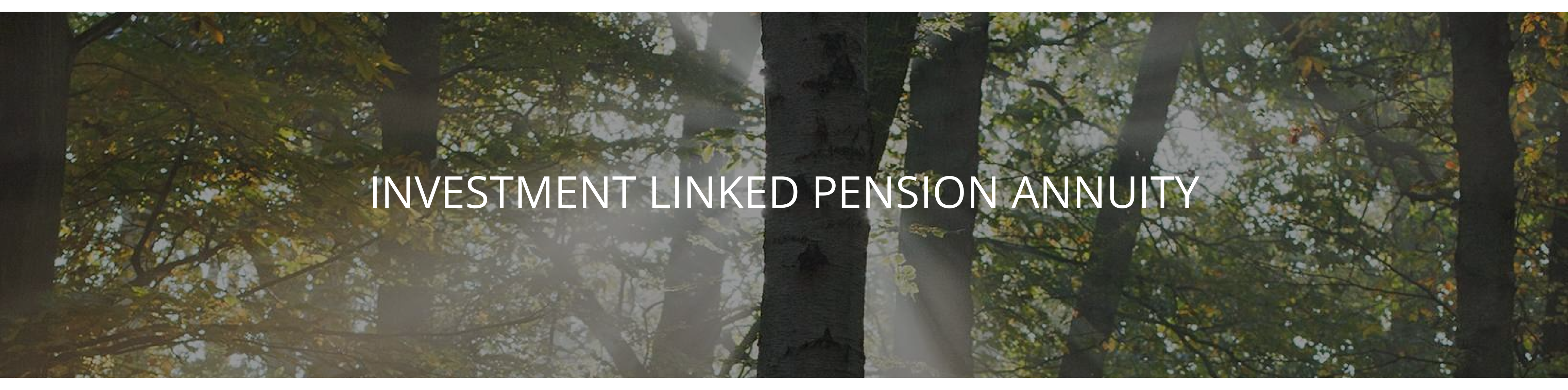

INVESTMENT LINKED PENSION ANNUITY

What is it?

A lifetime annuity pays a guaranteed income for your life from the funds you have built up in your pension plan. Your annuity provider will pay you a regular income taxed in the same way as earnings. The amount of income payable is dependent on your age and health, the size of your pension fund, economic factors, the type of annuity and the options you select. You should also be aware that once you have purchased an annuity you cannot cash it in or make changes to your selected options.

With profits annuity

A With Profits Annuity provides an income that is linked to the investment returns of an insurance company's with profits fund. As for all Investment Linked Annuities, the income payable can go down as well as up in the future. With Profit Annuities do however provide smoothed investment returns. Smoothed investment means, in poor years, your income will not necessarily go down as much as the underlying investments have gone down. It also means that in very good years, not all of the investment return is necessarily paid out (some is retained to cover the bad years). So, With Profit fund returns should be less volatile than other investment funds.

Typically, income is made up of two parts:

- A minimum starting income

This is set at a low level but, unless investment conditions are very bad, you'll usually get at least this much income. Some with-profits annuities guarantee it.

- Bonuses

The insurance company usually announces bonus rates once a year. Bonuses can be both 'reversionary' (usually announced once a year and guaranteed to pay out for the duration of your annuity) and 'special' – these only pay out for a year or so until the next bonus announcement. The amount of bonuses depends on many factors, the most important of which is stock market performance. When you start a with profits annuity, you normally select an anticipated bonus rate (ABR). The minimum and maximum rates of ABR you can choose vary by provider, but typically, the range is from 0% to 5% and normally once selected cannot be changed.

The insurance company announces new bonus rates every year. If the rate equals your chosen ABR, your income does not change. If the declared bonus is higher than the ABR, your income increases. But if the bonus is lower than the ABR, your income falls. If you choose a low ABR, your starting income is low, but you increase the likelihood that future bonuses will exceed the ABR and that your income will rise in the future. You also reduce the risk that your income will fall. If you choose a higher ABR, your starting income will be higher. If you choose the lowest ABR of 0% - in other words, assuming no bonuses at all - your starting income will be just the minimum. As long as the company declares any bonus at all, your income will increase. In general, your income can't fall, because the bonus rate can never be lower than 0%. However, if long-term stock market performance was very poor, even this minimum starting income could be cut, except in the case of with-profits annuities that guarantee the minimum.

Some products offer more flexibility than others. For example, some providers allow you to change the anticipated bonus rate after the start of your annuity. This gives some control over the income levels and the risk of income falls in the future.

Some providers allow you to convert to a conventional lifetime annuity, which must be purchased with the same provider, at given points in the future. This means that you can change your annuity to one which provides fixed and guaranteed income levels and no investment risk. This can be useful if your circumstances change or annuity rates change.

Unit linked annuity

With a unit linked annuity, your income in retirement will be linked directly to the value of an underlying fund of investments. Generally, there is a wide range of funds to choose from catering for most risk profiles including, fixed interest / deposits, property, equity and tracker funds.

The more risky the underlying fund you choose, the more your retirement income may vary – both up and down. Some unit-linked annuities work in a similar way to with-profits annuities.

Your starting income is based on an assumed growth rate and if the fund grows at that assumed rate, your income stays the same. If growth exceeds the assumed rate, your income increases. If growth is less than the assumed rate, your income falls. A few unit-linked annuities let you invest in a 'protected fund' which limits the fall in your income. Most unit-linked annuities do not guarantee any minimum income. Even if your income is based on an assumed growth rate of 0%, your income could still fall if the value of the underlying investment fund falls.

If the underlying assets are equities, the income payments made are likely to be more volatile compared to a with profits annuity. Although in the long term equities have produced the greatest returns, there is no guarantee that this will continue in the short term.

Annuity options

Single-life or joint-life

A joint life last survivor annuity pays out until the second life dies. It is possible for the annuity to continue at the same level to a survivor but most couples elect for a survivor's income of between 1/3rd and 2/3rds of the original amount. It is not necessary for a couple to be husband and wife and any person of either sex may be eligible for a survivor's pension, although it may be necessary in such circumstances to show financial dependency (the rules on who can be paid a survivor's pension were relaxed from 6 April 2015 although annuity providers will have their own restrictions in place). With some pension schemes a spouse's pension must be provided. The higher the level of survivor's pension included, the lower the starting income will be.

Frequency of income

You may select at the outset how often you want to receive your income payments. Most people choose monthly, but you can be paid quarterly, half-yearly or annually.

Income paid in advance or in arrears - payments can be made either in advance or arrears. If you opt for monthly income and purchase your annuity on 1 January and you receive your payment on that day, you are being paid in advance. If your first payment is not made until 1 February, you are being paid in arrears. Payments made annually in arrears would give the highest income figure but the first payment would not be received until a year after annuity purchase.

With or without proportion

When you die, an annuity with proportion will pay a proportionate amount to cover the period from the last payment until the date of death. This is most valuable when income payments are made on an annual basis. This option is only available for payments made in arrears. Without proportion represents the cheaper option.

Level, Escalating or Decreasing

A level annuity pays the same amount of income year after year. It pays a higher income compared to the initial starting income available under an escalating annuity, which will take a number of years to catch up and exceed a level annuity. An escalating annuity, on the other hand, is designed to increase each year. The greater the level of escalation chosen, the lower the initial income will be. It is possible to select a fixed rate of increase each year normally in the range of 3% to 8.5%. Alternatively, you can choose to link increases to reflect changes in the Retail Prices Index (RPI) - however, your income is not guaranteed to increase each year as the RPI may not rise and if it did fall, so might your income. Some annuities arising from occupational pension schemes can also escalate by Limited Price Indexation (LPI). LPI means your income increases each year in line with the RPI but only up to a maximum of 5% or 2.5% depending when the pension was earned. It is also now possible to purchase an annuity that has the facility to be decreased.

A guarantee period

If you select a guarantee period and you die within the period chosen, payments will continue for the balance of time remaining. Normally the guarantee period will be either 5 or 10 years although providers are free to offer their own choice of guarantee periods as there is no longer a maximum period set by the government. Remaining instalments would be paid as an income to the nominated beneficiary and would be tax free if you die before age 75 and subject to income tax at the beneficiary's marginal rate(s) if you die after age 75. The longer the guarantee period, the more costly the option is.

Annuity protection lump sum death benefit

This option allows for a return on death equal to the difference between the cost of annuity purchase and the gross income payments received. If you die before age 75 the payment to your beneficiaries will be tax free and if you die aged 75 or over it will be taxed at the beneficiary's own income tax rate(s).

Eligibility

- You must be aged 55 (increasing to 57 from 2028) or over, or, if younger, meet ill-health conditions
- The annuity must be purchased using funds from your uncrystallised rights held in a money purchase pension or from drawdown funds

Some annuity providers offer annuities which pay you a higher than normal income if you have a medical condition(s) which can affect your normal life expectancy. These are called impaired life annuities.

An enhanced annuity may be available if you smoke regularly, are overweight, if you have followed a particular type of occupation or live in certain parts of the country.

Main features of investment linked annuities

Changes from 6 April 2024	If you have accessed a pension plan of any type before 6 April 2024 and might benefit from increasing your tax free lump sum entitlement through obtaining a Transitional Tax-Free Amount Certificate (TTFAC), then if you take a Pension Commencement Lump Sum (PCLS or tax free cash sum) or Uncrystallised Funds Pension Lump Sum (UFPLS) on or after 6 April 2024 before obtaining a TTFAC you will have lost the chance to do so. This may mean a lower entitlement to tax free lump sums during your lifetime or for your beneficiaries if you should die before age 75 than might have been the case if you had obtained a TTFAC.
Age and health	Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be. A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.
Investment risk	Although an implicit rate of investment growth has been assumed when setting the annuity rate to provide your income there is no guarantee that investment returns will exceed or even match that assumed. Your income, therefore, could fall or fail to increase. Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance.
Other risks	In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you. Once purchased, changes to the contract cannot be made. For example, you will not be able to change the basis chosen, the provider selected and the level of income set at outset. There is no surrender value at any time. The level of income is fixed at outset and will depend on the level of annuity rates available at that time. There is no possibility of benefiting from future investment growth, although an implicit rate of investment growth has been assumed when setting the annuity rate to provide the income selected. Payments cease on death unless an option to continue for a spouse / dependant is selected. Income reviews may be required for example every 3 years to take into account investment performance. This could ultimately lead to reduced income levels.
Flexibility	You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish. Some providers will allow you to convert your annuity into a conventional one which means your income would be guaranteed and you would no longer receive any bonuses. If you have a partner or dependants you wish to provide for on your death, you must make this election at outset and it cannot be changed. For unit linked annuities: Your income fully reflects the movements in the value of the underlying assets. Your income may rise above your chosen assumed growth rate For with profits annuities: The level of initial income and anticipated bonus rate (ABR) are fixed at outset and cannot normally be altered in response to changing personal or financial circumstances. Your income may rise above the minimum guaranteed level if the with profits fund performs well.
Taxation	You can usually take up to 25% of your pension fund as a tax free lump sum. Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non-tax payer you may receive some or all of your annuity tax free. The provider of your annuity will make your payment through the PAYE system and you should be aware that if they do not hold your correct tax code, an emergency code will be used and you may need to reclaim or pay additional tax through your self-assessment tax return or by way of a separate claim. All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.
Transfers & withdrawals	It is not usually possible to transfer your annuity. You usually receive a minimum guaranteed level of gross income for life and will be taxed on this at your marginal rate(s). It is not normally possible to withdraw additional sums from your annuity.
Availability	There are a small number of providers in the market who offer this product and you should review the product detail of each carefully.
Long term care	Your annuity payments will be taken into consideration should you require long term care in the future.
Treatment after death	Your spouse / dependants / beneficiaries can enjoy a semi or minimum guaranteed level of gross income, in the event of your death (if this option is selected at outset). For survivors' annuities, the income will be tax free if you were to die before age 75 and taxed on the recipient at their marginal rate(s) on death after 75. Your pension can be payable for a guaranteed minimum period of time (for example 5 or 10 years). You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be tax free on death before 75 and taxed at the recipient's marginal income tax rate(s) on death after 75.). Your pension can be payable for a guaranteed minimum period of time (for example 5 or 10 years)
Type of charges	An adviser charge is usually deducted by the annuity provider before the lifetime annuity is purchased. There are no ongoing product charges (the provider charges are incorporated within the annuity / bonus rates offered).
Future planning issues	If you decide to move abroad after retirement, you can arrange to have your pension paid to an overseas bank account if you wish to. Further tax-relievable pension contributions may be made before age 75. Tax relievable contributions are limited to 100% of your earnings (or £3,600 if greater). In addition, if contributions exceed the annual allowance of £60,000 a tax charge will apply. If you have accessed any money purchase pension flexibly (which includes taking an income from a flexi-access drawdown pension plan, taking an uncrystallised funds pension lump sum (UFPLS) or receiving a flexible annuity payment (from an annuity that can decrease)), your future tax efficient money purchase pension contributions will be limited to the money purchase annual allowance (MPAA) of £10,000.