



## Adviser remuneration guide

Prudential Flexible Retirement Plan, Personal Pension and Income Drawdown with SIPP Options

The Prudential Flexible Retirement Plan has different options for the adviser where remuneration can be tailored over the term of the plan to suit individual requirements. This guide gives an overview of what's available. In most circumstances different commission bases can be taken on personal pension and income drawdown options under Flexible Retirement Plan.

### Remuneration options

**Remuneration/commission can be defined as:**

- › A fixed monetary amount, which is known as Fee Based Commission and/or
- › A percentage of the contribution payable and/or
- › A percentage of the plan fund value

The amounts payable can vary throughout the term of the plan.

#### Options for regular contributions

- › Fee Based Commission
- › Level Commission throughout
- › Split Level Commission
- › Fund Related Commission (Trail Commission)\*
- › Fee Based Commission plus Split Level or Level throughout

- › Fee Based Commission plus Fund Related\*

- › Level Commission plus Fund Related\*

#### Options for single contributions and transfers

- › Funded Initial Commission (Establishment Charge)
- › Unfunded Initial Commission (Initial Charge)

- › Fund Related Commission (Trail Commission)\*

- › Funded Initial Commission plus Fund Related Commission\*

- › Unfunded Initial Commission plus Fund Related Commission\*

\* Fund Related Commission is not available for assets held in the Self-Invested Fund or Holding Account.

# Definitions of the remuneration options

## Regular contributions

### Fixed monetary amount

#### Fee Based Commission

- › This is specified by the adviser as a fixed monetary amount. This amount will be paid in one lump sum and earned over the first 12 months of the plan. The total amount will be converted to a percentage of the first year's regular contribution and deducted from the allocation rate on a one-for-one basis. For example, Fee Based Commission equivalent to 2% of the first year's contributions would result in a deduction from the allocation rate of 2% for the first year of the plan.

### Example

- › The client invests £200 per month regular contribution
- › The adviser selects £600 as Fee Based Commission
- › The adviser's remuneration is 25% of the first year's regular contributions
- › The allocation rate is reduced by 25% for the first year

### Percentage of contribution options

#### Level Commission throughout

- › The adviser elects to take one rate of commission throughout the plan, specified as a percentage of the contribution. There will be a corresponding reduction in the allocation rate on a one-for-one basis. For example, 1% level commission will result in a reduction in the allocation rate of 1% throughout the term of the plan.
- › The first 12 months payments under this option may be indemnified and paid as a lump sum without reduction.

### Example

- › The client invests £200 per month regular contribution
- › The adviser selects Level Commission of 5% throughout
- › Allocation rate will be reduced by 5% throughout the term of the plan

**Months 1 – 12:** Remuneration will be 5% of the monthly contribution = £120 lump sum if indemnified, otherwise £10 per month

**Month 13 and for the remaining term of the plan:** Remuneration will be 5% of the monthly contribution = £10 per month

### Split Level Commission

- › The adviser elects to take level commission throughout the plan but at two different rates. A rate is defined for the initial period of the plan and, separately, for the remaining term. The initial period is set by the adviser and can be anything from 12 to 60 months.
- › There will be a corresponding reduction in the allocation rate on a one-for-one basis.
- › The first 12 months payments under this option may be indemnified and will be paid as a lump sum without reduction.

### Fund Related Commission (Trail Commission)

- › This is specified by the adviser as a percentage of the fund and is paid monthly in arrears.
- › The Annual Management Charge (AMC) will be increased by the rate chosen.
- › Is not available on the Self-Invested Fund. If it is required for any future switches into the other insured funds then it must be selected at outset of the plan as it cannot be added to the plan at a later date.
- › Available up to a maximum of 1.25%.

### Example

- › The client invests £200 per month regular contribution
- › An adviser selects Level Commission of 20% for the first 18 months then 5% Level Commission for the remaining term of the plan
- › The allocation rate will be reduced by 20% for the first 18 months then by 5% for the remaining term

**Months 1 – 12:** Remuneration will be 20% of the monthly contribution = £480 if indemnified lump sum, otherwise £40 per month

**Months 13 – 18:** Remuneration will be 20% of the monthly contribution = £40 per month

**Month 19 and for the remaining term of the plan:** Remuneration will be 5% of the monthly contribution = £10 per month

### Example

- › The client invests £200 per month regular contribution
- › The adviser selects 0.30% Fund Related Commission
- › Remuneration is 0.025% of the fund value each month, ie 0.30% divided by 12
- › The AMC is increased by 0.30%
- › The allocation rate is unaffected unless a fixed monetary amount or percentage of the contribution option has been selected in addition to Fund Related Commission

# Definitions of the remuneration options – continued

## Combined Option – Fee Based + Split Level Commission

- The adviser specifies the Fee Based Commission as a monetary amount. This amount will be paid in one lump sum and earned over the first 12 months of the plan.
- Fee Based Commission is converted to a percentage of the annual premium. The adviser can select to continue with this percentage on a Level Commission Basis for up to 60 months (for a maximum of 48 months after the initial 12 month period).
- The adviser can also specify a different percentage to be paid for the remainder of the term.
- Fund Related Commission (Trail Commission) may be chosen in addition to this option.

## Example

- The client invests £200 per month regular contribution
- The adviser selects £120 as Fee Based Commission for the first 12 months, Level Commission of 5% for the next 24 months and 2% Level Commission for the remaining term of the plan
- The allocation rate will be reduced by 5% for the first 36 months then by 2% for the remaining term

### Months 1 – 12:

Remuneration will be 5% of monthly contributions as Fee Based Commission = £120 indemnified

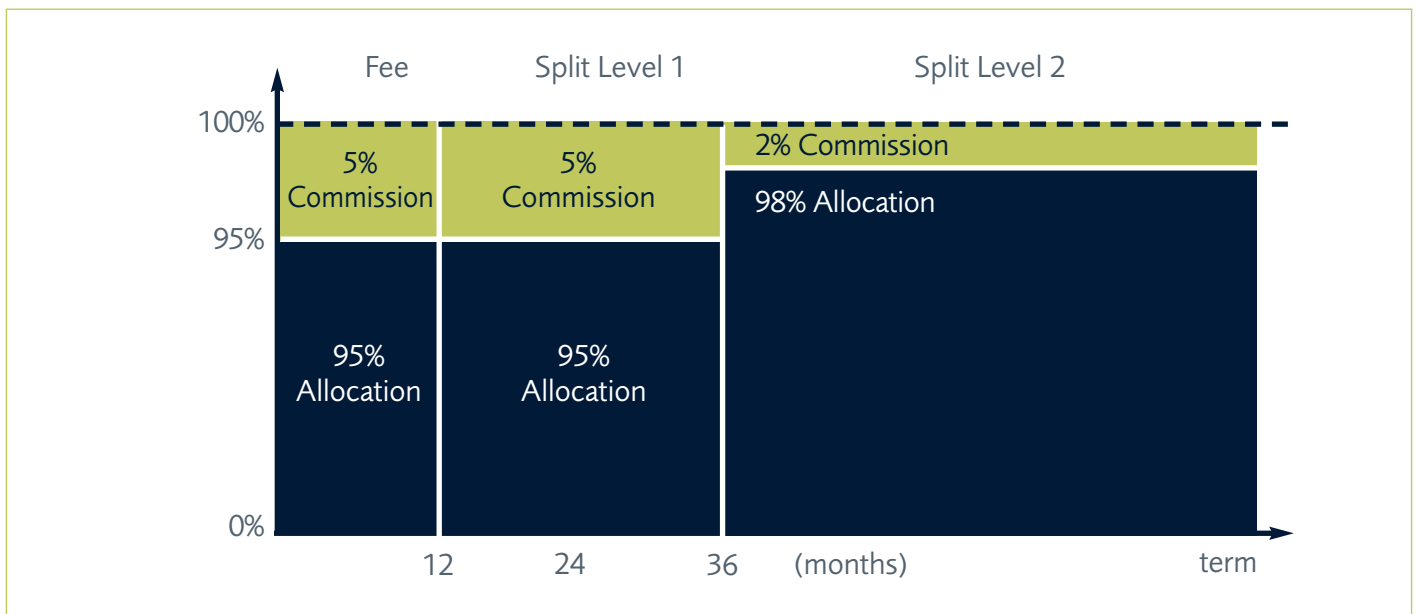
### Months 13 – 36:

Remuneration will be 5% of the monthly contribution = £10 per month

### Month 37 and for the remaining term of the plan:

Remuneration will be 2% of the monthly contribution = £4 per month

## Allocation factor/commission



This diagram is for illustrative purposes only and is based on the example above.

## Single contributions and transfer values

Commission on income drawdown plans which have been converted from FRP Personal Pension plans normally operates as detailed below. Potential differences are detailed at the end of this section.

### Initial commission (percentage of contribution/transfer value)

- The adviser elects to take a percentage of the single contribution which is earned as an up front payment. There are two options available:
  - **Funded Initial Commission (Establishment Charge).** The plan is set up with 100% allocation. We fund the commission and recoup it from the plan through an Establishment Charge over the first five years. The Establishment Charge is calculated against the original contribution as 0.225% each year for every 1% Initial Commission taken and is deducted from the plan monthly in arrears. If the plan or part of it is surrendered before all Establishment Charges have been deducted, a surrender charge will be applied to the plan value.
  - **Unfunded Initial Commission (Initial Charge).** The plan is set up with an allocation rate of 100% less Initial Commission paid. The allocation rate is reduced on a 1:1 basis in line with the Initial Commission and amount selected.
- Income Drawdown Initial Commission is paid on the amount invested net of any tax free cash payment.
- Fund Related Commission may be chosen in addition to this option.

#### Example of Funded Initial Commission (Establishment Charge)

- The client makes a single contribution of £50,000
- The adviser selects 3% Initial Commission
- The adviser's remuneration is 3% of the £50,000 contribution = £1,500
- The allocation rate is 100%
- We recoup the commission payment from the plan over the first 60 months of the plan at a rate of £28.13 (£1,687.80 in total)

#### Example of Unfunded Initial Commission (Initial charge)

- The client makes a single contribution of £10,000
- The adviser selects 4% Initial Commission
- The adviser's remuneration is 4% of the contribution = £400
- The allocation rate is reduced by 4%

#### Example of Transfer Value being applied to Income Drawdown

- The client makes a single contribution of £100,000
- The client takes 25% cash leaving a fund of £75,000
- The adviser selects 3% Funded Initial Commission
- The adviser's remuneration is 3% of the £75,000 contribution = £2,250
- The allocation rate is 100%
- We recoup the commission payment from the plan over the first 60 months of the plan at a rate of £42.19 (£2,531.40 in total)

# Definitions of the remuneration options – continued

## Commission on Income Drawdown Plans set up from FRP Personal Pension Plans

Potential differences are shown in examples below.

<p><b>Example of Funded Initial Commission (Establishment Charge)</b></p> <ul style="list-style-type: none"> <li>➤ The client moves £100,000 of his Personal Pension to Income Drawdown</li> <li>➤ There are outstanding Personal Pension Establishment Charges of £1,000</li> <li>➤ Client takes 25% Tax Free Cash (<math>£99,000 \times 25\%</math>) = £24,750</li> <li>➤ Surrender penalty applied (<math>25\% \times £1,000</math>) = £250</li> </ul>	<ul style="list-style-type: none"> <li>➤ Fund remaining £75,000</li> <li>➤ Outstanding Establishment Charges remaining = £750</li> <li>➤ The adviser selects 3% Commission</li> <li>➤ Commission payable on Fund remaining less Outstanding Establishment Charges remaining*</li> <li>➤ The adviser's remuneration is 3% of £74,250 = £2,227.50</li> </ul>	<ul style="list-style-type: none"> <li>➤ The allocation rate of 100% is applied to £74,250</li> <li>➤ We recoup the commission payment from the plan over the first 60 months of the plan at a rate of £41.77 (£2,506.20 in total). The outstanding Personal Pension Plan Establishment Charges continue to be collected each month from the Income Drawdown plan</li> </ul>
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<p><b>Example of Unfunded Initial Commission (Initial Charge)</b></p> <ul style="list-style-type: none"> <li>➤ The client moves £100,000 of his Personal Pension to Income Drawdown</li> <li>➤ There are outstanding Personal Pension Establishment Charges of £1,000</li> <li>➤ Client takes 25% tax free cash (<math>£99,000 \times 25\%</math>) = £24,750</li> </ul>	<ul style="list-style-type: none"> <li>➤ Surrender penalty applied (<math>25\% \times £1,000</math>) = £250</li> <li>➤ Fund remaining £75,000</li> <li>➤ Outstanding Establishment Charges remaining = £750</li> <li>➤ The adviser selects 3% Commission</li> <li>➤ Commission payable on fund remaining less outstanding Establishment Charges remaining*</li> </ul>	<ul style="list-style-type: none"> <li>➤ The adviser's remuneration is 3% of £74,250 = £2,227.50</li> <li>➤ The allocation rate of 97% is applied to £74,250</li> <li>➤ The commission payment is recouped by application of the allocation factor. The outstanding Personal Pension Establishment Charges continue to be collected each month from the Income Drawdown Plan.</li> </ul>
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\* Commission not payable on outstanding Personal Pension establishment charges as this relates to commission already paid on Personal Pension plan(s).

## Fund Related Commission (Trail Commission)

- This is specified by the adviser as a percentage of the fund and is paid monthly in arrears.
- The Annual Management Charge (AMC) will be increased by the rate chosen.
- Fund Related Commission is not available on the Self-Invested Fund or Holding Account. If it is required for any future switches from the Self-Invested Fund into the other insured funds then it must be selected at outset as it cannot be added to the plan at a later date.

<p><b>Example of Fund Related Commission (Trail Commission)</b></p> <ul style="list-style-type: none"> <li>➤ The client makes a single contribution of £10,000</li> <li>➤ The adviser selects 0.30% Fund Related Commission</li> </ul>	<ul style="list-style-type: none"> <li>➤ The AMC is increased by 0.30%</li> <li>➤ The adviser's remuneration is 0.025% of the fund value each month, ie 0.30% divided by 12</li> </ul>	<ul style="list-style-type: none"> <li>➤ The allocation rate is unaffected unless Unfunded Initial Commission has been selected in addition to Fund Related Commission</li> </ul>
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## Additional adviser fees

- Adviser fees can be paid from the bank account under the Self-Invested Fund (provided a suitable client agreement is in place).

## Maximum commission

Regular contributions			
	Fee Based Commission	Fund Related Commission *	Level Commission (% of Contribution)
Initial Period ** (Maximum 60 months)	Maximum of 50% of first 12 months' contribution	Maximum of 1.25%	Maximum of 50% of contribution (must be at same rate as any Fee Based Commission taken)
Secondary rate (ongoing term of plan)	n/a		Maximum of 10% of contribution
Single contributions & transfer values			
	Initial Commission (% of Contribution)	Fund Related Commission *	
Defined at outset of plan	Unfunded Initial Commission structure maximum 10% of contribution Funded Initial Commission structure maximum 5% of contribution	Maximum of 1.25%	
Additional adviser remuneration			
Adviser fees	It is possible to pay adviser fees from the Self-Invested Fund with approval from the client		

Actual commission amounts only available via a quotation. Please choose commission options based on what your client requires now and will require in the future. Once the plan has been set up it isn't possible to make any future changes to the structure. No commission is paid on money whilst in the Holding Account.

\* Fund Related Commission also known as Trail Commission is not paid on any Self-Invested Funds. If Self-Invested Funds are switched to another fund in the future, Fund Related Commission will only be payable if it is selected at outset of the plan.

\*\* The initial period is defined by the adviser but cannot exceed 60 months. If Level throughout is required the secondary rate above applies from the outset of the plan.

## Commission clawback

If a regular contribution plan is surrendered or contributions cease within the first 12 months, a proportion of any fee based or indemnified level commission will be clawed back, on a pro-rata basis.

Example

- › The client invests £200 per month regular premium
- › The adviser selects £600 Fee Based Commission
- › During month 3 the plan lapses. Therefore 9 months remuneration is to be recouped from the adviser.

The amount to be recouped will be:  $\frac{£600 \times 9 \text{ months}}{12 \text{ months}} = £450$

# The effect of adviser remuneration on plan charges

## Contribution allocation rates

- If you select any Fee Based, Level or Unfunded Initial Commission, then the allocation rate will be reduced on a 1:1 basis. The basic allocation rate is, usually, 100%.
- This deduction is called the Commission Adjustment.
- If you select Funded Initial Commission (Establishment Charge) the allocation will remain 100% and no adjustment will be made.

### Example:

Level Commission	Allocation Rate
0%	100%
1%	99%
5%	95%

## Annual Management Charges – insurance funds

- If the adviser selects Fund Related Commission (Trail Commission) the effective AMC will be increased as follows:

**Effective AMC = Basic AMC of insurance fund** (This can change either through the planholder switching to a more expensive or less expensive fund or because the fund manager alters the charge) + Fund Related Commission (Trail Commission) – any Fund Size or Loyalty Discounts.

### Example:

Basic AMC = 1%  
Fund Related Commission (Trail Commission) Selected = 0.25%  
Effective AMC = 1.25%

Note: We don't apply an AMC to the Self-Invested Fund or Holding Account. The charges on the Self-Invested Fund are determined by the individual assets held within it, the related investment activity and our set up and administration charges.

## Establishment and surrender charges

- If Funded Initial Commission is selected then a monthly Establishment Charge will apply for the first five years of the plan. The Establishment Charge will be calculated against the original contribution and will be equivalent to 0.225% each year for every 1% commission.
- If a plan is surrendered in the first 5 years the balance of any outstanding establishment charges will be taken as a Surrender Charge.
- The balance of any outstanding Establishment Charges will continue to be taken from the Income Drawdown plan when moving from Personal Pension within the first five years and adjusted to take account of any tax free cash taken.

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