Market Value Reduction

A clear explanation

What is a Market Value Reduction?

A Market Value Reduction – or MVR – is a deduction we may make on certain withdrawals or switches from, or between, our With-Profits Funds.

The amount of any MVR is not fixed – we work it out on each individual withdrawal at the time the withdrawal is made. The amount depends on:

- The value of your plan – including any bonuses that apply.
- The performance of the applicable With-Profits Fund over the time you have invested in it.

We only apply an MVR if your share in the total value of the applicable With-Profits Fund is less than the value of your plan including bonuses.

For more detail on how bonuses work please refer to Your With Profits plan – a guide to how we manage the Fund. Copies of these guides are also available on our website www.pru.co.uk/ppfm

We believe that MVRs should be used to balance the interests of continuing investors with those who wish to cash in their plan.

MVRs aim to ensure that those who cash in early do not receive more than their fair share of the Fund.

Our overall aim is to provide good, long-term returns to our investors.

We believe that this approach is fair and in the interest of all our with-profits customers.

continued overleaf

Why we apply an MVR

MVRs are our way of protecting the interests of all our customers and ensuring that every investor gets a return based on the earnings of the With-Profits Fund over the period their payments have been invested.

We believe that this approach is fair and in your best interests.

When do we apply an MVR

We may deduct an MVR if you choose to move out of a With-Profits Fund and your share in the total value of the applicable With-Profits Fund is less than the value of your plan including bonuses. The circumstances when an MVR may apply are described in the documentation you receive from us when you take out your plan. Some examples of when they might apply are if you:

- Switch into another investment fund or between our With-Profits Funds.
- Cash in or transfer your plan.
- Take early or late retirement.
- Take a full or partial withdrawal from your plan (if allowable).
- Take a regular withdrawal (if allowable) above certain limits from your plan.

For certain products we currently apply an exemption when we determine whether any MVR might apply, this is described below.

Any MVR will be deducted in addition to any charges (for example Early Cash-In Charge) which may apply.

For investments that have been in the same With-Profits Fund for 5 years or more, we would consider the application of an MVR on any particular withdrawal where that withdrawal results in the total amount paid out, including any other payments (except certain regular withdrawals) in the previous 12 months, exceeding £25,000. We would only apply the MVR to the withdrawal amount in excess of £25,000 in these circumstances. This exemption does not apply to the Flexible Retirement Income Account or individual members of occupational schemes (MPPs and AVCs).

For investments that have been in the same With-Profits Fund for less than 5 years, the £25,000 exemption does not apply.

We may change our Market Value Reduction practice at any time without giving you prior notice. In particular, our Market Value Reduction practice may be altered if there is a significant reduction in the value of the investment markets in which our With-Profits Funds invest, or if there is a significant increase in the number of people wishing to cash-in their With-Profits investments.

If we make a change to current practice, it would apply to plans existing at the time of the change as well as to all new plans.

If we reduced the regular withdrawal limit (see "When an MVR is not applied" section), we would only apply the new limit to regular withdrawals starting after the change was introduced or when the amount or frequency of existing withdrawals is altered.

An example of how an MVR may be applied

In the example we have ignored tax and charges and assumed adverse investment conditions to illustrate the point.

Suppose you and Mrs Smith both invest £20,000 into a With-Profits Bond and you were the only two people in the Fund.

In this example, the total value of the With-Profits Fund would therefore be £40,000 at the time the contracts commenced.

During the next 12 months the average total bonus rate is 4.0% and the return on the With-Profits Fund was –5% leading to a fund balance of £38,000.

However you and Mrs Smith would have had a 4.0% total bonus credited to your accounts giving you each a Bond value of £20,800. Suppose Mrs Smith decided to withdraw her Bond after just 12 months.

If she were paid the full £20,800 the fund would only have £17,200 in it. So what would happen if you wanted to cash-in your Bond? As you can see there wouldn't be enough to pay you your fair share. An MVR of £1,800, applied to Mrs Smith's cash-in value would balance out both bond values. In this way, MVRs help to protect your investment.

If you ask us for a cash-in value for your plan, the amount shown will be how much you would get if you cash-in or transfer your plan on that particular day, including the impact of any MVR, where applicable. If you cash it in or transfer it on a later day, the amount you get will depend on market conditions at that time.

All figures in this example are for illustrative purposes and are not designed to show how the With-Profits Fund would have performed, or will perform. This is just an example and does not relate to any particular individual.

If you are considering withdrawing money from the With-Profits Fund you should consider your own circumstances fully, and may wish to consult a Financial Adviser to help you make a decision.

The value of an investment may fluctuate and is therefore not guaranteed. You may not get back the full amount of your investment. For investments in the With-Profits Funds, the value of the Policy depends on how much profit the applicable Fund makes and how we decide to distribute it.

Full terms and conditions of Prudential products are available on request from the Administration Office at: Prudential, Stirling FK9 4UE.

When an MVR is not applied

We do not deduct MVRs under certain circumstances – please refer to your Key Features document for full details. Some of these circumstances are:

- We never apply an MVR on death.
- For pension plans, we never apply an MVR at the selected retirement date.
- For endowment plans, we never apply an MVR at maturity.
- For Income Drawdown through Flexible Retirement Plans, we never apply an MVR for income payments up to the maximum GAD limit (or proportion of maximum GAD limit if only partially invested in with-profits).

For bonds:

- we will never apply an MVR to regular withdrawal arrangements already in existence of up to 5% each year of the value of units existing in your plan when the withdrawals were set up, or a higher amount up to a maximum of 7.5% where such withdrawals started before 5 September 2002 and have not been changed.
- currently, we will not apply an MVR to new requests for regular withdrawal arrangements of up to 5% each year of the value of units existing in your plan when the withdrawals are set up.

Please note that if we reduce the regular withdrawal limit outlined above, we would only apply the new limit to regular withdrawals starting after the change was introduced or when the amount or frequency of existing withdrawals is altered.

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