



Your guide to **income in retirement**

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## About Canada Life

The Canada Life Assurance Company provides insurance and wealth management products and services through domestic operations in Canada and international operations in the Republic of Ireland, Isle of Man, Germany and the UK, as well as branch and subsidiary operations in other countries. Canada Life is a subsidiary of The Great-West Life Assurance Company and a member of the Power Financial Corporation group of companies.

[www.canadalife.co.uk](http://www.canadalife.co.uk)

## Introduction

If you're buying an annuity, you'll want to talk through your options with a financial adviser. However, you'll also want to take time alone, to make sure that you understand the implications of this very important decision. That's where we (Canada Life) believe you'll find this guide very useful.

It aims to provide you with a sound understanding of how annuities work and the kinds of choices you'll need to make.

The first section of the guide gives you an overview of the annuities market. The second section builds on that knowledge and explains how our annuities may be able to help you.

### In a nutshell...

**An annuity is a special contract provided by an insurance company. It's designed to convert the lump sum that you've built up in your pension fund (or pension funds if you've contributed to various pensions over the years) into an income for the rest of your life.**

### Contact us

 **0845 330 3486**

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# Annuities overview

## Retiring soon? It's time to think about annuities

As you begin to plan for your retirement, it's time to start thinking about how to make the most of the pension fund(s) you've accumulated.

If your pension fund is worth over £100,000 (and perhaps you have other sources of income) you may want to take advice on leaving your fund invested and drawing income directly from it.

However, if like most people, your fund is worth £100,000 or less, and it's going to provide you with the vast majority of your retirement income, then this is where you stand:

### When you choose to take your pension benefits currently from age 50 (55 from 2010)

**You can usually take up to 25% of your total pension fund as a pension commencement lump sum (PCLS), currently tax-free.**

→ **You need to decide...**  
whether to take this money.  
Most people do.

**If this option is chosen you must invest the remainder of your pension fund in a lifetime annuity unless you're drawing an income directly from it – unsecured pension. This is to provide you with an income for the rest of your life.**

→ **You need to decide...**  
what kind of annuity best suits your needs. Then compare rates from different insurance companies.

## What factors influence annuity rates?

These are the factors that influence how much income you can expect:

- The amount you've got in your pension fund
- The type of lifetime annuity you choose, for example, conventional, enhanced or investment-linked – see Step 1, page 4
- The interest rates at the time that you buy your annuity, or the ongoing performance of your investment, if you choose an investment linked annuity. (For a solution to the problem of low annuity rates see page 10, Falling annuity rates).
- Your age, your sex and your health when you take out your annuity



Visit 'Money made clear' [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk) this will help you understand jargon and understand what annuities might be best for you. This is a financial services authorities publication to provide important advice. This is not necessarily a substitute for seeking professional advice from a financial adviser.

### Rules of thumb

Generally, for the same size pension fund:

- **The starting income is higher for a man than a woman. This is because, on average, women live longer.**
- **The starting income is higher, the later you decide to retire and take some or all of your accumulated Pensions benefits. This is because, statistically, you are unlikely to live as long as a younger person.**

# STEP ONE – Decide on the type of lifetime annuity you want

	Conventional lifetime annuities		Enhanced lifetime annuity
	Level	Increasing/Varied in line with your cost of living	(Sometimes called impaired).
<b>What it gives you</b>	A fixed income for life. Your income is set at the time that you take out your annuity	A retirement income that will increase each year. Either: <ul style="list-style-type: none"> <li>• An annual fixed rate increase, e.g. 3% per year or 5% per year; or</li> <li>• Linked to the Retail Price Index (RPI)* or Limited Price Indexation (LPI).<sup>^</sup></li> </ul>	An income for life based on your age, health and/or lifestyle.  The income can be level or increasing.
<b>Risk level</b>	<b>No risk.</b> Your pension is guaranteed for life and that of any survivor, if appropriate.	<b>No risk.</b> Your pension is guaranteed for life and that of any survivor, if appropriate.	<b>No risk.</b> Your pension is guaranteed for life and that of any survivor, if appropriate.
<b>The pros</b>	This is the most straightforward form of pension annuity available  You will receive a higher starting income than if you choose an increasing annuity.	You know your income will increase each year if an annual fixed rate is chosen.  If you link your income increases to RPI, you know that your pension income will hold its real value over your lifetime, however it does not necessarily increase if RPI is selected and the index records a negative figure under these circumstances your income may go down.	Depending on your personal health circumstances, your income could be up to 40% higher than an equivalent traditional annuity
<b>The contras</b>	Since the income is fixed at outset, inflation could substantially reduce the value of your pension income.  You're 'locked-in', so you cannot change your pension if your circumstances change.	Your starting income is lower than you could get with a level annuity. It would take several years for your income to catch up with the amount you could have obtained at the outset with a level annuity.  You're 'locked in', so you cannot change your pension income if your circumstances change.	The income from an enhanced annuity is higher at outset because of the probability that you have a reduced life expectancy.  You're 'locked in', therefore you cannot increase your pension income if your circumstances deteriorate further.
<b>Suits you if...</b>	You believe you could live with no annuity income increases throughout your lifetime.	You want the reassurance of a guaranteed and increasing pension albeit with an initial income lower than a level annuity.	If you can obtain a better pension income due to lifestyle choices (such as smoking, drinking, obesity) or medical conditions.  Better income is determined by whether you are mildly, moderately or severely affected by a number of medical conditions.
<b>The Canada Life solution</b>	Lifetime Annuity  Scheme Pension <sup>(b)</sup>	Increasing Lifetime Annuity  Increasing Scheme Pension <sup>(b)</sup>	Enhanced Lifetime Annuity  Enhanced Scheme Pension <sup>(b)</sup>

<sup>(b)</sup> Some scheme pensions must increase in payment.

\* Your income could go down if the price of goods and services included in that index are lower than they were one year earlier

<sup>^</sup> Limited Price Indexation gives changes in line with RPI or 5%, if lower, with a minimum of 0%.

# Annuity decision maker

The following table helps you to compare annuity types:

Investment-linked lifetime annuity	Annuity Growth Account
<b>Investment-linked (Both with-profits and unit-linked.)</b>	<b>A newer type of annuity, combining the benefits of traditional and unit-linked annuities.</b>
The potential for a higher income (based on investment return) than a conventional lifetime annuity.	<p>An immediate level income for five years.</p> <p>Potential investment growth on the remainder of your pension fund.</p> <p>Further five year income based on your age, sex and value of your invested pension fund (the value of your invested pension fund is not guaranteed and depends on the future performance of the selected funds).</p>
All investment-linked annuities involve the <b>risk</b> that your income is not guaranteed and could go down as well as up.	<p>At each five-year review, annuity rates could be lower than previously.</p> <p>The value of your unit-linked pension fund (that will be used to buy your future income) can fall as well as rise.</p>
You could be much better off than with a traditional annuity.	<p>You could be better off than with a conventional lifetime annuity alone.</p> <p>You know that your income is guaranteed for the first five-years.</p> <p>Unlike a conventional lifetime annuity, you can review your options at the end of each five-year term.</p> <p>Until the age of 85<sup>(a)</sup>, at each review, you have the opportunity to optimise any rise in annuity interest rates, and change your pension choices within HMRC rules if your circumstances change, for example change the level of your and any dependant benefits or purchase a lifetime income.</p> <p>At each review, you also have the option to transfer your fund to another Canada Life pension annuity or that of another provider willing to take your transfer fund.</p>
<p>You could be far worse off than with a traditional annuity if investment returns decline.</p> <p>You're 'locked-in', so you cannot change your pension if your circumstances change, however you may be able to transfer to a traditional or enhanced annuity.</p>	<p>Your future income is at risk from:</p> <ul style="list-style-type: none"> <li>• Falling annuity rates.</li> <li>• Falling fund values.</li> </ul>
You are prepared to take a greater risk in order to obtain a higher income now and potentially in the future.	<p>You want a secure, predictable income for at least five years.</p> <p>You want the opportunity of a potentially higher income in the future knowing that you risk being actually worse off.</p> <p>You want the opportunity to change your pension income to suit future changes in your personal circumstances.</p>
<b>Canada Life does not offer 100% investment-linked annuities. Instead we have developed an investment-linked annuity with the additional security of a five-year income and flexible options for the future – see the Annuity Growth Account.</b>	<b>The Annuity Growth Account – an innovative flexible lifetime annuity available under UK pensions legislation</b>

<sup>(a)</sup> A conventional or enhanced lifetime annuity must be purchased at the review immediately prior to 85th birthday.

Past performance is not a guide for the future. The value of units in the Annuity Growth Account Investment Element can fall as well as rise. Currency fluctuations can also affect performance. Any information regarding taxation is based on our understanding of current legislation, which may be altered and depends on the individual financial circumstances of the investor.

# STEP TWO – Decide on the type of annuity you want

You can choose certain benefits with your lifetime annuity. Bear in mind that adding benefits will reduce the amount of income paid at the outset. All the lifetime annuities in Step One can be tailored to provide these benefits.

- You can choose:
- to provide an income for your dependant
  - to build-in a guarantee period
  - to have annual increases
  - to provide a lump sum death benefit (this option is not currently available for the Annuity Growth Account)



**Yes, I want to provide an income for my dependant<sup>1</sup>.**

- If you want your dependant to continue to receive an income from your pension after you die, you need a 'joint-life, lifetime annuity.
- A 'joint-life, lifetime annuity continues to pay out income until both annuitants are dead, whereas a 'single life' lifetime annuity pays out income only during your own lifetime.

You need to decide if you want your partner:

- to receive the same pension as you; or
- to receive a smaller amount – many people choose for their dependant<sup>1</sup> to receive two thirds or half of their pension.

<sup>1</sup>A dependant can be your spouse, civil partner or financial dependant. For financial dependants, Canada Life will check that the person is a dependant at your death and that they meet the criteria defined in the Finance Act 2004, for the benefit to be paid.



**Yes, I want my pension to pay out for a guaranteed amount of time – even if I die.**

This means that your pension income will carry on for a guaranteed period, even if you die during that time.

- The maximum term for a guarantee is 10-years (5 years for the Annuity Growth Account with an option to purchase a further 5-year guarantee on the first five-year review).
- If you have no dependants, or immediate family, there's no need for a guarantee.

## Box 1

The table below shows examples of the effect that different dependant benefits have on *the starting level* of your pension.

Level of dependant pension	Starting pension
None i.e. single life Male	£6,337
50%	£5,846
66.66%	£5,700
100%	£5,430

These figures are based on specimen rates, which vary from time to time.

Source: Canada Life based on male 60 and female 57 payable monthly in advance. Correct as at 24 April 2009. Based on a purchase price of £100,000.

## Box 2

The table below shows examples of the effect that different guarantee periods have on *the starting level* of your pension.

Guarantee period	Starting pension
Nil guarantee	£6,337
3 year guarantee	£6,334
5 year guarantee	£6,326
10 year guarantee	£6,277

These figures are based on specimen rates, which vary from time to time.

Source: Canada Life based on a male 60, payable monthly in advance. Correct as at 24 April 2009. Based on a purchase price of £100,000.

## KEY POINTS

- Income withdrawal plans are complex and not suitable for everyone, for example if you have a small pension fund and no other assets or income to fall back on
- Even if you have a large pension fund, and other assets or income, income withdrawal may still not be suitable

*Moneymadeclear*

*Financial Services Authority publication, April 2009*



**Yes, I want to protect my pension fund in the event of my death.**

This is called annuity protection and means that a lump sum may become payable should you die before reaching age 75.

The maximum lump sum payable is normally the initial annuity purchase price, less the sum of the income paid, or to be paid under any guarantee period, to you or your dependant. A lump sum death benefits charge (currently 35%) will be deducted before any payment is made.

You can protect all or any percentage of your annuity purchase price.

With a joint life annuity, death must occur before your 75th birthday, and it will payout once the last annuitant has died regardless of their age at death.



**Yes, I want to have annual increases or link my income to changes in my cost of living.**

An increasing lifetime annuity offers you a wide range of income choices. You can select from:

- Fixed annual increases from 0.1 to 10% per year
- Retail Price Index (RPI).
- Limited Price Indexation (means the lower of RPI and 5% p.a. with a minimum of 0%).

### Box 3

The table below shows examples of the effect that different levels of annuity protection have on *the starting level* of your own pension.

Annuity protection	Starting pension
No annuity protection	£6,337
50% annuity protection	£6,291
75% annuity protection	£6,207
100% annuity protection	£6,070

These figures are based on specimen rates which vary from time to time.

Source: Canada Life based on male 60 payable monthly in advance. Correct as at 24 April 2009. Based on a purchase price of £100,000.

### Box 4

The table below shows examples of the effect that different levels of increase have on *the starting level* of your own pension.

Increases	Starting pension
No increases	£6,337
RPI	£3,856
3% per year compound increases	£4,406
5% per year compound increases	£3,331

These figures are based on specimen rates which vary from time to time.

Source: Canada Life based on male 60 payable monthly in advance. Correct as at 24 April 2009. Based on a purchase price of £100,000.

## STEP THREE – Shop around for your annuity

Unless you have a company pension scheme that is paid direct, you don't have to take your pension from the company that currently holds your funds.

**So just because your pension plan is with a particular insurance company, it doesn't mean that you have to buy your lifetime annuity from the same company.**

You have a right to shop around. In fact, the Financial Services Authority (FSA), the government-established, independent watchdog set up to regulate financial services and protect your rights, instructs insurance companies to tell their clients that they are entitled to go to the open market for their lifetime annuity. This is known as the open market option.

Nevertheless many people who retire don't take up this option, and should seek independent financial advice.

**It's a particularly expensive mistake especially if you could increase your income due to your lifestyle choices and medical conditions. Once you make the final decision on a lifetime annuity you can't change your mind later.**

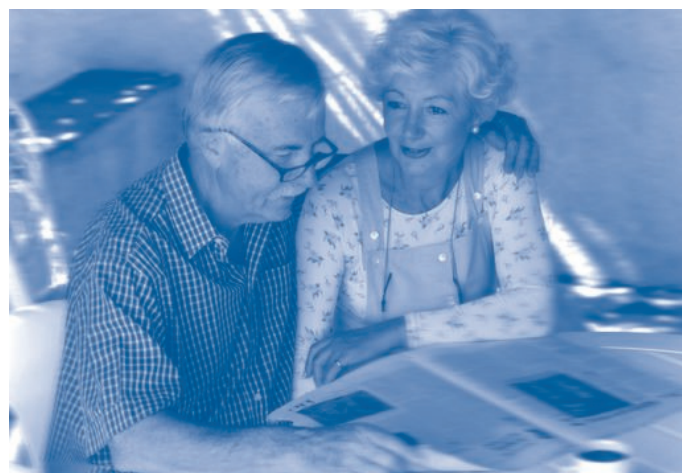
Annuities			
Company	Male 65	Company	Female 65
AEGON Scottish Equit	£5,152	AEGON Scottish Equit	£4,700
Canada Life	£5,150	Canada Life	£4,697
Norwich Union	£5,067	Norwich Union	£4,665
Legal & General	£5,046	Legal & General	£4,607
Prudential	£4,923	Prudential	£4,604
Standard Life	£4,820	Standard Life	£4,244
Friends Provident	£4,366	Scottish Widows	£4,080
Scottish Widows	£4,315	Friends Provident	£4,017
AXA Sun Life	£4,029	AXA Sun Life	£3,546

All figures shown in the above table are the gross annual annuity payments (£100,000 purchase price), guaranteed five years, paid monthly in advance, increasing 3% per year  
Source: *annuitydirect* – last rate update: 22 April 2009

### Enhanced annuities

The specific amount of increased income you may receive will depend on your own personal circumstances. You may even be eligible for an increase for a joint life annuity if you are in good health but your dependant is not.

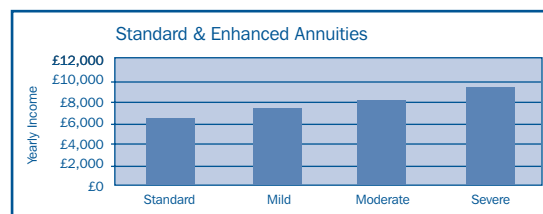
To see if you qualify please call us on **0845 330 3486** for further details. We can send you a questionnaire to complete or take your details over the phone.



**“Annuity rates vary from life company to life company, so you should make sure you shop around to get the best deal for you”**

*Moneymadeclear – a Financial Services Authority publication, April 2009 – Shopping around for lifetime annuities*

### What difference could an enhanced annuity rate make to my pension?

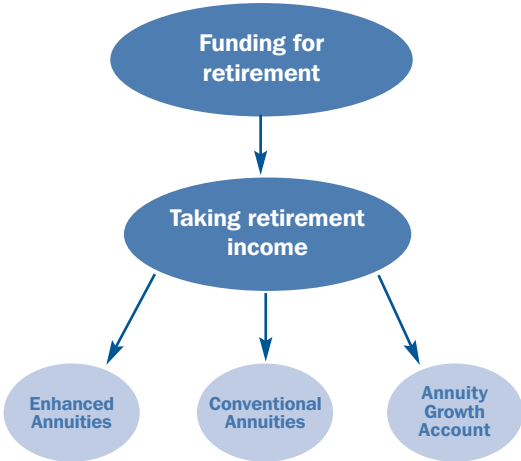


The example is based on a male, £100,000 purchase price, payable monthly in arrears with no guarantee period using Canada Life rates as at January 2008.

Of course, if you are fortunate enough to have built up a pension with an insurance company that consistently tops the pension annuity tables and offers increased rates for those in poor health, you may conclude that you are better off staying put. Which brings us to Canada Life annuities...

# Canada Life's retirement income solutions

Canada Life has a long history of providing a range of options to secure income in retirement. We offer some of the most competitive and innovative ways to secure retirement income and allow people to make the best use of their pension fund(s).



A range of options isn't the only area in which we excel. With it becoming increasingly important to maximise retirement income, it is reassuring to know that Canada life consistently remains at the top of the annuity income tables (see page 8).

## Conventional and enhanced lifetime annuities

We offer both conventional and enhanced lifetime annuities, on a level and increasing basis. These lifetime annuity products are also called secured pensions and they come in two forms:

1. The first is for people who have built up individual pension fund(s) throughout their working life. This is called a lifetime annuity and is designed to use your accumulated fund to buy an immediate income to suit your needs.
2. The second type is a scheme pension. This is where your occupational pension scheme decides to buy an annuity to provide your income rather than paying it directly from the scheme.

## How will it work for me?

Although regulations on how you can take income from your accumulated pension fund vary, in general you may be able to take 25% of your accumulated pension fund as a Pension Commencement Lump Sum (PCLS) currently tax-free. Your financial adviser will be able to help you choose the option that's right for you.



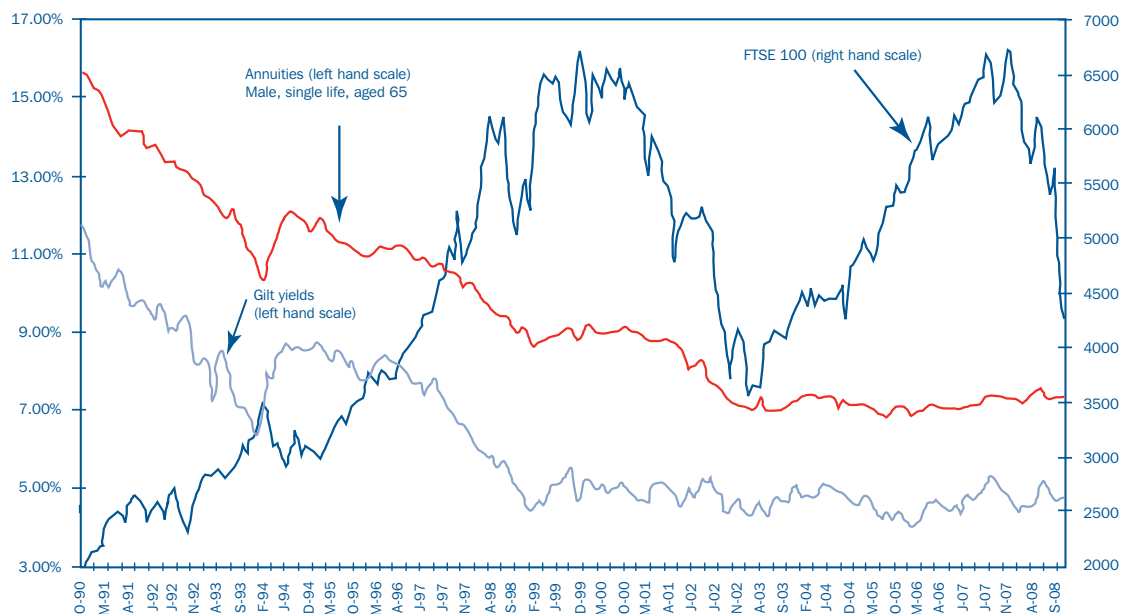
# Investment Linked Annuities

## Falling annuity rates – the innovative Canada Life solution

Let's take stock for a moment; you may want to return to the annuity decision maker – Step 1 – and take a look at the columns on conventional or enhanced lifetime annuities. These annuities provide a level of income that is either fixed or increasing (those linked to RPI may not increase if RPI in any year is negative. So they will always be the right choice for some people.

The problem at present, is that interest rates (and as a result, annuity interest rates) are relatively low, and have been for some time. With a conventional lifetime annuity, you are 'locked-in' for life. Although this gives you a secure, stable income, if you have to take your lifetime annuity out when interest rates are low, your lifetime income will be correspondingly low. The situation may be different for enhanced lifetime annuities, as the amount of income payable will depend on lifestyle choices and medical conditions as well as your age.

An alternative is an investment-linked lifetime annuity. However these have disadvantages; they can be complex, expose all your funds to risk and don't offer flexibility either, since like a conventional lifetime annuity, all your money is 'locked-in' at the outset.



Source: William Burrows Annuities April 2009



# The Annuity Growth Account

In response to prevailing market conditions, Canada Life has developed a modern alternative for our times: the Annuity Growth Account (AGA).

## How does it work?

### 1. First you buy a flexible lifetime annuity with a five-year guaranteed income...

The cost of this short-term income is significantly less than for a conventional lifetime annuity (see table below), therefore a significant proportion of your pension fund is left over to invest in a wide range of pension funds providing the potential for growth and the option to increase the level of income at the next five-year review. The minimum AGA purchase price is £35,000 (net of any PCLS that may be available), so you can invest the majority of your fund to continue working for you during this time.

### 2. You can select a level of income to suit your circumstances...

The AGA allows you to select a level of income that ranges between 50% and 120% of Canada Life's conventional lifetime annuity income (see table below) and this choice is repeated each time you select another five year income. This gives you greater flexibility for your ongoing retirement income planning.

### 3. The table (below) shows the difference in cost<sup>2</sup> between a conventional lifetime annuity and Annuity Growth Account

Income basis	Cost	Excess for investment	Assumed duration	Annual income
Conventional lifetime annuity	£100,000	Nil	For life	£6,337
120% five-year income	£37,893	£62,107	5 years	£7,604
100% five-year income	£31,623	£68,377	5 years	£6,337
50% five-year income	£15,950	£84,050	5 years	£3,169

### 4 ...meanwhile invest your remaining pension fund for potential growth...

With the security of your five-year guaranteed income in place, you choose where to invest your remaining fund from a choice of over 100 funds from Canada Life and leading investment fund management groups. This gives you potential for growth, plus the chance to take advantage of any upturn in annuity rates in the future. See our "Pension funds – risks and charges" guide for a full list of the funds available.

### 5. ...giving you a range of options at the five-yearly review, allowing you to either:

- opt for a conventional or enhanced lifetime income (level or increasing) that is guaranteed for the rest of your life; or
- repeat the process, buying another five-year guaranteed income and investing the remainder of your investment element for growth; or
- transfer your investment element to another provider for the purchase of a lifetime annuity. This may be relevant should another provider be able to offer a better conventional or enhanced lifetime annuity rate than that available from Canada Life (NB: providers are not compelled to accept transfers).

### 6. ...if you stick with AGA, the benefits add up, and up.

Because you are not required to buy a conventional or enhanced lifetime annuity until you are 85<sup>3</sup>, you have the freedom to make some choices at each five-year anniversary to suit your circumstances at that time. For example:

- You may wish to change the level of dependant benefits from 50% of your income to 66% or 100%, or you may wish to remove the benefit altogether.
- You can change the level of income that you receive, for example, you can take a low income at the start and leave more of your fund invested for growth. This could be a very attractive option, especially if you only want to semi-retire, and don't need your full income immediately.
- As you get older, you are more likely to qualify for an enhanced lifetime annuity due to changes in your health, and you may be able to obtain a higher-than-normal income.

## The Annuity Growth Account – count the breakthrough benefits

- **You're not committed to a conventional lifetime annuity from the start**
- **Your pension fund has the opportunity to grow, giving you potentially higher income in the future**
- **You can count on a guaranteed level of income for the first five years**
- **You can change pension options in the future, for example, income levels, dependants benefits, and so on, should your circumstances change, helping your money go further.**



<sup>2</sup> These figures are based on a male aged 60 and assume a single life annuity, without guarantee, monthly in advance using Canada Life's actual annuity rates in April 2009. Actual rates for a particular client will vary depending on actual rates at the time their personal example is produced.

<sup>3</sup> You must buy a conventional or enhanced lifetime annuity at the review immediately prior to your 85th birthday.

\* The investment element value of the Annuity Growth Account is not guaranteed and depends upon the performance of the selected funds. At all subsequent five-year anniversaries of the AGA, annuity rates may be lower than at outset. If so, for any five-year immediate or lifetime annuity using the investment element value, the prevailing annuity rate may give a smaller income than could have been obtained at the outset (depending on the level and type of annuity selected).

Please note that past performance is not a guide for the future. The value of units can fall as well as rise. Currency fluctuations can also affect performance.

For property fund investments, Canada Life reserve the right to delay switches out for up to six months if this is seen to be necessary to protect the interests of other policyholders. This will not affect the five-year review process.

# Your questions answered

## **Q What are Protected Rights?**

**A** Funds accumulated from contracting out of the State Earnings Related Pension Scheme (SERPS) or the state second Pension (S2P). Currently special rules are attached to Protected Rights particularly around death benefits. A financial adviser would be able to explain this in detail.

Due to these rules the annuity growth account cannot currently accept funds built up with Protected Rights.

## **Q If I buy a Canada Life annuity, can I change my mind?**

**A** You have the right to change your mind and cancel before the contract starts, under the Financial Services Cancellation Rules within 30 days of receiving the document 'Your right to think over your options' from us. We will refund any money received in full back to your pension scheme(s) .

## **Q How do I pay for my annuity?**

**A** Canada Life annuities are paid by cheque or telegraphic transfer from the trustees/administrator of your pension scheme(s), or from the insurance company holding your funds.

## **Q What about income tax on my annuity?**

**A** Your pension payments are taxable as earned income and will be paid under the PAYE system. This means we will deduct tax according to your tax code.

Please note that the information regarding taxation is based on our understanding of current legislation, that may be altered and depends on an investor's individual financial circumstances of the investor.

For information on retirement income planning

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