

Chapter 13

Preparing product information

Charges information for a non-PRIP packaged product

(except for a personal pension scheme and a stakeholder pension scheme where adviser charges or consultancy charges are to be facilitated by the product)

This annex belongs to ■ COBS 13.4.1 R (Contents of a key features illustration)

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Charges

- 1 Appropriate charges information
- 1.1 *Appropriate charges information* comprises:
 - (1) (a) a description of the nature and amount of the *charges* (including, where applicable, any retained interest *charges* under (4), below) a *client* will or may be expected to bear in relation to the product and, if applicable, any investments within the product; and
 - (b) if applicable, a description of the nature and amount of the *adviser charges* a *retail client* has agreed may be taken, including whether it is taken before or after investment into the product;
 - (2) an 'effect of charges' table;
 - (3) 'reduction in yield' information; and
 - (4) in relation to a *personal pension scheme*, the amounts (or if the amounts cannot be given, the formula by which the amounts can be calculated) of the *charges*, if any, which a *personal pension scheme operator* or *pension scheme* trustee will receive as retained interest in relation to money held within the *personal pension scheme*.
- 1.2 Where a *firm* does not include a *projection* within its *key features illustration* the charges information can be on a generic basis.
- 1.2A The information described in 1.1(4) must be disclosed alongside information about any other *charges* the *client* will be expected to bear, and information about any interest that will be paid to *clients* on money held within a *personal pension scheme* bank account.

Exceptions

- 1.3 An effect of charges table and reduction in yield information are not required for:
 - (1) a *life policy* without a *surrender value*, but an appropriate warning must be included to make it clear that the *policy* has no cash-in value at any time;
 - (2) [deleted];
 - (3) [deleted]
 - (4) a *stakeholder product* or a product that will be held in a *CTF* where the relevant product and the *CTF* levy their *charges* annually, if the following is included instead:

"There is an annual charge of y% of the value of the funds you accumulate. If your fund is valued at £250 throughout the year, this means we charge [£250 x y/100] that year. If your fund is valued at £500 throughout the year, this means we charge [£500 x y/100] that year. [After ten years these deductions reduce to [£250 x r/100] and [£500 x r/100] respectively.]"

where 'y' is the annual charge and 'r' is the reduced annual charge (if any); or

	(5)	a <i>personal pension scheme</i> , <i>stakeholder pension scheme</i> or <i>drawdown pension</i> where the <i>client</i> elects to withdraw their funds in full, reducing the value of their rights to zero.
1.3A		Where 1.3(5) applies, if a <i>client</i> subsequently does not withdraw the funds in full from their <i>personal pension scheme</i> , <i>stakeholder pension scheme</i> or <i>drawdown pension</i> reducing their rights to zero, the <i>firm</i> must provide the <i>client</i> with an 'effect of charges' table and 'reduction in yield' information.
1.4		Reduction in yield information is not required for a without profits <i>life policy</i> with guaranteed benefits (except on surrender or variation), a <i>life policy</i> with a term not exceeding five years or a <i>life policy</i> that will be held in a <i>CTF</i> .
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2		Effect of charges table
2.1		Each 'effect of charges' table must be accompanied by, or refer to:
	(1)	a statement that all relevant guarantees have been taken into account (if there are any);
	(2)	[deleted]
	(3)	the rate of return (for <i>personal pension schemes</i> and <i>stakeholder pension schemes</i> , this must be net of price inflation, where appropriate) used to calculate the figures in the table; and
	(4)	an explanation of the purpose of the table and what the table shows.

2.2 The effect of charges table:

(1) for a *life policy* must be in the following form unless the firm chooses to adopt the form of the effect of charges table in ■ COBS 13 Annex 4 :

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Note 1A	Note 2	Note 3	Note 4	Note 5	Note 6
At end of year	Total paid in to date	With-drawals	Total actual deductions to date	Effect of deductions to date	What you might get back
	£	£	£	£	£
1					
...					
5					
10					
...					

(2) for any other *non-PRIP packaged product* must be in the following form:

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Note 1B	Note 2	Note 3	Note 5	Note 6
At end of year	Investment to date	Income	Effect of deductions to date	What you might get back
	£	£	£	£
1				
5				
10				
...				

(3) must be completed in accordance with the following notes:

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Note 1A	<p>(a) This column must include the first five years, every subsequent fifth year and the final year of the <i>projection period</i>.</p> <p>(b) Figures may be shown for every subsequent tenth year rather than subsequent fifth year where the <i>projection period</i> exceeds 25 years, or for whole of life policies.</p> <p>(c) For whole of life policies, should the projected fund reach zero before the end of the <i>projection period</i> this must be highlighted.</p> <p>(d) [deleted]</p> <p>(e) If there is discontinuity in the trend of <i>surrender values</i>, the appropriate intervening years must also be included.</p> <p>(f) Figures for a longer term may be shown.</p>
Note 1B	<p>(a) This column must include the first year, the fifth year and every subsequent fifth year of the <i>projection period</i>.</p> <p>(b) [deleted]</p> <p>(c) Figures for a longer term may be shown.</p>
Note 2	This column must show the cumulative contributions paid to the end of each relevant year.
Note 3	This column must show the cumulative withdrawals taken or income paid to the end of each relevant year (if any). The column may be omitted if withdrawals or income are not anticipated or allowed.
Note 4	<p>This column is optional. If it is retained, it must show the total actual deductions to the end of each relevant year calculated using the following method:</p> <p>(a) apply the <i>intermediate rate of return</i> for the relevant product to the figure in the 'effect of deductions to date' column for the previous year;</p> <p>(b) subtract this figure from the figure in the 'effect of deductions to date' column for the year being shown; and</p> <p>(c) add the resulting figure to the figure in the 'total actual deductions to date' column for the previous year (if any).</p>
Note 5	<p>This column may be deleted if the product is a without profits <i>life policy</i> with benefits that are guaranteed except on surrender or variation, a <i>life policy</i> with a term not exceeding five years, or a <i>life policy</i> that will be held in a CTF.</p> <p>If this column is not deleted, the 'effect of deductions to date' figure must be calculated by taking the accumulated value of the fund without reference to <i>charges</i> and then subtracting from this figure the figure in the 'what you might get back column' for the same year.</p>
Note 6	This column must show the <i>standardised deterministic projection</i> of the surrender value, cash-in value or transfer value, calculated in accordance with the <i>rules</i> in COBS 13 Annex 2 (Projections) at the appropriate <i>intermediate rate of return</i> to the end of each relevant year.

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Exception

- 2.3 An effect of charges table and its title can be amended to the extent that it is necessary:
- (1) to properly reflect the nature and effect of, for example, the *adviser charges*, *consultancy charges* or the charges inherent in a particular product; or
 - (2) to ensure that the column labels and any explanatory text reflect the product and whether inflation has been taken into account; or
 - (3) to ensure consistency with the terminology used in relation to a particular product.

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2.4 [deleted]

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- 3 Reduction in yield
- 3.1 Reduction in yield ('A') is 'B' less 'C' where:
- (1) 'B' is the *intermediate rate of return* (for *personal pension schemes* and *stakeholder pension schemes*, net of price inflation, where appropriate) for the relevant product; and
 - (2) 'C' is determined by:
 - (a) carrying out a *standardised deterministic projection* to the *projection date*, using 'B'; and then
 - (b) calculating the annual rate of return ('C') (rounded to the nearest tenth of 1 %) required to achieve the same projection value if *charges* are left out of account.
- 3.2 A *firm* must present reduction in yield as 'A%', as part of statements which explain that:
- (1) charges have the effect of reducing investment growth (after price inflation for *personal pension schemes* and *stakeholder pension schemes*) from 'B%' to 'C%', or in some other appropriate way; and
 - (2) the information about the reduction in investment growth can be used to compare the effect of charges with similar products.
- 3.3 If contributions will be invested in more than one fund in a single designated investment or made by an initial lump sum payment that is followed by regular contributions, the reduction in yield must be:
- (1) calculated separately for each fund or for the single contribution and the regular contributions (as the case may be); and
 - (2) presented:
 - (a) on a fund by fund, or single contribution and regular contribution, basis, together with a statement which explains the nature and effect of a reduction in yield, the reason for the inclusion of more than one reduction in yield figure and the reason for the differences between them; or
 - (b) (if the reduction in yield results are so similar that one figure could reasonably be regarded as representative of the others), as a single figure together with a statement which explains the nature and effect of a reduction in yield, and that the reduction in yield figure given is representative of the reduction in yield figures for each of the funds or for the single and regular contributions (as the case may be); or
 - (c) through a single figure combining the separate figures for each fund or contribution in a proportionate manner, with an appropriate description.
- 3.4 Where a *firm* is calculating reduction in yield information, it must:
- (1) disregard charges related to mortality and morbidity risks; or
 - (2) (where the requirement in (1) produces figures that are misleading) include a statement with the reduction in yield information that it has been calculated taking into account charges related to mortality and morbidity risk.