › These commission models provide transparency to you and your client. There is a clear separate charge for advice costs.
- › You know that the charges taken for commission/fee are closely matched to the actual amount agreed with your client.

#### Transactional Charge:

- › This is an opaque charging structure. Typically the AMC is loaded for a significant period, if not all of the term.
- › Your client cannot calculate the cost of advice as they cannot differentiate between the cost of advice and other (provider) costs. In other words the charges to be deducted to pay you cannot be calculated in advance.

#### Fund Related Commission (Trail Commission):

- › This is calculated as a percentage of the plan fund value. The AMC is increased by the Fund Related Commission rate chosen on a 1:1 basis.

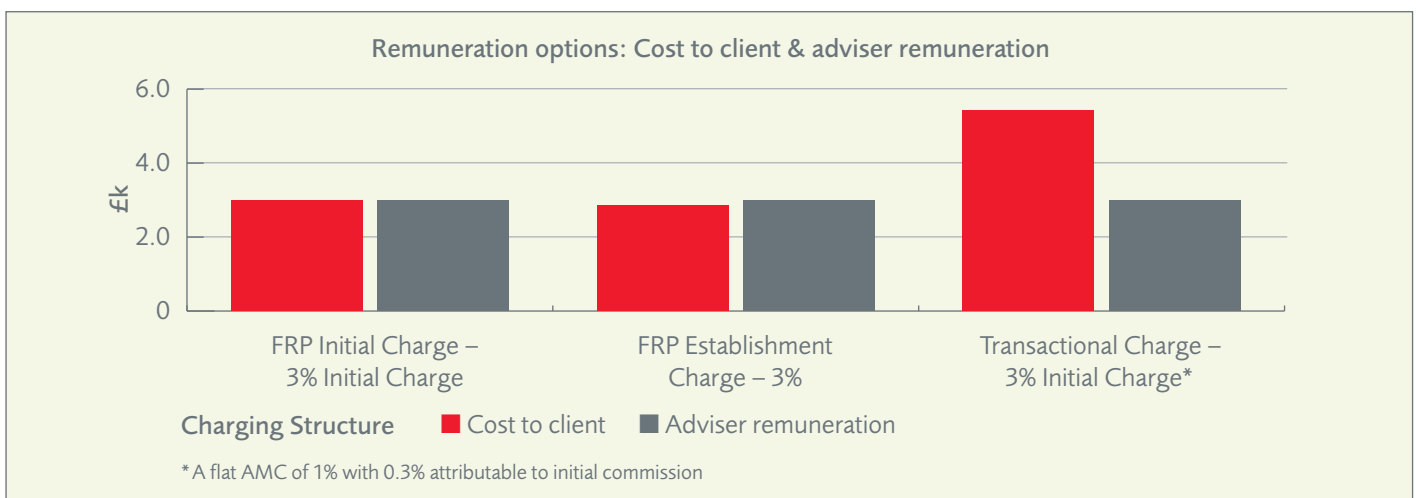
### Assumptions

To demonstrate the effects on the cost of advice to your client, the income you can take and the effect on fund values, we have used the following assumptions:

- › £100,000 single contribution gross.
- › 20 year term.
- › 7% fund growth per year.
- › Basic AMC for FRP is 1.0%.
- › For the Transactional Charge option – a flat AMC of 1.0% with 0.3% attributable to initial commission.

## Cost of advice and adviser income

The graph and table below show the cost to your client based on the different remuneration options. The cost to your client can be defined as the total additional charges levied by the provider on the product to account for commission paid to the adviser. We also show the remuneration you would receive.



	FRP Initial Charge – 3% Initial Charge	FRP Establishment Charge – 3%	Transactional Charge – 3% Initial Charge
Cost to client (NPV) †	£3,000	£2,855	£5,423
Adviser remuneration	£3,000	£3,000	£3,000

† NPV – Net Present Value: this is the current value of future charges on the plan in respect of commission.

### Commentary

Under both the Initial Charge (Unfunded Initial) and Establishment Charge (Funded Initial) options, the client will benefit from fund size and loyalty discounts. However, the final fund value will depend on a number of factors, in particular the investment growth achieved and the term of the plan.

#### Establishment Charge (Funded Initial)

➤ The cost of commission is spread and recouped over the first 60 months (with no reduction in the allocation rate). If the plan is surrendered early, any outstanding establishment charges will need to be repaid, possibly resulting in a higher cost to the client than the Initial Charge option.

#### Initial Charge (Unfunded Initial)

➤ There is an immediate upfront charge – the allocation rate is reduced on a 1:1 basis in line with the amount of initial commission selected. Charges at

outset and in the early years are therefore likely to be higher than under the Transactional Charge model.

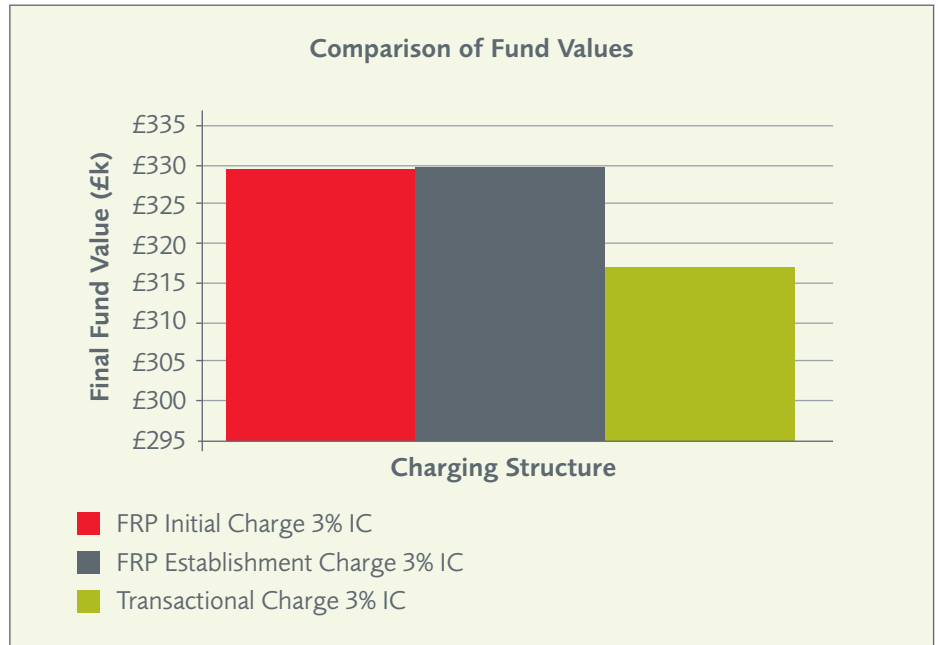
#### Transactional Charge

➤ There are higher charges at the end of the term due to a normally static AMC.  
➤ This option can become expensive for higher contributions and longer terms.

Please note that **Fund Related Commission (Trail)** can be taken either on its own, or in addition to, the commission options compared above.

### Fund growth

The graph shows the impact of the three different charging structures on your clients' final fund value at the end of the term. Due to lower total charges over the term of the plan, the FRP Initial Charge and FRP Establishment Charge options can return a higher maturity value than the Transactional Charge model. It is important to note that in the very early years the Transactional Charge model would yield a higher fund value but that this diminishes as the term of the plan progresses.



### Allocation rate

The table below summarises the initial allocation rate available to your client across each of the remuneration options.

FRP Initial Charge – 3% Initial Charge	FRP Establishment Charge – 3%	Transactional Charge – 3% Initial Charge
97%	100%	100%

### FRP Initial Charge

	Pros	Cons
Advisers	<ul style="list-style-type: none"> <li>› Enables you to develop long term relationships with your clients due to the AMC discounts offered for fund size and longevity of investment.</li> <li>› Potentially lower AMC throughout the term.</li> <li>› No clawback means no impact on future cash flows for your business.</li> <li>› No surrender penalties.</li> <li>› Typically allows higher initial amounts to be taken which gives some flexibility on charging for holistic advice.</li> </ul>	<ul style="list-style-type: none"> <li>› Reduced allocation may be a harder sell for some clients and is not suitable for clients looking for a short term investment.</li> </ul>
Clients	<ul style="list-style-type: none"> <li>› Long term value for your client as there is no ongoing advice charge through the AMC.</li> </ul>	<ul style="list-style-type: none"> <li>› Reduced allocation may be a harder sell for some clients and is not suitable for clients looking for a short term investment.</li> </ul>

### FRP Establishment Charge

	Pros	Cons
Advisers	<ul style="list-style-type: none"> <li>› 100% allocation.</li> <li>› The advice charge is spread over five years rather than the full term of the plan.</li> <li>› The advice charge is calculated as % of the initial contribution rather than related to the fund value. This is more transparent and your client knows the exact cost of commission from day one.</li> <li>› No clawback to the adviser on early surrender. No impact to future cash flows for your business.</li> <li>› Enables you to develop long term relationships with your clients due to the AMC discounts offered for fund size and longevity of investment.</li> <li>› Potentially lower AMC throughout the term.</li> </ul>	<ul style="list-style-type: none"> <li>› The minimum term is five years which is not suitable for short term investments.</li> <li>› Early surrender within five years will result in outstanding establishment charges being collected (except on death).</li> </ul>
Clients	<ul style="list-style-type: none"> <li>› 100% allocation.</li> <li>› The advice charge is spread over five years rather than the full term of the plan.</li> <li>› The advice charge is calculated as a % of the initial contribution rather than related to fund value. This is more transparent and your client knows the exact cost of commission from day one.</li> <li>› Long term value for your client as there is no ongoing advice charge through the AMC.</li> </ul>	<ul style="list-style-type: none"> <li>› If your client surrenders in the early years they could incur higher charges than the initial charge option.</li> </ul>

### Transactional Charge

	Pros	Cons
Advisers	<ul style="list-style-type: none"> <li>› 100% allocation.</li> <li>› Advisers are used to this plan shape.</li> <li>› Normally no surrender penalties.</li> </ul>	<ul style="list-style-type: none"> <li>› Your client pays more over the longer term.</li> <li>› The AMCs may not reduce throughout the term.</li> <li>› It doesn't help the adviser to demonstrate the cost of advice and therefore for your client to attach any value to the advice given.</li> <li>› Clawback usually applies on surrender during the early years.</li> </ul>
Clients	<ul style="list-style-type: none"> <li>› 100% allocation.</li> </ul>	<ul style="list-style-type: none"> <li>› Your client ends up paying more for the advice over the longer term.</li> <li>› Not very transparent for your client.</li> </ul>

### Fund Related Commission (Trail)

	Pros	Cons
Advisers	<ul style="list-style-type: none"> <li>› Ongoing revenue stream will fund ongoing advice requirements throughout the plan term.</li> <li>› Potentially higher overall payment, depending on the term and the FRC level.</li> <li>› No initial hit for your client.</li> <li>› Cost of advice is still transparent.</li> <li>› No clawback.</li> </ul>	<ul style="list-style-type: none"> <li>› No initial upfront payment.</li> <li>› May appear expensive for your client over the term.</li> <li>› Your client does not know exactly what will be paid at outset.</li> </ul>
Clients	<ul style="list-style-type: none"> <li>› 100% allocation.</li> </ul>	<ul style="list-style-type: none"> <li>› Your client may end up paying more for the advice over the longer term relative to initial commission.</li> <li>› Your client does not know the exact cost of advice at the start of the plan.</li> </ul>

For more information on the remuneration options available under the Prudential Flexible Retirement Plan, please see our FRP Remuneration Guide – PENS10043.

The Prudential FRP can reward your clients for investing in it. Discounts are applied to the basic Annual Management Charges for the amount of time invested in the FRP (Loyalty Discount) and as the size of the Insured Fund grows (Fund Size Discount). Both discounts can apply at the same time. The total fund value of all units invested in Insured Funds\* across all personal pension and Income Drawdown plans under FRP will determine the fund size discount applicable at any given time.

\* Insured Funds are all funds excluding the SIF and FRP Holding Account

Loyalty Discounts	<ul style="list-style-type: none"> <li>› Discount to the AMC will apply to all money invested in Insured Funds.</li> <li>› Based on period of continuous investment in Pru FRP, normally starts from the date the first plan starts.</li> <li>› The discount does not apply to investments held under the Self-Invested Fund, however the period of continuous investment includes any period in the Self-Invested Fund.</li> <li>› Any period in FRP Holding Account does not count towards period of continuous investment.</li> </ul>	
	Elapsed Time	AMC Discount
	0 – 4.99 years	0.00%
	5 – 9.99 years	0.05%
	10 – 14.99 years	0.10%
	15 – 19.99 years	0.20%
20+ years	0.25%	
Fund Size Discounts	<ul style="list-style-type: none"> <li>› Discount to the AMC will apply to all Insured Funds.</li> <li>› When determining the Fund Size Discount we include the value of all of your clients' Prudential FRPs (excluding any Self-Invested Fund value or FRP Holding Account or any Final Bonus or MVR applicable to with-profits investment).</li> </ul>	
	Total Fund Value	AMC Discount
	£0 – £24,999.99	0.00%
	£25,000 – £49,999.99	0.10%
	£50,000 – £99,999.99	0.20%
	£100,000 – £249,999.99	0.25%
£250,000+	0.30%	

The Fund Size Discount is calculated monthly so may move up and down with changes in the Insured Fund value on a monthly basis.

For more information on AMC discounts please see our Adviser Guide – Personal Pension and Income Drawdown with SIPP Options – FRPB10097.



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