

Maximising annuity income at a time of low yields – using an example of Prudential’s Income Choice Annuity

A presentation for Professional Retirement Advisers Only

*Prepared by The Retirement Partner
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Introduction

This presentation is designed to help professional advisers understand how to advise their clients to maximise their income during times of volatile financial markets.

The presentation covers:

- ▶ Three key steps to maximise retirement income:
 - Agree a plan
 - Decide on tactics
 - Execute plan
- ▶ Retirement income objectives
- ▶ Annuity trends
- ▶ Income Choice Annuity examples

In a period of volatile equity markets and falling annuity rates it is more important than ever to plan ahead and examine all the relevant options



Maximising annuity income at retirement

Three key steps for maximising income

Make a plan



Strategy for converting pension fund into income

Decide tactics



Timing of annuity purchase and choice of options

Execute plan efficiently



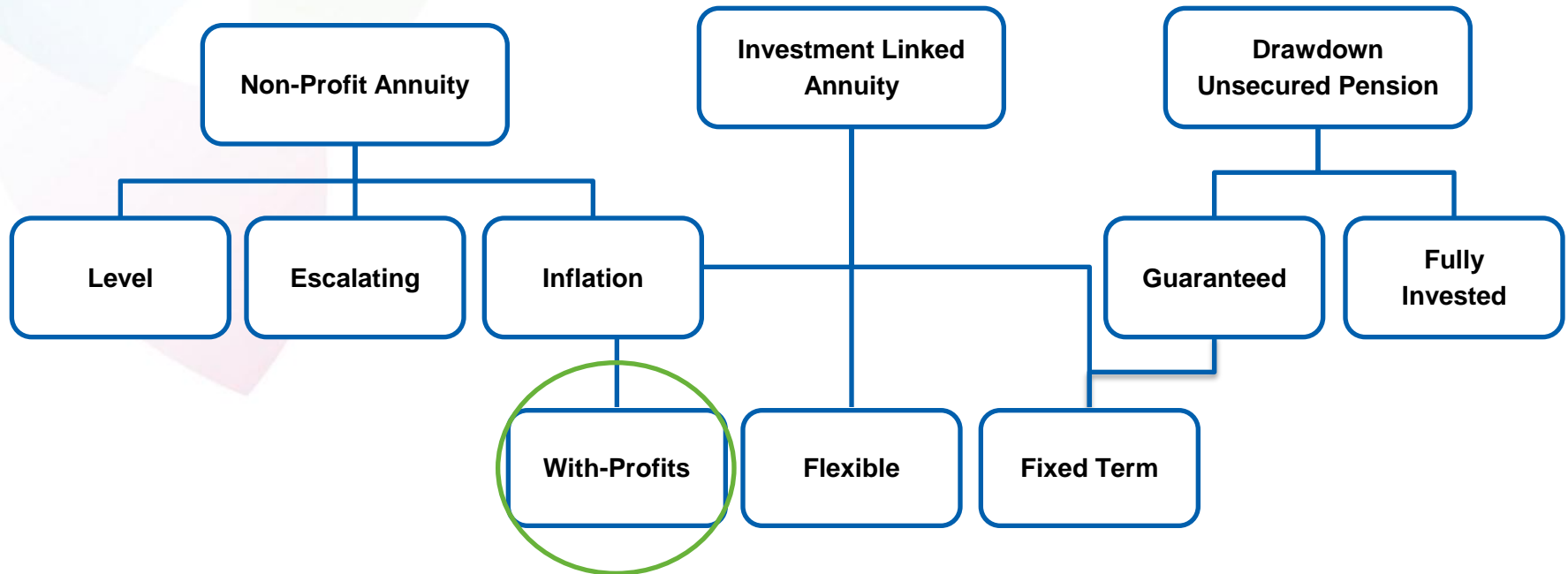
Purchase annuity on best terms / make appropriate investment decisions

Make a plan – what is the strategy?

- ▶ How much income is required and when is it needed
 - Maximum income for life
 - Tax free cash and No income
 - Variable income amounts
- ▶ What type of income
 - Guaranteed for life
 - Potential for income growth
 - Fixed for a specific term
- ▶ What level of risk
 - No risk except risk that inflation will erode spending power
 - No risk at all
 - Prepared to take risk in return for potential for income growth
- ▶ How much flexibility & control
 - No flexibility – just maximum income
 - Income flexibility and investment choice
 - Choice of death benefits

Which type of annuity / drawdown?

The range of Retirement Product Options



Most people are familiar with annuity and drawdown options, but those products we call Investment Linked Annuities are less well known.

Prudential's Income Choice annuity is an Investment Linked Annuity with flexible options

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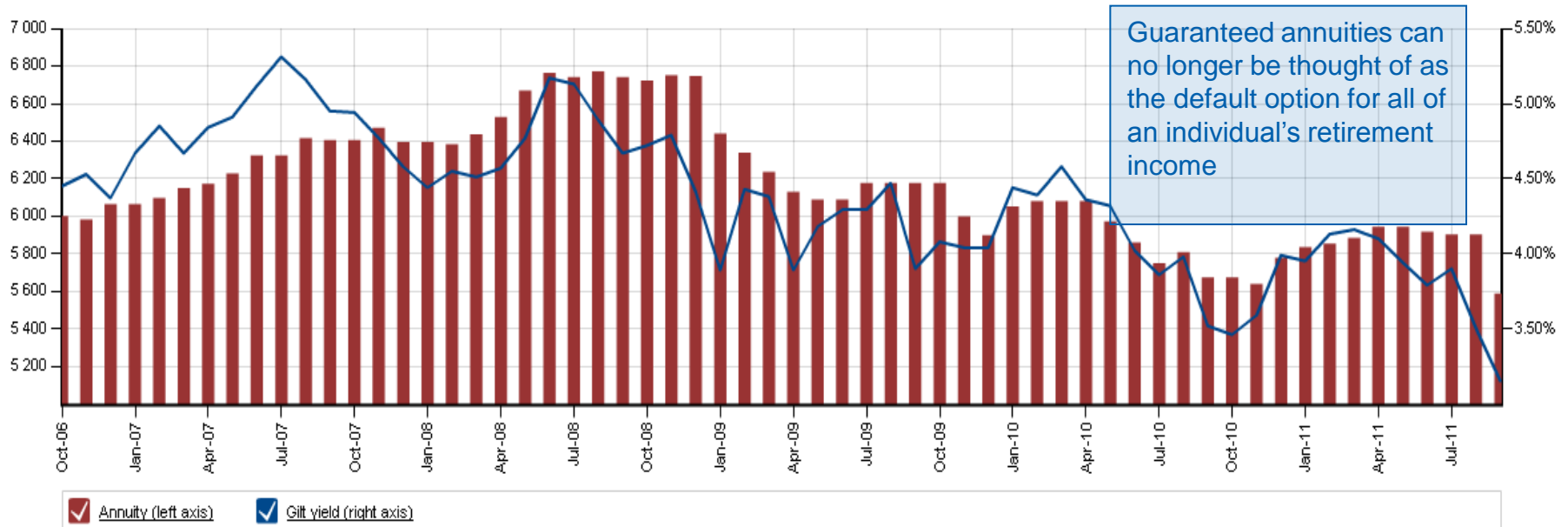
Tactics – How to maximise income

- ▶ Arrange annuities at the optimum time
 - Monitor annuity trends and the outlook for bond yields
 - It is difficult to second guess annuity trends however it is generally better to purchase an annuity as soon as possible rather than deferring in hope that rates will increase
- ▶ Research the market
 - Always research the market for best terms
 - Where appropriate apply for enhanced annuities
- ▶ Consider alternatives to standard annuities
 - Investment-linked annuities – possible to have a higher starting income*
 - Fixed term annuities
 - Scheme pension
- ▶ Investment timing (drawdown)
 - In times of volatile markets it may be better to drip feed investments over several months

*Future income may be higher or lower depending on investment returns

Annuity trends

- ▶ Income from standard annuities has been falling
 - No sign of significant improvements - bond yields may increase but full benefit may not pass to annuitants
- ▶ UK equity markets volatile
 - Important that retired investors have appropriate investment strategy
- ▶ Post coding / lifestyle / enhanced annuities
 - Resulting in lower incomes for Middle Britain in good health



Joint life 2/3rd spouse, £100,000 male 65, female 60, level payments

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Income Choice Annuity – Prudential

- ▶ Overview
 - Provides the potential for future growth (income could also go down)
 - Choose starting level of income (subject to limits)
 - A guaranteed income floor
 - Invested in Prudential's with-profits fund
 - Usual annuity options e.g. single/ joint income
- ▶ Advantages
 - Potential for income growth
 - Guaranteed income floor increases by 50% of any increase in income
 - Smoothed investment returns (with-profits)
- ▶ Risks.
 - Future income may fall if bonuses fall below RSR

More details of Income Choice can be found at www.pruadviser.co.uk where you can get online quotes.

Income Choice Annuity - Examples

The key to understanding the Income Choice examples is to grasp the following terms:

Term	Description
Required Smooth Return (RSR)	<p>The investment return required each year to maintain the initial (non-guaranteed) income selected by the policyholder throughout their remaining lifetime.</p> <p>The RSR is the rate of return used to calculate the level of starting income. The higher the RSR, the higher the starting income.</p>
Declared Smoothed Return (DSR)	<p>The declared smoothed return (DSR) is the actual bonus added to the annuity at the end of each year. If the DSR is higher than the RSR, the annuity income will increase, whereas if it is lower the annuity income will reduce.</p>
Minimum Income Guarantee	<p>There is a guaranteed income floor and the annuity cannot fall below this. The minimum income guarantee increases each year at 50% of any annuity increases</p>

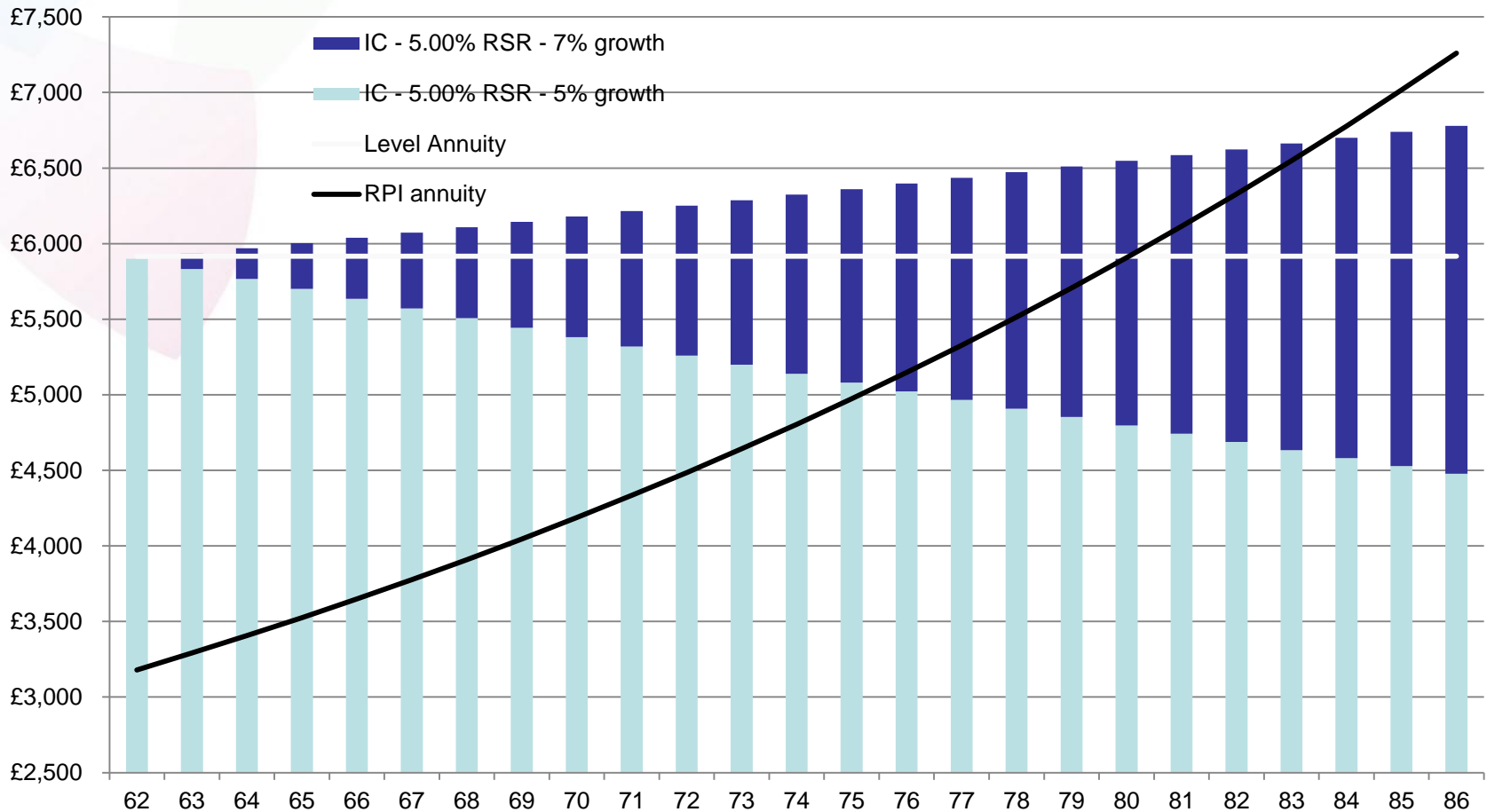
A worked example:

Income in year 1	£ 10,000	RSR = 3%
Income in year 2 – DSR = 5%	$£10,000 \times 1.05/1.03$	= £ 10,194

Income Choice (income = level annuity)

This chart compares the future income from ICA using FSA projections of 5% and 7% compared to a level and inflation linked annuity

Required Smooth Return = 5.0%



Annuity - £100,000 male 60, female 60, joint 2/3rds – options as shown

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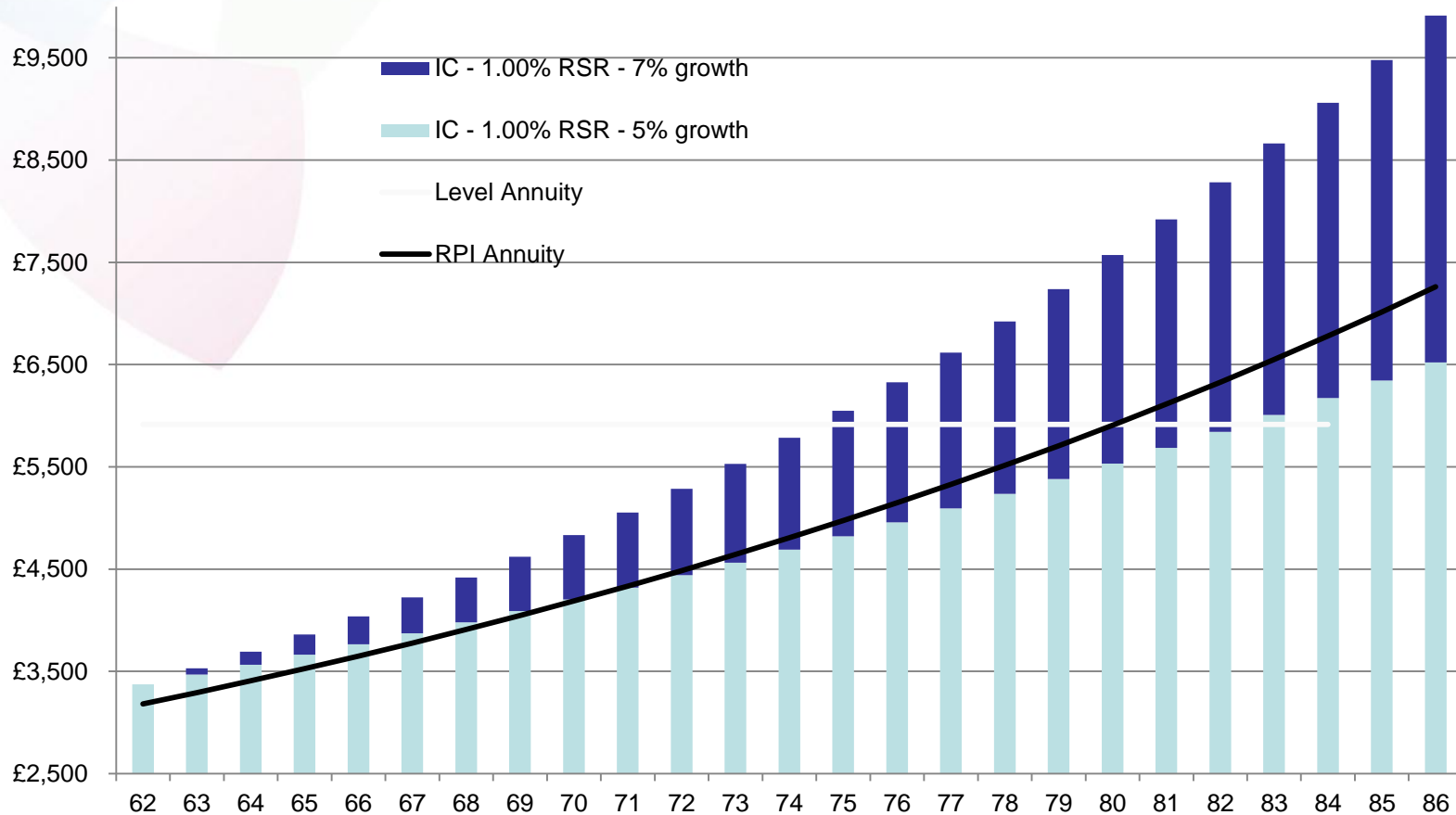


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Income Choice - (income = minimum)

This chart compares the future income from ICA (min income) using FSA projections of 5% and 7% compared to a level and inflation linked annuity

Required Smooth Return= 1.0%



Annuity - £100,000 male 60, female 60, joint 2/3rds – options as shown

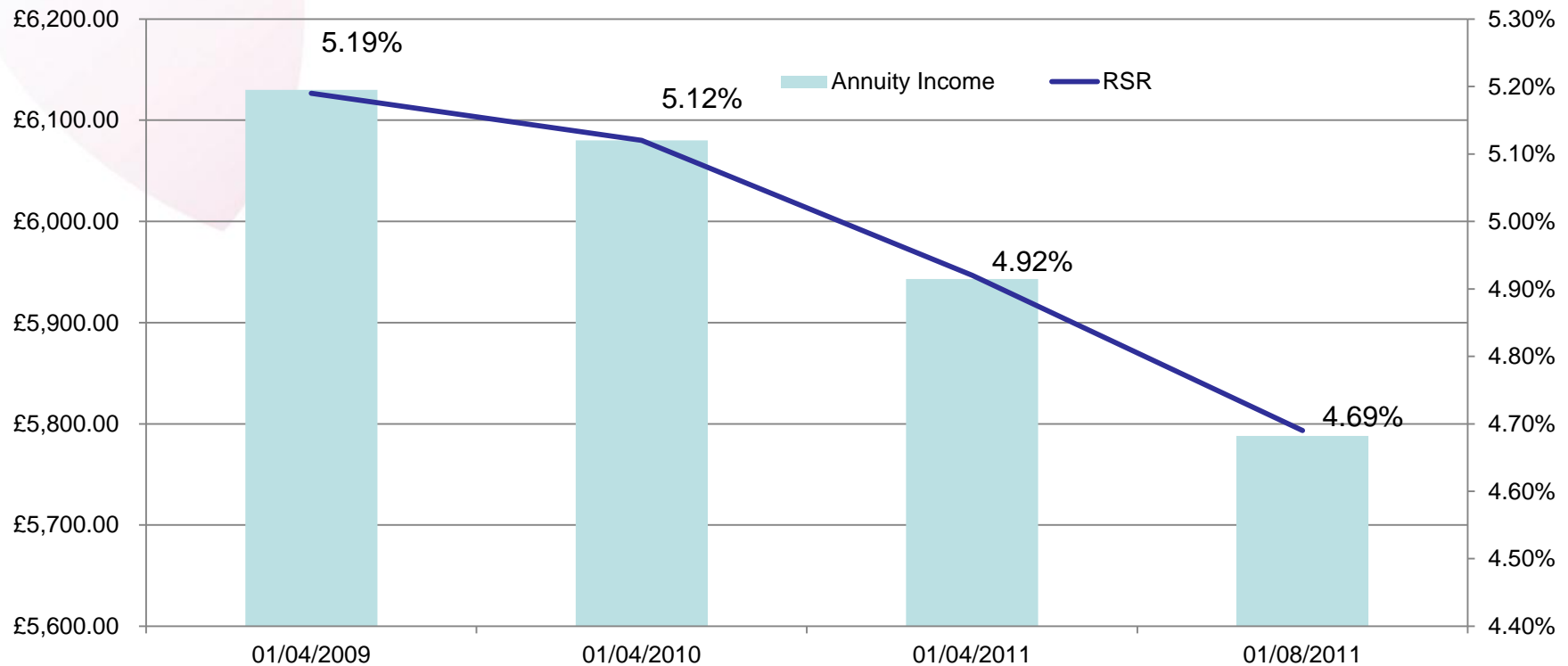
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RSR for Income Choice falls as annuity rates fall

- ▶ As guaranteed annuity rates fall the RSR required to match a level annuity falls
- ▶ Currently a RSR of 4.69% is required to match level annuity
 - (Joint life 2/3rd spouse, £100,000 male 65, female 60, level payments)
- ▶ The matching RSR will be different for other ages and options



Joint life 2/3rd spouse, £100,000 male 65, female 60, level payments

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Maximising Income

Three key steps to maximise pension income

Step 1

- ▶ Have a plan
 - Discuss strategy with client
 - Agree client's retirement objectives
 - Ensure client understands full range of options

Step 2

- ▶ Decide on tactics
 - When is best time to take benefits
 - Watch annuity trends – be cautious about deferring annuity on hope of rates rising
 - RSR for Income Choice falls as annuity rates fall

Step 3

- ▶ Execute plan efficiently
 - Always consider the open market option and enhanced annuities
 - If investment linked annuity consider the required investment returns
 - If drawdown, consider drip feeding investments

The Retirement Partnership

This presentation is for UK financial professionals only. It is not intended for onward transmission to private customers and should not be relied on by any other person.

This presentation represents The Retirement Partnership's interpretation of current legislation as at the date of publication - these may change with specific regard to pension options in the future.

The Retirement Partnership Ltd
Sherwood House
8 Upper High Street
Winchester
SO23 8UT
www.retirement-partnership.co.uk

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