Getting ready to use your pension

PRUDENTIAL

Please keep this brochure safe and refer to it after reading the "Your retirement options" brochure.

This brochure is for people who have the following kinds of Prudential pension:

- Personal pension
- Stakeholder pension
- Section 226 Retirement Annuity Contract
- Free-standing AVC pension (FSAVC)

This brochure explains what your pension offers you. It also tells you what happens next, when we will contact you and how to contact us.

What happens next?

This is the timetable we will follow if you are now approaching your retirement date and haven't yet taken your benefits:

If you want to delay buying an annuity beyond age 75 then you will need to transfer to another provider.

There are some risks to delaying buying an annuity as there is no guarantee that your investments in your pension will perform well in the future, and the value of your pension could go down. So by waiting to buy your annuity you could end up with a smaller annuity income than you'd get now. There's also no guarantee that annuity rates will be the same in the future and don't forget to also take into account the annuity income you'll miss out on during the delay.

What happens next depends on where you originally bought your pension and the kind of pension you have. However, regardless of these, the timing of when we write to you will be the same.

At least 4 months before your retirement date

We are writing to you now to remind you that your retirement date will soon be here. We have enclosed a standard quotation based on a single-life annuity, payable monthly in advance, with a 5 year guarantee payment period. If your pension includes any Protected Rights, these will be quoted as described later in this brochure. The quotation shows the benefits we could be paying you from your retirement date. The figures in this quotation are not guaranteed until your retirement date and could change between now and then.

If you're still contributing to your pension, the quote assumes that you will continue making any regular contributions that are due up until your retirement date (including any automatic index-linked increases).

Writing to you now allows you time to think about your options and, if you want, to shop around for other annuity quotes before your retirement date.

You have the right to shop around for the type of retirement income you need.

You should tell us as soon as you know when you want to take your benefits and we will send you a full Retirement Pack.

If you have a Flexipension (Series 1) plan, we will write to you 4 months before your 75th birthday, the retirement age set up under your plan, unless you request figures for retiring before that date.

At least 6 weeks before your retirement date

We will write to you again, enclosing another standard quotation and reminding you of your options.

The figures in this quotation will also be an estimate of what you could receive at retirement and will not be guaranteed.

If you'd like another quotation on a different basis (for example, for a joint-life annuity), please contact us. Our contact details are on page 11.

Personal pensions, Stakeholder pensions or S226 Retirement Annuity Contracts

If you have one of these plans, we will also enclose a form asking you to confirm that you want to retire at your selected retirement age. (Please note that this is not applicable for FSAVC customers.)

What you should do

Return the form to us as soon as possible to avoid any delay in receiving your retirement pack. Send the form back to us so we can amend our records even if you're not planning to retire in the immediate future.

FSAVCs

If you have an FSAVC and you want to defer your retirement you will need to contact us on 0845 640 2000*. You will then have the option of deferring your benefits or extending the pension age of your plan. If we do not hear from you, then we will automatically switch your investment to the Cash fund one month before your selected retirement age (unless you originally took out your plan with M&G Pensions and Annuity Company Limited – see page 4) and issue your retirement pack around 3 – 4 weeks before your retirement date.

* Calls may be monitored or recorded for quality and security purposes.

Around 3 – 4 weeks before your retirement date

If you've told us you want to take your benefits at your selected retirement age, we will write to you again enclosing a full retirement pack. This will give you:

- a quotation of how much income we can pay
- a reminder of what your options are
- a Benefit Instruction form
- a Pension Payment form
- an estimated transfer value
- a Key Features booklet, giving you information about the Guaranteed Pension Annuity
- a "cancellation substitute" explaining your right to change your mind if you choose to buy an annuity and subsequently change your mind.

What you should do

If you are happy with your quotation, please complete and return all the necessary paperwork to us as soon as possible. This will help avoid:

- any delay in setting up your income and paying any tax-free cash, or
- the risk of losing the right to any Guaranteed Annuity Rate (see page 9).

When we receive your completed Benefit Instruction form, we will set up your annuity as instructed and, if your pension provides tax-free cash, pay your lump sum. Your annuity will normally be paid monthly from the first of the month following the retirement date.

If you would like another quotation on a different basis, for example for a joint-life annuity rather than a single-life, please contact us as soon as possible.

Please bear in mind that annuity rates do change from time to time, and this could affect the amount of income you'll get. The terms of the quotation in your retirement pack will be guaranteed until your retirement date.

Securing the value of your pension fund – for pensions originally taken out with Scottish Amicable Life Assurance Society or Scottish Amicable Life plc

If your pension includes any "unitised" plans, you may want to consider switching out of the unitised funds in order to guarantee the amount available to buy an annuity at your retirement date. If you ask us to, we can switch you to the Cash fund before your retirement date. We can also invest any contributions you pay after the switch into the Cash fund. If you have with-profits investments, the earliest we will do this without the possibility of a Market Value Reduction being incurred is 30 days before your selected retirement age. If you don't contact us, we will automatically switch your investments to the Cash fund at your selected retirement age and they will stay there until you retire unless you give us other instructions.

If you are an FSAVC customer your contributions will automatically be switched to the Cash fund one month before your selected retirement age. Any contributions paid after this switch will also be invested in the Cash fund. However, if you want your investments to remain in your chosen funds, you should ask us (in writing at least 6 weeks before your selected retirement age) not to make the automatic switch.

If you have a Personal Retirement Investment Plan (PRIP), we will fix the value of your fund when we receive your completed Benefit Instruction form. Alternatively, you can ask us to switch to the Cash Fund as above.

Switch to the Deposit Fund – ex-M&G plans

If you have a plan originally taken out with M&G, then you can switch to the M&G Deposit Fund.

There is no guarantee on the Deposit Fund and in periods of low returns, the Annual Fund Management Charge can have the impact of eroding the value of the investment.

Taking the open market option

Annuity providers offer different annuity rates and different types of annuities. Although Prudential has a comprehensive range of products and usually aims to provide competitive rates, there may be some customers whose needs we cannot meet.

If we can't offer you an annuity to suit your circumstances, or you simply prefer to be with another provider, you can move your pension to them, normally without penalty. This is called "using the open market option".

Some of the pros and cons of using it:

- You could end up with more income
- Depending on your pension, we may deduct charges if you buy your annuity from another provider
- If your pension has a "Guaranteed Annuity Rate", you'll lose the right to it if you transfer.

There's more information about the open market option in the Money Advice Service factsheet "Your pension – it's time to choose". You'll find it on their website **www.moneyadviceservice.org.uk** or you can call them on **0300 500 5000** to ask for a copy.

The Pensions Regulator also provide information on the open market option in their factsheet "Making your retirement choices – think before you choose". This is available on their website **www.thepensionsregulator.gov.uk**

If you are interested in using the open market option please let us know as soon as possible. Our contact details are shown on page 11.

Self Certification, the Lifetime Allowance and what you need to do

When you start drawing your pension, the Government requires you to tell us if your pension savings are under the Lifetime Allowance – or have gone above it. This is called Self Certification and it applies to everyone.

The standard **Lifetime Allowance** for the tax year 2011/12 is £1.8 million.

With effect from 6 April 2012, the Lifetime Allowance will reduce to £1.5 million.

The Government may charge additional tax on any pension savings above this allowance.

How to self certify

What you need to do

Your retirement quotation is enclosed with this brochure. When you decide to start drawing your benefits, you will need to complete the form enclosed with your quotation. On that form we will ask you to confirm whether your benefits are below – or above – the Lifetime Allowance before we arrange for your income to start.

Most people will be able to tick the box without worrying any further. If you're concerned your pension savings may be approaching the Lifetime Allowance, speak to your financial adviser.

Please let us know if you have contacted HMRC and have a personal Lifetime Allowance.

STEP 1

Before you start drawing your pension, you'll need to check whether you are below – or above – the Lifetime Allowance (LTA). (Everyone has to do this.)

STEP 2

Add up the value in all your pensions (whether with Prudential or not) (see page 7)

These cover

- The value of your pensions already in payment
- The fund value of all your pension plans with all providers including any with Prudential
- The value of Income Drawdown plans
- The value of any Defined Benefit pension from another scheme

Don't include any State pensions or other State benefits.

STEP 3

Less than LTA in your pension savings?

If yes simply tick the box on the "Pension Selection & Authority" form.

or

STEP 3

More than LTA in your pensions savings?

If yes, speak to your financial adviser or contact us on 0808 234 0808*.

Tip: When calculating the percentage of Lifetime Allowance used up, you only need to include pension benefits you are planning to take now, together with those you have already taken.

If you have other pension benefits and think you might be affected by the Lifetime Allowance in future, talk to your financial adviser now.

* Calls may be monitored or recorded for quality and security purposes.

Pensions already in payment before 6 April 2006

If you have an income that came into payment before 6 April 2006, the chances are you will need to calculate its value for the Lifetime Allowance. This needs to be calculated the first time you take benefits after 6 April 2006.

Here is an example of how to work out the value of Lifetime Allowance used up if you already have a pension in payment prior to 6 April 2006 based on the 2011/12 LTA.

Example

David has a monthly level pension income of £2,400 before tax, that came into payment before 6 April 2006. He needs to work out the percentage of the Lifetime Allowance this represents so he can see if he will still be within the Lifetime Allowance when he takes his Prudential pension plan.

David first needs to calculate his annual gross income, so must multiply his monthly income by 12	£2,400 x 12 = £28,800
He then multiplies this figure by **25** *(25 is the number chosen by the Government for converting yearly pensions in payment before 6 April 2006 into a fund value for the purposes of the Lifetime Allowance.)*	£28,800 x **25** = £720,000

£720,000 is the figure David will add to his other pension figures when working out if he can tick the Lifetime Allowance box on his quotation. He can tick if the totals add up to less than £1,800,000.

If David has also taken benefits after 5 April 2006 he may need to convert the value of his benefits taken before 6 April 2006 to a percentage of the Lifetime Allowance. In this example David would divide £720,000 by £1,800,000 to get an answer of 40%. This is the percentage figure David will add to his other percentage pension figures when working out if he can tick the Lifetime Allowance box on his quotation. He can tick if the totals add up to less than 100%.

Even with his significant pension income, David is well within the Lifetime Allowance. He would need to have additional retirement funds of at least £1,080,001 or 60% of the Lifetime Allowance not to be able to tick the box on his Prudential quotation.

NB. This example only covers circumstances where you have purchased an annuity. If you had an income drawdown pension before 6 April 2006 you should speak to your adviser or the provider to help you value these benefits.

This is just an example designed to represent a typical situation, and does not relate to any particular individual. You should not look upon this as financial advice or a recommendation of a particular course of action. You should consider your own circumstances fully, and may wish to consult a financial adviser to help you make a decision.

Pensions already in payment after 5 April 2006

If you have benefits that came into payment after 5 April 2006, you should have been given a statement of the percentage of the Lifetime Allowance you have used.

Here is an example of how to work out the percentage of LTA used up based on the 2011/12 LTA.

Example

On 1 May 2010 David received a Tax Free cash amount of £24,000 and a gross, monthly level pension income of £520. The company that provided these benefits would have confirmed to David the percentage of the Lifetime Allowance used when these benefits came into payment.

Assuming the cost of providing the monthly pension was £156,000, total cost of the benefits provided including the £24,000 tax free cash is £180,000. Based on an LTA of £1.80 million David has used 10% when he took these benefits:

£180,000 divided by £1,800,000 = 10%

If David had taken other benefits prior to 6 April 2006 of 40% of the LTA plus these benefits after 5 April 2006 of 10% of the LTA he would have used 50% of LTA. If the total of these benefits already taken and those he is about to take add up to less than 100% he can tick the box to confirm that his benefits are below the LTA.

This is just an example designed to represent a typical situation, and does not relate to any particular individual. You should not look upon this as financial advice or a recommendation of a particular course of action. You should consider your own circumstances fully, and may wish to consult a financial adviser to help you make a decision.

What happens if my pensions are worth more than the lifetime allowance – or are likely to be?

"Primary" and "Enhanced" protection'

If your total pension savings were over, or you expected them to grow to over, the Lifetime Allowance and you registered for "Primary" or "Enhanced" protection with HMRC before 6 April 2009, you will have a personal LTA of more than the standard LTA.

If you have Primary Protection, a special tax charge will apply only if the value of your pension funds is more than this personal LTA.

If you have registered for Enhanced Protection, and made no more contributions after 5 April 2006, you won't be liable for a tax charge, whatever the value of your pension fund.

When you are ready to take your benefits, we will want to see evidence of protections and you'll need to provide us with the certificate supplied to you by HMRC when you registered.

Questions about your retirement pack

When your retirement pack arrives, and you've had a chance to read it through, you will probably have some questions about your retirement quote. Here are some frequently asked questions that we haven't already answered elsewhere in the brochure "Your retirement options".

What are Protected Rights?

Protected Rights are a separate "pot" of money in your pension fund, built up during the time you have been contracted out of the State Second Pension (S2P) or its predecessors.

Certain limitations apply on how and when Protected Rights can be used to provide you with income in retirement:

- 25% of the fund can be normally taken as a tax-free lump sum
- You normally have to buy an annuity that includes a joint-life income of half of your own income for your husband, wife or civil partner, payable if you die before them.

If you were contracted-out, your retirement quotation will show your Protected Rights income separately from your non-Protected Rights income.

The government has announced that with effect from 6 April 2012 the rules on the type of annuity you can purchase with Protected Rights funds will no longer apply and you can choose the options that suit your personal circumstances.

When will my income start?

Your income will normally start on the first day of the month following your retirement date.

Guaranteed Annuity Rate

If you have a Section 226 Retirement Annuity Contract, your pension may include a "Guarantee Annuity Rate". Here we aim to answer your questions about what a guaranteed rate is and how it could affect the amount of your income.

What is a Guaranteed Annuity Rate?

A Guaranteed Annuity Rate guarantees that the annuity rate we offer will always be at a certain minimum level. If your pension includes a Guaranteed Annuity Rate, it means you could get a higher income than normal, especially when annuity rates are low.

What kind of income can I have with a Guaranteed Annuity Rate?

The standard income we will pay you is a single-life annuity, with a level income and a 5 year minimum payment guarantee period.

If your pension has a Guaranteed Annuity Rate, and you'd like something other than the standard income, you can choose any of the following options:

- **An income for your financial dependant**

  You can choose for your dependant to receive an income, if you should die before them, of

  - the same amount of income as you, or
  - two-thirds of your income, or
  - half your income.

- **Fixed yearly increases**

  You can choose for your income to increase by 3%, 5% or by the increase in the Retail Prices Index, up to a limit of 5% a year.

- **Minimum payment guarantee period**

  You can choose a 0 or 5 or 10 year guarantee. If your pension is an FSAVC the 10 year guarantee option is only available if you have chosen a single-life annuity.

- **Frequency of payment**

  You can opt for your income to be paid monthly, quarterly, half-yearly or yearly.

  If you have your income paid monthly, you must take it "in advance". Otherwise you can have it paid "in advance" or "in arrears".

  If the amount of your income is small, we may ask you to take it yearly.

If you decide that you would like a different kind of income to the standard income, for example one that increases in payment, we will adjust the amount of any Guaranteed Annuity Rate on a "pro-rata" basis.

The amount of the adjustment will depend on the difference in cost of the standard income compared with the cost of the other type of annuity you choose, both of these based on our current annuity rates.

Different types of annuities can be provided with a Guaranteed Annuity Rate. Non-Guaranteed Annuity Rate information can be found in detail within the "Your retirement options" brochure.

These options are also available to annuities without the Guaranteed Annuity Rate.

When does the Guaranteed Annuity Rate apply?

The Guaranteed Annuity Rate will apply if you buy your annuity any time between age 60 and 75, but not earlier than age 60.

If you stop paying contributions before your selected retirement age, the Guaranteed Annuity Rate will normally still apply.

How will I know if I have one?

If your pension is a "Flexipension" (Series 1) plan, it will include a Guaranteed Annuity Rate. If you increased the contributions to your pension on or before 26 July 2000, the Guaranteed Annuity Rate will apply to those too (but it doesn't apply to increased contributions made after 6 July 2000).

We will let you know if your pension has a Guaranteed Annuity Rate.

What if I want to transfer my pension to another provider?

The transfer value we would pay to your new provider wouldn't include the Guaranteed Annuity Rate and you would lose the right to it. Please speak to a financial adviser if your pension includes a Guaranteed Annuity Rate and you are considering transferring to another provider or scheme.

More information

Long Term Care Double Cover

You could have the option of buying a "Long Term Care Bond ("Care Cover" option)" when you take retirement benefits from your plan, or reach age 65 if earlier, if your pension is

- a "Series A Personal Pension Plan" or
- a "Premier Personal Pension Plan" which you bought before 6 April 2001

› and you fulfil these criteria

- you have chosen to have a "waiver of premiums" benefit, and
- we sent you a "Long Term Care Double Cover certificate" setting out the terms and conditions.

Please contact us if you're interested in this option and you'd like confirmation of whether it's available to you.

Updating records

Please tell us if you move house as we will be writing to you regularly after your retirement income payments start.

Periodically, we may also ask you to complete a Pensioner Certificate (sometimes called a Certificate of Existence). This helps us check that your income is still being paid to the right person.

Talk to an adviser

It's important you understand what options are open to you so you can be sure you have made the right choice. A financial adviser can help you decide what to do.

Please log onto **www.unbiased.co.uk** for details of how to find one.

A financial adviser will charge you for his or her services. There are charges within the annuity to pay for your financial adviser's advice. Alternatively, your financial adviser may be able to offer you other payment options. Talk to him or her to find out more details.

How to contact us

Your financial adviser, if you have one, should be able to answer most of your questions and should always be your first port of call.

For many enquiries you can simply call our Pensions Customer Servicing Departments from 8am – 6pm Monday to Friday **0845 640 2000**.

All calls are charged at national rates and we may monitor or record calls for quality and security purposes.

Or write to us at:
Prudential,
Stirling
FK9 4UE

Important information

The information in this brochure is based on our understanding, as at February 2011, of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. The impact of taxation (and any tax reliefs) depends on individual circumstances.

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