SANDRINGHAM
FINANCIAL PARTNERS

# Your Pre Retirement Pack

Prepared for Mr Trevor Dawson (1567)

**Sandringham FP Pension Scheme**

# Contents

We are pleased to outline the main contents of your pack which will give you an idea of what you will find and what you need to do. Each section is colour coded for your convenience.

## Introduction

This section will display the information we have used to create this report and the scope of our service. It also contains a guide to using the pack and some useful information about the annuity market.

## Fact sheets

**Conventional Lifetime Annuity Fact Sheets**

You will find a number of fact sheets to help you understand the options available to you when considering conventional lifetime annuities. You will be able to view personalised examples for each option.

We will provide personalised examples outlining the financial impact of each choice as well as the 'Pros and Cons' to give you a clear idea of the important points of each option. There is a simple decision tree to help you identify the 'shape' of conventional annuity which may be of most interest to you.

**Alternatives to Conventional Lifetime Annuities (an overview)**

In addition to the fact sheets above we have included some basic information about the alternative products which may be of interest to you.

## Forms

A number of important forms are included at the end of this pack. You need to use them to make your annuity choices. It is important that you read and understand these forms before signing them.

**Options Form (Part 1)** - Conventional Lifetime Annuity choices.

**Options Form (Part 2)** - This is your request to proceed.

**Enhanced Annuity Investigation Form** - Enabling us to check if you qualify for extra income.

## Online Help

If you would like to use ASSIST to access more information on your choices, this sheet will tell you everything you need to know.

## Glossary of terms

Where a word has been displayed in italics - you should find it described in more detail in the Glossary of terms at the end of this report.

# Your Pre Retirement Options Report

This pack has been created using information you provided us with (below). Please ensure it is correct as this could affect the rates and options displayed. Our advice is limited to sourcing an annuity provider offering the most competitive terms relevant to your requirements. Advice is not provided in relation to the suitability of an annuity. This report is designed to provide an indication of possible options which you may wish to explore further.

## Personal details

| | |
|---|---|
| **Name:** Mr Trevor Dawson | **Client reference:** A123 |
| **Address:** 2 Main Street, Balsham, CB21 4DJ | **Date of birth:** 07 November 1947 |
| **Date Report Prepared:** 07-11-2012 | **Current age:** 65 yrs and 0 mths |
| | **Marital status:** Married |
| | **Spouse's name:** Mrs Maisy Dawson |
| | **Spouse's date of birth:** 07 November 1950 |
| | **Spouse's current age:** 62 yrs and 0 mths |

## Your fund value

The fund breakdown is stated below. **(As of 07-11-2012)**

| Fund Breakdown | Assumed Fund Value | Assumed PCLS (cash) Payment | Assumed Annuity Purchase Price |
|---|---|---|---|
| *Pension Fund* | £60,000.00 | £15,000.00 | £45,000.00 |
| **Totals** | £60,000.00 | £15,000.00 | £45,000.00 |

This breakdown is based on the information you have provided to us and is subject to confirmation from your current provider(s) prior to the annuity purchase proceeding.

## Scope of service

This report provides information covering conventional lifetime annuities and a brief overview of the alternatives which may be of interest to you.

Should you wish to explore any of the alternatives to conventional lifetime annuities we will be pleased to offer you independent financial advice.

Your unique report reference is **1567** and if you have any queries, please contact:

| | |
|---|---|
| Mr Test User<br>Telephone: 02890828110<br>Email: testuser@sandringham.co.uk | The Open Market Annuity Service Ltd,<br>85 Ormeau Road,<br>Belfast,<br>County Antrim,<br>BT7 1SH |

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# Lifetime Allowance

## Lifetime Allowance

On 6th April 2006, the Government introduced new rules to determine the treatment of pension funds when benefits are to be taken. They introduced a benefit limit called the lifetime allowance which encompasses all of your pension provision (including those not yet taken). This lifetime allowance is currently set at £1,500,000. This will have an effect on those who have total funds which exceed the lifetime allowance.

## How do I know the total of my pension provision?

When calculating your total pension savings, you should include the fund value from any occupational pensions, AVCs and private pensions etc. **but exclude any State Pension.**

**If this is your only source of pension benefits**

Then it is simple. Your entire fund (before any cash is taken) is assessed against the limits.

**If you have one or more additional pension funds (like this one) not yet in payment**

The total of all of these must be used to assess against the limits. For example if you have accumulated another personal *pension fund* of £100,000, this would then be added to the value of this pension and tested against the current lifetime allowance limits.

**If you have other pension provision (benefits in payment)**

If you have entitlement to final salary benefits or have benefits in payment - you must perform an additional calculation to convert this into an equivalent value to add to your total.

**Pensions in payment already**

If you are in receipt of a final salary pension which started before 6th April 2006 or other annuity income you should multiply the annual gross annuity by 25 and include it in the total calculations. For example if you have a pension of £10,000, its value for the purposes of calculating the lifetime allowance is £250,000 (£10,000 x 25).

**Final Salary pensions not yet in payment**

If you are eligible to receive a final salary pension but it is not yet in payment you should multiply your annual entitlement by 20 and add to this any additional lump sum you may be entitled to take. For example if you have a pension of £5,000, its value for the purposes of calculating the lifetime allowance is £100,000 (£5,000 x 20).

**Taxation of funds above the lifetime allowance**

If your fund exceeds the current lifetime allowance, under current tax rules there may be a tax charge applied when taking benefits. Where your *pension fund* exceeds the lifetime allowance, the excess amount will be taxed at 25%, the remainder of the income will be subject to your highest income tax rate. Where you take the excess as a cash lump sum, this will be subject to a tax charge of 55% of the excess above the lifetime allowance.

## Can I get help with the calculations?

Yes, we will be happy to assist you.

# General Introduction

You have built up a *pension fund* to provide benefits in retirement. There are now a number of important decisions which need to be made if you wish to convert your *pension fund* into an income.

This pack is designed to give you the information you need to understand your options. It is also intended to help you decide which are right for you and to select the most appropriate course of action.

**DID YOU KNOW?**

Government estimates for the UK show that life expectancy for people aged 65 in 2013 will be:

- around 86 for men; and
- around 89 for women.

You could be living on your retirement income for many years.

Source: Office for National Statistics - cohort figures 2010

## Introducing annuities

The most popular way to provide an income in retirement is to purchase an annuity. An annuity is quite simply a contract which pays an income in exchange for a lump sum payment (in this case – your *pension fund*).

There are a number of different types of annuity available, however, the simplest (and most common) choice is a conventional lifetime annuity. This is also the benchmark against which all alternative products are measured. We will explain the features of lifetime annuities in much more detail within your enclosed fact sheets.

## Alternatives to conventional lifetime annuities

This report focuses on conventional lifetime annuities with a short overview of alternative products. If you wish to investigate alternative products, we will be pleased to offer you independent financial advice. For further information please consult the section entitled 'alternatives to conventional annuities'.

## Shopping around for the best deal

Regardless of the choices you make, it is important for you to be aware that not all annuity providers are equal. The table below illustrates some of the lifetime annuity results we have obtained from the *open market* (surveyed 07-11-2012).

**Personalised Example** - *Single Life*, No Annual Escalation, No Payment Guarantee - Fund for annuity purchase £45,000.00

| Highest Result Per Annum | Lowest Result Per Annum | Percentage Difference Between Highest & Lowest | *Cumulative* Difference | |
|---|---|---|---|---|
| | | | Over 15 Years | Over 30 Years |
| £2,643.00 p.a. | £2,289.00 p.a. | 13% | £5,305.00 | £10,609.00 |

**As you can see the difference in the amount of your initial annuity income is *compounded* year after year, so choosing the wrong annuity provider at the outset could be a costly mistake.**

As part of our service we will undertake a comprehensive survey of all annuity providers in our panel to ensure you get a competitive deal for your money.

## Qualifying for extra income

Further annuity income improvements could be achieved by approaching annuity providers who specialise in offering 'enhanced or impaired life' rates.

An enhanced or impaired annuity provider may pay a higher income for the entire term of the annuity if you meet certain medical or lifestyle criteria.

**LET US HELP YOU**

To see if you qualify for extra annuity income all you have to do is complete and return the short 'Enhanced Annuity Investigation form' (with your other forms) and we will do the rest.

The enhancements can be significant – up to 30% more each year for enhanced lifetime annuity terms and even more for underwritten impaired terms.

# Conventional Lifetime Annuities

The value of your fund (less any cash payment - Pension Commencement Lump Sum) can be used to buy a conventional lifetime annuity. This will provide you with a guaranteed income for the rest of your life.

The amount you will get depends on a number of variables – the annuity rates at the time, the value of your fund and the terms/options you choose.

**WHAT INCOME COULD I GET?**
Your Options Form (Part 1) has a wide range of conventional lifetime annuity examples.

We have also prepared some personalised fact sheets which will help you to weigh up the pros and cons of the different options.

## What exactly is a conventional lifetime annuity?

A conventional lifetime annuity is a pension income payable to you (the annuitant) for the rest of your lifetime and, if applicable, to your spouse/civil partner or *financial dependants*.

It is arranged on a basis guaranteed at the outset by the annuity provider (insurance company) on the terms selected by you. Annuity income is treated as earned income for tax purposes.

These annuities are termed 'conventional' because until relatively recently they have really been the only choice for the vast majority of retiring UK individuals. They have been around for a very long time and to this day (within the UK) remain the most popular choice to convert a *pension fund* into income. The most basic lifetime annuity (that is, the one that gives the highest income initially) makes no provision for a spouse/civil partner or *financial dependants* and does not rise to offset the effects of inflation. If you want to include some of these extra benefits, the cost of including these will be reflected in a lower starting income.

## What determines annuity rates?

Lifetime annuity rates are determined by a number of factors including long term *gilt yields* and the annuity provider's *mortality assumptions*. The lower the level of interest rates and the longer the annuity provider expects you to live, the lower the annuity your *pension fund* will buy.

**PROS**
A lifetime annuity is set up on a fixed contract basis – that is you know in advance the terms upon which it will be paid. Buying a lifetime annuity is a 'one-off' purchase and you will not see your income reduce if annuity rates go down.

**CONS**
As it is a 'one-off' purchase you will not benefit if annuity rates were to increase in the future. You cannot change the shape of benefits from your initial choices.

## Your personalised fact sheets – helping you find the right 'shape'

The following fact sheets outline the options available to you to tailor a conventional lifetime annuity to your needs. These fact sheets will allow you to weigh up the benefits of each option versus their associated costs (reduction in annuity income).

**The Options Form (Part 1) presents all of the conventional lifetime annuity options side by side. This form also enables you to select an option and ask us to obtain guaranteed offers from our annuity panel.**

## Pension Commencement Lump Sum (PCLS)

One of the benefits of accumulating a *pension fund* is the option of taking a Pension Commencement Lump Sum (PCLS) from your *pension fund* when you retire. The rules of your scheme determine how much can be taken.

The TAX FREE Lump Sum you take from your *pension fund* is yours to spend or invest as you wish.

### What effect will taking a lump sum have on my retirement income?

Taking a PCLS from your *pension fund* will reduce the amount you have to provide regular income.

The following table displays the annual income amounts you could expect to receive from a conventional lifetime annuity if you choose to take a percentage of your fund as PCLS. The examples are based on your *Pension Fund* and assume 25% of this fund is taken as an immediate cash payment.

**Personalised Example 1** - Taking a Pension Commencement Lump Sum (PCLS). The example shows a *single life annuity* with no escalation using your details and *Pension Fund* value.

| *Pension Fund* | Lump Sum Taken | Fund for Annuity Purchase | Initial Annuity Income |
|---|---|---|---|
| £60,000 | £15,000 | £45,000 | £2,643 p.a. |

**Personalised Example 2** - Not taking a Pension Commencement Lump Sum (PCLS). The example shows a *single life annuity* with no escalation using your details and *Pension Fund* value.

| *Pension Fund* | Lump Sum Taken | Fund for Annuity Purchase | Initial Annuity Income |
|---|---|---|---|
| £60,000 | £0 | £60,000 | £3,524 p.a. |

The vast majority of pensioners choose to take the maximum amount of PCLS at the outset because it can take many years for the alternative - extra annuity income - to accumulate to the value of the PCLS.

**PROS**

You get a tax free lump sum of money to spend or invest as you wish.
Taking a PCLS reduces the amount of taxable income that you get each year - so you may pay less income tax (if applicable).

**CONS**

This one-off payment reduces the fund available to provide your income.
The amount of cash you hold in savings may affect your entitlement to some state benefits.

**Remember that if you choose to take a Pension Commencement Lump Sum it is tax free. Your annuity income is treated as earned income for tax purposes.**

# Escalation in payment

An annuity can be set up to increase either at a fixed percentage rate or in line with changes in a Prices Index in order to offset the effect of inflation. If selected this is known as an escalating annuity. There can be a substantial difference in initial income levels when comparing non-escalating and escalating annuities. However, if escalation is chosen, the level of your income will rise over the term of the annuity.

**ESCALATION IN PRACTICE**
Mr X selects an annuity with 3% escalation. Each year on the policy anniversary his income is increased by 3% *compound*.

This increase will be repeated for the entire term of the annuity.

**Personalised Example**- We have taken a selection of different escalation levels and present them below to illustrate the effect on initial income levels. The results represent a *single life annuity* with no payment guarantee using a purchase price of £45,000.

| Escalation | Initial Annuity Income |
|---|---|
| None (Level) | £2,643 p.a. |
| 3% | £1,879 p.a. |
| *Limited Prices Indexation (LPI)* | £1,534 p.a. |
| *Retail Prices Indexation (RPI)* | £1,697 p.a. |
| 5% | £1,464 p.a. |

## What about inflation?

In simple terms, inflation is the rate at which goods and services increase in price year on year. For illustrative purposes we assume that *RPI* and inflation run at 2.5% for the term of the annuity. It may of course be higher or lower than this figure in reality. The table below shows the effect of inflation on buying power over the longer term. We have used the results for a *single life*, non-escalating annuity.

| Inflation Value | Initial Income | 10 Years | 20 Years | 30 Years |
|---|---|---|---|---|
| 2.5% | £2,643 | £2,052 | £1,593 | £1,237 |
| 5.0% | £2,643 | £1,582 | £947 | £567 |

An *RPI* linked annuity would maintain the buying power of its initial income value over the entire term of the annuity.

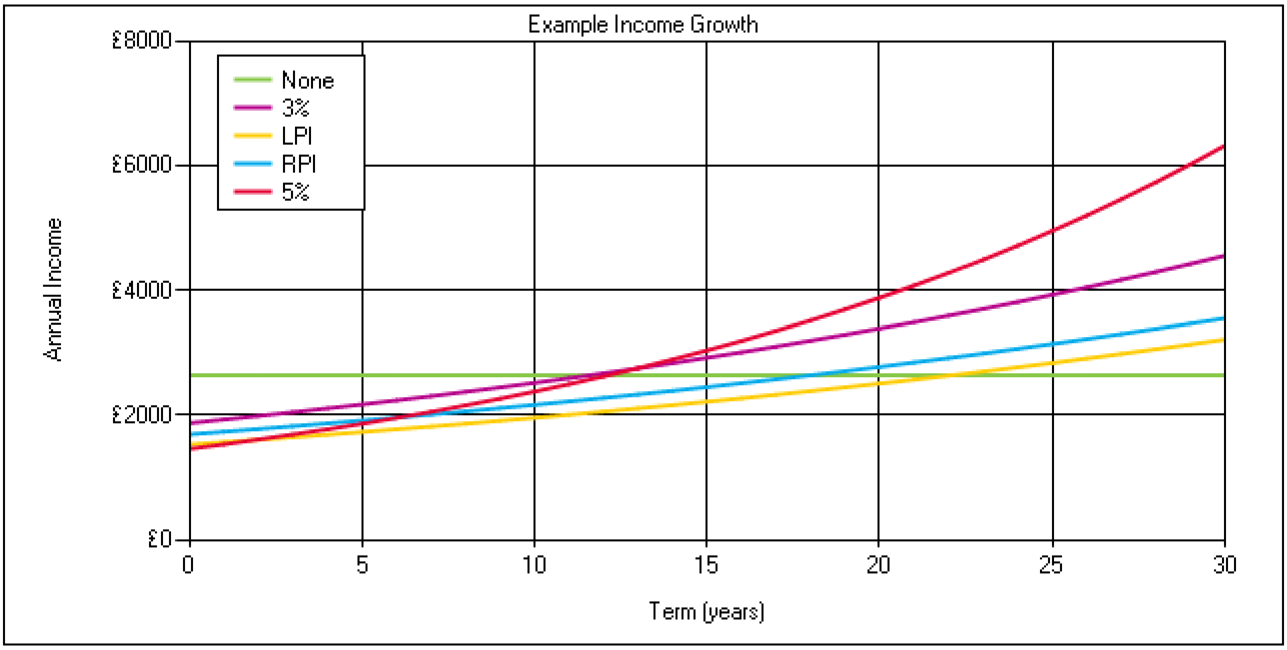
**PROS**
If you select an escalating annuity, the effects of inflation are offset, or offset up to a known percentage each year.
If the annuity is in payment for a lengthy period, the total income payments may exceed those of a non-escalating (level) annuity.

**CONS**
Your initial income will be lower than that of a level (non-escalating) annuity and it may take some time before the total amount accumulated from an escalating annuity exceeds that from a non-escalating annuity.

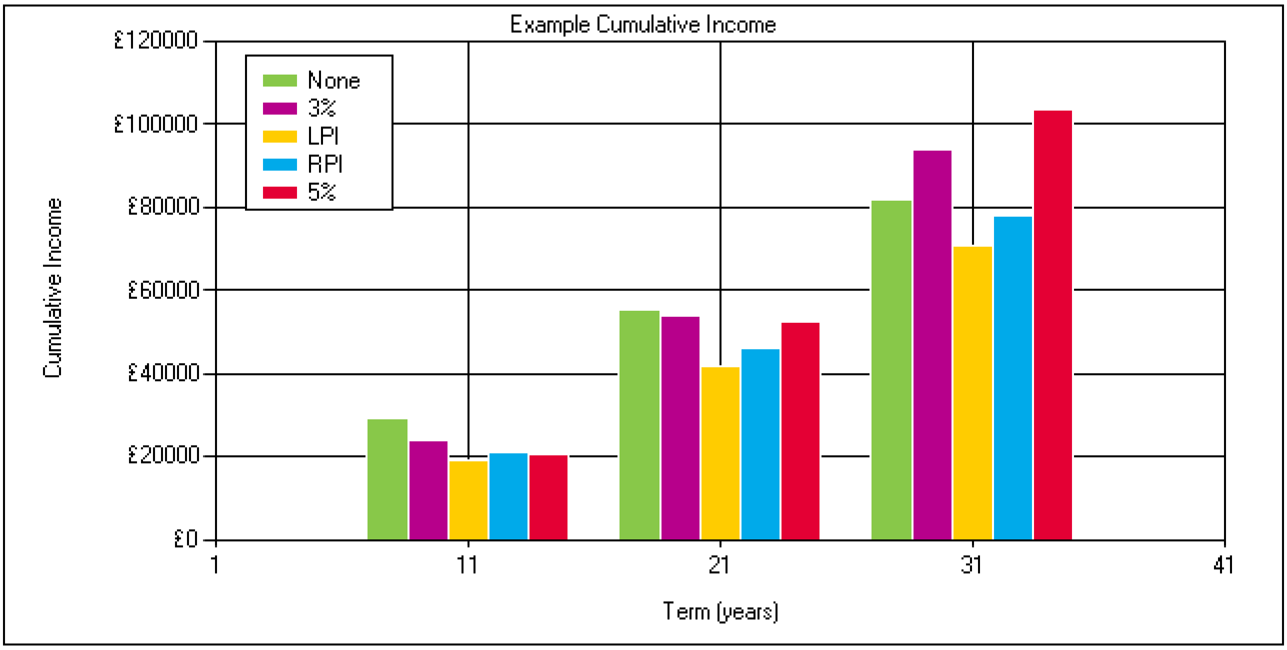
## Escalation in payment (continued)

### Level or escalating income?

If we take the results shown overleaf, we can plot the projected income levels over time. When considering escalation you must decide if the prospect of rising future income levels over the longer term is justified by the lower initial income levels in the shorter term. You should take into account factors such as your health, how long you might be receiving a pension and the long term effect of inflation.




As well as the annual income level, you should also take note of the total income paid out over the long term. This chart illustrates how much income could be paid out after three different elapsed time periods.




You can determine which option will have paid out most for each time period. It's up to you to decide if the long term benefits (of adding an escalation rate) outweigh the shorter term income reductions. Remember, *RPI* tracks inflation which is a variable figure and may be more or less than illustrated (2.5%).

# Guarantee Periods and Value Protection

## Guarantee Periods

Lifetime annuities are payable for the rest of your life. A guarantee period ensures that if you die shortly after taking out the annuity, the annuity will continue to be paid for a minimum period. Typically, annuity providers offer 5 year and 10 year guarantee periods. An annuity which has no guarantee period is referred to here as having no payment guarantee.

**GUARANTEE PERIODS IN PRACTICE**

Mr X is single and selects a 10 year guarantee period when he buys his annuity. He dies 2 years later, so his remaining payment guarantee represents 8 years of annuity payments. His annuity would continue to be paid for a further 8 years in accordance with his will.

Depending on the type of *pension fund* you have, you can choose a guarantee period of up to 10 years. Note that the cost of this guarantee may depend on other options you have selected. We have provided full details within your Options Form (Part 1).

**Personalised Example**

We have taken examples of guarantee periods and illustrated them in the table below. The results represent a *single life annuity* with no escalation using a purchase price of £45,000.

| Guarantee Period | Initial Annuity Income |
|---|---|
| None | £2,643 p.a. |
| 5 Years | £2,628 p.a. |
| 10 Years | £2,578 p.a. |

In many cases the actual cost of adding a guarantee period can be small and can offer peace of mind and additional financial security for your *financial dependants*. A guarantee period is also valuable if your health is not good and you wish to ensure that your *financial dependants* receive an income for at least a minimum period after you retire.

**PROS**

If you select a guarantee period you have the peace of mind that in the event of your early demise within the term, a guaranteed income will be assured for the remainder of the term.
Your annuity income will be protected for a selected period after your retirement.

**CONS**

The guarantee only applies for a fixed limited period.
Your annuity income will be lower if you choose to add a guarantee period.

## Value Protection

A further option of value protection was introduced in April 2006. This option offers the potential of a lump sum payment to your beneficiaries or estate on your death. A lump sum may be payable if on death, the total gross income paid out to you, is less than the fund used to buy the annuity. The difference is paid out, less a 55% tax charge.

Value protected annuities tend to be more expensive than conventional annuities and therefore the starting level of annuity is likely to be lower.

The majority of annuity providers will not permit a guarantee period and value protection in the same annuity.

Currently only a limited number of providers offer value protection.

## Provision for your Financial Dependant (Spouse)

A proportion of your annuity can be paid on your death to your surviving spouse. The level of spouse's pension provision is usually expressed as a percentage of your annuity income. The most common choices are 50%, 66.7% and 100%. Some funds or schemes may require a particular percentage of spouse's pension to be included.

**DEPENDANT PROVISION IN PRACTICE**
Mr X selects a 100% Spouse's pension when he buys his annuity. He dies 10 years later; 100% of his annuity continues to be paid to his Spouse, for the remainder of her life.

If you are not married, or your spouse will be adequately provided for in the event of your death, a *single life annuity* may be more appropriate for you.

An important point to note is that the actual amount of spouse's pension is based on the annuity income payable at the date of your death. Therefore, if you select an escalating annuity, the spouse's pension benefit will rise in proportion to this.

**Personalised Example**
As you would expect there is a cost associated with selecting a spouse's pension. This will reduce the amount of your initial annuity income. We have taken a few examples of spouse's pension provision and illustrated them in the table below. The results represent a non-escalating annuity with no guarantee period using a purchase price of £45,000.

| Spouse's Pension | Initial Annuity Income |
|---|---|
| 0% | £2,643 p.a. |
| 50% | £2,332 p.a. |
| 67% | £2,243 p.a. |
| 100% | £2,098 p.a. |

### Spouse's pension - with or without overlap

If you select a spouse's pension and a guarantee period, you can choose whether the spouse's pension commences:

i. immediately upon your death (with overlap) or
ii. at the end of the guarantee period (without overlap).

Indicate your preference on Options Form (Part 2)

If you select 'with overlap', this will result in a lower income level. Details will be supplied if you select this option.
The default setting for figures displayed within this report are 'without overlap'.

**PROS**
If you select a spouse's pension, your spouse will be provided for after your death receiving a percentage of your annuity income for the rest of their lifetime.

**CONS**
Your annuity income will be lower than that of a *single life annuity* (no spouse provision) as the potential payment term also depends on the life expectancy of your spouse.

# Other options

There are a number of other annuity features that might be of interest to you. These options can help to shape the annuity payments to match your circumstances.

## Payment frequency

An annuity can be set up to pay on a monthly, quarterly, half-yearly or annual basis. In addition to these options, you can opt to have the payments at the start of each payment period (in advance) or at the end (in arrears). The most common form to take an annuity is monthly in advance - this is the default basis of all other illustrations within this report.

**Personalised Example** - We illustrate how the variation in the payment frequency and timing would affect your annuity income using the table below. For illustration purposes, all of the results are based on a non-escalating *single life annuity* with no guarantee period assuming a net purchase price of £45,000.

| IN ADVANCE | | | IN ARREARS | | |
|---|---|---|---|---|---|
| Monthly | Quarterly | Annually | Monthly | Quarterly | Annually |
| £2,643.00 | £2,627.14 | £2,563.71 | £2,658.86 | £2,672.34 | £2,742.11 |

(all figures represent total annual income)

The table below shows how the payments would be distributed throughout the year.

| IN ADVANCE | | | | IN ARREARS | | |
|---|---|---|---|---|---|---|
| Monthly | Quarterly | Annually | Month | Monthly | Quarterly | Annually |
| £220.25 | £656.79 | £2,563.71 | 1 | | | |
| £220.25 | | | 2 | £221.57 | | |
| £220.25 | | | 3 | £221.57 | | |
| £220.25 | £656.79 | | 4 | £221.57 | £668.08 | |
| £220.25 | | | 5 | £221.57 | | |
| £220.25 | | | 6 | £221.57 | | |
| £220.25 | £656.79 | | 7 | £221.57 | £668.08 | |
| £220.25 | | | 8 | £221.57 | | |
| £220.25 | | | 9 | £221.57 | | |
| £220.25 | £656.79 | | 10 | £221.57 | £668.08 | |
| £220.25 | | | 11 | £221.57 | | |
| £220.25 | | | 12 | £221.57 | | |
| £220.25 | £656.79 | £2,563.71 | 13 | £221.57 | £668.08 | £2,742.11 |
| £220.25 | | | 14 | £221.57 | | |
| £220.25 | | | 15 | £221.57 | | |

## With or without proportion

Should you decide to receive your pension in arrears you can also have an additional option of whether to have the payments 'with' or 'without' proportion. An annuity set up 'with' proportion would include a final pro-rata payment to represent the period of survival since your last payment. Our default setting unless you specify otherwise is 'without proportion'.

## Choosing these other options

It is perfectly acceptable to opt for the 'default' setting for these features as provided in this report, however you should request alternatives if you have any particular requirements after considering all the options. You can do this by using the Options Form (Part 2).

# Your Options Decision Tree

The preceding fact sheets should have given you a good indication of what annuity options are best suited to your current and future needs. This simple decision tree is also here to help you record the options which you would choose.

## Q1. Do you have a spouse or partner who will rely on your pension income after your death?

**No**

Please Tick

You can opt for a *single life annuity* which pays out a pension income for the rest of your life.

**Yes**

Please Tick

A joint life annuity will continue to pay an income to your spouse/partner after you die for the rest of their life (or up to a certain age). It will pay a lower income than a *single life annuity*, but check that your partner will be eligible to receive it.

## Q2. Do you want to try and offset the effects of inflation on your pension, even though it will mean a lower starting income?

**No**

Please Tick

A level annuity pays out the same pension income throughout the entire term of the annuity. This will have a higher initial income than an escalating annuity, but will not increase each year.

**Yes**

Please Tick

An escalating annuity linked to the *RPI* (Retail Prices Index) will rise (or fall) in line with inflation. Alternatively, an escalating annuity can rise at a fixed rate, for example 3% or 5% per annum.

## Q3. Do you smoke or have a history of poor health?

**No**

Please Tick

Standard Annuity Rates will be used when searching the *Open Market* for the best offer to suit your choices. You will not be required to answer any medical questions.

**Yes**

Please Tick

Check if you are eligible for enhanced/ impaired rates by filling out our short questionnaire. You may receive extra income so it is worth checking.

## Q4. Do you want your annuity to pay out for a specific number of years if you die shortly after retiring?

**No**

Please Tick

You may not need to select a guarantee period. This means that your annuity will end when you die.

**Yes**

Please Tick

This is a way of ensuring that an income will be paid for a period of 5 or 10 years - even if you die before then.

You should now be clear about what options are of interest to you. Please ensure that you have considered these options carefully. Once you are sure, you can declare your final choice by completing the Options Forms provided.

# Conventional Annuity Alternatives - An overview

Before deciding to proceed with your choice of conventional lifetime annuity, you may want to consider some of the alternative products available.

In order to do this you should have a good idea of the preferred 'shape' of conventional annuity on which you will base your comparisons.

**IMPORTANT**
It is important that you understand the key differences between the products rather than basing your decision solely on initial (starting) income levels.

## Why would I consider using an alternative to conventional annuities?

The main reason that people consider alternatives to conventional annuities is the desire for one or more of the following features:

**Continued investment** - If you would prefer your *pension fund* to remain invested so that you may have the possibility of a higher initial pension or rising income over the longer term.

**Conventional annuity purchase deferral** - If you have an expectation that conventional annuity rates will rise in the future you may wish to avoid locking into a rate now **and/or** you expect your health to deteriorate and you could qualify for enhanced terms.

## How do I investigate these alternatives?

A full analysis of all of the product options that may be available to you is beyond the scope of this Pre Retirement report.

Some options may be more appropriate if you have a total *pension fund* over a certain size or if you have other sources of retirement income.

**DID YOU KNOW?**
Some of these alternative products are far more complex than a conventional lifetime annuity and therefore require full advice. For these reasons they can also be more costly to run.

**Should you wish to explore any of the alternatives to conventional lifetime annuities we will be pleased to offer you independent financial advice.**

**We will now list the main categories of alternatives available at retirement and provide some key information about each.**

## Investment-Backed Annuities

Investment Backed annuities come in several different forms, each with their own unique product features, however the common theme with all of them is that they offer you the opportunity to secure an income that may increase during your retirement by investing the fund value in investment funds. Unlike conventional lifetime annuities, investment backed annuities are linked to an underlying investment fund(s) and so they contain an element of investment risk. This means that your income may go down as well as up. They are available to individuals with funds of £20,000 or more (after the deduction of PCLS).

## Fixed Term Annuities

Fixed term annuities are designed to enable you to delay your decision to purchase a conventional lifetime annuity. Unlike conventional lifetime annuities where you secure an income for life, with a fixed term annuity you buy a guaranteed income for a set period only (minimum period is 3 years). Upon maturity of the selected fixed period, a guaranteed maturity fund becomes available from which you can either purchase a further fixed term annuity or a conventional lifetime annuity. By delaying the decision to purchase a lifetime annuity, individuals are then accepting the risk that the annuity rates may be lower in the future which could result in a lower income for life.

# Conventional Annuity Alternatives - An overview

## Pension Drawdown

Pension Drawdown allows you to draw a taxable income each year directly from your fund, leaving the remainder invested. Its advantages include control in respect of on-going investment and the timing of annuity purchase, income flexibility and improved death benefits.

**Generally intended for those individuals:**

Who:-

- understand and accept the risks associated with investment combined with annuity deferral, or
- have already secured their long-term retirement income requirement and the *pension fund* now under consideration can be considered as surplus to that requirement

**Here is a short summary comparing the main features of Conventional Lifetime Annuities with the alternative products.**

| Product | Income security (investment risk) | Benefit flexibility in payment? | Investment decisions required? | Regular reviews required? |
|---|---|---|---|---|
| Conventional Lifetime Annuities | Secure<br>There is no investment risk | None<br>The benefit shape is fixed for the term of the annuity | No | No |
| Investment Backed Annuities<br>IB | Not Secure<br>Is based on underlying fund performance | Some<br>Depending on the product chosen, you may be able to change the shape of benefits, level of income being taken and you may be able to switch to a conventional lifetime annuity | Yes | Yes |
| Fixed Term Annuities<br>FA | Secure<br>For a fixed term but has a deferral risk with regards to future annuity purchase | Some<br>You can change the shape of benefits and income levels at the maturity date | No | Yes |
| Pension Drawdown<br>DD | Not Secure<br>Is based on underlying fund performance | Yes<br>No requirement to purchase an annuity. You can choose how much and when the income is received up to a maximum annual amount. | Yes | Yes |

**You should use Options Form (Part 2) to let us know if you require information on any of these alternatives.**

# Glossary of terms

Where a word has been displayed in italics - you should find it described in more detail below (in relation to its use within this report).

### Compound
Compound, in this context relates directly to the escalation of annual income payments. Future increases are based on the accrued increases as well as the original income amount.

### Cumulative
This represents the total income you will have received over the time periods illustrated. *Cumulative* totals become especially important when considering the effect of escalating incomes over the longer term.

### Financial Dependants
Essentially a *financial dependant* is someone who does not have sufficient independent income or means to support themselves in the event of your death (for example a spouse, civil partner or partner).

### Gilt and Gilt Yields
Gilts are secured Fixed Interest Securities issued by the government. They are basically loans issued by the government as a means of raising funds. They can be issued on a 'Short-Term' basis (up to five years), 'Medium-Term' basis (five-fifteen years) or 'Long-Term' basis (over fifteen years) and pay a fixed rate of return for the fixed term and then repay the original loan back to you. 'Long-Term' Gilts are used extensively by insurance companies and pension funds in order to secure long-term liabilities. Annuity rates in turn are heavily dependent on *gilt yields* and prices as they are secured upon the returns of long-term gilts. Gilt Yield is the term used for the price at which Gilts are being traded and these prices can increase / decrease over a period of time.

### Limited Prices Indexation (LPI)
If selected your annual annuity income will vary by an amount in line with the Retail Prices Index (described below) up to a specified maximum annual rate. *LPI* linked annuities aim to preserve the buying power of your annual income up to a maximum level (in this case 5%).

### Mortality Assumptions
When calculating the amount of annuity income they would offer you, an annuity provider will make assumptions regarding how long they expect you to live and therefore how long they will have to pay the income for. These assumptions are largely determined using mortality 'tables' (which are essentially tables of statistics based on population studies).

### Open Market
The '*Open Market*' is the term used to describe the range of UK providers currently active in the annuity market. An '*Open Market* Option' is your right to secure the best terms available from these providers. These annuity providers will make an offer of income in exchange for your *pension fund*.

### Pension Fund
This is the total fund held within your pension account. These funds may be split according to whether they were accumulated before or after 6th April 1997 (Pre 97 or Post 97). If this is the case certain terms and conditions may have to be applied to the annuity you purchase with these funds.

### Retail Prices Index (RPI)
The Retail Prices Index is the average measure of the change in the price of goods and services bought for the purpose of consumption by the average household in the UK. It is compiled and published monthly. If selected, this is the rate at which your annuity income will vary on an annual basis. *RPI* linked annuities aim to preserve the buying power of your annual income.

### Single Life Annuity
A *single life annuity* does not include any specific provision for a spouse or *financial dependant* after your death.

# Your Options Forms

## Everything you need to proceed

**Sandringham FP Pension Scheme**

When you have decided what you want to do, please complete the relevant forms.

Options Form (Part 1)
This form contains a wide selection of conventional lifetime annuity rates. You can compare the options side by side and select the shape which suits you best by ticking the appropriate box.

Options Form (Part 2)
You use this form to notify us of any preferences and confirm your request for us to obtain guaranteed offers based on the terms you have selected.

Enhanced Annuity Investigation Form
This short questionnaire will enable us to assess your potential qualification for extra income through an enhanced or impaired annuity.

# Options Form (Part 1) - Conventional Lifetime Annuities

## Your Pension Fund *(Assumed to be £45,000 after a £15,000 cash payment )*

*How to use this form:* Below you will see examples of total annual incomes, paid monthly in advance, currently available on the "*open market*". Whilst these are not to be considered as a guaranteed offer from an annuity provider, they are a good indication of the initial income levels associated with each annuity basis.

To select the basis on which your annuity will be set up simply place an "X" or tick in the appropriate box. *Please note you should only tick one box per page.* You must return all forms to us and follow the instructions in Part 2.

| Escalation Level | Guarantee Period | No Spouse's Pension | 50% Spouse's Pension | 67% Spouse's Pension | 100% Spouse's Pension |
|---|---|---|---|---|---|
| None | None | £2,643 ☐ C-1-1-1 | £2,332 ☐ C-1-1-2 | £2,243 ☐ C-1-1-3 | £2,098 ☐ C-1-1-4 |
| None | 5 Years | £2,628 ☐ C-1-2-1 | £2,327 ☐ C-1-2-2 | £2,239 ☐ C-1-2-3 | £2,098 ☐ C-1-2-4 |
| None | 10 Years | £2,578 ☐ C-1-3-1 | £2,306 ☐ C-1-3-2 | £2,226 ☐ C-1-3-3 | £2,098 ☐ C-1-3-4 |
| 3% | None | £1,879 ☐ C-3-1-1 | £1,581 ☐ C-3-1-2 | £1,507 ☐ C-3-1-3 | £1,407 ☐ C-3-1-4 |
| 3% | 5 Years | £1,871 ☐ C-3-2-1 | £1,578 ☐ C-3-2-2 | £1,506 ☐ C-3-2-3 | £1,407 ☐ C-3-2-4 |
| 3% | 10 Years | £1,839 ☐ C-3-3-1 | £1,566 ☐ C-3-3-2 | £1,503 ☐ C-3-3-3 | £1,406 ☐ C-3-3-4 |
| *LPI* | None | £1,534 ☐ C-5-1-1 | £1,314 ☐ C-5-1-2 | £1,259 ☐ C-5-1-3 | £1,161 ☐ C-5-1-4 |
| *LPI* | 5 Years | £1,532 ☐ C-5-2-1 | £1,313 ☐ C-5-2-2 | £1,258 ☐ C-5-2-3 | £1,161 ☐ C-5-2-4 |
| *LPI* | 10 Years | £1,516 ☐ C-5-3-1 | £1,310 ☐ C-5-3-2 | £1,256 ☐ C-5-3-3 | £1,161 ☐ C-5-3-4 |
| *RPI* | None | £1,697 ☐ C-2-1-1 | £1,411 ☐ C-2-1-2 | £1,347 ☐ C-2-1-3 | £1,227 ☐ C-2-1-4 |
| *RPI* | 5 Years | £1,691 ☐ C-2-2-1 | £1,411 ☐ C-2-2-2 | £1,343 ☐ C-2-2-3 | £1,227 ☐ C-2-2-4 |
| *RPI* | 10 Years | £1,665 ☐ C-2-3-1 | £1,400 ☐ C-2-3-2 | £1,337 ☐ C-2-3-3 | £1,227 ☐ C-2-3-4 |
| 5% | None | £1,464 ☐ C-4-1-1 | £1,182 ☐ C-4-1-2 | £1,122 ☐ C-4-1-3 | £1,030 ☐ C-4-1-4 |
| 5% | 5 Years | £1,459 ☐ C-4-2-1 | £1,180 ☐ C-4-2-2 | £1,122 ☐ C-4-2-3 | £1,030 ☐ C-4-2-4 |
| 5% | 10 Years | £1,436 ☐ C-4-3-1 | £1,172 ☐ C-4-3-2 | £1,119 ☐ C-4-3-3 | £1,030 ☐ C-4-3-4 |

# Options Form (Part 2)

Please return this completed form when you have chosen your annuity options.

## Your choices - Conventional Lifetime Annuities

Have you indicated your selection of Lifetime Annuity using Options Form (Part 1)? Yes ☐ No ☐

**Pension Commencement Lump Sum (PCLS)** Yes ☐ No ☐

I confirm that I wish to receive the maximum Pension Commencement Lump Sum payment from my pension scheme, which has been calculated as **£15,000.00**

*If [No] - then enter the preferred Pension Commencement Lump Sum amount here (subsequent quotations will be sent to you using the revised figures) £

**Other Options**

You can use this box to inform us if you would like to select income payment frequencies which may vary from the report defaults of monthly - in advance. Value protection will not be investigated unless specified here.

## Alternatives to conventional lifetime annuities

We provided some information relating to alternatives to lifetime annuities - please tick one of the boxes below

☐ I confirm that I have read the information on alternative products, however I do not want to investigate these any further.

☐ I confirm that I would like to consider one or more of the alternatives to conventional lifetime annuities. (A customer services adviser will contact you to discuss this).

## Personal information

I confirm that all the details displayed in the 'personal information' section at the beginning of this report are correct. (If No please give details below). Yes ☐ No ☐

Telephone (daytime)

Email (optional)

Telephone (evening)

## Instruction to proceed

It is your responsibility to decide on the terms of the annuity, with regards to the rate of increase, provision for *financial dependants* and whether payments are guaranteed or not. The scope of our service is limited to the provision of an annuity quotation and the subsequent arranging of the purchase of the annuity, once you have decided on the terms you require.

We will endeavour to obtain quotes from the most competitive providers in the market and provide an illustration of the one that we believe is the best value for money based on the terms you have chosen.

I would like my annuity set up on the basis indicated above using Options Form (Part 1) 1567

Date

Signed

Send all forms, including the completed Options Form (Part 1) to:
The Open Market Annuity Service Ltd, 85 Ormeau Road, Belfast, County Antrim, BT7 1SH

# Enhanced Annuity Investigation Form

Lifestyle, smoking habits and medical conditions (both past and present) can, in some cases, increase the amount of income offered by an annuity provider. It is very important to complete and return this short form. If you answer 'yes' to any of the indicators in the Health section, we will contact you to gather some additional information.

## Lifestyle & Health

**You**

Height: ☐ feet/metres ☐ inches/cms

Weight: ☐ stone/kg ☐ pounds/grammes

Waist measurement: ☐ inches/cms

Occupation: ☐

**Dependant**

Height: ☐ feet/metres ☐ inches/cms

Weight: ☐ stone/kg ☐ pounds/grammes

Waist measurement: ☐ inches/cms

Occupation: ☐

**You**

**Do you currently smoke?** ☐ Yes ☐ No *

| Type and amount: | Per day | | How many years? |
|---|---|---|---|
| ☐ Cigarettes......... | ☐ | | ☐ |
| ☐ Rolling Tobacco | ☐ | Oz\g | ☐ |
| ☐ Pipe Tobacco.... | ☐ | Oz\g | ☐ |
| ☐ Cigar................ | ☐ | | ☐ |

* If 'No' and you used to smoke, please indicate the date you stopped ☐

**Alcohol consumption** (units per week) ☐

**Dependant**

**Do you currently smoke?** ☐ Yes ☐ No *

| Type and amount: | Per day | | How many years? |
|---|---|---|---|
| ☐ Cigarettes......... | ☐ | | ☐ |
| ☐ Rolling Tobacco | ☐ | Oz\g | ☐ |
| ☐ Pipe Tobacco.... | ☐ | Oz\g | ☐ |
| ☐ Cigar................ | ☐ | | ☐ |

* If 'No' and you used to smoke, please indicate the date you stopped ☐

**Alcohol consumption** (units per week) ☐

**Have you ever been diagnosed or suffered from one or more of the following conditions / illnesses?**

| You | | | Dependant | | |
|---|---|---|---|---|---|
| Hypertension | ☐ Yes | ☐ No | Hypertension | ☐ Yes | ☐ No |
| High Cholesterol | ☐ Yes | ☐ No | High Cholesterol | ☐ Yes | ☐ No |
| Diabetes | ☐ Yes | ☐ No | Diabetes | ☐ Yes | ☐ No |
| Heart Condition | ☐ Yes | ☐ No | Heart Condition | ☐ Yes | ☐ No |
| Stroke | ☐ Yes | ☐ No | Stroke | ☐ Yes | ☐ No |
| Multiple Sclerosis | ☐ Yes | ☐ No | Multiple Sclerosis | ☐ Yes | ☐ No |
| Cancer (of any form) | ☐ Yes | ☐ No | Cancer (of any form) | ☐ Yes | ☐ No |
| Respiratory disease | ☐ Yes | ☐ No | Respiratory disease | ☐ Yes | ☐ No |
| Neurological disease | ☐ Yes | ☐ No | Neurological disease | ☐ Yes | ☐ No |
| Any other illness/condition | ☐ Yes | ☐ No | Any other illness/condition | ☐ Yes | ☐ No |

**I consent to this information being used for the purposes of obtaining enhanced annuity offers from a range of annuity providers.**

| You | | Dependant | |
|---|---|---|---|
| Signed | ☐ | Signed | ☐ |
| Date | ☐ | Date | ☐ |

**If we need to ask for extra information, please indicate your preferred method of contact.**

☐ Phone ☐ Post ☐ Web Site ☐ No Preference

**Having trouble making your selection?**

ASSIST is a helpful tool that can assist you in choosing your annuity options.

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**What is it?**

It is an online application that draws in your fund information from this report and enables you to look at each of your options in a clear and concise manner.

It offers you a wealth of information and interactive tools, which will guide you to the annuity which best suits your needs. Rates offered by annuity providers can vary on a daily basis and may affect your final decision. ASSIST allows you to keep track of the changing annuity market right up to the point where you make your final choice.

Full guidance on using the system is given when you log on, but don't worry - it is very easy to use.

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**How do I access it?**

Simply visit https://www.a-prep.com and login using the following username and password.

| | |
|---|---|
| **UserName:** 49c7vde9uzv | **Password:** 35uxxrgxua5 |

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**When can I log on?**

Your access has already been set up, so anytime day or night using a pc with an internet connection.

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**Can I let you know my choices using this system?**

Yes. We have added a facility, which will let you identify your choice and create a pre-completed options form.

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