Your With-Profits Plan – a guide to how we manage the Fund

Prudential Income Choice Annuity – Plan started on or after 7 November 2011

Your With-Profits Plan is a medium to long-term investment that:

- combines your money with money from other **with-profits planholders**
- invests in our With-Profits Fund
- gives you the advantages of a well balanced mix of investments with some smoothing of investment returns.

Words in **bold** are defined in the glossary on page 6.

It aims to give you the highest possible return over the time you have your Plan, while maintaining an acceptable level of risk to our Fund.

Contents

Aims of the guide

This guide explains briefly how our With-Profits Fund works and our current approach to managing it.

Please keep this in a safe place, with your other Plan documents, as you may find it useful:

- when you get your yearly statements
- if you discuss your Plan with your Adviser

This guide applies to Prudential Income Choice Annuities which started on or after 7 November 2011. You may get similar guides if you have more than one type of With-Profits Plan.

There's more detailed information about how we manage our Fund in our Principles and Practices of Financial Management (PPFM) document. This is available on our website: **www.pru.co.uk/ppfm/**

If you'd like a printed version, please call us on **0800 000 000**.

We'll send you a revised copy of this guide if we make any significant changes to our principles or practices of financial management.

This guide only applies to Prudential Income Choice Annuities which started on or after 7 November 2011. If this guide doesn't apply to your Income Choice Annuity and you'd like a copy of the guide that does, please call us on **0800 000 000**.

What's a With-Profits plan?

It's a Plan that shares in the profits of the With-Profits Fund. See "What is the Smoothed Return?" for more information.

How does our With-Profits Fund work?

Money from all planholders is combined and invested in our With-Profits Fund, which has a wide range of investment types, generally referred to as assets.

Investment performance usually has the biggest effect on the income payable from your Plan. But our Fund also takes on other business risks and planholders share in the profits and losses from these. A fuller explanation of how these may affect the value of your Plan is given on page 4.

What is the Smoothed Return?

The Smoothed Return applicable to your Plan is the way you receive your share of the profits of the Fund. The impact of the Smoothed Return on your income will be included in your yearly statement.

- **The Smoothed Return**
  The Smoothed Return usually acts to increase your income each year before the impact of any Required Smoothed Return. The Smoothed Return can be amended at any time but it will not affect your income until on or after the next plan anniversary dependent on the payment frequency you've chosen. The Smoothed Return changes each year and could be negative, for example if stockmarkets perform badly.

Smoothing

In describing the smoothing process and how we work out the Smoothed Returns we use the terms "unsmoothed" and "smoothed" when referring to plan values:

- unsmoothed value is the value of the income secured by the investments underlying a plan, based upon our Fund's actual performance
- smoothed value is the income secured by the unsmoothed value, after smoothing the peaks and troughs of our Fund's performance.

How are Smoothed Returns worked out?

We set the Smoothed Returns after considering the unsmoothed values of Income Choice Annuity plans, the annuity rates then available and how we expect investments to perform in the following months. We combine all plans issued in a year, which have the same Smoothed Return into a single plan which is typical of all the included plans. We then work out the unsmoothed value for this plan, rather than for each individual plan.

The unsmoothed value depends on:

- how much has been invested
- how long it's been invested
- how much has been paid out in the form of income
- our Fund's investment performance while your money was invested
- our charges and costs
- taxation
- guarantees
- payments made to our **shareholders** who normally get 10% of any profit, with the remaining 90% going to planholders through the Smoothed Returns allocated
- profits and losses from Income Choice Annuity planholders dying sooner or living longer than expected
- any profits and losses arising in our Fund from other business risks. (See "Other business risks" on page 4 for more information).

Instead of simply sharing out what our Fund makes – or loses – each year, we use a process known as smoothing.

What's smoothing?

We hold back some of the investment returns in good years with the aim of using this to boost the Smoothed Returns in the years where the investment return has not been so good. It offers some protection against bad stockmarket conditions but it won't stop the income from your annuity reducing if investment returns have been poor.

The red line in the chart below shows the amount we'll pay out i.e. the smoothed value. The amount will go up or down at each Smoothed Return Announcement.

For each planholder, the value of the income payable, (the smoothed value) will also differ from the unsmoothed value for two main reasons:

- the unsmoothed value changes each day, as the value of our Fund's assets changes
- as noted earlier, we use a typical plan rather than individual plans when setting the Smoothed Return for plans issued in the same year.

Are there any minimum income guarantees?

We promise that your income will never fall below a minimum guaranteed amount – the Secure Level – regardless of future Smoothed Returns. Please refer to your Key Features document for more information on the Secure Level.

What affects the value of the income from your Plan?

We aim to be fair to all our planholders by balancing the interests of:

- holders of different types of plans
- customers starting plans at different times
- planholders remaining in our Fund and those leaving our Fund
- our shareholders.

There are many factors that affect the Smoothed Returns we announce each year and which will affect the amount you get back from your Plan.

These include:

a) **Investment performance**

This usually has the biggest impact on the income from your plan. It depends on several things, including how much of our Fund we invest in the different types of asset.

The main asset types are:

- **company shares**
- **property**
- **fixed interest securities**
- **deposits**

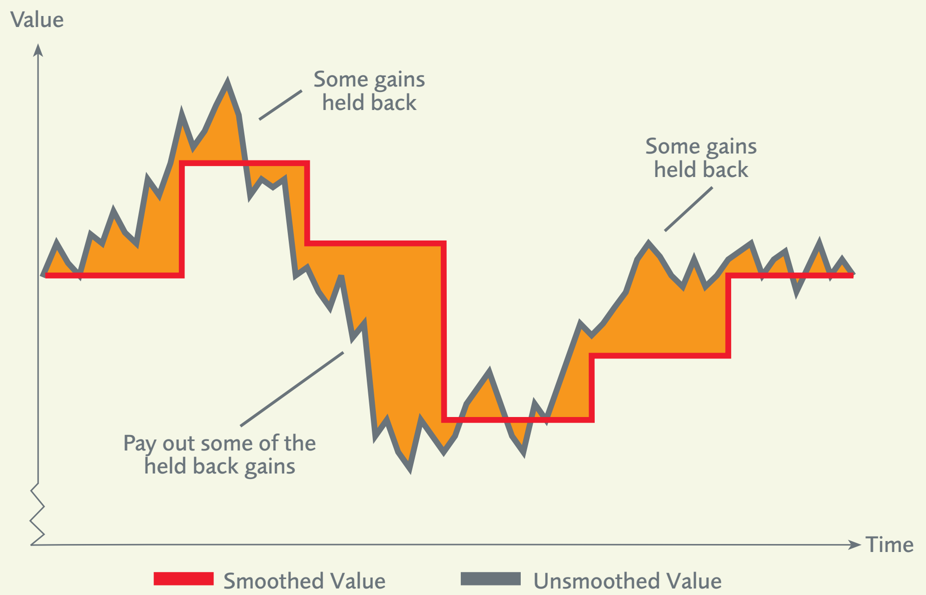
We invest in a wide mix of these assets, both in the UK and abroad.

Over time, the relative performance of different types of asset varies a lot. So our expert fund managers may change the asset mix with a view to:

- improving long-term performance

or

- reducing the risk level of our Fund.



This chart is not representative of any particular age or year of issue. Its sole aim is to explain how smoothing works.

Overall, our investment approach aims to give you the highest possible return while maintaining an acceptable level of risk to our Fund.

The annuity rates used to determine the income payable from the unsmoothed value, described above, may also have a significant effect on the income from your plan.

b) **The Smoothed Return required for the income you have chosen**

The income you choose for your Income Choice Annuity has a "Required Smoothed Return". This is the return your annuity will need from our Fund to maintain your income level over your lifetime.

Choosing a higher income will mean you need a higher Required Smoothed Return. This will have the effect of reducing the potential for future increases through the application of the Smoothed Return for your annuity. If you have selected the maximum income there is a significant risk that your income may go down over the long term, although we will never pay you less than your Secure Level.

c) **Smoothing**

Smoothing, which is described on page 3, limits the immediate effect of ups and downs in investment markets on what you will get back from your Plan.

Over time, the value of the income payable from our Income Choice Annuity plans will average 100% of the unsmoothed value. We intend that the difference between the value of the income payable and the unsmoothed values of a plan will rarely be more than 20%.

As market values of assets change during a year, the value of our Fund is automatically affected. If this causes more than a 20% difference between the smoothed and the unsmoothed values of a high number of plans, we'll consider changing the Smoothed Returns for all plans.

d) **Our charges and costs**

We aim to keep the costs of running the business as low as possible and to allocate the costs fairly across all planholders. If, however, our costs are higher than we expected, this may affect your Smoothed Return.

e) **Cost of guarantees and smoothing**

Our charges include an amount to pay for the guarantees and smoothing you get. If the eventual cost of these is more than we expected, it may affect Smoothed Returns on all plans and, in extreme circumstances, also the mix of assets in our Fund.

f) **Tax**

We charge tax in a way that is fair across all our funds. Any tax we have to pay on the With-Profits Fund will reduce what you get back from your Plan by allowing for it in tax in the Smoothed Returns we announce. Currently, there's no UK tax payable by our Fund on assets backing pensions business, although this may change in the future.

This information is based on our understanding, as at November 2011, of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. The impact of taxation (and any tax reliefs) depends on individual circumstances.

g) **Other business risks**

Other risks that may affect the income from your plan include:

- Profits and losses from plans in the With-Profits Fund which do not receive bonuses or Smoothed Returns, such as conventional annuities and
- Operational risks, such as changes in regulatory requirements or taxation.

Risk levels are reviewed regularly to ensure they are acceptable to the Fund.

What if you decide to change your level of income?

At certain dates that are described in the Key Features document you received when you started your Income Choice Annuity you will usually be able to choose a new income from a range we give you, although there may be circumstances where we need to remove or postpone your choice. We'd do this to maintain the financial strength of the With-Profits Fund for the benefit of all our customers. This could happen because of adverse market conditions, for example; a significant fall in market values (either sudden or over a period of years), a poor investment outlook or in periods when stockmarket prices fluctuate widely.

What if you decide to move out of our With-Profits Fund?

An Income Choice Annuity cannot be cashed in but it can be converted to a Guaranteed Pension Annuity (conventional annuity) on certain dates. These dates are described in the Key Features document you received when you started your Income Choice Annuity.

The amount of Guaranteed Pension Annuity income will depend on the value of the expected future payments under the Income Choice Annuity at the time of the conversion. It will also depend on the cost of buying a Guaranteed Pension Annuity at the time.

What's an inherited estate?

As a long established life assurance company, our With-Profits Fund contains an amount of money in excess of the amount we expect to pay out to existing planholders. This is known as the inherited estate. It's built up over many years from a number of sources and it provides working capital, to support current and future business.

This capital allows you to benefit from smoothing and guarantees and allows us greater flexibility to invest in a wide range of assets.

We're also required by regulation to hold a substantial amount of capital in our long-term fund. This allows us to demonstrate, at all times, that our Fund is solvent and able to meet its obligations to all planholders. The inherited estate provides most of this **solvency capital**.

There are no plans to distribute our With-Profits Fund's inherited estate to planholders or Prudential shareholders, other than as required as part of the normal smoothing process or to meet guarantees. We have no current intention of closing our With-Profits Fund to new business, but if it did close, the inherited estate would still be needed to support existing business.

Where can you find out more?

If you want more information about your investment in our With-Profits Fund, please call us on **0800 000 000** or speak to your Adviser.

This guide aims to provide a summary of how our With-Profits Fund works. However, because we've kept it as short as possible, we've given you only the most important information.

We need to warn you that in the absence of all details you will not have a complete picture. If you do need a detailed technical guide to how we manage our With-Profits business, please refer to our Principles and Practices of Financial Management (PPFM). You may also find our Asset Mix and Investment Returns document useful. These documents are available on our website: **www.pru.co.uk/ppfm/**

Printed versions are available on request.

In the event of any conflict between this guide and the PPFM, the PPFM will take precedence.

The Money Advice Service give general information about with-profits funds on their website: **http://yourmoney.moneyadviceservice.org.uk/products/with-profits/with-profits.html**

Glossary*

- **company shares**: an investment that represents part ownership of a company. Shares are also known as equities
- **deposits**: cash and other short-term investments, typically low risk loans
- **fixed interest securities**: loans to governments and companies that pay a predetermined rate of interest
- **property**: an investment in commercial property such as offices, shops, and industrial premises
- **shareholder**: a person or group that owns one or more shares in Prudential companies. The owner of a share owns a small part of Prudential
- **solvency capital**: funds that allow Prudential to demonstrate that our With-Profits Fund is solvent and able to meet its obligations to planholders even if it were to suffer significant losses
- **with-profits planholder**: a person that holds a Prudential with-profits plan

* glossary definitions are to be used in the context of this document.

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