

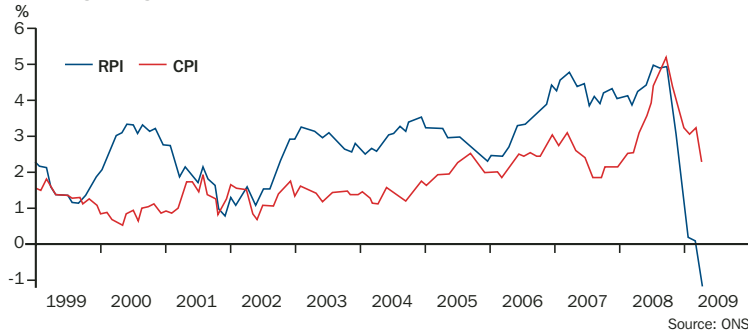


Group risk benefits remain stable despite sub-zero inflation

Annual inflation in the UK, measured by the Retail Price Index (RPI) went negative in March for the first time since 1960, this trend continued into April and saw the current rate fall to -1.2%.

The biggest downward impact on the RPI measure came from falling house prices and lower mortgage costs following the Bank of England's recent interest rate cuts.

Inflation 1999-2009
Percentage change over 12 months



What tends to happen in a period of deflation?

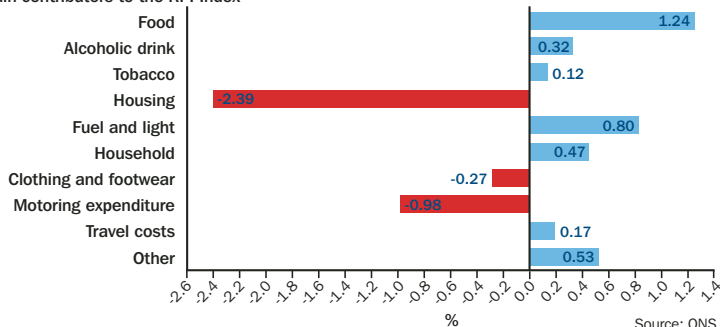
When looking at the costs of living as a whole deflation means that prices are falling instead of increasing. On the surface, this sounds like good news but in reality, it is bad for the economy because people begin to anticipate further drops in prices of goods and put off spending, preventing growth of the economy.

Does this fall in RPI mean we are in a period of deflation?

Not necessarily as the fall in RPI was predicted by the Bank of England and can be linked to a decrease in mortgage repayments related to the cutting of interest rates (see table below). It is important to note that CPI, a rating that excludes housing and mortgages cost, although down still shows inflation as a positive of 2.3%.

How prices have changed in the year to February 2009

Main contributors to the RPI Index



In brief...

- On 21 April 2009, official figures showed that inflation measured by RPI had turned negative, for the first time since February 1960.
- The official decrease is currently 1.2%; however, the RPI has fallen every month since September 2008.

What is RPI and how is it measured?

- RPI gives an indication towards the cost of living by monitoring prices on many goods and services frequently consumed by the vast majority of households in the UK.

Has deflation arrived?

- In November 2008, The Independent reported that there was a 'clear danger' of deflation in 2009 for Britain.¹
- However, the Bank of England predicts the RPI will fall temporarily, mainly as a reflection of reduced mortgage interest payments.
- In short, the chance of 'genuine deflation' as seen in the 1920's is 'unlikely to arise'.²

How does this affect your clients?

The figures

- The table opposite shows how the cost of goods and services has changed during the first two months of 2009.



So what does this mean for group risk benefits?

Canada Life is delighted to announce that after careful analysis of the financial climate we will not be applying any negative changes to inflation linked dependants' benefits being paid under group death in service policies, or, claimants under our group income protection policies.

At this moment in time, benefit levels will retain their current value, helping to protect the members of Canada Life's various group risk schemes from any ill effects that may have been felt through the decrease of RPI.

As a leading provider of group risk products, insuring almost three million lives within the UK, Canada Life remains positive that in the current financial climate our members will especially feel the value of having their lives and incomes protected by us.

Canada Life continues to monitor the situation carefully and takes its commitment to keeping its members well informed seriously.

¹ Reported by The Independent website 12 November 2008, article written by Russell Lynch.

² <http://www.xperthr.co.uk/blogs/employment-intelligence/2009/04/deflation.html> blog by Michael Carty, deputy editor for IRS.

In brief *(continued)*...

- Utilities, mortgages, fruits and vegetables are expected to get cheaper, while some electronics and clothing may increase in price.

What about their benefits?

- At present, no negative change will be applied to your group risk benefits.
- Any benefits that are level or have fixed escalation rates are unaffected.
- Canada Life continues to monitor the situation and aims to keep our members fully informed.

If you have concerns, questions or need further advice then please contact your usual Canada Life Account Manager or call 0845 223 8000.

Our forms are available to download from our website: www.canadalife.co.uk/group

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